



1966

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

NINETY-EIGHTH REPORT

THE REPORT OF THE
AUDITOR-GENERAL—
FINANCIAL YEAR 1966-67

By Authority
R. J. ALLEN, Government Printer, Canberra
(Printed in Australia)

JOINT COMMITTEE OF PUBLIC ACCOUNTS

SEVENTH COMMITTEE

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G.H. Gray, Esquire, M.P. (2)

E.W. Peters, Esquire, M.P.

I.L. Robinson, Esquire, M.P.

The Senate and the House of Representatives appointed their
Members on 22nd February, 1967.

(1) Appointed 23rd August, 1967.

(2) Deceased 2nd August, 1967.

DUTIES OF THE COMMITTEE

Section 8 of the Public Accounts Committee Act 1951-1966 reads as follows :-

8. The duties of the Committee are -

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

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JOINT COMMITTEE OF PUBLIC ACCOUNTSNINETY-EIGHTH REPORTTHE REPORT OF THE AUDITOR - GENERAL
FINANCIAL YEAR - 1966 - 67CHAPTER 1INTRODUCTION

The first duty of Your Committee as set down in Section 8 of the Public Accounts Committee Act 1951-1966 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 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 1966-67 was presented to the Parliament on 17th August, 1967.

3. On 24th August, 1967, Your Committee discussed with the Auditor-General, several items on which he had commented in his Report. Written statements were then obtained from departments and after a selection had been made, the matters referred to in Chapters 2 to 10 inclusive were made the subject of detailed examination by Your Committee.

4. The Items selected for detailed examination were made the subject of a Public Inquiry held at Parliament House, Canberra on:

Tuesday, 3rd October, 1967

Friday, 6th October, 1967

Tuesday, 17th October, 1967

Tuesday, 24th October, 1967

Tuesday, 31st October, 1967

5. The following witnesses were sworn at the Public Inquiry and were examined by Your Committee:

Attorney-General's Department

Mr. J. D. Davies - Superintendent of the Commonwealth Police and Officer-in-Charge of the New South Wales Commonwealth Police Force District.

Mr. R. Phillips - Director, Management Services Branch.

Department of Customs & Excise

Mr. J. E. Walsh - Assistant Comptroller-General, Management Services.

Department of External Affairs

Mr. K. G. Brennan - Senior Assistant Secretary, Management Services Branch.

Department of National Development

Mr. A. E. Crebbin - Director, Management Services Branch.

Mr. W. Murphy - Finance Officer.

Department of the Navy

Mr. M. T. Hyland - First Assistant Secretary, Finance and Materiel.

Mr. J. T. McEntee - First Assistant Secretary, Controller of Supply.

Postmaster-General's Department

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

Department of Shipping & Transport

- Mr. E. S. Clarke - First Assistant Secretary, Ship-
building Division.
- Mr. W. G. Douglas - Regional Controller, Queensland.
- Mr. T. Norris - Assistant Secretary, Transport
Branch.

Department of Supply

- Mr. J. H. Dolphin - Assistant Secretary, Research and
Development.
- Mr. D. J. O'Connor - First Assistant Secretary,
Finance and Management Services.

Department of Territories

- Mr. L. W. Temby - Officer-in-Charge, Finance Branch.

Department of the Treasury

- Mr. A. A. Forner - Senior Finance Officer, Mechanical
Accounting, Management Division,
Budget and Accounting Branch.
- Mr. A. Harris - First Assistant Secretary, Budget
and Accounting Branch.

Department of Works

- Mr. A. H. Dent - Assistant Director-General,
Communications.
- Mr. D. O. Miller - Area Manager, Victoria.

6. During its Inquiry Your Committee was assisted by the following Observers :

Audit Office - Mr. W. H. Scott
Public Service Board - Mr. G. N. Vanthoff

Department of the Treasury - Mr. G. J. Balfour
- Mr. M. G. Cowie
Mr. J. Hunter
Mr. A. J. Pond

CHAPTER 2ACCOUNTING ARRANGEMENTS - NORTH AMERICA

7 In Paragraph 283 of his Report, the Auditor-General included the following comment :

" Audit examinations by the staff of my Office in New York revealed unsatisfactory aspects of accounting and numerous overpayments due largely to inadequate internal check or to defects and errors in the documents authorising the basis of payment. Most of the overpayments have been adjusted or were in the process of recovery when this Report was prepared.

In reply to representations by my Office, the Department of the Treasury stated that it is concerned to ensure a satisfactory standard of accounting in the New York office and advised of corrective measures being taken, including the use of automation in important areas of work to secure improvements in accounting control and recording generally. Treasury also referred in its reply to difficulties of obtaining and retaining suitable locally-engaged staff and stated that it will consider further means by which a satisfactory standard of accounting can be consistently achieved.

The Public Service Board, to whom the matters were also referred by my Office, in view of its responsibilities for staffing and conditions of service, advised that it had recently approved a strengthening of staff and the formation of a personnel section in New York. "

(a) The Sub-Treasury, New York

8 We were informed by the Department of the Treasury that this Sub-Treasury had been established in May, 1957. It is responsible for the conduct of all Commonwealth accounting activities in North America (the United States of America, Canada and Mexico). These activities currently embrace :

Exhibit
APR 1966-67/4
& Q's 610
to 613 &
681

- (1) the payment of salary, travelling allowance and other personal entitlements to Australia-based and locally-engaged staff;
- (2) the payment of general expense accounts for all Commonwealth diplomatic, consular and Trade missions and other Government activities in North America;
- (3) the payment of accounts for supplies for which orders have been placed by the Procurement Section of the Consulate-General in New York;
- (4) the payment of superannuation, Defence Forces Retirement Benefits and Repatriation pensions to pensioners resident in North America;
- (5) bringing to account revenue and other matters due to the Commonwealth and received in North America;
- (6) bringing to account the proceeds of loan raisings in North America and servicing and maintaining loan records, and
- (7) operating a bank account on behalf of the Australian National Airlines Commission.

9. The Sub-Treasury in New York was said to be different from other overseas offices in relation to loan raisings which are rather peculiar to New York whilst the procurement function is very much more important in New York and London than in Geneva. In terms of staff employed the New York office would have a status similar to that of the London office and would be substantially larger than the office in Geneva.

Q.611
to 615

10 We were informed that the Officer-in-Charge of the Sub-Treasury carries the classification and title of Chief Finance Officer (Class 10) and is a senior officer experienced in Sub-Treasury and Central Treasury work. His term of appointment is for three years following which he is returned to Australia and replaced by an officer of similar classification. He is assisted by two Australia-based Treasury officers, one of whom carries the classification of Finance Officer (Class 7) and the second, the Certifying Officer, that of Finance Officer, (Class 6). The remainder of the Staff, which at the time of our inquiry comprised 28 positions, are locally engaged employees recruited by the Consulate-General for service in the Sub-Treasury.

Exhibit
AGR 1966-67/

11 The Chief Finance Officer is subject to the general authority of the Consul-General, New York and is responsible for keeping him informed on matters of policy and of important developments or trends in work as defined in directions given by the Prime Minister in 1950 following a review of overseas posts by a Commissioner of the Public Service Board. These directions governed the conduct of overseas officers in general in order to impose a discipline on various Government officers at a particular location and in general to establish the position of the senior officer of the Post. It was said that New York has a somewhat peculiar arrangement in that it is not the national capital of the United States of America. The Australian Ambassador in Washington is head of the Washington Post but the Consul-General, New York, fulfills the head of the Post position in New York. The Sub-Treasury is responsible to the Treasury, however, for the proper performance of its accounting functions.

Exhibit
AGR 1966-67/
and Q.616

12 In regard to the relationship between the Sub-Treasury and the procurement section of the Consulate-General we were informed that requests for supplies originated by Departments in Australia and overseas are dealt with by the Procurement Section and a Contract Board comprising the Consul (Chairman),

the Chief Finance Officer of the Sub-Treasury and the Chief of the Procurement Section. After Contract Board approval has been obtained, formal contract documents are drawn up and a copy of each is passed to the Sub-Treasury. Invoices for supplies delivered to shipping agents are received in the Procurement Section, certified correct in accordance with the contract and passed to the Sub-Treasury for payment. The Sub-Treasury machine checks each invoice and enters it on the relevant contract card before preparing a payment voucher for examination, certification and payment.

Exhibit
 APR 1966-67/
 7

13. The relationship between the Sub-Treasury, New York, and other missions in North America was stated in the Department's submission. Commonwealth diplomatic, consular and Trade missions located in cities other than New York operate on a bank account financed on an imprest basis by the Sub-Treasury. The Sub-Treasury pays all salary and other personal entitlements direct from New York as well as accounts for standing commitments such as rent and other items of a large amount. Missions are able to pay various urgent local payments such as petty cash expenditure from the Imprest Accounts provided that proper authority exists for the expenditure and that funds are available. The procedure for recoupment of the Imprest Accounts is for weekly claims, supported by cash sheets, expenditure vouchers and duplicate receipts to be forwarded to the Sub-Treasury which, upon examination of the documents, certifies and authorizes reimbursement of the Imprest Account. We were further advised that for some time the Department of the Treasury has been anxious to reduce the substantial amount of cash held by some Imprest Account Posts in North America, by restricting the use of the advances to meet urgent local claims only. However, substantial reduction was not possible prior to the installation of the N.C.R. 500 computer, as spare cheque writing capacity was not available on the accounting equipment in the Sub-Treasury. Therefore, Imprest Account Posts generally paid all accounts from their advances, except those for salaries,

Exhibit
 APR 1966-67/
 Q's. 617-
 630 and
 Committee
 File
 1967/7

local and travelling allowances and others too large for their cash resources. With the increased cheque writing capacity provided by the new equipment, the classes of accounts were defined which were to flow through the imprest advances. A listing of the following classes was advised to the Sub-Treasury on 5th October, 1967 :

- (1) Advances for travelling;
- (2) Reimbursement of postage advances including replenishment of postage meters;
- (3) Reimbursement of petty-cash advances;
- (4) Accounts where loss of discount would occur if the vouchers were sent to the Sub-Treasury for payment;
- (5) Meal allowances to officers required to work overtime;
- (6) Contributions to Group Medical Insurance Schemes on behalf of locally engaged staff;
- (7) Reimbursement of domestic servants' wages; and
- (8) Other classes of accounts as determined from time to time by the Chief Finance Officer, New York.

14 The current level of each North American imprest advance and the expected level after restrictions are imposed are shown in Table No 1.

Table No. 1.

Department of the Treasury : North America
Current and Expected Levels of Imprest Advances
(9.11.1967)

Imprest Post	Unit	Current Level	Expected Level
Washington	\$ U.S.	100,000	9,000
San Francisco	\$ U.S.	7,000	2,000
Los Angeles	\$ U.S.	2,500	300
Ottawa	\$ Can.	12,000	1,000
Vancouver	\$ Can.	1,250	450
Montreal	\$ Can.	1,500	700
Montreal (Expo)	\$ Can.	1,000	1,000
Mexico	\$ A.	14,000	14,000

Source: Department of the Treasury.

15 In both instances the level was determined by approximation of the gross expenditure covering a period of three weeks. It was said that where an Imprest Post finds it necessary to make an urgent local payment in excess of its advance, procedures are sufficiently flexible to allow a temporary increase in the advance to be arranged quickly by the Sub-Treasury.

16 We were informed that the Chief Finance Officer, New York, has been appointed by the Treasurer to be Chief Accounting Officer for the Treasury in North America and the scope of his responsibilities are as follows :

- (1) All Treasury accounting in North America
- (2) To bring to final account in the Treasury ledgers all expenditure and receipts in North America including transactions through Imprest Accounts.
- (3) The reimbursement and remittance of funds to Imprest Accounts.
- (4) To address queries to any accounting officer in North America in relation to financial transactions handled by that officer.
- (5) To receive and take action on requests for the receipt or payment of public moneys.
- (6) Domestic matters affecting the Department of the Treasury in North America.

17 It was stated that this broad responsibility over all accounting operations enables the Chief Finance Officer to oversight the transactions recorded through the imprest accounts and to give directions on accounting matters to departmental officers. It was claimed that advice on a wide range of accounting problems is continually sought from the Sub-Treasury by officers controlling the imprest bank accounts. The Chief Finance Officer also exercises delegations under the Audit Act 1901-1966, Treasury Regulations and Treasury (Overseas Accounts) Directions.

18 In regard to the relationship between the Australian National Airlines Commission and the Sub-Treasury, we were informed that, on its inception, the Commission opened a bank account in New York and appointed members of the Sub-Treasury staff to operate on it. Cheques are drawn by the Sub-Treasury on the account following the receipt of certified expenditure vouchers from the Commission's representative in California for equipment purchased. In addition, by arrangement with the Commission, cheques are drawn on the account for the payment of salaries and personal entitlements of the Commission's personnel in the United States of America on the certification of vouchers from the Sub-Treasury. The Chief Finance Officer accounts direct to the Commission, Melbourne, for the transactions against the Commission's bank account which are also subject to examination by the Chief Auditor, New York. This arrangement was changed recently to provide that the Commission should pay a fee for the service provided by the Sub-Treasury. We were informed that whilst transactions are conducted frequently for Commonwealth Authorities, it is not usual to have standing arrangements of the type involved with the Australian National Airlines Commission.

Exhibit
 MAR 1966-67,
 and
 Q.635-637

19 In regard to the relationships between departments located in Australia and the Sub-Treasury, New York, we were informed that departments may incur liabilities in North America by :

- (1) appointing Australia-based staff to positions created with the approval of the Public Service Board;
- (2) recruiting staff in North America to fill positions approved by the Public Service Board, and
- (3) requesting the purchase of supplies or payment of moneys in accordance with procedures defined in Treasury (Overseas Accounts) Direction No.11.

That Direction provides that a request from a department to an overseas office for the payment of moneys shall be in a certain form and shall show certain information such as the head of expenditure to be charged and to whom the paid account is to be forwarded after payment.

Exhibit
AGR 1966-67/7
Q.639

20 With the exception of vouchers prepared and certified by officers at the Imprest Posts and those prepared and certified by the Senior Trade Commissioner, New York and, until recently, the Director, News & Information Bureau, expenditure vouchers are examined and certified in the Sub-Treasury before being authorised for payment against funds made available by departmental authorising officers in Australia. At the end of each month, schedules, listing the transactions and supported by copies of relevant expenditure vouchers are despatched by air mail from the overseas accounting office to the Head Offices of the departments concerned in Australia. Details of monthly transactions against all items of expenditure are transmitted by cable to the Central Treasury, Canberra, for incorporation in the Central Treasury ledgers.

Exhibit
AGR 1966-67
* Q's. 639
and 640

(c) The Auditor-General's Observations and Subsequent Action

21 The Department of the Treasury informed us that the Auditor-General's comments were apparently based on a report from the Chief Auditor, New York, which had been forwarded to the Treasury in November, 1966. Some portions of the Report such as those relating to personnel records and administration were not of direct concern to the Sub-Treasury operations and were pursued by the Department of External Affairs. Within the area of Treasury responsibility, however, the Report had referred to a number of over-payments some of which were the responsibility of the Sub-Treasury and others had been initiated by an incorrect document submitted to the Sub-Treasury by the authorised departmental officer. Other matters included the detailed transactions for loan accounting and detailed questions of internal check as between the Sub-Treasury and departmental officers and relating wholly,

Exhibit
AGR 1966-67/7
Q's. 641,
642 & 647

in some cases to the manner in which certain transactions were recorded within departmental offices. The main concern of Treasury, however, was the number and frequency of similar errors that occurred rather than the amounts involved as the frequent repetition of error showed that a problem existed in the Sub-Treasury. Treasury investigations indicated that some of the matters referred to in the Chief Auditor's report, including numerous overpayments had already been resolved, some were undergoing corrective action, whilst the solution to others depended on the installation of modern accounting machine equipment and revised operating procedures to be introduced later in 1967.

22 It was stated that following receipt of the Chief Auditor's report, comments were sought from the Sub-Treasury on 29th November, 1966 and a full report obtained on 31st March, 1967. A reply was forwarded to the Audit Office on 12th July, 1967 indicating Treasury's concern that a satisfactory standard of accounting should be maintained consistently by the Sub-Treasury. On the same date the First Assistant Secretary of the Budget & Accounting Branch of Treasury wrote personally to the Chief Finance Officer of the Sub-Treasury, New York, expressing his anxiety that the staffing problem, which had been referred to in the report from the Sub-Treasury, should not be regarded as being unresolvable and requesting that he and his two Australia-based subordinates exercise closer supervision over the local staff and indicating that he should re-examine his staffing requirements generally. The Chief Finance Officer's reply was received on 22nd August, 1967, shortly after the publication of the Auditor-General's Report, and it indicated a need to strengthen further the Australia-based and locally engaged staff by nine positions at least half of which could be attributed to growth in the procurement activities in New York and were related to a simultaneous request for additional positions in the procurement section

Exhibit
AGR 1966-67/7
Q.651

as it was recognised that if that section was strengthened to enable it to deal with its work more expeditiously, this could have an immediate effect on the requirements of the Sub-Treasury. The remaining five positions were related to additional work loads which were already obvious to the Chief Finance Officer. Action was taken immediately by the Department of External Affairs, the Department of the Treasury and the Public Service Board, for four additional positions being approved on that date (22nd August 1967) as an interim measure pending arrangements for an early inspection of the Sub-Treasury.

23 The Department of the Treasury informed us that the overpayments reported by the Auditor-General related to the period July 1955 to July 1966. A total of 140 overpayments was reported comprising 82 to Commonwealth employees, 56 to suppliers and 2 to the Government of the United States of America. Included in these were 13 overpayments in respect of vouchers certified by a representative of the Australian National Airlines Commission and paid by the Sub-Treasury. The total overpayments reported by Audit amounted to \$6,181 (United States and Canadian) of which \$1,653 was attributable to Sub-Treasury errors. Of the total, all except 20 amounts totalling \$206 had been recovered by 24th October, 1967. The number of expenditure vouchers passed for payment during 1965-66 was 28,847. It was said that not all of the overpayments could be attributed to faulty examination on the part of the Sub-Treasury as some had resulted from incorrect pay variation advices prepared by departmental officers. Many of the errors which gave rise to overpayment in this work area were attributed by the Audit office to the faulty keeping of leave records of the employees concerned, to an inadequate check between personnel records and attendance records of officers to see whether they were actually on duty and entitled to pay, inaccuracies in leave records and incorrect calculations made for various entitlements of the officers to allowances, and in general, various deficiencies in personnel management.

Exhibit
AGR 1966-67/44
Q's: 662,
667, 668
669

The witness expressed the hope that the establishment of a personnel section in North America and the appointment of a personnel officer as from July 1968 with duties over this area will lead to a very distinct improvement in personnel work.

24 In his report the Auditor-General referred to inadequate internal check as a factor causing unsatisfactory aspects of accounting and numerous overpayments. The Department stated that the system of internal check in operation in the Sub-Treasury, New York, is based on that which applies in the Sub-Treasuries in Australia, i.e. expenditure vouchers are prepared by one Officer and checked in detail by a second Officer before being passed to a Certifying Officer who applies such further checks as he deems necessary before certifying the correctness of the voucher in accordance with Section 34 (3) of the Audit Act. This procedure has not been applied to expenditure vouchers initiated by the Trade Commissioner's Office, New York, and until recently, the News & Information Bureau, New York, which are certified before being forwarded to the Sub-Treasury for payment action. Following the comment in the Chief Auditor's report of November 1966 the appointment of the Director of the News & Information Bureau as a Certifying Officer was cancelled on 31st August 1967, and we were informed that it is the intention that the appointment of the Senior Trade Commissioner be also cancelled. It was explained that there has been a degree of independence of these departmental units in North America. The Treasury is in the process, however, of bringing them within the general framework of prescribed procedures.

Exhibit
AGR 1966-67/
7
and Q's
672-674

25 The Departmental submission stated that both the Audit Office and the Treasury are disturbed by the frequency of clerical and arithmetical errors, many inconsequential in themselves, but sufficiently frequent in number to indicate weaknesses in the standard of clerical work. The difficulty of staffing the Sub-Treasury with experienced locally engaged staff was said to have been long recognised. Unlike the situation in London where there is a stable locally engaged

Exhibit
AGR 1966-67/
and
Q's 648,
649

staff on a career basis, a staff of locally engaged officers has not been engaged in New York. It was said that United States citizens are seemingly not attracted to the employment prospects offered by the Australian Consulate-General as a career but the alternative of staffing the office even partially with Australia-based, trained, accounting staff would be very costly. As an example it was said that the cost of maintaining a Clerk, Class 4, a grading not uncommon in Sub-Treasuries in Australia, would approximate \$A 18,000 per annum in New York, compared with a salary of \$A 4,485 in Australia. Nevertheless the Australia-based supervisory staff was increased from two to three in August 1966 to help overcome this problem. Prior to this increase, the total staff at the Post had been adjusted last in 1964.

26 We were informed that the calibre of staff recruited into locally engaged positions is, with few exceptions, not high. Applicants for these positions are usually of nationalities that are prohibited from working in the United States of America except with foreign Governments and tend to be mainly transient Australians, and also New Zealanders, Canadians or other British Nationals. Staff turnover amounts to about 100 per cent per annum because many who accept employment do so only as a temporary measure before moving to other locations. The majority of applicants for employment are females many of whom have had little or no contact with any form of accounting. Consequently a great deal of effort is expended by the supervisory officers of the Sub-Treasury in elementary training which is frequently wasted because staff leave at short notice. Although preference is given to applicants with appropriate qualifications and experience it was said to be uncommon for persons with qualifications for entry to the Third Division of the Commonwealth Public Service to seek employment with the Commonwealth in New York. It was claimed that these continuing staff problems place a heavy burden of responsibility on the three Australia-based officers and a few senior locally engaged employees.

Exhibit
AGR 1966-67/7
and Q's
653 & 655

27 The Public Service Board Observer, Mr. Vanthoff, confirmed that the New York Post has proved to be one where the difficulties of staffing have been serious in recent years. He indicated that, in staffing Overseas Posts the Board adopts the principle that salary classifications should be based on the salary structure of the Civil Service in the country concerned. Other conditions of employment, however, are more closely related to those obtaining in the Commonwealth Public Service as these conditions are generally found to be more favourable to the employee than like conditions in the Civil Service of his own country. Where Australian employment conditions fall behind those of the Civil Service of the country concerned it is the practice to match the higher level of conditions. On the question of whether Americans could be appointed to the New York Post with the promotion prospect of employment later in Australia, Mr. Vanthoff informed us that problems arise of Americans being able to satisfy the normal tests for permanent appointment.

Q's. 675
to 679

28 The Departmental submission stated that before the presentation of the Auditor-General's Report agreement had been reached with the Public Service Board for a joint examination, at a senior level, of the procedures, organisation and functions of the Procurement Section with a view to raising the level of efficiency to enable the very heavy and increasing work loads arising from the defence purchasing programmes to be more effectively dealt with. In view of the recommendations received from the Sub-Treasury in August 1967, for a substantial increase in staff, it was decided that the scope of the inspection should be increased to include the organisation and staffing of the Sub-Treasury and to recommend long-term solutions to existing problems.

Exhibit
AGPS 1966-67/7

29 In regard to the acquisition and installation of new accounting equipment, we were informed that the initiative for the acquisition of new facilities, in both New York and London, came from the Central Treasury in Canberra about

three years prior to our inquiry, i.e. late in 1964. During 1965 the Treasury recognised the need to replace the ageing accounting machines in the Sub-Treasury, New York, to automate at greater areas of the work, which was growing significantly in volume, and to improve the standard of information available to Commonwealth Offices in America and Departments in Australia and the Treasury. After an examination had been made of the types of equipment available a visible record computer, marketed by the National Cash Register Company of Dayton, Ohio, was selected late in 1966, installed in August 1967, and became operational in October, 1967. It was claimed that this machine will improve the standard of work in the funds control ledger keeping, payroll and reporting operations of the Sub-Treasury. In particular, it is expected that more complete record keeping will be achieved, information will be transmitted back to the departments in Australia in a more complete form and in a more expeditious way thus enabling them to maintain a more effective control over their overseas accounting operations, and a better service will be provided for Australian activities in North America. We were informed that new procedures to be instituted following the installation of the new machine will also improve the information provided to departments including progressive information concerning the allocation of funds and expenditure against appropriation during the year.

Exhibit
AGX 1966-67/1
and Q's
683-688

30 It was stated that operators of the equipment can be fully trained by the Company concerned over a period of approximately three months and that the requisite training had commenced in July, 1967.

31 Concerning the delay that occurred in the acquisition of this equipment, the witness stated that the Treasury was aware that the mere replacement of old machines by equivalent types would not enable improvements to be achieved in the accounting services. When the conclusion was reached that replacement of the equipment was necessary

there was a gap in equipment supply and some time elapsed before the types of equipment available that would meet the real needs of the situation could be identified. In these circumstances, it was not practical to purchase equipment of the desired type until September 1966, after which an order was placed quickly.

32 In view of the problems of staffing referred to in evidence we questioned the desirability of re-locating the Sub-Treasury in Washington. We were informed that both the Procurement Section and the Accounting Section are located in New York because they have been located there for many years. If it were to be concluded at any stage that the Procurement Section would be more appropriately located in Washington, the Treasury would feel that the Sub-Treasury should follow it to Washington. The question of location was said to be under consideration by the officers concerned in the investigation in North America and if they came to the conclusion that location in Washington would be preferable from the viewpoint of the Australian Government it would be competent for them to make such a recommendation. The Public Service Board Observer, Mr. Vanthoff, confirmed that the question of location is a matter for consideration by the officers concerned in the present investigation and indicated that the Board expects to obtain a detailed analysis of the advantages and disadvantages of location in New York. He indicated that such an appraisal has not previously been made.

Q's. 680
691 &
692

CONCLUSIONS

33 Your Committee regards with concern the breakdown that occurred in the accounting arrangements in North America. Although the evidence shows that some of the criticisms made by the Auditor-General were attributable to inadequate staffing and facilities in the Sub-Treasury itself it is also clear that other criticisms related to shortcomings in the performances of some departmental offices in North America

and inadequacies in the general administration in the area. Whilst the nature of the staffing problems encountered in North America and referred to in evidence are well understood, it appears that these problems are not of recent origin and they raise the question as to whether there may not have been a need, for many years, for an increase in the Australia-based supervisory staff at the Sub-Treasury. Notwithstanding that such an increase would be costly, it seems to be an inescapable fact that the poorer the quality of available locally engaged staff the greater is the degree of supervision required if circumstances of the type referred to by the Auditor-General are to be avoided.

34 We note that the central office of the Treasury initiated its request for a new accounting machine in 1964 i.e. in the same year in which an increase had been made in the total staff of the Sub-Treasury. This suggests to us that the need for the new machine was probably evident, at least to the Sub-Treasury, prior to 1964 and raises the question of whether initiating action for a new machine might not have been unduly delayed at that point.

35 The evidence shows that whilst comments on the Report of the Chief Auditor, New York, were sought by the Treasury from the Sub-Treasury in November 1966, four months elapsed before that Report was made. A further three and a half months also elapsed before the Treasury expressed to the Auditor-General its concern for the state of affairs revealed and the same delay occurred concurrently before the Treasury asked the Chief Finance Officer of the Sub-Treasury to exercise closer supervision over his locally employed staff and to re-examine his staffing requirements generally. Delays of this nature appear to your Committee to be excessive. By comparison, however, we are impressed by the speed with which the Department of External Affairs, the

Treasury and the Public Service Board were able to arrange for the creation of four new positions on the day when the request for the creation of nine positions was received from the Sub-Treasury. This outcome compares favourably, we believe, with the staffing experiences of many departments that have appeared before us in other inquiries.

36 Your Committee views with approval that, with the introduction of the new accounting equipment, Treasury has taken action to define the purposes for which Imprest Accounts may be used and has reduced the levels of most imprest advances available to the Posts in North America. We also commend the Department for its action in bringing the Director of the News & Information Bureau and the Senior Trade Commission, New York into the general framework of prescribed procedures by cancelling their appointments as Certifying Officers. We believe, however, that this action should have been taken earlier and we trust that like action will be taken in respect of other Posts in America and in respect of Posts falling within the areas of responsibility of the Sub-Treasuries in London and Geneva, should circumstances warrant.

37 A further matter to which Your Committee would make specific reference relates to the relationship between the Sub-Treasury and the Australian National Airlines Commission. We note that action was taken recently for the Sub-Treasury to be reimbursed for services which it provides for the Commission. We believe that this action should have been taken much earlier and that fees should be charged by all Sub-Treasuries in Australia and overseas for services rendered to statutory authorities of a trading nature and which are required to maintain normal commercial accounting records.

38 Finally, we would comment on the matter of the location of the Sub-Treasury in New York. The evidence shows that while the responsibilities of the Sub-Treasury relate to Australian responsibilities in the North America area, its location has evidently depended in the past on the location of the Procurement Section of the Consul-General, New York. While we cannot accept that the Procurement Section and the Sub-Treasury are located in New York because they have always been located there, we believe that a case exists, in terms of its wider responsibilities; a preferable geographical location, and perhaps greater flexibility in local staff recruitment; for the Sub-Treasury to be relocated in Washington as we are surprised to learn that this has not been considered previously by the Public Service Board. At the same time we appreciate that this question has now been referred to the high level team of officers who are conducting an inspection of the Procurement Section and the Sub-Treasury, New York and we shall be glad to learn, in due course, of the outcome of that inspection in all of its aspects.

CHAPTER 3 - ATTORNEY-GENERAL'S DEPARTMENT

- 39 Paragraph 38 of the Auditor-General's Report contained the following comment :

" During the year, by means of false information on departmental ~~source~~ documents, the name of a fictitious employee was introduced on to the payroll of the Commonwealth Police Force in Sydney and removed approximately six months later. The amount misappropriated was \$1,725.87.

The circumstances of the fraud have been investigated by the Department, which found that the authorisation and check of salary advices forwarded to the Sub-Treasury for inclusion on the payroll was unsatisfactory. Resultant administrative action has been taken and this includes steps to ensure that an effective internal check will be exercised in future. At the date of preparation of this Report, legal proceedings were incomplete."

- 40 We were informed that the fraud had commenced on 9th November, 1966, with the forging of a Pay Commencement Advice, Treasury Form 28 G. The Sub-Treasury acts on this Advice to include or remove the name of a payee on the pay sheet or to vary the amount payable to a payee whose name is already included on the pay sheet. At the time when the fraud occurred the names of about 160 members of the Commonwealth Police Force employed in the New South Wales District appeared on the pay-sheet for the District. Exhibit
AGR1966-67/1

- 41 The witness stated that normally, pay advices are prepared by a Clerk Class 1, checked by a Clerk Class 3 and authorised by a Clerk Class 4. In the case of the New South Wales District Office, however, the Pay Advices are prepared by a Clerk Class 1 who is required to sign as the Officer preparing, and are checked and authorised by a Clerk, Class 4, who is required to sign as checking and authorizing officer. It was explained that the provision of a third position in that office would provide staff in Exhibit
AGR1966-67/1
& Q's.
5 to 12

excess of the work load as the preparation of salaries and wages is only part of the work of the two clerks involved.

42 The departmental submission indicated that bona fide additions to the pay sheet can only result from either the appointment of a member, or the transfer of a member from another District. On appointment a member must subscribe an Oath and the appointment has effect from the date on which the Oath is subscribed. The Oath, together with the commencement Advice, signed by the Officer administering the Oath, is referred to the occupant of the position of Clerk, Class 1, as his authority for preparing the pay commencement advice and should be checked by the checking and authorizing officer. In each transfer, an advice should be furnished by the District from which the transferee is moved, showing the date on which he ceased duty and the date to which he has been paid in that District. This advice together with a leave and salary card, is referred to the Clerk, Class 1, as his authority for preparing the pay commencement advice and should be checked by the checking and authorising officer. The pay commencement advice indicates whether the member concerned is to be paid in cash or whether payment is to be made to the member's bank account. Payment of a member's salary to a bank account is made only on the written request of the member concerned.

Exhibit
AGR1966-67/1

43 We were further advised that the Sub-Treasury prepares the pay sheet by amending the previous paysheet in accordance with the pay advices forwarded to it. The Sub-Treasury forwards two copies of the pay sheet to the paying office - the first copy being a perforated copy which permits full particulars of gross pay, deductions therefrom and net pay to be furnished to each payee whether payment is made by cash or to the bank. The Treasury Observer, Mr. Cowie, informed us that the Pay Variation Advice (Form 28) contains provision for certification by the departmental officers as to the correctness of the information contained in the Advice. The signature

Exhibit
AGR1966-67/1
and Q's.
26 & 27

of the officers authorized to sign these Advices are registered in the Sub-Treasury and are checked before action is taken to prepare the pay schedule.

44 The Department stated that a reconciliation with the previous pay should have been effected by taking the number of payees on the previous pay, adding the number of members commencing duty or transferred and deducting the number ceasing duty or transferred. A reconciliation of gross pay should also have been made by taking the amount shown on the previous pay sheet and the variations forwarded since that date. It was the responsibility of the Clerk, Class 1, to effect and the Clerk, Class 4, to check these reconciliations. However, it was found that these reconciliations had not been carried out despite instructions contained in Treasury Direction 20/29(c). That Direction states :

"29. Chief Officers shall ensure that departmental procedures include :-----

- (c) A provision that a copy of the pay sheets is forwarded to the Staff Section which shall reconcile the number of officers and employees with those of the previous pay period if this has not been done before payment is made. The reconciliation should be evidenced on the copy of the pay sheets."

45 In regard to the perpetuation of the fraud we were informed that on 9th November 1966, the Clerk Class 4, orally instructed the Clerk Class 1, to prepare a pay commencement advice for a fictitious member named William Henry Howson with effect from 1st November 1966. He informed the Clerk, Class 1, that Howson would be on the New South Wales District records only for pay purposes. His leave card and salary card were being retained in Canberra. Tax deductions from salary were to be made and the salary payments were to be made to William Henry Howson's account at the E. S. & A. Bank, 52 Oxford Street

Exhibit
AGR1966-67/1
Q.57 and
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1967/1

Sydney. The Clerk, Class 1, prepared the pay commencement advice and signed it as preparing officer. He also prepared the salary card. The advice was countersigned by the Clerk, Class 4, as checking and authorizing officer and forwarded to the Sub-Treasury where it was acted upon. The Clerk, Class 4, had meanwhile opened an account in the name of William Henry Howson at the Bank concerned upon which he proceeded to operate. Payments at the rate of \$109.71 per fortnight were made to the account until 5th June, 1967, when the Clerk, Class 4, orally instructed a Clerk, Class 1, newly-appointed to the work on 7th March, 1967, to raise a cessing advice as from 8th June, 1967. The Clerk, Class 4, removed the salary advice forwarded by the Sub-Treasury each fortnight for handing to the payee.

Exhibit
AGP1966-67/1

46 . It was stated that the fraud was detected on 12th June, 1967, when a member of the Commonwealth Police Force was checking the salary cards for incremental advancement. This officer was said to be a senior constable with the title of Quartermaster Clerk and is normally engaged in the issue of equipment, the checking of rosters and checking on whether increments in salary are due and have been paid. The officer concerned found a card in the name of Howson, and not knowing a member of that name, brought the matter to the notice of his Officer-in-Charge. This card had been filed with others by the Clerk, Class 1, when he prepared the salary commencement advice. The office safe of the Clerk, Class 4, was opened and a cheque book in the name of Howson was found together with the fortnightly salary advices from the Sub-Treasury in that name.

Exhibit
AGP1966-67/1
and Q's.
93 to 96

47 The Clerk, Class 4, confessed to the fraud and admitted that the Clerk, Class 1, had not conspired with him. He was charged, found guilty and committed for sentence. On 4th August 1967, he was released on a good behaviour bond for a period of five years upon him entering into a recognisance for the sum of \$100 and subject to the condition that reparation of the Commonwealth's loss be made within one month.

Exhibit
AGP1966-67/1

He signed an authority for deduction of the amount of defalcation from the refund of superannuation contributions due to him and full restitution has been made. He resigned on 13th June, 1967.

48 In regard to the circumstances of this fraud, the Department conceded that the Clerk, Class 1, who prepared the commencing advice should not have prepared a commencing salary advice without supporting documents. He should not have directed the Sub-Treasury to make payment to a bank account without a written request from the officer concerned. He should have been suspicious when told that deductions in respect of tax only should be made, as all members of the Commonwealth Police Force contribute either for a pension under the Superannuation Act or to the Provident Fund. In regard to the cessation action the Clerk, Class 1, concerned should not have prepared the ceasing advice without documentary evidence.

49 The Department indicated that all officers involved in the preparation of pay advices have been instructed that they must sight supporting documentary evidence before preparing commencing, ceasing or varying advices and that the reconciliation of gross pay and the number of payees as required by Treasury Directions must be carried out each fortnight by an officer from another Branch. In the case of commencing advices, the supporting documents must be initialled by the Superintendent in charge of the District. The Audit Observer, Mr. Scott, informed us that his office has asked its Chief Auditors in each State to conduct an examination to ascertain whether any similar areas exist which could contain a weakness of the type disclosed in evidence.

Exhibit
 AGR 1966-67
 and Q100

50 In view of the circumstances of this case we questioned the Departmental witnesses on the operations of Internal Audit in relation to the matter; the issue of office instructions on pay matters; and the nature and extent of training provided for Clerks involved in this work. We were informed

that the Department has an internal auditor who is attached to another branch of the Department and who is required to check the work involved in the preparation of pay advices and associated reconciliations. The internal audit programme is laid down with the concurrence of the Auditor-General. The Internal Auditor conducted an audit in the Commonwealth Police Force only once during the period of the fraud but did not check the salary payments as they did not come under scrutiny during that period. He conducted an audit of the New South Wales Branch, including the preparation of salaries, during the period from 14th to 21st October, 1967, i.e. at a time after the fraud had ceased, but did not bring under notice that the reconciliation required by Treasury Direction 20/29 (c) was not being performed.

Wales's, 16, 17
29, 30 &
58 and
Committee
File 1967/7

51 In regard to the issue of office instructions on pay matters, we were advised that such instructions had been issued simultaneously in all Commonwealth Police offices in Australia, when the Commonwealth Police Force was established in 1957. When the fraud was discovered, every Branch of the Force was issued with new instructions relating to the requirements on pay matters. At our request a copy of this instruction was tendered for our examination. The instruction, which was dated 12th September, 1967, was in the following form :

Q's 68, 69
and
Committee
File 1967/7

" .. Preparation of Salaries

The Administrative Officer,
Melbourne, Brisbane,
Adelaide, Perth,
Hobart Darwin.

A fraud was recently perpetrated at Sydney by a permanent officer of this Department. Our procedures were adversely criticised by the Auditor-General in his Report for the year 1966-67 and we have now been called upon by the Parliamentary Joint Committee of Public Accounts to furnish an explanatory statement. A copy of the explanatory statement is attached -

you will readily see where our procedures fell down.

2. Please ensure that all officers who are responsible in any way for the preparation, checking or authorising salary variations read the accompanying statement and that our procedures require that satisfactory documentary evidence is furnished before variations are effected. Will you also please ensure that the reconciliation required by Treasury Direction 20/29(c) is carried out each fortnight by an officer not required to prepare, check or authorize salary variation.

(R. Phillips)

Assistant Secretary

Management Services Branch. ..."

52 The evidence suggested that no formal training is given in pay work to the Clerks, Class 1 and 4, who are so engaged either before or after commencing duty in those positions. In the case of the Clerk, Class 1, who terminated the fraudulent arrangement, about fourteen days "on the job" training had been provided by allowing his predecessor in office to work with him for that period of time. The position of Clerk, Class 1, was the first position occupied by the officer concerned following his entry to the Commonwealth Public Service. Q.'s 46 & 47.

CONCLUSIONS

53 Your Committee agrees with the assessment made by the Attorney-General's Department, that the Clerk, Class 1, should not have prepared a commencing salary advice without supporting documents and should not have directed the Sub-Treasury to make payment to a bank account without a written request from the officer concerned. That clerk should also have been suspicious when informed that deductions in respect of tax only, were to be made, as all members of the Commonwealth Police Force are required to contribute either for a

pension under the Superannuation Act or to the Provident Fund. The Clerk, Class 1, who terminated the fraud should not have prepared the ceasing advice without documentary evidence.

54 The circumstances of this case, however, are more far reaching than the actual fraud itself. It is clear from the evidence that the instructions, which we were informed were issued when the Commonwealth Police Force was established in 1957, had been disregarded in important respects. The Department has now laid down the requirements that reconciliations required by Treasury Direction 20/29 (c) must be carried out fortnightly by an officer not engaged in the preparation, checking or authorization of salary variations. We believe that this requirement should have been laid down in 1957 when the initial instructions were issued to the Commonwealth Police Force and that the Department should have recognised at that time the fundamental dangers inherent in the arrangements that had operated.

55 A further matter requiring comment relates to the circumstances of discovery of the fraud. The evidence shows that the fraud was discovered by chance, by an officer who had no reason to concern himself with the question of whether or not a fraud might be occurring. The initiative and sound judgment of this officer is to be commended. However, the failure of the Department's internal audit staff to report the apparent weaknesses in the system and its failure to report, after the fraud had been discovered, that fortnightly reconciliations were not being made, is a matter for concern, particularly as the quality of departmental audits has a significant bearing on the scope and nature of the audits which must be undertaken by the Auditor-General. In the circumstances, we believe that the Attorney-General's Department should examine the adequacy of its internal audit arrangements without delay. We believe further that the evidence points to a strong need for substantial improvements to be made to the training provided for officers who are engaged in the pay advice areas of the

Department. This should undoubtedly include not only instruction in the processes involved but also an examination of the relevant departmental instructions and Treasury Regulations and Directions.

56 Finally Your Committee desires to comment on the fact that whilst the fraud was discovered on 12th June 1967, it was not until 12th September 1967, after the Auditor-General had reported the fraud to the Parliament and after this Committee had sought a departmental submission on the matter, that the Department issued a new instruction relevant to the preparation of salaries. Even then, the instruction was sent to all District Officers except that of New South Wales where the fraud actually occurred. We believe that this instruction should have been sent to that office and that such action should have been taken immediately the fraud was discovered.

CHAPTER 4

DEPARTMENT OF NATIONAL DEVELOPMENT

57 In paragraph 119 of his Report the Auditor-General made the following comment:

"Audit examinations during the year disclosed a number of unsatisfactory features relating to the recording of and accounting for sundry debtors in the Central Office of the Department.

In reply to Audit representations, the Department stated that the system in force for accounting for sundry debtors had been causing concern. A number of administrative changes had contributed to a deterioration in the accounting. The Department advised that remedial measures had been commenced following an investigation of its organisation and methods. Instructions were issued with the object of reducing the number of sales on credit, and extensive overtime was recently worked by the staff to place debtors' records on a satisfactory basis.

Corrective measures were being implemented when this Report was prepared."

58 The Departmental submission stated that on 2nd May, 1967, the Chief Auditor, Canberra, had reported to the Department the results of an examination of the controls in the Central Office relating to Sundry Debtors. The matters concerned related to the raising of debits; reconciliation of individual debtor's balances with control accounts; unreliability of the Sundry Debtors records; review and following up of outstanding Debtors; and accuracy of debits. Each of these matters is referred to below.

(a) Raising of Debts

59 The Chief Auditor had reported that delays had occurred in sending out accounts in a number of cases where publications were supplied to customers on credit by the Bureau of Mineral Resources. He recommended a procedure, operating in other areas of the Department, whereby the Bureau of Mineral Resources would send out the initial accounts directly after the publications are supplied instead of referring particulars

Exhibit
AGR1966-67/2

Exhibit
AGR1966-67/2

to the Central Office where the accounts would be raised, thus on occasions giving rise to delays. The Department advised that it had adopted the Chief Auditor's recommendation and since 1st July 1967 accounts had been prepared and despatched by the Bureau of Mineral Resources. In regard to this matter we were informed that under the system which had operated when the Chief Auditor's comments were made, the Bureau of Mineral Resources received orders and supplied publications. In the course of preparing each consignment the Bureau prepared a consignment note in Memorandum form which was issued with the publication to the purchaser. A copy of the form was sent to the Central Office of the Department where an account, referred to as a **Debit Advice Note**, was raised and sent to the purchaser. The delays arose, partly in the transmission of information from the Bureau to the Central Office and partly in the processing of documents in the Central Office. This arrangement, whereby accounts for the Bureau of Mineral Resources were processed through the Central Office, was said to be due to the large volume of sales made by that Bureau compared, for example, with the volume of sales made by the Forestry and Timber Bureau which had issued its accounts direct to purchasers.

Q.'s 121
to 124

(b) Reconciliation of Individual Debtors' Balances with Control Accounts

60 The Chief Auditor had reported that as no separate control account was maintained, the system of controlling the accuracy of the sundry debtors accounts was inadequate in that it did not provide the usual safeguards of an independent check. He had reported further that such checks as were operating were not being applied to debtors of the Department raised in Canberra prior to 17th October, 1965 or debtors transferred to the Department from the Department of the Interior when the Forestry and Timber Bureau was transferred to the Department of National Development in April, 1964. The Department advised that the ledger system in use when the Chief Auditor made his investigation had been abandoned and an accounting

machine had been installed with a qualified operator. All accounts except those relating to debtors of the Department raised in Canberra prior to 17th October, 1965 and the debtors transferred from the Department of the Interior had been transferred to separate ledger cards. It stated that total receipts and total debits raised during a period are now available from an independent source and can be used to check the correctness of the total ledger card balance. A reconciliation was effected as at 31st August, 1967. The accounts relating to debtors of the Department raised in Canberra prior to 17th October, 1965 and the debtors transferred from the Department of the Interior were being incorporated in the new system.

Exhibit
AGR1966-67/2

61. Questioned as to the reasons why no separate control account had been maintained and why the system of controlling the accuracy of the Sundry Debtors' account was inaccurate, we were informed that the debtors' ledger did not take the form of a card system but comprised copies of Debit Advice Notes numbered in sequence. Two sets of these advices were filed, one in numerical order and the other in alphabetical order. There were no supporting books. When an account was paid the appropriate voucher in the alphabetical set of Advice Notes was identified and endorsed appropriately. When payment of the voucher was completed it was removed from the alphabetical sequence and placed in a third sequence known as the "pays ledger". Periodic reconciliation was effected by adding the "pays" and the "unpays" and comparing the total with the numerical index. An independent check could have been achieved by using an independent source of information such as the Collector's cash book but this method was not used. The witness added that this system had not operated for a long period and that prior to about 1963 the ledger had been in card form with a control account. At that time it had been maintained independently by recourse to the Collector's records but it had been considered that the system was cumbersome and that much unnecessary detailed work was being

Q.'s 130
& 131

performed. Accordingly the system was changed to the Debit Advice Note system described.

62 We were informed that when the Department was transferred from Melbourne to Canberra in October, 1965, it was depleted in staff mainly because skilled staff who had been available in Melbourne did not elect to transfer to Canberra. Shortly after it commenced operations in Canberra the Department experienced difficulty not only in the area of debtors' accounts but also in the paying of accounts, the maintenance of statistical information for management and in the other areas of administration. In the debtors accounts area the Department was unable to send out the reminder slips as quickly as desired. The reconciliations also came under departmental discussion and it was decided that the system then operating was not adequate compared with that which had operated previously because of the absence of an independent check. In July and August 1966 an organisation and method investigation was commenced and the report of this investigation, which recommended changes, including the use of a machine system, was submitted in November, 1966. The acquisition of the machine was approved in February, 1967 and was in the process of being purchased when the Auditor-General's investigation took place. As matters now stand, the accounts are machine processed, examined, certified and authorised by the Department of National Development and passed to the Department of the Treasury for payment.

Q.'s 133
to 136

(c) Unreliability of Sundry Debtors Records

63 The Chief Auditor had found that the accuracy of the totals in the Sundry Debtors ledger was doubtful. He recommended urgent action to establish the amount owing by all sundry debtors and sought an accurate statement relating to them. The Department advised that it took immediate action through the employment of additional staff on overtime to produce a satisfactory statement of accounts owing by sundry debtors and on 18th August 1967 supplied the Chief Auditor with the statements requested.

Exhibit
AGR 1986-67/2

64 We were informed that, when the Auditor-General's investigation occurred the sundry debtors ledger comprised three categories. In April 1964 with the transfer of the Forestry and Timber Bureau from the Department of the Interior to the Department of National Development the debts of the Bureau were also transferred. The central office of the management services section of the Department was transferred from Melbourne to Canberra in October 1965 and at this stage a new debtors ledger was established for the Department's Central Office in Canberra. As at 30th June, 1966, the total of the Sundry debtors' ledger amounted to \$123,593 and as at 30th June 1967 the total stood at \$122,017.

Q.'s 124
to 127 &
Committee
File 1967/7

65 The Audit Observer, Mr. Scott, informed us that the unsatisfactory nature of the control exercised over sundry debtors had been brought to the notice of the Department first in July 1964, but this unsatisfactory feature had related to the control account not being reconciled and the sundry debtors not being regularly reviewed or controlled. He indicated that while the Department took some action it was some time before they placed the matter on a completely satisfactory basis. On noting that it had taken the Department from 2nd May to 18th August 1967 to produce a satisfactory statement of accounts owing by sundry debtors we were informed that after 2nd May the Department had given priority to the preparation of a proper list of debts for submission to the Auditor-General. It discovered, however, that the copies of the Debit Advice Notes that formed its records contained notations of past payments and were an inadequate basis from which to produce a list of the type required by the Auditor-General. Accordingly it had been found necessary to check back to all the source documents and examine the collector's records to compare payments with documents. The time element involved was due entirely to the limited number of staff available for the job.

Q.'s 139
to 149

(4) Review and Follow up of Outstanding Debtors

66 The Chief Auditor had reported that no age analysis of outstanding debtors had ever been effected and that insufficient effort had been made to follow-up overdue debtors. He had commented that where debts were deemed to be irrecoverable, appropriate action should be taken to have the amounts written off. He had also drawn attention to the question of whether it would not be prudent to exercise more caution before granting credit. The departmental submission stated that the Chief Auditor's recommendation on this aspect will be fully met when the new accounting system is implemented. The accounting machine has been programmed to print accounts showing amounts one, two and three months or more overdue. A by-product of this function will be a print-out in trial balance form of all accounts in the various categories. This latter statement will provide a reliable basis for follow-up action. As soon as all debtors have been transferred to the new system, all overdue accounts will be renewed to consider the steps which should be taken to obtain payment. Amounts considered to be irrecoverable will be submitted to appropriate Authority for write-off action. Instructions have been issued that in principle, sales are to be effected on a cash basis only. Exceptions to this policy may be made only when dealing with other Commonwealth or State Departments and instrumentalities, Universities, reputable firms and booksellers in Australia.

Exhibit
AGR 7966-67/2

67 We were informed that an analysis of outstanding debtors could have been prepared when the Debit Advice Note system was operating but the system had broken down as it was not properly supervised and was never current. Although an age analysis had not been made at the time of our enquiry, the Department subsequently supplied us with the following analysis of its oldest debtors: -

Q.'s 159
to 163

Table No. 2.
Department of National Development
Outstanding Debtors 1959-1963
(16.11.1967)

Year	Debtors	Amounts
<u>Debts incurred in year</u>		\$
1959	1	10.11
1960	-	-
1961	3	23.32
1962	8	413.93
1963	17	972.40

68 In regard to action taken to pursue debtors we were informed that letters have been written to them at irregular intervals, but unfortunately not systematically, claiming the amounts owed. The witness agreed that the implementation of a regular system of follow-up action would be desirable but pointed out that due to the circumstances that have existed in the Department in recent years it had not been able to carry out all aspects of this administration in the order in which they should have been carried out. However, it was claimed that under the system now operating an analysis will be produced and the accounts sent out will show this information in the form of a statement of the type normally used by commercial organisations. It will show the amount owing 30, 60 and 90 days overdue. Although it was said that action will be taken to recover debts, the Department had not yet acquired sufficient data on which to formulate a debt recovery policy.

69 At our request the Department supplied details of its cash and credit sales for the years 1963-64 to 1966-67. This showed that its total sales had increased from \$31,532 in 1963-64 to \$55,660 in 1966-67 of which credit sales comprised about 68 and 79 per cent respectively. Although verbal instructions had been operative for many years to the effect that, in principle, sales are to be effected on a cash basis only, it was only from 1st July 1967 that the Bureau of Mineral Resources had issued written instructions to this effect. Other areas of the Department however, were continuing to operate on the basis of verbal instructions. We examined the witness specifically on the departmental definition of a

"reputable firm" for the purposes of credit sales and were informed that such a firm would be defined as a bookseller who is already recorded with the department as an accepted agent. When establishments approach the Department for permission to function as agents, an examination is made of their reputation generally to assess whether they have the capacity to represent the Department, but no specific enquiries are made regarding their credit standing although the witness acknowledged that trade sources are available from which such information could be obtained. The instructions issued by the Bureau of Mineral Resources in July 1967 stated:-

"It is the Bureau's aim to reduce the issue of Debit Advice Notes to a minimum and for the present should be restricted to the following;

- (i) Commonwealth and State Government Departments.
- (ii) Universities within Australia
- (iii) Reputable firms and booksellers within Australia.

(The list of bad debts should be referred to and refusal to sell on credit would be justified if a firm appears on the list)".

70 We questioned the witness as to whether consideration had been given to servicing the public with publications and maps through other avenues such as the Government Printing Office but were informed that the Department believed such an arrangement would not meet the needs of purchasers, the majority of whom require a specific Bureau of Mineral Resources Bulletin or a National Mapping Division map and it is usual for them to obtain their supplies direct from the Bureau or the Mapping Division.

(e) Accuracy of Debits.

71 The Chief Auditor had reported that in a number of accounts examined by his officers errors were detected in the amounts raised. He had recommended that arrangements should be made for a check on the accuracy of the accounts raised, by a second officer. The Departmental submission stated that the former system of

preparing debit advice notes in the Central Office from information supplied by the Bureau of Mineral Resources has now been discontinued and in future formal invoices will be prepared in the Bureau, checked by a second officer and sent direct to the client. The witness indicated that under the former system provision had been made that the Debit Advice Notes were to be made out by the consignment clerk and forwarded to a senior officer for inspection before being issued. Errors in extension and similar errors should have been detected at that point. However, the checks had not been careful enough or had not always been observed. The newly established arrangements provide for the same type of check and the Department will ensure through the instructions which it proposes to issue that it is informed. We were subsequently advised that the Department had no record of complaints made by debtors regarding invoices issued.

CONCLUSIONS

72. Your Committee believes that the circumstances of this case and which were reported on by the Auditor-General reflect adversely on the administration of the Department. Although it is clear that the transfer of the Department's Central Office from Melbourne to Canberra in October 1965 deprived the Department of some experienced staff and added to the burdens of its administration it is also clear that the real course of the difficulties preceded that transfer and are to be found in the introduction of an inadequate system of accounting which was mismanaged.

73. Your Committee finds that the comparatively large number of publication sales made by the Bureau of Mineral Resources was not, in itself, a sufficient reason for the Bureau's accounts being processed through the Central Office of the Department while accounts relating to lesser volumes of sales by other agencies of the Department were processed direct to debtors. Your Committee also finds that the delays that occurred in the raising of debits on behalf of the Bureau were in part due to inadequacies in the Bureau and partly due to inadequacies within the Central Office of the Department.

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74. The evidence shows that the substitution in 1963 of a Debit Advice Note system of accounting for a card system which had operated previously, coupled with the inefficient operation of the newly installed system, were the prime causes of a failure to reconcile individual debtors' balances with control accounts; a failure to maintain an adequate record of Sundry debtors and a failure to achieve accuracy in debits.

75. Your Committee also believes, on the evidence, that the Department should have maintained an age analysis of outstanding debtors which, we were informed, could have been prepared from the Debit Advice Note system of accounting but was not maintained because the system itself had broken down and lacked adequate supervision. Although the Department had taken action to prepare an age analysis of debtors it was able to supply us with only a sketchy analysis of its oldest debts, and was unable to formulate a debt recovery policy due to a lack of sufficient essential data. Your Committee is also disturbed by the fact that no regular system for the pursuit of debtors had been maintained for some years.

76. The evidence also showed, however, that the Department is making a commendable effort to overcome the basic difficulties with which it has been confronted.

77. A further aspect of the evidence to which we would invite attention is the circumstances relating to credit sales made by the Department. It appears that the department's policy that, in principle, sales are to be effected on a cash basis, had been the subject of verbal instructions only until July 1967 and even then, branches of the Department other than the Bureau of Mineral Resources, were continuing to operate in that fashion. Your Committee regards this as a most unsatisfactory state of affairs and believes that all branches and agencies of the Department engaged in the sale of publications and like material should issue written instructions relating to the administration of their sales.

78. During our inquiry we questioned the witness as to the definition of a "reputable firm" for the purposes of credit

sales and were informed that such a firm would be defined as a bookseller who is already recorded with the Department as an accepted agent. We were surprised to learn, however, that in the determination of whether a bookseller will be accepted as an agent, the Department makes an assessment of his capacity to represent it but does not enquire into his credit rating although facilities for applying such checks were known to the witness. In view of the declared policy of the department in relation to cash and credit sales and the administrative difficulties of the past which gave rise to the Auditor-General's comments we believe that an assessment of credit risk should be made of each prospective agent.

79. On the general question of whether or not the Department should continue to arrange its own sale of publications, with all that such a process entails, we believe that the department's view that purchasers of its material would prefer to acquire their material direct from the Department has not been tested in any practical way. As it seems to Your Committee that considerable benefit could be gained by the Department if it were to avail itself of the distribution facilities of the Government Printer we further believe that this avenue for the release of the Department's publications should be fully explored.

CHAPTER 3.DEPARTMENT OF THE NAVYSTORES AND STORE ACCOUNTING:

90 Paragraph 213 of the Auditor-General's Report for 1966-67 contains the following comment:

"Reference was made in previous Reports to unsatisfactory features of store accounting in the Naval and Air Store Branch (now Supply Division), New South Wales. It was reported that arrears existed in the stocktaking programme and until the triennial cycle of stocktaking had been completed, the Department expected that discrepancies arising from past accounting errors and omissions would continue to be revealed. However, with increased availability of staff, introduction of a staff training programme and improved storage of bulk stores, progressive improvement was expected.

Departmental records indicate, however, that the arrears in the triennial stocktaking programme increased during the year although stock was taken of some 134,000 items as compared with 95,000 items in 1965-66; also, that the extent of discrepancies disclosed by stocktakings was slightly improved but remained at a high level.

In replying to an Audit request for comments on the reasons for the continued increase in stocktaking arrears and the high rate of discrepancies, the Department advised that the total inventory has increased considerably during the year due to the arrival of a substantial number of spares for the Charles F. Adams class destroyers and other new equipments. Notwithstanding the improvement in the rate of stocktaking in 1966-67, the overall

inventory was increasing to such an extent that a review of the staffing involved and the methods employed by the stocktaking teams was being undertaken by the Department. The Department also indicated that further improvement in the position should show when the new stocktaking triennial cycle, scheduled to commence in July, 1968 is in operation."

81 In regard to the previous criticisms mentioned in the Report, the Audit Observer, Mr. Scott stated that in paragraph 171 of the Auditor-General's Report for 1963-64 reference had been made to the unsatisfactory features of the store accounting in the Navy and Air Store Branch in New South Wales. A high discrepancy rate in stocktaking had been discovered and at that stage an investigation was being made to determine the position. In paragraph 192 of the Report for 1964-65 the Auditor-General had referred to a report on the result of the investigation made by the Department. That report had referred to the difficulties of accounting and other difficulties associated with inadequately trained staff. In paragraph 207 of the 1965-66 report the Auditor-General had reported progress in the matter and had referred to the introduction of mechanised accounting and an improvement in the staffing position. He had stated that there were arrears in the stocktaking programme and that until the triennial cycle of stocktaking had been completed the Department expected that discrepancies arising from past accounting errors would continue to be revealed. Q.360

82 The Department stated that the Naval and Air Store Branch, New South Wales, has now been absorbed in a recent re-organization into a single Royal Australian Navy Supply Division. The sections previously comprising the Navy and Air Store Branch handle all

activities in connection with general Naval stores, electrical stores, Air stores and machinery spares, which in total comprise more than 80 per cent of the overall RAN inventory. The remaining major categories of stores in the new Supply Division are armaments and victualling.

83 We were informed that prior to this re-organization the Department had maintained a very simple system known as a duplicate store accounting system. Under that arrangement the Department had an office control and a duplicate form of account within the various store houses, which, at that time, were coping with up to 300,000 items. Business, however, was growing to such an extent that it became necessary to consider whether the system required alteration. Following a Public Service Board and departmental investigation it was decided to introduce a form of machine accounting which, in fact, abolished the duplicate store ledger system and established a complete machine accounting system within the administrative staff of the office. This was said to represent a significant departure from the well established operations that had been carried out by staff on fairly low salary ranges. It was stated that the need for this change emerged with the planned introduction of missiles into the Navy some years previously and their progressive introduction in more recent years. The old system under which the Department had maintained Naval stores, Air stores, armaments stores, victualling stores and medical stores as separate entities without one overall controller, proved to be unsatisfactory and a re-organization began early in 1965 in conjunction with the Public Service Board. A member of the Board and an officer of the Department reviewed the

Q's.363

Q.361

-4

supply organization and as a result of that review the reorganization was introduced within the twelve months prior to our enquiry. It brought all of the supply branches into one organization headed by a Controller of Supply.

84
85 The Department stated that the discrepancies disclosed by stocktakings reported by the Auditor-General concern, in the main, the general stores section of the former Naval and Air Stores Branch which is involved with the high turnover stock items required to meet the daily needs of the Garden Island Dockyard in the repair and refit of the fleet and Naval establishments. In this field there are many items of stores where the transaction activity is continuous and heavy and errors are more likely to occur than in other stores sections where there is a lower turnover rate and a lesser incidence of unexpected demands. The witness emphasised that in no case were issues made without the appropriate paper work being undertaken but that the implementation of the correct and proper paper work is subject to error.

Exhibit
AG-1966-67/15
and Q364

85
86 We were informed that the store accounting problems in New South Wales stem from the early 1960's when, because of the then planned disbandment of the Fleet Air Arm and the consequential disposal of the large range of air stores it was expected that the Air store staff would become available to assist in coping with the increased task of the other store sections. However, anticipating that they would become redundant following the disbandment, a number of experienced officers sought promotion elsewhere. When the Government rescinded its decision and decided to continue with naval aviation a considerable

Exhibit
AG-1966-67/15
and Q's.
365 & 374

loss of experienced staff had occurred. At the same time, with the new equipment substantial increases occurred in the Naval and Air Store Branch inventory, instead of the expected reduction, and the staff proved to be inadequate for the task.

86 These problems were said to have been further accentuated by the introduction early in 1962 of a new machine system of store accounting, involving new procedures for both offices and storerooms and this factor and the unavailability of sufficient and adequately trained staff in a period of expanding operations were determined by a departmental investigating committee as being the main reasons for the high discrepancy rate revealed by stock-taking. As a result of this investigation a triennial cycle for stocktaking was introduced as from 1 July, 1965, in place of the annual stocktake to enable arrears to be overtaken. However, the Department expected that abnormal discrepancies arising from these problems would continue to be revealed until the current triennial cycle of stocktaking is completed in 1968.

Exhibit
AGR1966-67/5
and Q.366
and 375

87 We were informed that in regard to the rate of stocktaking it was possible during the last few months of 1965-66 to recruit staff who had been short of approved complement for some years and this improved staff situation, which was maintained in 1966-67, resulted in the considerable improvement of about 40 per cent in the number of items mustered, i.e. from 95,000 items in 1965-66 to 134,000 items in 1966-67. However, notwithstanding this improved result, the percentage of items mustered and the percentage of total inventory mustered has decreased owing to the increasing numbers of spares for the new capital equipment being added to the inventory.

Exhibit
AGR1966-67/5
and
Q.376

The growth in this inventory was illustrated by the fact that in June, 1963 the inventory range numbered 337,000 items compared with 370,000 in June, 1964; 420,000 in June, 1965 and 455,000 in June, 1967. The full extent of the impact that this increase would make had not been realized by the Department.

88 We were informed that staff training had actually commenced concurrently with the final stages of the investigation into the system. Whilst at the control level the training produced adequately trained staff. The Department discovered that clerical staff and clerical assistants engaged in checking vouchers, cross-checks and counter-checks were subject to considerable change due to normal promotional opportunities arising elsewhere. Greater emphasis was placed on staff training in 1966-67. With the twin objectives of reducing the accounting error rate and improving the stocktaking output, lectures and regular staff discussions have been held and training aid booklets on stocktaking, stores terminology and supervision have been issued. The witness confirmed that training is carried out by competent training staff and that examinations are conducted to ensure that training has been effective. The Department plans to continue the preparation of such booklets and to supplement them by regular training and discussion periods.

Exhibit
AGR 1966-67/5
and Q's 367,
369 to 373

89 The Department stated that the techniques employed in the overall supply stocktaking area are under constant review and that a special examination is being carried out in methods and in regard to the staff necessary to cater for the increasing task.

CONCLUSIONS

90 It appears to Your Committee that while the problems associated with naval stores and store accounting have been a matter for concern to the Auditor-General since at least 1963-64, they began to concern the Department of the Navy at an earlier stage consequent upon the decision of the Government to disband the Fleet Air Arm and dispose of the large range of air stores involved. We believe that much of the loss of experienced staff and associated problems that occurred following that decision might have been averted had the Department taken the staff concerned into its confidence regarding their planned re-employment in other areas of the store section. It appears highly probable that had that staff been retained effectively, the problems associated with the introduction in 1962 of the new machine system would have been kept to a minimum.

91 Your Committee notes with concern the admission in evidence that the Department should have realised the full extent of the impact on its stores system that would be made by the sharp increases that occurred in the inventory range. Although that range increased substantially in 1964 compared with the level in 1963 it was not until early 1965 that a review of the Supply organisation was commenced and a further twelve months elapsed, during which the inventory range increased still further, before the consequent reorganisation was introduced.

92 At the same time Your Committee would commend the Department for its conscientious efforts in the field of staff training without which, the newly installed system of stock control has little chance of success.

93 Your Committee trusts that the Report of the Auditor-General for 1967-68 will reveal substantial improvements in this area of naval administration.

DESTROYERS

94. In paragraph 214 of his Report for 1966-67 the Auditor-General made the following comment:-

"During the year, my officers examined in Australia and in the United States of America various aspects of expenditure on the project. Subsequently, the Department's comments were sought on a number of matters, including the increases from \$US3,240,000 to \$US9,136,350 which had occurred in the original provision for shore based spares for the first two destroyers; the reasons for extraordinary increases in the unit cost estimates of certain spares; inadequacies in the follow-up of delivery to Australia of spares supplied through the United States Navy; seemingly high charges levied by the freight forwarding contractor in the United States of America for services rendered; and delays in the examination in the Australian Consul-General's Office, New York, of billings received from the United States Government in respect of spares delivered for despatch by the freight forwarder to Australia.

In replying to Audit observations with regard to the increase of \$US5,896,350 in the provision for shore based spares for the first two destroyers, the Department stated that there was no contractual commitment whereby a full range of shore based spares would necessarily be provided through the United States Navy, within the overall estimated cost of \$US90,000,000 for the two completed ships; it was recognised at an early stage that the original provision for such spares to the extent of \$US3,240,000 was inadequate and approvals had been obtained subsequently for the funding of progressive increases in the provision for shore based spares to a total of \$US9,136,350 by utilising savings in relation to ship construction costs, etc., as declared by the United States Navy.

The Department indicated that an estimated 60 to 70 per cent of the total range of spares for the first two destroyers had been ordered to date and consideration is being given to a further increase in the provision for shore based spares to an estimated \$US12,600,000, this amount still being within the original overall estimate of \$US90,000,000.

With regard to the extraordinary increases in unit prices of some items of spares, the Department indicated that these may have resulted from inaccurate or out-of-date estimates originally furnished by the United States Navy to the Royal Australian Navy. These estimates were being investigated by the Department which stated that such price increases reflected in the overall estimate of cost of spares, are not unusual in the United States of America for small quantity production as compared with large quantity orders placed in earlier years for the United States Services Main Programme requirements.

My Office was informed by the Department that its policy in the event of significant increases in unit prices of spares was to seek professional opinion of technical officers whether acquisition of the originally assessed quantities should be proceeded with and whether the costs were considered reasonable. The Department further advised, in reply to inquiries by my Office, that this policy had not been followed consistently in some sections by the Supply Branches of the Department and appropriate instructions have now been issued to correct the situation.

With regard to inadequacies in departmental procedures related to the follow-up of delivery to Australia of spares, the Department has indicated its concern with the delays occurring in the shipment of equipment and the standard of related documentation, and has advised my Office that the matters have been represented to the Consul-General, New York; also, that possible means of improving the situation are under consideration.

At the date of preparation of this Report, the Department's comments were awaited with regard to payments made for services rendered by the freight forwarding contractor in the United States of America, and the examination by the Australian Consulate-General, New York, of billings received in respect of spares delivered for despatch by the freight forwarder to Australia."

(a) Increase in the Original Provision for Shore-Based Spares

95 The Department of Navy submission stated that the order for the first two guided missile destroyers was placed on 26th October, 1961 based on a letter of offer dated 11th August, 1961, from the United States Navy. This arrangement provided for a package deal for the construction and outfitting of the two ships and the supply of shore-based spares at an estimated total cost of \$US90,000,000

(\$480,634,000). It was clearly understood that the Australian Government would be charged the actual costs to the United States Navy for all materials and services supplied. The various provisions making up the \$US 90,000,000 (\$480,634,000) were not fixed, as the United States Navy desired to retain flexibility within the overall total to enable the estimates to be reviewed as assessments or requirements were refined. One of these provisions related to shore based spares to the extent of \$US3,240,000 (\$A2,907,000). We were informed that this arrangement was designed generally to enable the Australian Government to purchase the ships and shore-based spares at the favourable prices at which they were available to the United States Navy.

96 The Department of the Navy emphasised that the contract acknowledged that a full range of base spares would not necessarily be provided within the package deal. The reason for this was that when the contract was entered into the first ship of the class had been commissioned only recently by the United States Navy and specific reference data was not available to that Navy even in relation to its own requirements for base spares. Before a realistic assessment could be made of the Royal Australian Navy's requirements it was necessary to obtain detailed listings and costings from the United States Navy, which in turn had to be translated to Royal Australian Navy requirements to take account of basic differences in the two logistic support systems arising from, among other things, the great differences in the number of ships of the class in each Navy and the availability of local manufacturing back-up support in the United States of America.

97 The Department claimed that from the outset it had been evident that the assessment of base spares would be a lengthy task. As experience with the type of ship concerned was exclusive to the United States Navy, the Department's representative in America worked in close collaboration with that Navy in drawing up recommended lists of items which were required to support the

Exhibit
AGR 1966-
67/5
Q's 378 to
380

Exhibit
AGR 1966-
16/5
and Q401

Exhibit
AGR 1966-
67/5
and
Q402

Australian destroyers. These lists, when jointly compiled, were forwarded to the Navy office in Canberra and were examined by Supply and Technical Staff and decisions were taken as to whether the American recommendations for individual items would be accepted or varied.

98 It was stated that the ships concerned are of the most complex type, carrying sophisticated technical equipment of new or radically modernised design and their introduction into service in the Royal Australian Navy involved the addition of some 75,000 individual items to the Navy's stores inventory. The Department of the Navy confidently expected, as early as 1962, that savings on construction costs would be available, should the detailed listings and assessments then in progress show that a wider range of base spares would be advisable. As the task of assessment of Royal Australian Navy requirements proceeded in conjunction with the United States Navy authorities the allowance within the package deal for these spares was, after review and approval by the Department of Defence, the Treasury and the United States Navy, progressively increased from \$US3,240,000 (\$A2,907,000) to approximately \$US9,000,000 (\$A8,200,000) to provide more adequate support in depth for the operation and maintenance of this new class of ship.

Exhibit
AGR 1966-
67/5
and
Qs 403, 404
410 to 421

99 On the matter of control, the Department had decided at the outset that it should not go to the very considerable expense of maintaining in the United States of America for some seven years, a large naval mission to oversight and supervise all of the details of this major undertaking. Instead, the practice that has been followed for many years for Australian Navy contracts in Britain was adopted. Under that arrangement the Department relies heavily on the oversight and technical staff of the British Ministry of Defence and its shipbuilding practices rather than establishing a Department of the Navy (Australia) in Britain staffed with the financial, supply and engineering technical staff that would be necessary to maintain close control of a shipbuilding contract in Australia. Under the arrangements that were made,

Exhibit
AGR 1966-
67/5 and
Qs 406 & 407

the United States Navy was made responsible for all contractual arrangements, inspections and oversight, so that all contracts associated with the project have been afforded the same safeguards as those applying to the United States Navy under the Armed Service Procurement Regulations in that country.

100 We were informed that from the initial stages of the construction programme Australian interests have been watched by a small technical liaison staff of four officers who were attached to the section of the United States Navy concerned with the construction of the ships and were located at the shipbuilder's premises. Additionally, a stores liaison officer was attached to the staff of the Australian Naval Attache in Washington to oversee the supply of base spares. As the programme developed a further three stores liaison personnel were attached to the staff of the Australian Naval Attache for these duties.

Exhibit
AGR1966-67/5

101 The Department stated that the progressive extension of the range and quantity of base spares to be provided, in the light of the United States Navy's operating experience, was considered to be a good insurance against the possibility of wasteful holdups and loss of operational availability of the ships. The progressive expansion of the range was said to have been based on a detailed item by item assessment in relation to the risk involved in delays should the item not be ordered. The Department emphasised that the increased provision for shore-based spares to the level of \$US9,000,000 (\$A8,200,000) has been achieved within the within the overall amount of \$US90,000,000 (\$A80,634,000) in the original package deal.

Exhibit
AGR1966-67/5
and
Q409

(b) Increases in the Unit Cost Estimates of Certain Spares.

102 In regard to increases in the unit costs of spares the Department emphasised that while the \$US90,000,000 (\$A80,634,000) package deal was based on estimated costs it was clearly

understood that the Australian Government would be required to pay the actual costs of all materials and services provided. At that time, the United States Navy was not in a position to give a firm price as it had not called tenders for the construction of the ships, the equipment to be installed in them or the base spare items.

Qs 439 and
440

103 We were informed that the pricing details shown on the United States Navy provisioning recommendations were not price quotations but were estimates and, over the range of articles concerned, comprised standard issuing rates according to the United States Navy computer system, including obsolete prices recorded for items which had not been purchased by the United States Navy for a period of years and a professional officer's estimate for items for which there was no previous price history. It was stated that this basis of price quotation has been a matter of concern to the Department of the Navy which has raised the matter of individual unit prices with the United States authorities through the Australian Naval Attache in Washington.

Exhibit
AGR 1966-
67/5
and Q443

104 The Department stated that for items which have been supplied from United States Navy stock-holdings the pricing arrangement is payment at United States Navy standard prices ruling at the time of issue. When the Royal Australian Navy order cannot be supplied from stock the United States Navy arranges procurement. In some instances the procurement quantity is the single Australian requirement and in others the Australian requirement can be combined with the United States Navy needs for economical quantity procurement. In this regard we were informed that out of a total inventory of equipment and spares involving about 75,000 items the Department had ordered about 49,000 items at the time of our inquiry. Although most of these had come straight from United States Navy stocks there were certain items in respect of which the United States stock-holding had been depleted, when the Australian order was placed, to a level sufficient only to meet United States requirements.

Exhibit
AGR 1966-
67/5
and Q443

Of the 49,000 items ordered, the Department has kept a record of all increases over the original estimate of cost on items for which the United States Navy authorities have found it necessary to obtain additional supplies from industry. Of the items which the United States Navy had been able to obtain for the Royal Australian Navy only at an increased price, 1,400 items (or 3 per cent of the items ordered) had been referred to the Royal Australian Navy for decision as to whether supply should proceed.

105 The Department informed us that apart from cases where incorrect price estimates have been given at the outset as a result of clerical and/or machine errors, extraordinary increases in prices are not unusual in the United States of America for small quantity production as compared with large quantity orders placed in earlier years for the United States services main programme requirements. The witness stated, however, that the Department had not found a significant amount of clerical or machine error. The Department had investigated a large number of instances of high increases in price. Although these investigations had not been completed, the indications were that the price had been confirmed and that the cases in question had related to small quantity purchases. The witness stated that there is normally an escalation in price subsequent to the previous procurement and there is a heavy cost of new tooling for a small production run.

106 The department's submission stated that in the case of unusual increases in cost estimates, the Department's policy is to seek the opinion of technical officers as to the reasonableness of the estimates. Where technical opinion cannot be given because of the absence of necessary data, further information is sought from the United States Navy. Some supply divisions or some sections of the supply divisions of the Department, however, which have no technical officers, had relied on their own judgment and had not sought technical corroboration as often as they should. To correct

Exhibit
AGR 1966-67/5
and Qs 458 &
459.

Exhibit
AGR 1966/67/5
and Qs 466 to
469.

this a specific instruction had been issued in July 1967 reminding the officers concerned of the need for them to adhere to the prescribed procedures.

(c) Inadequacies in the Follow-Up of Delivery to Australia of Spares Supplied Through the United States Navy.

107 We were informed that there is a well established system operating in respect of all overseas orders and this provides for copies of invoices (or the issuing Store Depots' vouchers, where the supplier is a United States or British service) to be forwarded with the Bill of Lading or Consignment Note covering the shipment. These invoices/vouchers are required for accountability, as the responsibilities of the receiving supply establishments in Sydney include checking receipt of the goods, surveying, reporting discrepancies and taking all items on charge in the relevant store accounts

108 The Department claimed that, generally, this procedure operates satisfactorily but that the overall task of arranging the initial provision of base spares for the guided missile destroyers, is an enormous one and the freighting organisation in the United States of America was experiencing problems in coping with its functions. It was explained that shipment from the United States of America of goods ordered for all Commonwealth Departments is arranged by the Consul-General, New York, who has a contract with a commercial freight forwarding firm. It had been found that difficulties were arising from inconsistent and poorly presented documentation emanating from the freight forwarder.

109 It was stated that spares from the United States Navy in satisfaction of naval orders began to flow to Australia in about June 1965. When H.M.A.S. Perth, the first ship delivered, arrived in January 1966, the Navy did not have a complete range of all of the equipment that was needed. The Consul-General's office was exceedingly prompt in getting urgent items sent forward but it was found that the general

Exhibit
AGR.1966-
67/5

Exhibit
AGR 1966-
67/5 and
Qs 476 to
485.

flow of the bulk order was rather slow. The Department of the Navy had occasion to hasten both the United States Navy and the Consul-General's office to improve the flow of spares.

110 We were informed that the Consul-General's office has made representations to the freighting contractor with a view to improving the rate of despatch of all goods on order and consistently following the requisite documentation procedure. The Department indicated that if this action, including the outcome of a recent conference between the Consul-General and the freight forwarder proved unsuccessful, it would need to consider alternative action to improve the flow of spares and associated documentation, such as the stationing of additional Navy personnel in the area.

111 The Department informed us that the normal method of follow-up of supplies depends upon the receipt of supporting invoices/vouchers which should accompany the Bills of Lading or Consignment Notes and that this has proved adequate hitherto for overseas shipments generally. However, in view of the possibility of error in the case of the current large business with the United States Navy, action had been taken about twelve months prior to our inquiry, as a precautionary measure, to obtain from that Navy, computer produced listings of the vouchers covering the spares passed to the freight forwarder for despatch to Australia. This special arrangement was said to permit a check to be made of the subsequent receipt of all vouchers listed which ensures follow-up action on deliveries and to assist in overcoming the problem arising from the inadequate documentation by the freight forwarder.

112 In regard to delays that had occurred in the shipment of Naval stores, the standard of related documentation and their means of improvement, we were informed by the Department of External Affairs that on 10th August, 1967, the Australian Consulate-General, New York, had arranged a conference to consider procurement procedures. Those present at the conference included Australian representatives in the

Exhibit
AGR.1966-67/5
and Qs.487
to 489

Exhibit.
AGR 1966/67-5
and Qs 490 &
491.

United States of America, the representative of the United States Naval International Logistics Control Office, Bayonne, representatives of the Commonwealth's freight forwarder (Universal Transcontinental Corporation) and officers of the Australian Consulate-General. The conference, which was the first of its kind, arose when the Secretary of the Department of the Navy wrote to the Consul-General on 13th July, 1967, drawing attention to delays, particularly in the forwarding of items that had been on order. A telegram from the Secretary of the Department of the Navy to the Consul-General, New York, on 1st August 1967, precipitated the conference.

Exhibit
AGR 1966-
67/5 and
Qs 505
to 507

113 We were informed that the existing procedures which were to be considered by the conference comprised the notification of requirements of procurement from the Service department concerned to the Consulate-General, generally through the Australian Naval Attache in Washington. This is passed to the United States Naval International Logistics Control Office, Bayonne, in New Jersey, following which the United States Navy institutes the required procurement activity. In some cases the goods required are available from stock and in other cases they must be obtained from other sources of supply. United States Naval authorities arrange delivery of the goods to the freight forwarder, Universal Transcontinental Corporation, which arranges for the recording of the item when it is received and its documentation for despatch purposes and then notifies the Consulate-General in New York of the shipment of the goods in due course. We were informed that within the framework of these procedures a number of proposals for improvement were made at the conference and at the time of our enquiry were under examination.

Exhibit
AGR 1966-
67/5
and Q. 509

114 As one of the more important proposals put forward the United States Naval International Logistics Control Office undertook to consider a number of suggestions including

Exhibit
AGR1966-67/6

- (1) procedures for improving shipping instructions;

- (2) an increase in the number of copies of the Milstrip Form 1348 issued to the Australian procurement authorities.
- (3) the "batching" of small orders into consolidated consignments;
- (4) improvements in procedures to get the goods to the freight forwarder and
- (5) elimination of any duplicated procedures, e.g. the marking of weights on packages to avoid the need for weighing at the freight forwarding office.

115 We were informed that the Milstrip Form 1348 is a document issued under the Military Standard Requisitioning Procedure on which is coded all necessary information regarding an order by which the status of an order can at any time be extracted from computers. The witness stated that many of the present Royal Australian Navy difficulties seemed to have been brought about by a single change in procedure adopted by the United States Naval Stores as from the beginning of 1966. Until that time, fourteen copies - two sets of seven each of Milstrip vouchers were made out and an adequate number of these accompanied each parcel containing the item to which the Milstrip Form related. Sufficient of these documents were produced for billing and payment purposes. From the end of 1965, however, the fourteen copies were reduced to seven throughout the United States Naval system. Of these, four are sent to the United States Naval Store with the parcel, one included in the parcel and three in an envelope attached to it. These three copies, however, had proved insufficient for the Universal Transcontinental Corporation and the Australian Consulate-General's purposes. At least four copies were said to be required and as a result copying had to be undertaken by the Corporation. The difficulties were said to have increased, however, as an estimated 50 to 55 per cent of parcels received from the United States Naval Store at Universal Transcontinental Corporation, San Francisco, had no Milstrip Form 1348 fixed to the outside

Exhibit
AGR 1966-67/6
and Qs 510
and 511

of the parcel. In these cases it became necessary to open the parcel, remove the contents, find the Form 1348 enclosed, make copies off it and repack the parcel. This was said to have led to considerable congestion and delay. In general, the change from fourteen to seven copies of the Milstrip Form was deemed by the United States Navy and the majority of customer governments to be satisfactory, but in the case of the Australian Consulate-General the reduction had these unforeseen consequences.

116 During the conference the Australian governmental instrumentalities in the United States of America undertook to improve export licensing procedures and guard against the expiry of export licenses. We were informed that such licenses are secured in Washington through the Australian Embassy. Instances had occurred in which the license, which is valid for only a limited period of time, was allowed to lapse before delivery of the goods was effected and then delivery was delayed pending the revalidation of the license. At the conference the Consul-General had insisted that the officer in Washington responsible for this area of work, should ensure that licenses do not expire and are not threatened with expiry before delivery is effected.

Exhibit
AGR 1966-
67/5 and
Q.516

117 At the Conference, the freight forwarder, the Universal Transcontinental Corporation, undertook to expedite enquiries direct with the supplier when shipments are received at its stores without adequate documentation, to investigate causes of delay in the transmission of shipping documents to consignees in Australia and to improve the legibility of copies of Milstrip Forms 1348 made in its office.

Exhibit
AGR 1966-
67/5 and
Qs 511, 519
and 523.

118 In addition, the Consul-General put forward proposals for additional staff at the Consulate-General for work in the procurement section. We were informed that, under the administration of the Consulate-General, the

procurement section handles all lodgment of procurement orders, supervises procurement procedure, verifies the billings and undertakes all of the complex administrative work associated with Australian procurement in the United States of America. The staff of that section increased from 22 in October 1964 to 30 in March 1965, 34 in August 1966 and the approved staff level was increased to 44 in August 1967.

Exhibit
AGR 1966-67/5
and Qs 525,
526, 536 and
537.

119 The Department of External Affairs informed us that for some time it had under consideration the question of whether or not the procedures operating at the Consulate-General were correct and had discussed the possibility of having an Organisation and Methods survey made. This proposal had taken form when a member of the Public Service Board visited North America in May 1967. Arising from this a Joint Treasury Public Service Board Organisation and Methods survey team was appointed with the following terms of reference :-

- (a) Carry out a detailed investigation of the current organisation, systems and procedures relating to purchases of supplies made by the Commonwealth in the United States of America :
 - to assess the efficacy of existing arrangements and
 - to identify and develop any changes considered desirable for improving the effectiveness and efficiency of the purchasing processes and associated activities.
- (b) As part of the investigation, examine and take into account procedures followed by Departments in Australia prior to submitting requests for purchasing action in the United States of America and subsequent to completion of such action.
- (c) Report on the results of the investigation with recommendations for any changes in organisation and procedures considered desirable and comments on the consequences of making such changes.

Exhibit
AGR 1966-67/5
and Qs 593
and 596

120 The team included the officer in charge of the Public Service Board's Organisation and Methods Unit and a Treasury officer who had served for two periods in New York.

(d) Seemingly High Charges Levied by the Freight Forwarding Contractor

121 The Department of the Navy advised us that the Consul-General, New York, was given the responsibility for arranging the shipment to Australia of the base spares as he was already performing this function on behalf of all Commonwealth Departments freighting equipment from the United States of America. The Consul-General arranges shipments with a commercial freight forwarding firm by means of a formal agreement which covers the various aspects associated with the task and the contract provides for payment at standard rates of charge. Funds are provided by the Department of the Navy to cover the freight costs of naval stores. We were informed by the Department of Navy witness that the costs involved had not exceeded the provision made by the Department for freight although in individual instances the costs had apparently been high. The Department stated that the Consul-General, New York, had investigated these charges in 1964 and on earlier occasions and that, arising from these investigations, the freight forwarder had indicated his intention of seeking an increase in standard rates which, in fact, had not been varied for about fifteen years.

Exhibit
AGR 1966-
67/5
and Qs
492 to
494

122 The Department of External Affairs informed us that the freight forwarder (Universal Transcontinental Corporation) is a wholly owned subsidiary of the United States Freight Corporation which is one of the largest freight companies in the world and has facilities in almost all of the United States ports. Although the contract is renewed automatically each year unless rescinded by either party upon thirty days notice, the Company has been under contract for many years, the present arrangements being governed by letters dated September 1958 but in fact these letters merely continued an arrangement that had been in force since 1949. The Department stated that the matter of the contract was examined very carefully in 1958. At that time the chief finance officer reported to the Consul-General that he doubted whether it would be possible to draw up a specification of a contract that could be signed. Secondly, he pointed out that the Commonwealth exports from numerous ports in the United States of America and that the Universal Transcontinental Corporation is the

Exhibit
AGR 1966-
67/5 and
Qs 504, 517
550 to 568.

only freight forwarder represented in all ports. Thirdly, he considered it would be an unwise policy to make frequent changes in the forwarder, especially having regard to the fact that in such ports as New York, Los Angeles and San Francisco, from which considerable shipments of Commonwealth stores are made, the forwarder engages special staff to process the relevant documents. These considerations inclined the finance officer to the view that it would be unwise to invite tenders and unwise to make rapid changes in the freighting arrangements. It was stated that the possibility of substituting another freight forwarder had been considered and rejected in 1961. In 1967, as a result of the audit inquiry, the matter had been again examined by the Consul-General who had indicated his firm opinion that the arrangement was advantageous to the Commonwealth and that he would be very loath to disturb it.

123 The Department of External Affairs stated that despite increased costs in the shipping industry, the charges levied by the freight forwarder have remained unchanged for many years as follows :-

Air shipments	\$US 2.00 per shipment
Sea shipments	\$US 7.50 per initial invoice in respect of values at \$US 10.00 or over;
	\$US 4.50 in respect of values below \$US 10.00.
	There is a charge of \$US1.00 for every additional invoice in the single consignment.

Exhibit
AGR 1966-
67/5

124 These charges were said to cover the preparation of airway bills, sea Bills of Lading, advice to the consignee, export declarations, and the obtaining of air or shipping space. There is an additional charge of 25 cents for marking cases where the necessary overseas markings not properly endorsed by the supplier. Overseas airmail expenses, cartage, storage warehouse charges, and long distance telephone or teletype expenses are borne by the Consulate-General. The charges by the freight forwarder relate to the work undertaken for the Commonwealth rather than to the production cost of the item. The cost of a particular item does not alter the amount of paper-work. For many items in the spares contract costing up to \$US.20,000 each, the freight forwarder receives only \$Us.7.50 per invoice.

125 The Department of External Affairs claimed that the fact that items of small monetary value are separately invoiced by the

supplier is due principally to the United States Navy's method of meeting Commonwealth demands and ultimately may be affected by the Commonwealth's requisitioning procedure. As indicated earlier the United States Naval International Logistics Control Office has undertaken to consider whether small orders could be batched into consolidated consignments.

126 We were informed that the activities of the Organisation and Methods team which was appointed in 1967 and referred to earlier, will extend to the question of rates levied by the Universal Transcontinental Corporation.

127 Subsequent to our Inquiry the Department of External Affairs informed us that the Consul-General had confirmed that the contract is reviewed annually by the Chief of the Procurement Section of the Consulate-General. As the Universal Transcontinental Corporation's rates were regarded as fully competitive and in view of the geographical cover offered by that Organisation, there appeared to be no ground for seeking fresh competitive tenders each year. The Consul-General had advised that there had never been any discouragement of competitive offers, nor had the Consulate-General ever received an offer from any organisation of better rates than those applied by the Universal Transcontinental Corporation. Resulting from the interest taken by your Committee in this matter, however, the Department of External Affairs stated that it has requested the Consul-General to arrange that, in future, the New York Contracts Board will, each year, at an appropriate time, consider whether there are grounds for terminating the contract.

Exhibit
AGR 1966-
67/5

(c) Delays in the Examination in the Australian Consul-General's Office, New York, of Billings Received from the United States Government in respect of spares Delivered for Despatch by the Freight Forwarder to Australia

128 The Department of the Navy stated that billings are statements of account, or invoices, where payment has been actually effected. The billings must be certified as correct by the Consul-General, New York, or the Consul-General, in conjunction with the Department of the Navy. The Department informed us that the examination of billings by the Consul-General for base spares, represents a formidable workload on that organisation and that additionally there is a large volume of other current Navy business, including the orders for initial spares for Tracker and Skyhawk aircraft. It was stated that the first billings for base spares covering more than 20,000 line items had been received by the Consul-General since January, 1967. In August 1967, the Department of the Navy had requested the Consul-General to expedite the examination and transmission of these billings to Australia.

Exhibit
AGR1966-67/5
and Qs 494
to 500

129 The Department of External Affairs informed us that the billings received in respect of spares delivered under the destroyer contract are, in effect, vouchers debiting the charges against predetermined instalment payments made on prescribed dates to the United States Service department concerned. In essence, the billings were described as an acquittance of the periodic advance payments that have been made. These payments do not depend on supply of the goods to the Royal Australian Navy or proof thereof. The billing is a verification and certification to the Sub-Treasury in New York of the United States Navy and the Universal Transcontinental Corporation's charges, upon which the Sub-Treasury then charges the United States Navy amount against an advance payment

Exhibit
AGR1966-67/5
and Qs 527
& 578

already made and charges the costs of the Universal Transcontinental Corporation and shipping against a specific Australian financial Authority. The Department of External Affairs emphasised that delay in the processing of billings does not affect either the delivery of the goods to the Royal Australian Navy or the payment to the United States Service which has received an advance payment.

130 We were informed that as at 31st August 1967, 35 billings had been received from the United States Navy against the destroyer programme. Eight of these were acceptable and were passed to the Sub-Treasury for action. Five had been forwarded to the Department of the Navy for comment due to escalation in prices and variation in quantity and the remaining twenty-two were in dispute and were being forwarded to the Department of the Navy for comment and authorisation. The departmental witness indicated that, for the most part, delays in the processing of billings arise from discrepancies between the price at which an order was placed and the price at which it is fulfilled.

Exhibit
AGR1966-67/6

131 The Department of External Affairs stated that the Procurement Section gives priority to the processing of commercial billings which are kept up to date because commercial suppliers are creditors who have not received advances. The volume of United States Government billings was said to be large and there is no supplier dependent for his money on the processing of the billings. Hence, if pressure of work causes delay in the processing of billings, the Government billings are deferred. The witness representing the Department admitted that Government billings should not be allowed to fall into arrears and expressed the hope that this position would be avoided.

Exhibit
AGR1966-67/6
and Q564

132 It was claimed by the Department of External Affairs witness that the real problem of billings arises in their processing rather than in their receipt from the United States authorities. He said that a billing may cover hundreds and

possibly thousands of items. In cases no complication has arisen the billing has been passed to the Sub-Treasury which has carried out all of the consequential reconciliation in its books. In those cases where complications have arisen, however, it has been necessary for the Consul-General to refer the billing back to the Royal Australian Navy either in Washington or Canberra for a clearance before it can be processed. The Treasury Observer, Mr. Pond however, stated that his Department understood that delays occur in the receipt of the billings rather than in the processing although some improvement had occurred in the rendering of billings by the United States services during the twelve months prior to our inquiry.

CONCLUSIONS

133 In paragraph 214 of his Report the Auditor-General referred to increases that had occurred in the original provision for shore-based spares and increases in the unit cost estimates of certain spares. In regard to the evidence tendered we are disturbed by the fact that, contrary to departmental policy, some supply divisions or some sections of the supply divisions within the Department, which have no technical officers, had relied on their own judgment in assessing the reasonableness of cost estimates for spares rather than seeking technical corroboration of the facts. We believe that although a specific instruction was issued in July, 1967 reminding the officers concerned of the need for them to adhere to the prescribed procedures, such action should have been taken earlier and, in any case, the circumstances that gave rise to the need for such an instruction should not have been permitted to occur. As shown in paragraphs 95 to 101 of this Report, Your Committee examined in detail the explanation tendered by the Department in relation to the increase from \$U.S.3,240,000 (\$A2,907,000) to \$U.S.9,136,350 (\$A8,157,000) that occurred in the provision of shore-based spares for Charles F. Adams Class destroyers. As shown in paragraphs 102 to 106 of this Report Your Committee also examined in detail the department's explanation as to the factors that gave rise to increases in the unit costs compared with the estimated costs of certain of these spares.

134 In regard to inadequacies in the follow-up of delivery to Australia of spares supplied through the United States Navy it appears that delivery problems associated with bulk orders began to emerge early in 1966 at which stage the Department of the Navy had occasion to hasten both the United States Navy and the Consul-General's office in New York to improve the flow of spares. Your Committee notes with concern that it was not until August 1967, after the Department of the Navy had written to the Consul-General regarding delays and had also forwarded a telegram to the Consul-General on the same matter that a conference of the parties involved was held in New York. The number and nature of the proposals put forward at that conference to improve the flow of spares confirm, we believe, that had such a conference been held when the problems began to emerge in the early months of 1966 the frustrations experienced by the Department of the Navy could have been minimised. In the case of the proposal to improve export licenses, it appears that the administration of such licences by the Australian authorities in Washington had become lax and had actually impeded the flow of spares. We trust that action will be taken to ensure that this unsatisfactory state of affairs does not recur in that office.

135 Your Committee believes that as the Department of External Affairs had, for some time, been considering the question of whether or not the procedures operating at the Consul-General's office in New York were correct, an investigation of this question should have taken place at an earlier stage than mid 1967, particularly in view of the importance of the North America area in Australian defence requirements. As indicated earlier in this Report in relation to accounting arrangements in North America, we look forward to learning, in due course, of the outcome of the inspection made by the Organisation and Methods team that was appointed following a visit by a member of the Public Service Board to North America in May 1967.

136 In regard to the matter of seemingly high charges levied by the freight forwarding contractor in the United States of America, the evidence shows that Commonwealth freight has been handled by one organisation - Universal Transcontinental

Corporation since 1949 and that the charges levied by that organization have remained unchanged since the inception of the arrangements. The question of continuity of the contract was considered in 1950, 1961 and 1967 and on each occasion the Consul-General reached the conclusion that the existing arrangement was advantageous to the Commonwealth and should not be disturbed. Your Committee notes with satisfaction, however, that the inquiry by the Organization and Methods team appointed in 1967 included the question of rates levied by the Universal Transcontinental Corporation and that, arising directly from our inquiry, the Department of External Affairs has requested the Consul-General to arrange that, in future, the New York Contracts Board will, each year, consider whether there are grounds for terminating the contract.

137 In connection with delays that had occurred in the processing of billings received from the United States Government in respect of spares, Your Committee is disturbed to find that the procurement section in the Consul-General's office, New York has given priority to commercial billings over Government billings and that this has resulted in the processing of Government billings being deferred. Although we recognise that Government billings relate to advance payments made previously while commercial billings relate to creditors, we agree with the view expressed by the witness representing the Department of External Affairs that Government billings should not be allowed to fall into arrears and accordingly we believe that suitable arrangements should be made to ensure that such arrears are obviated.

138 In regard to billings Your Committee also notes the remarks made by the Treasury Observer, Mr. Pond, that delays occur in the receipt of billings rather than in their processing. We examined this aspect of the matter in our Seventy-eighth Report relating to the Report of the Auditor-General for the financial year 1964-65, while we accepted the explanation then tendered by the Department of the Treasury we

indicated that continuing attention should be devoted to the problem of obtaining billings promptly from the United States Authorities. It would appear that further attention might be given also to this aspect of billings.

CHAPTER 6

NORFOLK ISLAND ADMINISTRATION

139 In paragraph 260 of his Report for 1966-67 the Auditor-General made the following comments :-

" Following an audit inspection of the accounts of the Administration during the year ended 30 June 1967, representations were made concerning defects observed in the effectiveness of the checks and controls operating in respect of the main sources of local revenue.

Audit concern was primarily directed to the absence of adequate internal controls over expanding revenue from philatelic sales; errors of work in the customs section; inadequate storage facilities contributing to unsatisfactory stores control and accounting in respect of the liquor store; and limitations in the performance of the internal audit function, due to the demands imposed on the time of the internal auditor by other duties.

In reply, the Administrator attributed the main cause of the present difficulties to the rapid growth of the tourist industry on Norfolk Island over the last three years, with a consequent increase in the volume of business, which has not been matched by an equivalent increase in staff or modernisation of mechanisation.

It was advised by the Administrator that remedial measures taken include the recruitment of additional staff for the philatelic and customs sections and to permit a re-allocation of duties to enable the internal auditor to effectively carry out his functions. Extensions to the liquor store are under construction and a review of accounting procedures and methods has been commenced."

140 We were informed by the Department of Territories that the detail

the details of administration at Norfolk Island are the responsibility of the Administrator. Although no regular visits to or inspections of Norfolk Island are made by officers of the Department of Territories, the matters on which the Auditor-General had commented had been the subject of discussions held in Canberra between the Department and the Administrator during the twelve months prior to our inquiry. In addition, written progress reports have been obtained by the Department from the Administrator and assistance has been provided by the Department at the Administrator's request.

Q 744.

141 The Department of Territories stated that the rapid growth of the tourist industry on Norfolk Island in recent years has over-taxed the Administration. This growth was illustrated by the following details of the Island's activity during the period 1962-63 to 1965-66.

TABLE NO 3.
Norfolk Island Administration
Selected Details of Activity
(1962-63 to 1965-66)

Exhibit
AGR1966-67/11

ITEM	UNIT	1962-63	1965-66
Arrivals	persons	3,877	7,142
Departures	persons	3,898	6,988
Sea Cargo Handled	tons.	4,473	8,352
Air Cargo Handled	lb.	176,679	313,246
Profits from liquor sales	\$	25,986	40,784
Customs Revenue	\$	35,610	85,054
Revenue from Stamp Sales	\$	47,154	172,233
Total Revenue	\$	196,938	416,177
Total Expenditure	\$	198,646	288,981

Source : Department of Territories

142 It was stated that the increased volume of business shown above had not been matched by a corresponding increase in staff because the Administrator was uncertain of the likely duration of the increased activity and it was difficult to

obtain additional staff. During the twelve months prior to our inquiry, however, the staff engaged in accounting, post office activity and liquor sales had been increased from nine to twelve. We were also informed that during the period 1962-63 to 1965-66 no attempt had been made to modernise the administrative procedures operating on the Island, although in 1964 the Department, at the request of the Administrator had conducted an organisation and methods investigation. In regard to procedures the Administrator had informed the Department that while full security must be maintained at all times, the elaborate procedures followed in large offices need not always be applicable on the Island where every member of the Staff is personally known to him and that with the Administration's extremely small budget the point is reached quickly where it is relatively uneconomic to duplicate staff for checking purposes. In reply the Department had informed the Administrator that it certainly would not support uneconomic duplication of staff for checking purposes but pointed out that the objective was to arrange the distribution of duties so that, as far as possible, any errors made by one officer would be reflected in the work of another.

143 The Department stated that subsequent to the visit by the Audit Inspector late in 1966, positive action was taken to strengthen internal controls, overtake arrears of work and improve procedures.

(a) Philatelic Sales

144 We were informed that the greater part of philatelic revenue is derived from sales in Australia through the philatelic Bureau of the Postmaster-General's Department. Over-the-counter and postal sales at Norfolk Island, which amounted to \$18,937 in 1963-64 and \$18,577 in 1964-65, but increased to \$44,148 in 1965-66 and \$39,666 in 1966-67 due mainly to new issues arising from conversion to decimal currency, are handled by the Administrator's Philatelic Officer. Until recently, that Officer was without full-time assistance and, as a consequence, the accounting instruction which requires

Exhibit
AGR1966-67/11
and
Qs 700 to
712 and
746.

Exhibit
AGR1966-67/11

philatelic mail to be opened by that officer in the presence of another was not always observed.

145 The Administrator had recognised that the instructions should have been carried out and has taken action to ensure that they are implemented in future. A junior office assistant has been engaged to assist in this area and the Department reported that the instructions are now being observed fully.

146 The Audit Inspector had also suggested that the Administration should explore the possible use of mechanical aids in handling the greatly increased work-load. In this regard arrangements were made for an officer of the Postmaster-General's Department to be made available on loan to the Administration for a period of five weeks. This officer visited Norfolk Island during June and July 1967 and conducted a review of the complete range of Post Office procedures, including those of philatelic sales. One result of that review was that philatelic accounts were to be processed on an electric accounting machine which was purchased by the Administration shortly before our inquiry. Although the Administrator had recognised that in some accounting areas the instructions were no longer current, he proposed to leave their revision for a short time pending the acquisition of this machine.

Exhibit
AGR1966-67/11
and Qs
708, 713,
and 721
to 729

(b) Customs Section

147 The Audit Observer, Mr. Scott informed us that in September 1966 the Audit Inspector had discovered a lag in the payment of Customs duty; many manifests had not been correlated with import entries; some deliveries had been made of goods without payment of duty and import entries known as "Administrator entries" under which the Administrator imports liquor for sale to the residents of the Island, were in arrears.

148 In November 1966 the Audit Inspector had found it

difficult to ascertain the date on which action in regard to ships' papers had been completed in the Customs Section. Entries were not recorded against most of the items tested by the Inspector from a vessel which had berthed on 17th September, 1966.

149 We were informed that the police officer on the Island is also the Collector of Customs. Early in 1966 a new police officer was appointed who, being fairly fully occupied on police work and new to the dual responsibilities of his position, concentrated his attention on his police duties. At that stage the Police Officer was assisted on a part time basis by another officer on the Customs side of his work. The arrears in Customs work had been brought to the notice of the Administrator who had endeavoured to correct the situation by providing more part time assistance from his other staff whenever practicable. As this was found to be ineffective, however, a second customs officer was appointed early in 1967 and arrangements were made for the newly appointed assistant to the Philatelic office to provide additional assistance on customs according to the volume of work. On 30th June, 1967 the Administrator had advised that the work was up-to-date and being processed smoothly.

(c) Liquor Store

150 The Department informed us that all liquor is imported by the Administration and sold both to business houses and direct to the general public. Sales are made from the Administration's liquor store which is located in the old guard house constructed during the Island's convict settlement era. It was claimed that the expansion of trading activity in recent years had necessitated the carrying of additional stocks and the position had been reached when storage space was severely strained. The resulting congestion within the store adversely affected stores control and accounting.

151 The Audit Observer, Mr. Scott, informed us that

Exhibit
AGR1966-67/11
and Qs
731 to 733
and 737 to
742

an instruction which provides that a trading and profit and loss account should be prepared at the conclusion of each financial year had not been carried out and that without such a Statement it is not possible to ascertain whether percentages of profit from liquor sales are satisfactory. He added that the store of liquor on the Island had been reported by the Audit Inspector as being in a chaotic condition, the stacking of liquor in the store was irregular and in disorder and the quantity stored was such that some stocks had to be held in the old prison cells some distance from the liquor store and under rather inadequate security. Twenty three bottles of liquor could not be located when the stock take was made.

Qs 717
and
747.

152 The Department informed us that early in 1967 extensions to the liquor store had been commenced as a first step in a plan to eliminate the defects reported. These extensions designed to harmonise with existing convict-constructed buildings were under construction at the time of our inquiry and were scheduled for completion in December 1967. It was claimed that completion of the extensions would allow reorganisation of store layout and that stock movement and control in the store will be improved through the use of platform trucks and unit shelving. Provision had been made in the Administration's Estimates for 1967-68 to cover the purchase of this equipment. It was stated that inventory cards for all liquor stocks are now machine posted on the electric accounting machine and control over accounting for liquor sales is to be improved further by the purchase of a cash register or adding machine with duplicate paper tape.

Exhibit
AGR1966-67/11

(d) Internal Audit

153 The Department stated that Audit criticism that the Internal Auditor had been required to assist in other areas of Administration has been overcome by the recruitment of additional staff in the Philatelic and Customs Sections. On 30th June, 1967 the Administrator had advised that copies of the Internal Auditor's monthly reports were being forwarded to the Commonwealth Audit Office.

Conclusions

154 Whilst your Committee is not unsympathetic to the problems of a small administration with a limited budget and the uncertainties as to the future which would have confronted the Administrator as activity on the Island increased, it is clear from the evidence that at least some of the matters that attracted Audit criticism preceded the increased activity. For example, accounting instructions had become outmoded and were in need of revision and, notwithstanding the requirements laid down in the existing instructions, trading and profit and loss accounts relating to liquor sales which are required as aids to management, were not being prepared. We believe that these matters should have been detected by the Department's organisation and methods review which was conducted as early as 1964 at the request of the Administrator and that appropriate action should have been taken at that time to correct them.

155 It also appears that the failure to implement the accounting instruction which requires philatelic mail to be opened in the presence of another officer may have preceded the increase in Island activity and should not have occurred. These instances, coupled with the evident need for the Department to point out to the Administrator that existing administrative procedures required improvement within the resources currently available reflect a laxity in administration.

156 With reference to the combined police and Customs functions, the circumstances revealed in evidence indicate that the Administration should have ensured that both elements of this work were adequately implemented.

157 Your Committee also notes that the point made in evidence that the increase in business on the Island between 1962-63 and 1965-66 had not been matched by a corresponding increase in staff, partly because of the difficulty in obtaining

additional staff. As the staff was increased from nine to twelve in 1966-67 following the criticisms made by the Audit Inspector in 1966, we find the Administration's reference to difficulties of staff recruitment to be unconvincing.

158 In regard to the circumstances revealed at the liquor store your Committee would express its dissatisfaction that, notwithstanding that sales of liquor and stocks had increased substantially, stocktaking had not been carried out on a regular basis, stocks were in a disordered state and some stocks were held under inadequate security.

159 On many occasions in the past your Committee has expressed its mind on the importance of the Internal Audit function. Situations where members of Internal Audit staffs are directed to other administrative duties are to be deplored. We also note with concern that, during recent years prior to 1966-67, copies of the Internal Auditor's monthly reports were evidently not being forwarded to the Commonwealth Audit Office.

160 Finally we would comment on the following remark offered in evidence by the Department of Territories in relation to this matter -

"Notwithstanding the unsatisfactory situation brought to light by the Audit report, there is nothing in the report to indicate that it resulted in any loss of funds or administration stores."

161 In this regard Your Committee would invite attention to the facts stated by the Audit Observer that twenty three bottles of liquor could not be located when the Audit Inspector conducted his stocktake and that imports had been delivered without payment of duty. We would add that,

even if losses had not occurred, the weaknesses in administration revealed in evidence were of such a kind that considerable losses could have occurred. Your Committee will not accept the proposition that a failure to incur losses justifies the effectiveness of an administrative arrangement.

CHAPTER 7POSTMASTER-GENERAL'S DEPARTMENTLosses and Stores

162 The Auditor-General made the following comment, in respect of losses from stores in the Postmaster-General's Department, in paragraph 236 of his Report for 1966-67.

Exhibit
AGR1966-67/10

"Paragraph 229 of my 1965-66 Report indicated that the Department had reported 284 instances of losses of stores by theft or robbery, of a value of \$100 or more, amounting to \$62,693, compared with the 189 instances involving \$68,766 in 1964-65.

Mention was also made of the inquiry by the Joint Committee of Public Accounts which followed the reference to this matter in my 1964-65 Report. The Committee's Seventy-eighth Report, Chapter 6, is relevant.

As shown in Appendix C of this Report, the number of losses in 1966-67 rose to 356, with a value of \$75,838. Of this amount, approximately \$15,300 represents a total of fourteen thefts of copper wire, cable and lead, whilst a front-end loader, stolen in Victoria, accounts for \$6,078.

The majority of the thefts occurred in New South Wales, where 284 instances of \$100 or more in value, involving approximately \$50,900, were reported."

163 The Departmental submission stated that of the 356 losses sustained in 1966-67, the number of cases valued in excess of \$100 amounted to 284 in New South Wales, 40 in Victoria, and 32 in the remaining States. In total terms these losses amounted to \$50,904 in New South Wales, \$15,289 in Victoria and \$9,649 in the other States. In regard to the relatively high number of cases of loss in New South Wales, particularly in relation to public telephone coin boxes, we were informed that it appeared to the Department that an upsurge of thefts had occurred in New South Wales about two years ago and has extended to other States. The timing and geographical locations of thefts suggested that they could be the work of organised groups.

Exhibit
AGR1966-67/10 and
Q's.760 to
762

(a). Public Telephones

164 Thefts and damage to public telephones were said to present a constant problem to the Department. In many cases, the damage results from acts of sheer vandalism and the value of the equipment lost is much greater than the amount of money stolen. In addition, damage to the equipment involves serious public inconvenience. It has been the policy of the Department not to publicise the problem, however, as it was felt that this could provoke further acts of vandalism. The increasing incidence of theft rather than vandalism alone in the Sydney area has prompted the Department to seek expert advice on appropriate measures to remedy this situation. Advice on the matter had been obtained from criminologists, sociologists, the police and other business undertakings. Differences of opinion were said to exist as to the extent to which each act or series of acts of vandalism should be publicised. Some consider that publicity could encourage and incite further acts of vandalism. Examples of this result have been found by both the British Post Office and Australian public undertakings. On the other hand the Postmaster-General's Department has sought to enlist co-operation in this problem from the police, the public, service organisations, progress associations and residents in areas where acts of vandalism are taking place. The Department endeavours to secure maximum publicity for offenders who are arrested and convicted particularly where the sentences given are severe. It was claimed that evidence both in Australia and Britain points to the fact that a strong deterrent has some restrictive influence on vandalism.

Exhibit
AGR1966-67/10

Q.752

165 Measures, however, have been taken to prevent both theft and vandalism. For example a new type of public telephone cabinet has been developed recently which provides better visibility which should make it more difficult to break expensive equipment in order to extract coins. In addition, orders have been placed for a type of equipment which incorporates coin tins which will prove very difficult to open without a considerable amount of noise. Several thousands of these

Q.756

telephones are to be installed as part of the Department's standard equipment. This measure has been necessary, not to prevent the loss of coins, but to obviate the need to replace equipment and avoid inconvenience to the public. While the Department has not wished to create a feeling of importance through notoriety in the minds of vandals, it has endeavoured to obtain the maximum of public assistance in order to minimise theft and vandalism. The Department co-operates with newspapers and other communication media by providing information when it is requested to do so and any assistance that is given by the mass media of communication in this respect is welcomed. Films have been shown by the Department in schools at regular intervals. During the past six years, notices have been displayed in Public Telephone Cabinets offering a reward of \$40 for information from the public leading to conviction for damage to or removal of equipment. In areas where the incidence of theft or vandalism is apparent, notices of reward for information have also been placed outside telephone cabinets in order to draw the attention of the public to the fact that the equipment is public property. It was said that twenty-six rewards had been paid in respect of vandalism or theft from public telephone cabinets in 1966-67.

Exhibit
AGR1966-67/10
and Q.787

Q.759

Q.758

166 Of the 284 instances of theft of departmental equipment in New South Wales in 1966-67, 226 involved the theft of equipment from public telephone cabinets. The total value of the equipment involved amounted to \$29,486 while the value of the coins was estimated to be some \$1,310. The location of the public telephones from which the thefts occurred is shown in Appendix No. to this Report. In many cases, more than one theft occurred at locations listed.

167 There were ten instances of losses involving equipment and coins in excess of \$100 from public telephone installations in Victoria in 1966-67. The equipment concerned was valued at \$1,439. The locations involved were Morwell, Coburg, North Fitzroy, Ballarat, St. Albans, Carnegie, Wodonga, Sunshine and Deer Park.

Exhibit
AGR1966-67/10

(b) Stores

168 Departmental stocks of stores at 30th June, 1967, were valued at \$59,983,000 and materials issued for Telecommunications Capital Works throughout Australia in 1966-67 were valued at \$106,500,000. Assets valued at \$7,400,000 were recovered and returned to stores during the year pending re-use, repair and restoration, or disposal. The total value of fixed assets at 30th June, 1967 was \$2,040,000,000.

Exhibit
AGR1966-67/10

169 It was said that departmental stores are housed with full regard to security but there are practical and economic limits to the extent of this security, and also that losses of stores are investigated fully and extra precautions to prevent losses are taken where these are appropriate and economic.

We were informed that it is normal practice within the Department for smaller items, or those possessing considerable commercial value in relation to size, to be stored in buildings which are securely locked during non-working hours, and under conditions where 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. These yards are enclosed, and manproof fencing, flood lighting, alarm circuits and other security aids are used wherever practical and economic.

170 Procedures for stores accounting, inspection and stocktaking are comprehensive and subject to close and critical review at frequent intervals. The reviews are conducted first by the Supply Branch of the Department, which is responsible for holding stocks in the main stores; secondly by the Engineering Works Division, which is responsible for holding the stocks in the engineering stores line depots and other stores; thirdly by the Finance and Accounting Branch, particularly through the internal audit staff, and finally by the Auditor-General who is concerned to satisfy himself that the Department's reviews and procedures are adequate and satisfactory.

Exhibit
AGR1966-67/10
and Q.785

171 We were informed that the procedures followed in the inspection and surveillance of stores are those contained in the Works Procedure and Cost Accounts Instructions, Stores Accounting Instructions and the Internal Audit Manual of the Department. In carrying out these procedures, it was said that close collaboration exists in all phases of Stores Inspections between the Costing Section, the Internal Audit Group and the Finance and Costs Sections of the Accounts Branch.

Exhibit
AGR1966-67/10

172 It was claimed that, in an effort to reduce thefts, the Department has its security methods constantly under review. In most cases, however, thefts occurred in circumstances which could have been avoided only if expensive and even elaborate precautions had been adopted. It was said that the economics of providing security measures in a large Department widely dispersed and having a rapid turnover of materials, needs to be assessed against the number of stores maintained. These include 37 main stores, as well as Engineering Stores which include 47 divisional Stores, 464 Line Foremans Stores, 613 Technicians Stores, 52 Workshops Stores and 211 Tool Stores. It was also claimed, however, that the number of stores does not reflect the true position. On many occasions, vehicles, trailers and materials are left at a location overnight because a return to the departmental store would be uneconomic or impracticable. In these cases, maximum practical measures are taken to guard against theft.

O's.765 and
766
Exhibit
AGR1966-67/10

173 Vehicles and trailers which are left at the site of work overnight are securely locked, padlocks and chains being applied to wheels and other parts of the equipment. If practicable, they are parked off the street on private property if the owner or occupier of premises permits this. Should they be left on footpaths or nature strips, they are placed in well lighted areas on main or busy streets if the location of the work permits this to be done without undue costs or delays to workmen at the beginning or end of a working day.

174 A large number of losses during 1966-67 involved cable and copper wire. It was suggested that this was motivated by the continuing high prices of base metals, particularly copper, during the year. Special action was taken by the Department to expedite the recovery of surplus copper wire from trunk routes in order to minimise the extra costs involved. It was said that an alarm circuit is used on routes not in service but this has not proven to be a complete deterrent and there were several instances where copper wire was stolen from pole routes.

New South Wales Losses

175 In New South Wales, 58 thefts of various items occurred from departmental line depots and exchanges following unauthorised and in most cases forced entry, as well as from work locations, subscribers' premises on which work was being undertaken and from other locations including pole routes in the course of being dismantled, contractors' premises, New South Wales Government Railways whilst in transit, and from Supervising Technicians vehicles and semi-trailers whilst in transit. Details of twenty typical cases of theft from the department in New South Wales were submitted in evidence. These included a vehicle containing tools and equipment which was stolen from the exchange parking area at the rear of the St. Leonard's telephone exchange during the evening of 18th January, 1966. Although the vehicle was written off, it was recovered from the Lane Cove River on 25th April, 1967. Exhibit

Victoria

176 There were 30 instances of losses of stores in excess of \$100 in Victoria to a total value of \$13,850. The most important single loss related to a front-end loader valued at \$6,078 which was stolen from outside the Broadmeadows Town Hall on the night of 24th October, 1966, whilst in the charge of the Department's Conduits Division.

177. It was stated that because the location of work carried out by that Division may be at any point in the Metropolitan Area, and because the duration of each project is between 2 and 3 months, it is not practical for plant and high usage-rate materials to be returned to the depot for storage, and safekeeping. Instead a mobile camp is established at convenient locations where movable equipment may be left overnight. Small items are locked in the tool caravans. It is usual practice in items of equipment such as front end loaders, back hoes and compressors, for battery leads to be removed and placed in the locked tool caravan. It was said that further precautions can only be assured by leaving this equipment in lock-up depots. The Conduits Division has 157 items of mobile plant in the field and it was said that to take these in and out of depots each day would require the purchase of additional vehicles. In addition, the time lost if this were to be done would amount to some 130,000 man hours per annum. It was claimed therefore that the present system of safeguarding mobile plant is the optimum allowable on an economic basis. It was also said that on the disabling of plant for security purposes, a balance must be sought between the disabling of the equipment and its availability for operation the following morning.

Q's.774

178. In the case of the front end loader stolen at Essendon, the machine had ceased work at 4.30 p.m. on 24th October, the ignition key was removed and the battery leads were disconnected and returned to the Depot as required by the relevant departmental instructions. The machine was stolen during that night. Despite full inquiries made by the Postal Investigation Section and the Victorian Police, no trace has been found, as at the date of this Report, of the offenders or the machine.

Q's.771 to
774

CONCLUSIONS

179. Your Committee examined the Postmaster-General's Department in relation to the theft of stores in connection with the Report of the Auditor-General for the financial year 1964-65.

In its Report following that Inquiry, Your Committee expressed its appreciation of the necessity for the widely-spread distribution of departmental stockholding and the concomitant difficulty in providing maximum security measures in every instance. In the circumstances at that time, Your Committee indicated that it was satisfied that the practices adopted within the Department constituted the most reasonable and adequate safeguards that may be economically provided over the property concerned and commended the Department for its efforts to reduce its losses to a minimum extent.

Pp. No. 274
of 1964-65-
66

180. The number and value of losses that have occurred between 1964-65 and 1966-67 are shown in Table No. 4

Table No. 4
Post Office Losses of Stores
1964-65 to 1966-67

Year	No. of Losses	Value of Losses
		\$
1964-65	189	68,766
1965-66	284	62,693
1966-67	356	75,838

Source: Auditor-General's Reports

181 This table shows that while there has been a sharp increase in the incidence of thefts, and although the value of thefts declined in 1965-66 it rose again in 1966-67.

182 The Auditor-General's Report for 1966-67 and the evidence tendered in this inquiry showed that the greater part of the losses sustained continued to occur, as they had in 1964-65, in New South Wales. Of those losses, the most significant related to public telephone equipment and were associated mainly with acts of vandalism itself and or attempts to steal money from public telephone cabinets.

163. The evidence shows that the Department regards vandalism in a serious light and has employed a number of devices including the full scale examination of the effects of publicity to combat it. Your Committee trusts that the Department will be successful in this regard. So far as other losses are concerned, Your Committee has noted the action taken by the Department to safeguard the property under its control and appreciates that absolute protection of that property could be achieved only at a substantial economic cost. At the same time, it is clear that the Department recognizes the need, within those economic limits, to minimize losses arising from theft and we trust that it will continue to devote its efforts to achieve that objective.

Stores and Services Trust Account

184 In Paragraph 236 of his Report, the Auditor-General made the following comment:

"Transactions of the Trust Account, which was established by the Treasurer under section 62A of the Audit Act, for the years 1966-67 and 1965-66 were -

	1966-67	1965-66
	\$	\$
Balance 1 July	107,325	3,136,330
Receipts	194,600,118	172,771,117
Expenditure	194,707,443	175,907,447
	194,653,949	175,800,122
Balance 30 June	53,494	107,325

In addition to the expenditure shown above, departmental records show that, at 30 June 1967, unpaid claims in respect of stores received to that date to the value of \$5,841,289 had been certified and passed to Account Branches in the several States for payment.

The working advance to the Trust Account remained unchanged at \$37,824,070 during 1966-67.

According to departmental records, the value of the Trust Account stores held at 30 June 1967 was \$38,286,644 (\$34,500,837 at 30 June 1966)."

185 Although the Auditor-General's comment contained no critical remarks and although Your Committee had, in various contexts conducted previous examinations in this area of the Department's administration, we noted that in his Budget Speech for 1967-68 on 15th August, 1967, the Treasurer had foreshadowed changes of an accounting and procedural nature which would assist the Post Office to operate as a business undertaking. Later on the same day, when introducing into the Parliament the Posts and Telegraphs Rates Bill 1967, the Postmaster-General had made further reference to these proposals. Accordingly Your Committee felt that it would be desirable to obtain from the Department a submission relative to the current operations of the Stores and Services Trust Account.

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A submission was duly obtained and a series of specific questions addressed to the witness as the basis of a further supplementary submission. These submissions showed that the Post Office Stores and Services Trust Account covers all transactions associated with procurement, holding and sales of stores and materials used on Post Office works and services programmes. Because of the continuing nature of these programmes and their scope and range, it is essential to organise material supply and stock levels to permit orderly and economic implementation.

186 The need for holding reasonably adequate stocks was recognised by the Royal Commission of 1910, which recommended that six to nine months reserve stocks be held, even though the ramifications of the Post Office were much narrower than at present.

187 The control of stock levels, the planning of purchasing needs and oversight of commitments for materials have been aided by the Trust Account, which was originally set up in 1933. In that year, the Treasurer approved that, as from the 1st July, 1933, a Trust Account be established under Section 62A of the Audit Act, entitled "Post Office Stores Suspence Account", and that the purposes of the Account be defined as follows -

"For the purchase of Stores and Materials for works and services of the Postmaster-General's Department".

Later in 1933, a Committee under the Chairmanship of Mr. J.T. Pinner, Public Service Inspector, was set up to examine the form of the Post Office Estimates and th report on improvements considered necessary. On the 18th May, 1934, the Treasurer approved that the name of the Trust Account be altered as from the 1st July, 1934, to "Post Office Stores and Transport Account" and that the purposes of the account be emended to read as follows -

"To meet expenditure in connection with -

- (a) the purchase of stores and materials for the Postmaster-General's Department, including stores and materials for sale to other Commonwealth Departments and to State Departments; and
- (b) transport services of the Postmaster-General's Department."

188 The Post Office Stores and Services Trust Account was set up on the 1st July, 1954, to replace the Post Office Stores and Transport Trust Account which had operated since the 1st July, 1933. The purposes of the account, which was constituted by the Treasurer under Section 62(a) of the Audit Act, are -

- (1) for expenditure on -
 - (a) the purchase and acquisition;
 - (b) the receipt, storage, issue and conveyance; and
 - (c) the processing, manufacture, assembly, reconditioning, conversion and repair of stores, material and equipment for -
 - (i) the Postmaster-General's Department, and
 - (ii) sale to any Commonwealth or State Department, Authority or Instrumentality and any person;
- (2) for expenditure on the maintenance, upkeep and running of transport services and transport equipment.

It was claimed that the advantages of the Trust Account include -

- (1) it permits the Post Office to maintain the equivalent of a wholesale warehouse, with appropriate accounting arrangements, to assist the best possible use of resources, not only for normal requirements but also to meet emergencies such as floods, bush fires, etc.;
- (2) in association with appropriate forward ordering authority approved by the Treasurer, it enables the Post Office to order in advance, under the most favourable contract terms possible, stocks of specialised communications equipment which could not be secured on a short term basis;

(3) it aids management by -

- (a) allowing standard issue rates to be applied over all projects throughout the Commonwealth, even though freight costs may vary between areas; thus assisting comparisons of job costs;
- (b) facilitating estimates for projects on a comparable basis;
- (c) simplifying accounting procedures; and
- (d) ensuring minimum store holdings consistent with efficiency.

189. We were informed that the advance to the Trust Account at the 1st July 1954, was \$35,118,000 and at the 30th June, 1967, stood at \$37,824,000. A further advance of \$4,000,000 is included under Division 974 in the Estimates of Expenditure for 1967/68.

190. The movements in the Trust Account advance since 1954/55, relative to the Engineering Capital Works Programme, to which most of the materials held on charge to the account relate, are set out in Appendix No. 1 to this Report. It also includes the value of unpaid claims in respect of stores received at the 30th June in each of the financial years. This statement shows that the value of Main Stores stocks on charge to the Trust Account has increased by only 34 per cent since 1st July, 1954, although the Engineering Capital Works Programme has increased more than three-fold. The statement also shows that Main Stores stocks have decreased from 59 per cent of the Engineering Capital Works Programme to 24 per cent over the period. The Department claimed to have achieved these economies in stockholdings by very careful attention to the methods and timing of purchases, as well as to more efficient distribution of materials to works projects. In terms of stock turnover, this ratio has been improved from 1.5 in 1954/55 to 3.1 in the past year.

191. The Department stated that a large portion of the materials purchases is made solely for Post Office use. As well, because much of it is technically complex, and often to new designs, long

manufacturing cycles are common. As a result, expected delivery dates are subject to a degree of error. Where a time lapse has to occur between the date of order and delivery, such that the payments will be made in a subsequent year, appropriate forward ordering authority is obtained from the Treasurer. The limits of this authority were said to be meticulously observed. A comprehensive system of liability registers ensures that commitments and expenditures on materials during any period are kept under close and continuous scrutiny and every care is taken to relate purchases to the year's usage of materials on the approved Works Programme. It was said that there are difficulties in ensuring that deliveries in a particular month of a financial year flow to the Department exactly in accordance with the planned timetable for purchasing. This can occur in any month, including the last month of a financial year, although every effort is made to ensure that contractors adhere to the schedule delivery times.

192. The total value of materials used by the Post Office in 1966-67 was \$163,800,000 of which \$106,500,000 was associated with the Engineering Capital Works Programme. Purchases were spread over more than 1,000 contractors, many of whom had a number of contracts to fulfil. The unpaid accounts of \$5,841,209 on the 30th June, 1967, represented only 3.6 per cent of the usage of materials in the financial year 1966-67, equivalent to about 9 working days.

193 The Department assured us that it will continue to make every effort to relate its material purchases as closely as possible to the usage of materials on its capital, maintenance and operating programmes and, at the same time, keep the level of its stocks to a minimum consistent with efficient operations.

194 We questioned the Department as to why expenditure on the maintenance, upkeep and running of transport services should not be absorbed direct into transport expenditure heads and whether a Trust Account might not conceal transport costs. We were advised that costs of operating the motor vehicle fleet, i.e., overhead, running and repair costs, are charged to Section "C" of the Trust

Account. The Department's motor vehicles are deemed to be hired to the various Branches/Divisions, with charges assessed by applying appropriate hire rates intended to recover the actual cash costs associated with vehicles operations. On the basis of costing advices the credits are taken to Section "C" of the Trust Account, the debit being distributed over the relative Ordinary Services and Capital Works Votes. The Department stated that the existing arrangements do not conceal transport costs. Indeed, they reveal such costs clearly, not only to the central group responsible for transport work, but also to the various user Divisions and Branches. It would be possible to eliminate the recording of transport services from the Trust Account. However, this would alter the approved purpose of the Trust Account and, from a management viewpoint, has not been considered desirable, particularly as an overall review of financial arrangements for the Post Office was in prospect.

195 A Commonwealth summary of the transactions that passed through the Trust Account during 1966-67 was obtained from the Department and is included in Appendix .

196 We drew attention to the fact that the Auditor-General's report had referred to an amount of \$5,800,000 as the value of unpaid claims for stores received as at 30th June, 1967 and asked whether these liabilities are added to any analysis of annual expenditure. We were informed that the Stores and Services Trust Account is debited only as payments are made for stores received. However, the stock level at the end of a financial year, as shown in the commercial accounts of the Post Office, includes all stores held, irrespective of whether payments are made to suppliers. The analysis of annual expenditure on materials necessarily takes into account not only payments against the Trust Account but also the full extent of current liabilities, including those represented by unpaid accounts.

197 When questioned as to what the working advance of \$37,824,070 to the Trust Account really represents, we were informed that the approved advance now stands at \$41,824,070, including an Appropriation of \$4,000,000 approved by the Parliament in 1967-8. The

total represents the sum of the amounts appropriated by the Parliament over a number of years. At any given time, the advance must be sufficient to cover the value of -

- (a) stores held in Main Stores Stock; and
- (b) manufacturing and reconditioning work in progress in the Postal Workshops.

Since the accounts also are used as a clearing house for transport operating costs, there may be a residual balance arising from these operations in the account at any one time. To illustrate the situation in the account at the 31st January, 1968, the following details were supplied -

	\$m.
Total advance to Post Office Stores and Services Trust Account -	41.824
<u>Less credit in Account</u>	<u>.102</u>
Advance utilised at 31.1.68	41.722
<u>Plus credit balance in Transport Operating Section</u>	<u>.267</u>
	<u>41.989</u>
This amount of \$41.989m. represents -	
Value of Stocks in Main Stores	34.018
Value of manufacturing and reconditioning work in progress in Workshops	7.971
	<u>41.989</u>

198 When asked whether, there is a simple reconciliation to the working advance or to any other figure if the departmental records disclose a stores value of \$38,286,644 at 30th June, 1967, the witness informed us that the Post Office Stores and

Services Trust Account has three separate sections as follows -

Section A - Stores and Materials

B - Workshops Suspense

C - Transport

199. It is at all times practicable to effect a reconciliation between the stores value (Main Stores Stock Ledger) and the working advance. The continuing reconciliation is carried out by reconciling the Stores Stock Ledger with the Commercial Ledger Control Account "Stores Stock", the latter, in turn, being reconciled with the Working Advances to the Trust Account. The direct reconciliation at the 30th June, 1967, was -

	\$m.
Advance to Trust Account	37.824
<u>Less credit in account</u>	<u>.053</u>
	37.771
<u>Plus credit balance in Transport</u>	
Section	<u>.315</u>
	<u>38.086</u>

This amount represents the value of Stores and Materials charged to Section "A" (\$30,878,000) plus the value of work in progress at Workshops charged to Workshops Suspense Section "B" (\$7,208,000). The reconciliation between the value shown on Section "A" (\$30,878,000) and the value of stock in Main Stores (\$38,287,000) was -

	\$m.	\$m.
Stock at Main Store at 30th June, 1967 (as per Stores Stock Ledger)		38.287
<u>Plus</u> amounts paid to suppliers in advance of the receipt of materials -		
Overseas.	0.550	
Within Australia	0.079	0.629
	<u> </u>	
Stores taken off Main Store Ledger but which remain as a charge against Section "A" of the Trust Account.		
Interstate transfers (in transit)	0.206	
Stores on loan (Schools etc.)	0.008	
Stores sold (scrap) for which payment not yet received	0.113	0.327
	<u> </u>	
Minor items of reconciliation including end of year adjustments		0.079
		<u> </u>
		39.322
<u>Less</u> Stores held on Main Store Ledger but for which payment not yet made (outstanding accounts)	5.868	
Assessed value of Stores Administration loading on Stock in Main Store at 30th June, less minor adjustment for over- distribution	2.576	8.444
	<u> </u>	<u> </u>
Balance Trust Account - Section "A"		<u>30.878</u>

200 In regard to inventory procedures for stores, we were informed that an inventory of stock is maintained in each State through machine posted ledger cards. A ledger card is held for each item of stock and all receipts, issues and adjustments are posted to this card with both quantity and value being shown. Each card is in turn totalled to a control card which enables the value of total stocks held to be known at all times, in addition to the quantity and value of each individual item. There is a built-in "alarm" system which operates if stock of any item falls below a specified level. A Central Ledger, under computer operation, is maintained in Central Office. This ledger records the stock level of all major items held in each State as well as the Commonwealth total. There is a monthly computer print-out which shows issues, stock on hand and stock on order. If the level of issues indicate that stock on hand plus stock on order will be insufficient to meet the rate of usage for a particular period in a particular State, then the computer prints out an exception report. This report includes information relating to the stock position of the particular item in each State which enables the Stock Controller at Central Office to decide whether additional supplies are required in the State and, if so, if it is possible to avoid ordering additional quantities by diverting supplies from other States. It was said that the system allows the maximum control over Commonwealth stocks and provides adequate warning of impending shortages. The posting machines in use were claimed to be the most modern equipment available at the date of purchase and, as each machine is due for replacement, an examination is made of the latest types of machines available. To date only the Central Ledger operations have been computerised but it is expected that computer techniques will be introduced progressively throughout a whole supply operation. However, changes will not be made without a complete cost analysis.

201 Questioned as to whether the Department considers that its stores methods are completely up to date, the witness stated that it is difficult to claim that all Stores methods are completely current at any specified time. Materials handling methods are

rapidly changing. A new store house recently constructed and equipped with the latest materials handling equipment could be expected to operate more efficiently than one built 20 or 30 years ago. While the standard of the Department's store houses and equipment vary, it has modern, well equipped, buildings and also has some older buildings. It was said that during 1965 the Department had studied in detail the latest developments in material management in Britain, the United States of America and Canada. As the result of this visit, a new system of requisitioning and distribution of material is being introduced progressively throughout the Commonwealth. The system of requisitioning material has been greatly simplified, with documentation being reduced to a minimum and maximum use being made of telephones and teleprinters. Processes which were taking days have now been reduced to minutes. Procedures for the issue and delivery of materials from the Main Stores to the field have been streamlined, the control of material in the field and control of transport strengthened, and the standard of service to field operations improved. New methods of holding and issuing of material are also being developed. One of the Main Stores buildings at Melbourne has been completely re-organised with a new layout of material and new type of racking. This was claimed to have resulted in increased efficiency in operation and also to have increased the effective storage space by approximately 40 per cent. This new system of warehouse layout will be extended progressively to other states. The Public Service Board has approved of new positions of designation of Warehouse Manager in Victoria, New South Wales and Queensland and similar proposals in respect of Western Australia and South Australia are under consideration. The Department confidently expects that the strengthening of management in the warehouse area will result in a marked increase in operational efficiency. The Department claimed that its Stores methods compare favourably with most Australian Stores installations and a great deal of attention is being given to improving their operations to bring them to a still higher standard of efficiency.

202 In regard to the Department's stock turnover ratio of 3.1 in 1966-67, it was stated that it is not practicable to draw comparisons with normal commercial undertakings. A manufacturer operating in one centre making a fairly limited range of items and with all his supplies available from local sources can operate with a very low margin of stock. Some major manufacturers require their suppliers to hold a specified level of reserve stock. Some American manufacturers operate with as low as one day's stock but this requires immediate availability of supplies and a high degree of programming and management supervision. It was said that the Post Office uses some 30,000 different items of material with usage spread throughout the whole of the Commonwealth. Most of the high value material purchased is specialised telecommunications equipment which is manufactured only for the Post Office and has no commercial market. Much of the more complex equipment has a long lead time and this involves considerable forward planning. The whole supply operation of the Post Office is a complex one, with consideration having to be given to probable levels of future Capital Works Programmes, the composition of such programmes and the material required to meet them, manufacturing lead time, optimum levels of factory production, conservation of stockholding funds, holding and distribution costs, etc. The operation differs greatly from a manufacturing or retail operation.

203 We were advised that in 1965 the British Post Office held four months stock in Main Stores, which meant that the stock was turned over three times per annum. There was a further two months stock in field Stores. The area to be serviced was much smaller than that of the Australian Post Office and the manufacturing support much greater than in Australia. The Bell Telephone Company in the United States has a fairly complicated system of stockholding with differing levels of stock being held for various operating companies depending on location. Generally, it could be stated that the Bell system operates with approximately 60 days stockholdings. The Bell system, however, has its own manufacturing organisation for most of its equipment needs. For bought-in items, that is items not manufactured in its own factories, the Bell organisation has a wide range of suppliers available.

204 It was claimed that improvements now being introduced will keep stock in the field to a minimum, will reduce operating costs, and by keeping material shortages to a minimum will increase productivity in the field. Further improvement in turnover rates will be attempted but overall economics, including efficiency in the field, will have to be examined carefully.

205 During the Inquiry we sought specific information regarding the Forward Ordering Authority obtained by the Department from the Treasurer and the manner in which this Authority operates. We were advised that the Department is required under the provisions of the Audit Act and Treasury Direction 31/4/B to obtain the approval of the Treasurer before entering into commitments for subsequent financial years. Because of the complex nature of its equipment and need for manufacturers to plan their own programmes of materials procurement and production, it was said to be essential for many orders to be placed for delivery in subsequent years, especially for the year immediately following the placing of the order. The levels of these advance orders are determined by the Post Office for all major items of equipment having regard to relevant factors, including the scope and emphasis of the Works Programmes which are planned for implementation in those financial years. These levels take into account the stocks considered necessary to provision a Works Programme economically as well as the ability of manufacturers to supply on the basis of short term orders. It is necessary to take into account the total planned usage of materials and equipment so that the forward ordering programme may be developed in a manner which will ensure balanced supplies in the years ahead. When the Department has completed this work, an approach is made to the Department of the Treasury seeking approval of the Treasurer to a Forward Ordering Authority for orders up to a maximum level in the year immediately following and also for later years. The latter approval is necessary to cover certain materials and equipment which must be ordered two or three years in advance of requirements to ensure delivery by the date they will be needed for the Works Programme. The Treasury considers the Department's request and all supporting information required by the Treasury is supplied to that Department.

206 After the Treasury has considered the request, the Treasurer approves a Forward Ordering Authority considered appropriate in all the circumstances. It is made clear that this approval is given on the understanding that it does not involve a Treasury commitment to support a Post Office Capital Works Programme of any particular level, and that it is the responsibility of the Post Office to arrange its commitments for materials in such a manner that these can be met out of whatever amount is allocated for Post Office Capital Works in a particular year.

207 It was said that the Post Office has internal procedures and controls which ensure that the value and volume of forward orders for particular materials are consistent with Works Programmes planned for the years in question. Each proposal to purchase must be accompanied by a certificate which indicates that the liability to be incurred will not result in the maximum authority approved by the Treasurer being exceeded. On no occasion has the Treasurer's authority been exceeded.

208 Finally, we asked the Department to demonstrate where write-off action for losses and theft is reflected in the accounts. We were informed that losses and thefts of stores on charge to the Stores and Services Trust Account are written out of stores stock as a charge to stores administration. The values written out become a part of the total stores administration costs charged progressively to the Trust Account. The total stores administration charges are eventually met from Capital and Ordinary Services Votes through appropriate loadings on issues of materials and equipment from store. In the case of Workshops Stores, any deficiencies in stock are accounted for by debiting Engineering Administration and crediting of the Trust Account. The value of losses and thefts from Engineers' Stores are written out against Engineering Overhead.

Chapter 8DEPARTMENT OF SHIPPING AND TRANSPORT

209 Paragraph 157 of the Auditor-General's Report for 1966-67 included the following observation :

" In June, 1964, a contract was let on a variable price basis for the construction of the lighthouse supply vessel M.V. "Noel Buxton". The estimated cost at that time was \$428,000. Subsequently, certain alterations and modifications in the design were effected.

During 1966-67 expenditure charged to Division No.948-1, Item 02 lighthouse supply vessels - replacement, included \$175,584 in respect of the construction of the M.V. "Noel Buxton". This expenditure, after adjustment of \$9,837 administrative expenditure from the previous year, brought total expenditure to 30 June 1967 on the vessel to \$717,574.

The M.V. "Noel Buxton " was commissioned in July 1966, but has been in effective service for approximately six weeks only since that date. At the time of preparation of this Report, the vessel was undergoing further tests of auxiliary equipment. The Department has advised that the vessel is scheduled to re-enter service towards the end of August 1967 and that the matter, generally, is under examination. "

210 We were informed that construction of the Lighthouse Vessel M.V. "Noel Burton" was ordered from Walkers Limited, Maryborough, Queensland, in September 1963. Between early November 1963 and 2nd March 1964, ten minor amendments were made to the contract, three of which did not involve a variation to the contract price. These were in respect of a reduction in the size of watertight hatches to fit in with the ship's structure, the installation of a radio telephone in the wheelhouse, and a aerial for the crew radio. Also the

Exhibit
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Q's 232 &
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funnel was reduced in size to provide a more convenient access for the removal of equipment from the engine room, at a credit of \$532. The remaining amendments involved increased costs amounting to \$2,247. This represented the installation of an electrical distribution cupboard in the main deck accommodation at a cost of \$280; the installation of a battery box and charging resistors on the boat deck at a cost of \$160; the repositioning of a medical locker costing \$25; repositioning of furniture in the accommodation flat at a cost of \$200; the re-arrangement of accommodation on the main deck at a cost of \$450; and the re-arrangement of accommodation on the boat deck at a cost of \$600. It was said that while it is not desirable for amendments to be made to plans soon after the placement of an order, in practice it is not unusual for this to occur. In this case there was virtually no effect on the construction time-table as a consequence of the amendments. Q.233

(a) Design

211 The design for the vessel was developed by the Australian Shipbuilding Board. It was said that generally clients present complete specifications to the Board should they have their own consultants, or alternatively they supply the Board with a number of requirements for the ship's capacity. In the latter case, which applied to the M.V. "Noel Burton", the design is developed by the Shipbuilding Board and discussed with the client until agreement is reached. Calculations and careful checks are then carried out by the Board in respect of certain aspects such as speed and stability. The design is then submitted to the owner as being a proper representation of the operational requirements of the vessel. It was said, however, that this procedure was not followed in the case of the M.V. "Noel Burton".

212 In the case of passenger ships the Department of Shipping & Transport takes a particular interest in certain aspects of the design such as safety measures at sea but this was not so in the case of the M.V. "Noel Burton", except for a broad check of the design which was carried out by the Q.289

Department in Melbourne.

213 We were informed that the Department of Shipping and Transport has two functions in relation to the design of a ship. The first is to acquire an operational unit. When the design is submitted by the Shipbuilding Board the Department's only concern is to ensure that the ship will perform the functions required of it. The second matter relates to safety measures and is the specific concern of the Marine Service Branch of the Department. In the case of cargo ships there are only a few safety measures involved, but in the case of a passenger ship there is a much larger body of instructions. The M.V. "Noel Burton" is not a passenger ship. The vessel was built under Lloyds' supervision and the arrangement in these circumstances is that the Department accepts the certificate given by Lloyds in respect of a great many items. Q.290

214 The witness was asked if it were normal practice for a ship to have its anchor chain locker above the waterline, as shown in Plan P, submitted to your Committee, and for this to be altered in a revised plan to a position below the waterline. We were informed that this was not normal practice and that the location on the original design is the normal position. In the case of the M.V. "Noel Burton" this alteration changed the position and height of a very significant weight, a great mass of chain cables, to a lower position which greatly helped the stability of the ship without adversely affecting its functioning. Q.277

215 We were informed that as the M.V. "Noel Burton" operates to service lighthouses, passenger accommodation is required for officers such as Regional Lighthouse Engineers and Department of Works representatives. When asked why accommodation for two passengers in Plan P had been increased to three as in Plan Q, we were told that at all times the ship is required to carry a technical officer and usually also carries a Regional Engineer. It was found in the past that accommodation had been limited and an attempt was made, in this case, to provide as much Q.285-287

passenger accommodation as possible for officials and passengers within the dimensions of the ship. It was said that the increase in cost of providing additional passenger accommodation would be a negligible proportion of the increase in the cost of the ship.

216 It was said that frequently when tenders are called, builders put forward alternative designs to that sought. For the sake of standardised tendering, however, the Departments tenders must be strictly in accordance with specifications. Frequently when attention is directed to weaknesses in or improvements that could be made in designs, suggestions are adopted. Q.276

(b) Stability

217 We were informed that the determination of the stability of a ship requires detailed study involving a considerable length of time. When it originates a design, the Shipbuilding Board accepts the responsibility for stability and other factors being correct and shipbuilders are not expected to investigate this area. Q's. 276-278

218 The M.V. "Noel Buxton" was said to be somewhat unique in that it is a complex small ship. While small ships are liable to have stability problems and to need permanent ballast to maintain them in a stable condition, the M.V. "Noel Burton" had a lot of accommodation and other heavy items high up in the ship which from the point of view of stability were not considered to be desirable. Q.242

219 In the design stage, an assessment of the stability of the M.V. "Noel Burton" was made by a comparison with a number of somewhat similar ships recently completed and for which accurate stability data was available. This comparison indicated that the stability of the M.V. "Noel Buxton" should be within accepted limits although it was recognised that there would be a need for the fitting of some permanent Exhibit AGR1966-67/3 and Q's 236-

ballast, which is not uncommon in small vessels. The ships with which the comparison had been made had not been required to undergo any design modification in regard to stability. The sea trials in respect of these vessels comprised normal inclining experiments and were carried out in ideal weather conditions, i.e. flat, calm sea conditions with no wind. In the light of the analysis carried out, technical officers of the Department of Shipping & Transport felt that detailed stability calculations could be postponed until the time when there was particular pressure for work in the hull-design section. Walkers Limited had not raised any doubts in respect of the stability of the M.V. "Noel Buxton" when the plans and specifications were being considered, before the order was placed. The witness added that the plans had not been examined by any other shipbuilders before the contract was let.

220 In June 1964, a detailed investigation was carried out by the hull design section of the office of the Shipbuilding Board in respect of the normal complete investigation of the stability characteristics of the ship. The investigation indicated that the stability of the vessel would not be satisfactory without alterations to the general arrangement of accommodation, which, in turn, was responsible for a number of consequential variations, all of which added to the cost of the vessel.

Exhibit
AGR1966-67/3
and Q.245

221 With a view to providing essential stability twenty nine modifications were decided upon and undertaken at a cost of \$68,898. Details of each of the modifications are given in Appendix No.2 to this Report. One of the consequential variations which had a significant affect on the cost of the vessel was the introduction of air-conditioning. Although consideration had initially been given to this matter, it was decided that, with the original design, mechanical ventilation of the accommodation would be adequate, and more simple in operation and maintenance. When alterations in the general arrangement

Exhibit
AGR1966-67/3

of accommodation became essential, it was considered that air conditioning should be introduced. The witness said that air conditioning had not been considered necessary or desirable in the initial design stage because it would have been an added complication to the ship. However, the alterations to the ship's accommodation had reduced the effectiveness of natural and mechanical ventilation and it was decided that air conditioning was necessary to improve the habitability of the accommodation.

Q.246

222 The incorporation of air-conditioning equipment resulted in the need for a larger electrical generating plant. The decision to install larger generators was made by the Department of Shipping and Transport but the acquisition of the generators was the responsibility of the shipbuilder. It was said that as equipment of this type is not manufactured in Australia, the generators had to be obtained from overseas and as a result a considerable delay occurred in their delivery to Walkers shipyard. However, the originally planned diesel engines were used and the only direct difference in cost was for the electrical generators themselves, the additional cost amounting to \$700. When the need for larger generating equipment became apparent, tenders had already been accepted by the builders for smaller generators.

Exhibit
AGR1966-67/
Q.252 &
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Q. 251

(c) Costs

223 . Estimated and Actual Costs.

It was said that it is reasonable to expect a fairly accurate estimate for shipbuilding costs and that in general those made by the Department of Shipping and Transport are satisfactory. In this case, however, the increased costs were related to the additional work involved. The estimated and actual cost of construction of the vessel are shown in Table No. 5 .

Q..

Exhibit
AGR1966-67/
3

Table No. 5
M. V. "Noel Buxton"

Estimated and Actual Cost of Construction

Component	Cost	
	Estimate	Actual
Builders tender price	\$1,000 385	\$1,000 473
Inspections, supervision, surveys, administration, drawings etc.	24	34
Contingencies	19.5	210.5
Total	428.5	717.5

Source : Department of Shipping and Transport.

224 The increase in the builders tender price, \$88,000 or 22.9 per cent, represented an increase of \$12,215 or 13.9 per cent for materials, and \$75,785 or 86.1 per cent for wages. The increase of \$10,000, 42.1 per cent in the cost of inspections, supervision, surveys, administration, drawings, etc., were said to be costs which were within the control of the Shipbuilding Board. It was claimed that the estimate for this component had been too low, but that the difference between the estimated and actual cost was related to the design changes incorporated in the construction of the vessel. Q296 and Committee File 1967/5

225 The term "variable price basis" is used to distinguish the type of contract entered into for the construction of the M.V. "Noel Buxton" from one let on a fixed price basis. A variable price contract contains a clause which provides for increasing costs in, for example, wages and materials, while a fixed price contract varies only in accordance with approved modifications to a vessel and is fixed in relation to costs such as wages and materials. Q.279

226 With respect to estimating a variable cost component it was said that allowance would have to be made for the length of time involved in the construction of a vessel. Q.283 Q.284

227 When asked to explain the use of the contingency item in the cost structure of the vessel, the witness stated that provision is made in all of the Department's shipbuilding estimates to take account of small difficulties that arise which involve cost variations due to omissions and errors. The contingency item is provided to meet changes in cost which are held to be the responsibility of the Shipbuilding Board. However, the contingency item was not designed to cover additional costs such as those involved in the present Inquiry. Details of the actual contingency costs are given in Table No. 6.

Q.281
282

Table No. 6.
M.V. "Noel Buxton"
Contingency Costs

Item	Contingency Cost
	\$1,000
Stability modifications	69.0 (1)
Extras	84.0
Modifications for positioning of air conditioning equipment	37.0 (1)
Additional extras	20.5
Total	210.5

(1) approximate amount.

Source: Department of Shipping & Transport

Air Conditioning Equipment

228 The cost of the additional air conditioning equipment, its installation and the larger capacity generators is given in Table No. 7 .

Table No. 7M.V. "Noel Buxton"Additional Cost of Air conditioning Equipment

Item	Amount
Air conditioning equipment	\$ 10,908
Air conditioning installation including minor materials and trunking.	9,756
Changeover from 40 KW to 65 KW generators, including modifications to couplings, re-running of piping etc. and installation	8,416
Amount	29,080

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Source: Department of Shipping & Transport

229 It was said that the disorganisation of the dockyard programme resulting from the delay caused by the generators being obtained from overseas provided the need for a re-assessment of "extras" for which quotations had been submitted by the shipbuilder earlier, on the basis of prompt completion of the work.

Exhibit
AGR1966-67/
3

230 The re-assessment of "extras" was undertaken by a cost Investigator of the Department of Supply. The findings of this investigation, submitted in a 41 page report, were examined by and for the most part, endorsed by officers of the Shipbuilding Division of the Department of Shipping and Transport. The cost investigator's report dealt mainly with proper accounting of the costs that had been incurred by the builder but the objective of the officers of the Shipbuilding Division was to see that the costs which had been brought to account for the ship were appropriate. In fact, there were reasons related to the effective use of time for reducing the cost by \$15,000. The adjustment figure agreed upon was \$15,535 less than that recommended by the Cost Investigator, and on this basis an additional payment of \$84,401 was made to Walkers Limited.

Exhibit
AGR1966-67/3Q.257 to
259

231 The provision of space for the air conditioning equipment involved the installation of a bulk head in the hold of the ship and the removal of the storeroom which had been located adjacent to the engine room. It was decided that the equipment should be installed in the space previously allocated to the store room as this allowed the hold of the ship to be used for the carriage of gas cylinders. The cost of these modifications amounted to \$36,824.

Other Extras

232 Additional extras shown in Table No. 8 were decided upon at various times during the construction of the vessel.

Table No. 8
M.V. "Noel Buxton"
Selected Additions to the Contract

Item	Amount
	\$
Installation of radar	4,842
Installation of standby refrigeration unit	2,850
Improved gear box	2,620
Improved workboat davits	4,018
Additional spares for the main engine and auxiliary engines	2,136
Other "extras"	4,124
Total	20,590

Exhibit
AGR1966-67/3

Source: Department of Shipping and Transport

233 It was said that the installation of radar is provided for in all ships designed by the Shipbuilding Board, however, while it was considered to be desirable for M.V. "Noel Buxton" a small vessel, when the original specifications had been prepared, it was not included at that stage because it was thought that it would have been unreliable as there is a lack of servicing facilities for radar in New Guinea, where the ship was intended to operate. It was said that the advent of

Q292

transistorised and more reliable equipment influenced the decision to instal radar.

234 The gear box ratio was changed in conjunction with a change of the propellor from four to three blades in order to improve the propulsion of the ship. It was said that this change was not due to an original design weakness and that in general the slower the propellor the greater its efficiency. It became necessary to incorporate a slower propellor with a changed gearbox ratio.

Q.294
Q.295

235 With respect to the improved workboat, davits the original proposal was that the workboat should be handled into the water by a derrick which is provided on the foremast. It was found by experiment, however, that the handling of the boat into rough seas by the derrick was dangerous, inefficient and slow. For this reason improved davits were installed.

(d) The History of the Vessel Subsequent to Delivery

236 On 19th July 1966, the Department accepted delivery of the vessel following satisfactory sea trials which revealed nothing more than minor difficulties. On 29th July the vessel departed from Brisbane for service in Papua/New Guinea.

Exhibit
AGR1966-67/3
and Q's
300
to 304

237 The M.V. "Noel Duxton" is fitted with a Rolls Royce main engine and two electrical generating sets supplied by Smith Marivell Pty.Ltd. each comprising a Rolls Royce diesel engine coupled to a generator supplied by Hawker Siddeley Brush, Pty.Ltd. It was said that a great deal of trouble had been experienced with these generating sets. Between 30th September and 4th October 1966, the engines of both generating sets became unserviceable when the ship was in the vicinity of Madang due to troubles which developed in the engine balancer gear. We were informed that a balancer gear is located in the crankcase of four-cylinder type engines to reduce vibration. In this instance the balancer gear collapsed, rendering the engine unserviceable. The areas

Q.305 to
307

in the vicinity of the crankcases were damaged, necessitating replacement of the engines. At the time of replacement one engine had completed 650 hours work and the other some 900 hours. Between 21st October and 7th November 1966 the engines were replaced by new engines. On the 1st December, however, the Port engine failed due to trouble which developed in the balancer gear, and on 2nd December 1966 the starboard engine failed after 598 hours of operation. On 1st March 1967 the vessel was taken in tow to Brisbane where the frames were stiffened and modified to accommodate resilient mounts supplied free of charge by Rolls Royce, Aust.Pty.Ltd., the port engine was replaced by a new engine because its balancer gear had failed; the starboard engine was overhauled to "as new" condition; a new type flexible coupling was provided; the governor and fuel pump of each engine were adjusted to operate at 1,500 r.p.m; each electrical generator armature was dynamically balanced; and the roller bearings of both generators were replaced by Deep Groove Ball Type Bearings. Initially it had been thought that the coupling was suspect, but in due course the bearings of the generators were found to be faulty brinelled. This is a condition arising from vibration on the rollers. It causes grooves, and severe vibration on rotation. After consultations between the supplier of the bearings, the manufacturer of the generators, and the manufacturer of the engines, it was decided to eliminate every possible influence that might be responsible for failure in the balancer gear. This programme included stiffening of the sub frames. Resilient mounts were provided to fit deep groove ball bearings in place of roller bearings and to change the type of flexible couplings. The dynamic balancing of armatures was requested by the diesel engine builder as "out of balance" forces could have been a contributing cause toward conveying vibrations back into the engine.

238 Between 20th and 22nd June 1967 the engines were installed and on 30th June tests were carried out, the results of which were satisfactory. On 4th July a vibration test was

Q312
Q's 342
and
343

carried out by an engineer of the Aeronautical Research Laboratories. The vessel departed from Brisbane on 23rd July 1967 for New Guinea and on 24th July 1967 an electrical failure occurred in the starboard generator, due to the fact that the risers on the armature commutators had been fractured. At the time of our inquiry the cause of this failure had not been determined. It was suggested, however, that vibration may have caused fatigue of the risers on the commutators. On 25th July 1967, the vessel returned to Brisbane and between 26th July 1967 and 26th August 1967 both generators were overhauled, dynamically balanced and reinstalled. This second overhaul and balancing of the generators was said to have been necessary because of the repairs that had been carried out in the armatures and also because of the replacement of the roller bearings.

Q317

239 On 28th and 29th August the engine generators were inspected by representatives of Lloyds and Rolls Royce Aust. Pty.Ltd. and a further vibration test was carried out by an engineer of the Aeronautical Research Laboratories. The vessel departed from Brisbane for service in New Guinea on 2nd September 1967 and at the time of our Inquiry, (6th October, 1967) was operating satisfactorily, no serious problems having arisen.

(e) Payments.

240 We were informed that no payments have been withheld from the shipbuilders pending the determination of responsibility for the problems which have been encountered. The contract for the supply of the motors and generators was agreed upon by the shipbuilder and the suppliers of the motors and generators. A failure or breach of warranty would therefore be a matter to be settled between Walkers Limited and the suppliers. The terms of the contract entered into by the builder provided that most of the items supplied would be guaranteed for a period of twelve months.

Q321

Q.321

241 As there was a doubt about the cause of the balancing gear failure, Rolls Royce Aust. Pty.Ltd. considered that before it released new engines, some form of an order was needed to safeguard the

Q.324

Company. The Department, therefore paid for one new engine and also for the restoration of another to "as new" condition. We were told that the total cost to the Department including labour and equipment, for the replacement of engines was of the order of \$20,000. Details of this cost were not available and we were informed that they had been incorporated in the operating costs of the vessel. The cost of repairs and replacements for the vessel in 1966/67 amounted to \$12,680 and from 1st July 1967 to 27th October 1967 \$2,590. Details of the amounts are given in Appendix No. 3 to this Report.

Q-325

242 It was said that many adjustments have been made to the equipment and the matter of payment had not been finalised. The Department has entered into an arrangement whereby after 1,000 hours operation, the equipment will be examined to determine where the fault may lie. It was indicated that while it may be difficult to determine, it could result in recovery by the Department of some of the money which had already been spent.

Q330

(d) The Causes of the Problems

243 In its submission to the Committee dated 7th September 1967 the department of Shipping and Transport stated that the fundamental cause or causes of the various difficulties related to the generating sets and their engines had not been determined and that the matter of responsibility was still under examination. The engine of the type concerned has not been used by the Department before. Initially Rolls Royce Aust. Pty.Ltd. and the generator builders accepted responsibility for the failure which occurred and it was not until a doubt had arisen as to the cost and cause of failure that queries in respect of responsibility arose.

Exhibit
AGR1966-67/3
Q336 and
Q348

244 It was said that the suppliers of the engines have co-operated in every possible way to assist in the determination of the cause of the trouble. When the two engines failed, Rolls Royce Aust. Pty. Ltd. quickly acknowledged its responsibility and arranged

Q322 and
Q323

for new engines to be delivered to Madang. When the third engine failed Rolls Royce Aust. Pty.Ltd. again acknowledged its responsibility and it was not until the false brinelling of the bearings was discovered that Rolls Royce Aust. Pty.Ltd. thought it might not be responsible. Because similar engines operating throughout the world were giving satisfactory service Rolls Royce Aust. Pty.Ltd. felt from the beginning of the problems under discussion, that the balancer gear failure resulted from contributing causes external to the engine, and that it was not a fault in design. The witness admitted that the assessment by Rolls Royce Aust. Pty.Ltd. may be correct but indicated that until observations are made after 1,000 hours of service has been completed it will not be possible to ascertain where the fault lies.

Q 324,
337 and
341

245 We were informed that should the fault be found to be in the mounting of the bearings this would indicate that an error had occurred in the initial design and in such circumstances it would be difficult to place the responsibility.

Q349

246 The witness distinguished between the two aspects of the M.V. "Noel Buxton" problem. The first was the basic design and the second was its history since it was commissioned. He claimed that the design is entirely satisfactory both from the point of stability and also from the point of view of machinery. He also said, however, that it remains to be seen whether the curious and unexplained technical problems which were under investigation when our inquiry took place will be resolved.

Q350

247 It was said that while Lloyds provides a certificate for the whole of the installation, the Australian Shipbuilding Board cannot shelter behind such a certificate as Lloyds are interested in certain features only of the design of the ship. The Board designed the ship and Lloyds endorsed certain features of the design. It was also said that Walkers Limited, Maryborough, was considered to be an efficient shipbuilding yard,

Q's. 349
and 350

The Department of Shipping and Transport maintains a resident engineer in Brisbane who makes frequent visits to Walkers shipyard when vessels are being constructed for the Department.

Q's 270
&.331

248 It was admitted that the M.V. "Noel Buxton" had been a most unfortunate project from many points of view and as far as the Australian Shipbuilding Board is concerned much has been learned which has been and continues to be put into operation with respect to methods, procedures and other matters.

Q.355

CONCLUSIONS

249 Although the causes of the problems that have arisen in relation to the M.V. "Noel Buxton" had not been determined when Your Committee conducted its inquiry, there are certain features of the matter on which we would make comment.

250 Whilst we accept that it is not unusual for minor modifications to be made to ship design after the letting of the contract, it is difficult to appreciate why certain amendments that were made at that stage were not effected previously if the detail of the design had been adequate. For example, it would seem that the size of watertight hatches to fit the ships structure, and the size of the funnel necessary to provide convenient access for the removal of equipment from the engine room should have been apparent before final drawings were completed. Similarly, we believe that the amount and location of accommodation for the crew and passengers should have been determined firmly at an early stage of planning.

251 Your Committee notes that it is normal practice for calculations and careful checks to be made by the Australian Shipbuilding Board in relation to certain features of design such as speed and stability but that in the case of the M.V. "Noel Buxton" this procedure was abandoned and instead stability was assessed initially by a comparison made with a number of somewhat similar ships recently completed and for which adequate

stability data was available. We believe that events, which subsequently involved considerable re-design and cost, point to the inadvisability on the part of the Board, of abandoning its normal procedures for assessing stability.

252 In regard to the history of the ship in service, Your Committee notes that large-scale modifications arose from the need to achieve stability. Because the causes of failure of the ship in service were under examination at the time of our inquiry, Your Committee desires that when the factors causing failure have been determined, the Australian Shipbuilding Board should furnish it with a full report on the matter.

CHAPTER 9DEPARTMENT OF SUPPLY

253 In paragraph 229 of his Report, the Auditor-General included the following comment:

" WEAPONS RESEARCH ESTABLISHMENT - WOOMERA COMMUNITY STORE

Since 1963-64, successive Reports have referred to the legal aspects relating to the disposition of profits of the Woomera Community Store.

My Report for 1965-66 mentioned that, following an advising by the Attorney-General's Department, the Treasury suggested to the Department of Supply that the Commonwealth's interest in the Store would be satisfied if it were leased to the Australian Services Canteens Organisation in consideration of a rental. The question of the profits would then be a matter for Ministerial direction.

When this Report was compiled, no further progress had been made in resolving the situation whereby the Department of Supply receives and credits to a head of Trust Fund the profits of the Store and expends such moneys, without specific appropriation, on community amenities. The matter was still under consideration by the Departments of Supply and the Treasury."

254 Following the inception of the Long Range Weapons Project Exhibit in 1947 as a joint arrangement between the Australian and AGR 1966-67/8 British Governments, the Weapons Range and associated facilities were established at Woomera. In the early stages of Woomera the Army accepted responsibility for general administration of the area and arrangements were made for the operation of a unit of the Army Canteens Service, which provided confectionery, stationery, small goods, tobacco, cigarettes and liquor, etc. for personnel in the area. On the recommendation of an inter-departmental Committee, comprising representatives of the Departments of Supply, Treasury, Works and the Interior, a Village store was established in 1952 under the control of a Store Committee appointed by the Woomera Board. The Woomera Board had been set up by the Minister for Supply to advise the Range Superintendent, Woomera, on matters concerning life, health, amenities and welfare of the residents of Woomera.

255 Extending considerably beyond the service given by the Army Canteens Service, the Village store met the needs of the general community with a large range of goods, including clothing, footwear, stationery, general hardware, groceries, vegetables and general household goods. A submission by the Department of Supply to the Department of the Treasury in January 1952 advised of the decision taken by the Minister for Supply, that the Village store was to be managed through the Woomera Board and sought approval for advances being made to that Board to a limit of £11,000 (\$22,000) for the purchase of stock and equipment. The Department of the Treasury was advised, inter alia - "The Store will function as a separate entity, employing its own staff, and any surplus after all liabilities have been discharged will be utilised by the Woomera Village Board on maintenance and general improvement of conditions affecting the community generally."

256 In its reply, the Department of the Treasury advised that the Acting Treasurer had approved -

- . the making of advances, up to a maximum of £11,000 and repayable within 5 years, to the Woomera Village Board;
- . interest at $4\frac{1}{2}$ percent per annum to be charged on the advances made; and
- . charges to be made for rent, electricity and water used by the store.

In 1952 advances totalling £3,233 were made for stock purchases and equipment which were repaid in August 1955.

257 It was said that after a period of negotiation which touched on the obligation of the Army Canteens Service to continue to provide a canteen service for the large number of Service personnel in the area and the provision of what was, in some respects, a similar service by the Community Store, the Minister for Supply agreed in 1955 that the Army Canteens Service should take over all trading activities of the Woomera Village shopping centre.

The general conditions then approved were -

- . The Army Canteens Service to take over the complete trade, wholesale and retail, at Woomera, including all provisioning, both to householders and to various messes;

Exhibit
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- . The Army Canteens Service to provide the staff to operate all trading activities and to purchase all stock and plant owned by the Store;
- . Sundry Debtors and Sundry Creditors accounts outstanding on 18th June 1955, to be taken over by the Army Canteens Service;
- . The Army Canteens Service to pay a rental in respect of all premises occupied and to landlord plant and equipment. The rental charge was to cover all costs of power, light, water, etc. used in conducting trading activities within the Village;
- . An annual fee to be agreed upon by the Secretary, Department Of Supply, (currently $2\frac{1}{2}$ percent of sales) to be paid to the Army Canteens Service to cover general administrative expenses by way of head office and buying expenses, store costs, interest on capital invested by the Service, etc.
- . The Army Canteens Service to make interim profit distributions each month equal to $3\frac{3}{4}$ percent of non-discountable retail sales in the Community Store. The amounts so paid were to be held by the Department of Supply for use by the Woomera Village Board in providing amenities in the area.

On 18th January, 1956, the Minister determined the categories of expenditure on which funds available to the Woomera Board comprising mainly store profits, could be disbursed.

Q.836

258 The policy decision in respect of the transfer of all trading activities to the Army Canteens Service Organisation in 1955 was given by the then Minister for Supply and the detailed directives to the Organisation were drawn up in the Department. A copy of the directives including those classified as confidential, were

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submitted to us. It was indicated in evidence that the Assistant Crown Solicitor, who was attached to the Department of Supply at that time, would have been involved in the preparation of the directives. We were informed, however, that an examination of the relevant files did not show that any formal consultation had taken place with the Treasury or the Attorney-General's Department in 1955 in respect of the accounting for store profits. The principle of store profits being used by the Woomera Village Board had been established in 1952 when funds were obtained from the Treasury for working capital. It was said that the view apparently taken in 1955 was that the Department was acting as trustee for the Woomera Board and the use of Trust Fund - Other Trust Moneys was the proper course for accounting action to follow.

Q.838
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259 We were informed that one of the prime objectives of the Department in concluding negotiations with the Army Canteens Service, now the Australian Services Canteen Organisation, was to ensure the continuance of the earlier arrangements which provided Woomera residents with direct access, through the Woomera Board, to moneys which accrued as a result of their own expenditures in the Community Store. Given the special circumstances of the Woomera community - an isolated Government -controlled area with an itinerant population, it was claimed to be vital that the community should have a sense of civic pride and responsibility. It was said that due to the impermanent basis of residence of all members of the community, in which only personnel employed at Woomera may reside, it cannot be expected that residents will achieve that sense of civic pride and responsibility and give expression to it through voluntary contributions for the provision of amenities. It was also said that it was not reasonable to require them to contribute compulsorily since in many, if not most cases, they would have left the area before their contributions could benefit them, and that the desired result would more likely be achieved should members of the community be able to recognise themselves rather than the Government as being the source of the amenities fund. Since 1952 Store profits amounting to some

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\$40,000 annually have been transferred to the Board.

260 We were told that at all times the Department of Supply has been aware of the need to ensure that the monies received from the Army Canteens Service Organisation have been handled in accordance with well-established procedures. In practice, the profits paid over by the Organisation were credited to the Trust Fund- Other Trust Monies by the Department of Supply and expenditures authorised by the Woomera Board were disbursed from the same Trust Fund. Exhibit
1966/67/8

261 The Audit Observer, Mr.Scott, informed us that the manner in which the profits were being transferred to the Woomera Village Board had first come under notice in 1961. Enquiries in respect of the matter proceeded until 1964 when a legal opinion was sought on the matter. Q.814

262 In May 1964 the Department of the Treasury expressed the view that the profits of the Community Store should be paid into the Consolidated Revenue Fund. In his report for 1963-64 the Auditor-General stated that, having regard to differing aspects advanced by the Department in subsequent correspondence, the Audit Office had sought an advising from the Attorney-General's Department. In August 1965 the Department of Supply was furnished with a copy of the advising given to the Auditor-General's Office by the Secretary, Attorney-General's Department. That advising stated, inter alia - "The answer to your question is not clear beyond doubt, mainly because the material now available does not show unequivocally in what capacity the Commonwealth received the profits in question. However, I think the better view is that these moneys have not been dealt with in accordance with the requirements of the Constitution and the Audit Act." Exhibit
AGR 1966-67/8

263 It was said that this advising that profits should be paid to the Consolidated Revenue Fund and be subject to appropriation, seemed to derive largely from the several Exhibit
AGR 1966-67/8

Directives issued to the Australian Services Canteen Organisation by the Department of Supply in 1955-56 when the management of the store was transferred to the Organisation. The legal view of the Directives was that, in respect of any profits, the Department was not an agent or trustee for the Woomera Board because "..... the Department intended to exercise strict control over the disbursement of monies received from the Australian Services Canteen Organisation even to the extent of determining whether these monies should be available for particular proposed expenditures of the Woomera Village Board." Mr. Scott indicated that in view of the legal opinion subsequently obtained, which expressed considerable doubt about the matter, it was not surprising that this matter had not arisen earlier. Q.820

264 The witness representing the Department of Supply stated that the legal opinion indicated that the profits from the store should have been paid into the Consolidated Revenue Fund and should then have been appropriated under the arrangements as they then stood. He said that his department had placed the matter before the Joint Project Board, which is a Statutory Authority. This was done in March 1966 and that Board favoured the continuance of the arrangement whereby the Woomera Board would receive the funds and be able to disburse them on its own account. It was thought at that time that little delay would be involved in the formulation of a new constitution for the Woomera Board. Q.821

265 In April 1966 the Department of Supply informed the Department of the Treasury of its intention to vary the directives to the Australian Services Canteen Organisation in order to allow that Organisation to pay any profits arising from the operation of the Store directly to the Woomera Board instead of being paid to the Department of Supply on behalf of that Board. It was considered that statutory authority for these arrangements existed in the Australian Services Canteen Organisation Regulations and could be formally extended to the Woomera Store. We were informed in evidence that the directives are in the nature of an agreement between the Exhibit AGR 1966-67/8 and Q.822

Department of Supply and the Australian Services Canteen Organisation as well as specifying the conditions under which the Organisation would operate the store. It was indicated that Regulation 24 made under Statutory Rule No. 40 of 1959 provides that the distribution of profits arising from the activities of the Canteen Organisation may be disposed of for the benefit of members of the military forces and members of the Air Force and other persons from whom the canteen organisation has derived income, as the Minister for Defence, after taking into consideration the recommendations of the Council, directs.

266 In June 1966, the Department of the Treasury advised the department of Supply that in its view the course proposed by that Department was inconsistent with the legal opinion given earlier by the Attorney-General's Department. The Department of the Treasury also stated - "It is considered that the Commonwealth's interest in the Store would be satisfied if it were leased to the Australian Services Canteen Organisation in consideration of a rental. It would then remain a matter for arrangement between the Ministers for Supply and Defence as to how the profits of the Store are dealt with. It is suggested that the Department might investigate the practicability of incorporating any arrangements for disposal of the Store profits in the lease documents, subject to this course being lawful and satisfactory to the Minister for Defence."

Exhibit
AGR 1966-67/8

267 The Department of the Treasury Observer, Mr. Cowie, informed us that the previous legal opinion said, in effect, that once the monies had been paid from the Australian Services Canteen Organisation to the Department of Supply, they should have been credited to the Consolidated Revenue Fund, not to Trust Fund - Other Trust Monies. The transfer of money for use by the Woomera Board would then have required a Parliamentary Appropriation. He said that the proposals made by the Department of Supply in April 1966 were designed to overcome this difficulty

Q.823

and the arrangements envisaged would have eliminated the need to pay money into Trust Fund - Other Trust Moneys and also for making a Parliamentary Appropriation. Mr. Cowie indicated that when these proposals were made, there was some doubt as to whether the suggested procedures would provide a correct legal basis for the payment of moneys to the Woomera Board. He said, however, that he was not certain, at the time of our inquiry, that the same opinion would still be held by the Department of the Treasury.

268 The matter was referred by the Department of Supply to the Assistant Crown Solicitor to make the necessary legal arrangements to ensure that machinery was available to pay the money direct to the Woomera Board. The Assistant Crown Solicitor however, expressed some difficulty in understanding the alleged inconsistency. A request was made by the Department of Supply to the Department of the Treasury on 29th March, 1967 for elucidation of its attitude, and the Treasury provided further information in the form of a memorandum dated 13th July, 1967 which stated. "It is noted that the Department has commenced to progress actions outlined broadly in the memorandum of 4th April 1966 and that you would appreciate advice of any Treasury objections before taking formal steps in this regard. It is not clear, however, that what is proposed has a legal basis or precisely how it is intended to carry out the proposal. It will be recalled that by the Treasury memorandum of 1st June, 1966 it was suggested that the practicability of incorporating any arrangements for the disposal of store profits in the lease of the premises might be investigated, subject to this course being lawful and satisfactory to the Minister for Defence. If, however, this cannot be arranged your comments might please be given. In the event of the alternative being to issue a fresh directive to the Australian Services Canteen Organisation, would you please furnish a copy of the proposed document and advise the legislation under which it is proposed the directive should issue. It has been suggested to the Treasury

Exhibit AGR1966-67/8
Q.825 and
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that there might be difficulty in the Woomera Board issuing a valid receipt for profits handed over and your comment upon the Board's legal status would therefore also be appreciated. Delay in replying to your memorandum is regretted. A copy of this memorandum is being forwarded to the First Assistant Auditor-General."

- 269 We were informed that finality had been reached in regard to the steps that needed to be taken to place the Accounting arrangements of the Woomera Store on a proper legal basis. It was said that the Assistant Crown Solicitor was formulating a draft constitution for the Woomera Board to operate as a properly constituted body, providing for its right to receive and expend moneys, for its assets to be placed in the hands of trustees, and for sound accounting principles to be observed. To assist the Board in this matter, the Department of Supply had recently prepared detailed accounting instructions which provide for the direct flow of profits from the Australian Services Canteen Organisation to the Woomera Board. Q.826
Q.827
- 270 Mr. Cowie indicated that the main concern of the Department of the Treasury throughout the negotiations relating to this matter has been that the accounting arrangements should be placed on a proper legal basis. He said that the Treasury had never opposed the intention that funds be made available to the Woomera Board. Q.818
- 271 The departmental witness agreed that it would have been normal administrative procedure for the documents relating to the administrative change in 1955 to have been approved by the Auditor-General before being submitted for the approval of the Department of the Treasury and that if this course had been adopted, the related administrative procedures would probably not have attracted attention. Q.840

Conclusions

272 The evidence submitted in relation to this matter indicates that the arrangements entered into in 1955 whereby, subject to certain conditions, the Army Canteens Service should take over all trading activities of the Woomera Village shopping centre, were embarked upon without formal consultation taking place between the Department of Supply and the Department of the Treasury, notwithstanding that specific approval had been sought and obtained from the Treasurer in 1952 in relation to a different form of arrangement whereby the Woomera Village Store was to be managed by the Woomera Board. Your Committee believes that had the Department of Supply consulted the Department of the Treasury as a prelude to introducing the new arrangements in 1955, the full financial consequences of the change might well have become apparent and appropriate action taken which would have avoided the embarrassments that arose at a later stage in 1964 when the Auditor-General found it necessary to seek legal advice on the manner in which the profits from the store were being transferred to the Woomera Village Board.

273 The circumstances of the present case highlight both the need for departments to consult the Department of the Treasury in the formulation of administrative proposals which contain accounting changes, and to seek early legal advice regarding the validity of such proposals.

CHAPTER 10

DEPARTMENT OF WORKS

274 In paragraph 205 of his Report for 1966-67 the Auditor-General made the following comment :

"CUSTOMS HOUSE, MELBOURNE

Provision was made in the Civil Works Programme for 1962-63 for the erection of a new Customs House in Melbourne at an estimated cost of \$3,600,000.

The amount originally authorised, in May, 1963 for expenditure on the project was \$3,867,104. The major contract for the project was let in that month for an amount of \$3,857,871 and was to be completed by June, 1965. However, when this Report was prepared, the main contract had not been completed and the premises, which have been progressively occupied from May, 1967, were not available for full occupation.

At 30 June, 1967, the amount authorised by competent authority in respect of the project was \$4,790,646 and expenditure to that date totalled \$4,470,930.

In response to inquiries by my Office, the Department advised that the delay and the expenditure in excess of the original authorisation were due to a variety of factors, including design amendments, foundation difficulties, shortages of certain material, unusual wet weather, industrial disputes and other difficulties encountered during construction, and the operation of the contract provisions for "rise and fall" in wages and cost of materials. "

275 275 As in some cases, the matters referred to in evidence as having caused delays and having added to expenditure are either identical or closely related, these matters are considered concurrently in relation to both elements of criticism mentioned by the Auditor-General. Details of extensions of time to the main contract arising from requests made by the Department of Works as at 7th September, 1967 are given in Table No. 9 while details of similar extensions due to other causes are given in Table No. 10 Details of committed expenditure on the building as at 7th September, 1967 and of estimated total expenditure as at 23rd November, 1967 are given in Table No. 11

Table No. 9

Department of Works, Customs House Building,
Melbourne.

Time Extensions of Main Contract Arising from
Commonwealth Requests approved to 7.9.1967

Reason for Extension	Length of Extension	Date of extension to
Variation to Footings and Wet Weather	1-4/7 (a)	16.7.65
" " " " "	1-4/7	19.7.65
Strike and extra work	1/7 (b)	2.10.65
Steel	2/7	11.11.65
Design variation to porch	1	18.11.65
Alterations to floor layouts	30	16.6.66
Allowance for public holidays	5/7	2.9.66
Substitution of insitu for precast concrete	3/7	7.9.66
Sound proofing	2/7	9.9.66
Alterations to ducts for a/c plant	1	16.9.66
Alteration to sprinkler heads	1-3/7	26.9.66
Alterations to panels and Christmas holidays	20-4/7	21.2.67
Alterations to sprinklers	5/7	28.2.67
Alterations to partitions and light fittings	19-2/7	13.7.67

(a) There was an additional 4/7 weeks delay due to other causes.

(b) There was an additional 1/7 weeks delay due to other causes.

Source: Department of Works.

Table No. 10

Department of Works : Customs House, Melbourne
Time Extensions to the Main Contract other than
Requests made by the Department of Works

(approved to 7.9.1967)

Reason for Extension	Length of Extension	Date Extended to
Footings and wet weather	4/7 (a)	6.7.65
Delay in steel delivery	10-4/7	30.9.65
Strike and extra work	1/7 (b)	2.10.65
Delay in Steel delivery	4	30.10.65
Weather	3/7	3.11.65
Strikes	4/7	9.11.65
Delay in Steel delivery	9	17.6.66
Extra week of leave granted	1	26.8.66
Power failure	1/7	27.9.66

- (a) There was an additional 1/7 week delay due to departmental requests.
- (b) There was an additional 1/7 week delay due to departmental requests.

Source: Department of Works.

Table No. 11.Department of Works: Customs House, Melbourne.

Committed Expenditure as at 7th September, 1967 and
Estimated Total Expenditure as at 23rd November, 1967

Item	Committed Expenditure	Estimated - Total Expenditure
	\$	\$
Original Programme provision (1962-63)	3,600,000	3,600,000
Amount originally authorised, May 1963	3,867,104	3,867,104
<u>LESS credit adjustments in respect of money provisions</u>	<u>11,024</u>	<u>11,024</u>
	3,856,080	3,856,080
<u>PLUS additional works for which client Department was responsible</u>		
Partitioning	314,122	362,922(a)
Change to complete air conditioning	209,810	209,810
<u>TOTAL</u>	523,932	572,732
<u>PLUS for contract variations as contingencies under control of Department of Works.</u>	362,663	420,000
<u>PLUS for payments to Contractor under Rise and Fall Provisions</u>	73,954	150,000
<u>PLUS for possible payments arising from arbitration</u>	-	Variable Nil-100,000
	4,816,629	4,998,812
		to
		5,098,812
Estimated Maximum Cost		5,100,000

(a) Includes \$48,800 for alteration to partitioning on 10th, 11th and 12th floors.

Source: Department of Works.

Expenditure authorised in May, 1963, amounting to \$3,867,104 comprised the main building contract, \$3,351,590; the mechanical services contract, \$458,414; and miscellaneous items amounting to \$57,100.

(a) Floor layout and Partitioning

276 Although the building was designed as a Customs House it was envisaged when the documents on which tenders were invited in March 1963 that the Department of Customs and Excise would occupy initially the third to the seventh floors as office accommodation and the fourteenth to the sixteenth floors as laboratory areas. It was also envisaged that through natural expansion the Department would occupy the whole of the building over a period of twenty-five years. In those circumstances the floors which were not to be occupied initially by the Department of Customs and Excise were to be left vacant for future subdivision and occupancy by other departments. The Department of Customs and Excise was advised at that time that minor amendments would be accepted provided they were lodged with the Department of Works by 15th. June, 1964.

In September 1963 the Department of Primary Industry advised the Department of Customs and Excise that it foresaw a considerable increase in the amount of analytical work that would be undertaken in regard to Australian exports of foodstuffs as importing countries were raising their standards of tolerance related to pesticides such as Malathion used in wheat. As the Department of Customs and Excise performed such analytical testing for the Department of Primary Industry this advice gave rise to the need to consider major changes in laboratory requirements as it involved new work to which the Department would be committed and also involved extensive research. The Department of

Q852

Customs and Excise advised the Department of Works in October 1963 that changes would probably be required and negotiations in respect of these changes continued until 23rd. June, 1964 when the Department of Customs and Excise provided the Department of Works with details of major amendments to the floor layouts, including a complete re-arrangement of the three laboratory floors, an additional laboratory floor and the partitioning of the eighth floor. These requests resulted in complicated amendments to the contract for mechanical and electrical services.

277 In July 1964 the Department of Works advised the Contractor that these major amendments to floor layouts would be required and the Contractor requested that he be supplied with full details of the changes by the 20th September in order to avoid delays. We were informed that delays occurred in the re-designing of floor layouts and consequent alterations because, Exhibit AGR1566-67/4 at that time, the design officers of the Department of Works were and Q.931 heavily committed to high priority defence works. Consultants were engaged to assist with the redesign of mechanical services and the amendments to the Bill of Quantities. In this regard the witness representing the Department of Works stated that his Department employs the services of private consultants to a fairly large extent where this is considered appropriate and where such assistance is required to complete projects by a given date. In the present case, however, officers of the Department had been engaged on the original layouts, had worked very closely on them and had the background available to them which the Department considered placed them in a position to be able to handle the work more efficiently. Unfortunately, the Department had been unable

to allocate the later documentation work to these officers.

278 In August 1964, the Department of the Interior advised the Department of Works that, based on a decision taken at that time, the Department of Shipping and Transport would occupy the unallotted floors of the building. Discussions then took place between the Department of Works and the Department of Shipping and Transport to determine the latter's accommodation requirements. Some delay was said to have occurred in reaching an acceptable layout as several arrangements had to be submitted for consideration.

Exhibit
AGR1966/67/4
and Q.934

Detailed requirements for the ninth and tenth floors were provided to the Contractor in November 1964 and details in respect of the eleventh and twelfth floors were provided in January 1965. The Bill of Quantities was amended in February 1965.

279 In June, 1965, an additional amount of \$180,000 was provided for the extra work on the building required by the Department of Customs and Excise and a further \$80,000 was provided for work required by the Department of Shipping and Transport.

280 At an interdepartmental conference held on 3rd May, 1966 between officers of the Department of Shipping and Transport, the Department of Customs and Excise, the Department of Works, the Department of the Interior and the office of the Public Service Inspector (Victoria), it was decided that the central office of the Department of Shipping and Transport, for whom partitioning work was then being carried out on the ninth, tenth, eleventh and twelfth floors would not occupy those floors.

Exhibit
AGR1966-67/4
and Qs.935 and
938

The conference was said to have been convened because the project architect had heard that the Department of Customs and Excise may require an additional floor of the building which indicated that partitioning work on the ninth floor would become redundant. We were informed that it was during this conference that the Department of Works first learned that the central office of the Department of Shipping and Transport would not occupy the four floors concerned.

It was also decided at the conference that the ninth floor would in fact be occupied by the Department of Customs and Excise, the tenth floor by the office of the Public Service Inspector, (Victoria) and that the Department of the Interior would locate another tenant for the eleventh and twelfth floors. That Department allocated these two floors to the Department of Primary Industry.

281 During the period May-September 1966 Briefs were received from the Department of Customs and Excise regarding the re-allocation of space on the eighth and ninth floors, together with further modifications to layouts on the ground, first, third, fifth and seventh floors. Design action and negotiations with the contractor in respect of an acceptable price continued until 13th January 1967 when authorisation was sought by the Department of Works for \$17,512 to cover the requirements of the Department of Customs and Excise on the eighth and ninth floors. During March 1967 prices were received from the contractor for alterations to the ground, first, third, fifth and seventh floors, and authorisation was sought for \$36,622 to cover this work. The work was commenced on receipt of the authorisation on 26th April, 1967 on the basis that the contractor would require ten weeks to complete it.

Exhibit
AGR1966-67
/4

282 At the time of our inquiry, authorisation of \$43,000 had been sought to commence the partitioning of the tenth, eleventh and twelfth floors for the Public Service Inspector (Victoria) and the Department of Primary Industry.

283 The delay in the completion of the building, associated with changes in floor layout and partitioning as at October 1967 amounted to 49 weeks as well as additional expenditure of some \$362,922 on partitioning as at 23rd November 1967.

Exhibit
AGR1966-67/4

(b) AIR CONDITIONING

284 During the course of work on the Building, the Department of Customs and Excise sought and obtained the necessary approvals for the installation of full air conditioning in the building. Details of the additional costs incurred in respect of this installation are given in Table No. 12.

Exhibit
A.G.R.
1966-67/
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Table No. 12

Department of Works: Customs House, MelbourneInstallation of Full Air Conditioning: Additional Costs Incurred

Item	Amount
	\$
Alterations of mechanical switchboard	2,033
Air-condition mechanical sub-mains	1,981
Modification to air handling plant	23,000
Control variation	11,000
Additional cabling	2,000
Separate tender for refrigeration plant	169,796
Total	209,810

Source: Department of Works.

285 Details and costs of full air conditioning for the building were given to the Parliamentary Works Committee when the Committee was examining proposals for the building in 1960. It was said that that Committee inquired fairly fully into the need for air conditioning, including the taking of evidence from the then President of the Royal Institute of Architects. On the Recommendation of the Department of Works, however, the Committee decided that air conditioning

Q8,864
and
865

would not be required for the building.

Q 243
Committee
File 1967/7

286 At our request the Department of Works submitted a copy of the estimated cost of mechanical services for the building which had been submitted in evidence to the Parliamentary Public Works Committee in May 1960. Details of these costs are shown in Table No. 13.

Table No. 13.

Department of Works: Customs House, Melbourne.
Estimated cost of Mechanical Services
(May 1960).

Item	Amount
	\$
Ventilation, including evaporating cooling	220,000
Space Heating including boiler plant	60,000
Mechanical Ventilation (fume cupboards etc.)	25,000
Domestic hot water	8,000
Cafeteria including tea preparation equipment	10,000
Drinking water coolers	8,000
Incinerators	3,000
Automatic sprinkler system	53,000
Laboratory services	13,000
Total	400,000

Source : Department of Works.

287 The first two items in Table No. 5, amounting to \$280,000 represent the cost of mechanical ventilation and heating of the building. This figure was given to the Parliamentary Public Works Committee as being an alternative to the cost of full air conditioning.

Q.868 and
Committee
File 1967/
7.

288 The subsequent decision to install full air conditioning arose from a submission by the Minister for Customs and Excise which, it was said, gained Cabinet approval on 18th August, 1965. In this regard we were informed that following a Government

Q.863

Q 954

decision that air conditioning should be installed at stage two of the Melbourne Commonwealth block project, a request had been made for a similar installation for the Customs House building. When the decision to install air conditioning was made, construction of the Customs House had commenced, but little work had been done on the ventilating system which had been provided for the building.

Q.863

289. It was said that had it been decided in the early stages of the project that full air conditioning was to be installed, then the 1960 estimate for mechanical services would have been \$520,000. The mechanical services of the building as tendered, i.e. with mechanical ventilation and heating, was let in April, 1963 at a cost of \$458,414 as against an estimated cost of \$400,000 in May 1960. The tender figure was analysed by the Department of Works and it was established that the cost of ventilation, including evaporative cooling and space heating amounted to \$329,400 of the total cost of \$458,414. The cost of fully air conditioning the building was therefore, \$539,210, i.e. the original cost of evaporative cooling and space heating, \$329,400, plus the additional costs incurred amounting to \$209,810.

Committee
File
1967/7

(c) CONTRACT VARIATIONS

290 We were informed that it is customary to provide contingency sums to cover contract variations that commonly occur in works under construction and that this applies throughout the entire building and construction industry including the private sector. This procedure is recognised, as far as Commonwealth Government works are concerned, by the inclusion in the Commonwealth Works Budgeting and

Administrative procedures approved by the Government, of a contingency sum, even for minor projects. The amount provided for this purpose is automatically available to the Department of Works on the commitment of each project. Any increase in the amount of the initial contingency allowance is subject to Treasury approval.

Exhibit
AGP1966-
6174

(b) Contract Variations originated by the Department of Works as Design Amendments.

291 Some major variations to the original contract, originated by the Department of Works as design amendments are shown in Table No.14.

Table No.14.

Department of Works: Customs House, Melbourne
Design Amendments Originated by Department of Works

Item	Amount
Alterations to Spandrel panels	68,180
Ventilation to air locks for toilets	3,754
Under measurement in Bill of Quantities for removable panels	2,036
Alterations to stair treads	3,276
Alterations to light fittings, (Ground and first floor)	6,265
Total	83,511

Source : Department of Works.

. Spandrel Panels.

292 A spandrel panel was defined as being the in-fill panel between the top of a window and the window sill of the floor above. The facade of the building, which virtually consists of continuous windows around the building, divided between floors by spandrel panels, forms the exterior weather barrier of the building. The spandrel panels originally proposed were said to be of a sandwich type,

Q.880
884

comprising an outer skin of aluminium, a core of asbestos cement and an inner skin of zincennoal. The panel that was eventually used however, and which resulted in additional expenditure of \$68,000 was composed of 3/16" solid plate anodised aluminium. It was said that the original specification would have served the purpose for which it had been intended, if the panel could have been manufactured satisfactorily. Exhaustive investigations over an extensive period were undertaken by the Department of Works into this aspect of the building. However, the contractor had been unable to provide the panel that had been envisaged.

293 The specification had provided for a sandwich type of panel comprising 10 gauge aluminium on the front, an asbestolux core and a 26 gauge zincennoal sheet on the back. In the original selection of the panels the Department of Works had been advised by the Australian Aluminium Company. Reports on the panels were received by that Department from subsidiaries of this Company and associated firms in the United States of America and in Canada and on the recommendations of these firms the Department investigated the use of aluminium for the panels. The Department of Works had not been able to ascertain, however, whether aluminium sandwich panels had been used satisfactorily in Australia.

Exhibit
A.G.R.
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and Qs.
913 and
914

294 The Department of Works advised the Commonwealth Experimental Building Station in 1962 of the type of material proposed for the spandrel panel. At that time the Station tested and inspected for the Department, panels which had been fabricated by or for the Australian Aluminium Company. The specification required the contractor to submit panels for testing and as a result of these tests being carried out the design of the panels was modified to prevent delamination which occurred during the tests.

Q.920

Exhibit
AGR1966-67/
4

295 Sample panels fabricated by the sub-contractor were tested by the Experimental Building Station during July-December, 1963. The two main tests carried out on the panels were a weather test and a thermal cyclical test. The weather test dealt with penetration of rain through panels in a curtain wall framework and with the ability of the panel to withstand wind pressure as well as rain penetration. The thermal cyclical test simulated temperature

Q.920

Q.915

differentials between the outside and the inside skin and the ability of the panel to withstand induced stresses.

296 It was said that subsequent to the decision being made that the tests were satisfactory, the curtain-wall sub-contractor proceeded with the manufacture of the panels, but that some time elapsed during the process. Q.920

297 The witness representing the Department of Works stated that his Department had been assisted in every way possible by the Commonwealth Experimental Building Station. He also indicated that the Station had pointed out that accelerated tests are not a substitute for actual long term exposure as a weather barrier. Q919

298 A quotation of \$25,096 was submitted by the contractor for the panels and, with a view to reducing this extra cost, the design was again amended to omit the folding over of the edge of the facing sheet. At the request of the Department of Works, the contractor submitted an amended price of \$14,900. Tests indicated that the new type of panel was apparently satisfactory and the contractor's price was accordingly accepted on 16th July, 1964. It was said that at that stage the decision had been made in sufficient time for the panels to be fabricated for placing in position when required. Q919

299 About Mid-March 1965, inspection of the first panels delivered to the site disclosed that they were deteriorating in the sun. The Department of Works advised the contractor to cease their installation and informed him that as the panels were delaminating the adhesive was considered to be unsatisfactory. A check made with the Commonwealth Experimental Building Station showed that the test panels had also delaminated. In this regard the witness representing the Department of Works said that advice had been received of delamination in respect of the original panels which had been specified and as a result of this the specification for the panels had been changed. He said that this alteration had involved the substitution of an asbestos cement core in lieu of an asbestolux core because of the characteristic of asbestolux to expelliction.

300 In the period March to August 1965, the Department carried

Exhibit
AGC 1966-67/4
and 911.

Exhibit
AGC 1966-67/4

out exhaustive investigations and testing in order to eliminate all problems which had been encountered with the sandwich type panel to which it was committed by the specification. The use of alternative glue formulations was examined and advice was obtained from the Defence Standards Laboratory. Further testing of the panels with various glues was conducted both in the sub-contractors workshops and through the Commonwealth Experimental Building Station. We were informed by the witness representing the Department of Works that everything possible had been done to achieve success with the panel but that this could not be attained. He also said that because the material was at hand, his Department had persisted in the use of the proposed panel longer than it should have.

301 On the 19th August, 1965 a decision was made to change the whole design concept of the panels and to use aluminium plate in lieu of the sandwich type panels. Prices for alternative designs in aluminium were obtained from the contractor and a price of \$59,114 was accepted on 7th September, 1965. As a stage in the building operations had been reached that required the building to be made weatherproof in order to permit internal finishing tradesmen to proceed, and as this was not possible without fixing the spandrel panels, the contractor was able to substantiate a claim for an extension of time. The contractor claimed an extension of 113 weeks in respect of this delay, but the Department granted an extension of 20-4/7 weeks only as being reasonable, having regard to the overall progress made.

Exhibit
AGR1966-67/4

Q.922

Q.923

Q.922

. Air Locks, Stair Treads, Light Fittings.

302 Variation of the original contract to provide for ventilation to air-locks for toilets at a cost of \$3,754 was necessary as this had been omitted, in error, from the bill of quantities, while the variation incurring additional expenditure of \$2,036 in respect of removable panels was said to have been due to an error that had been made in the bill of quantities.

Exhibit
AGR1966-67/4
and Q.885

303 Alterations to the specifications in respect of terrazzo stair treads involving additional expenditure of \$3,276 were

Exhibit
AGR1966-67/4
and Q.889 to
892

undertaken on the recommendation of the manufacturer that a thicker tread be used in the two staircases throughout the seventeen floors of the building. It was said that because the Department of Works was aware of cracking and damage to similar treads in other buildings it had been considered prudent to approve the recommendation of the manufacturer.

- 304 The variation of the contract to provide for alterations to light fittings on the ground and first floors involving additional expenditure of \$6,265 proved necessary after models of the light fittings had been made. It was said that these are special fittings and that while strip lighting had been specified, a detailed specification had not been given. When the fittings were being manufactured it was found that various changes were needed to improve the volume and efficiency of the lighting. The original estimate made by the contractor to cover the cost of lighting on the two floors was \$5,214. In view of the additional expenditure incurred it was said that the contractor had underestimated the costs involved on this item. Exhibit
AGR 1966/
87/4
Qs. 893 and
and 894

(ii) Contract Variations originated by the Department of Works as Construction Requirements.

- 305 Variations to the contract involving major items originated by the Department of Works as construction requirements are shown in Table No. 15. Exhibit
AGR 1966-
67/4

Table No. 15

Department of Works: Customs House, Melbourne
Major Contract Variations Originated by the
Department of Works

Item	Amount
Increase in foundation sizes and depths	23,970
Additional under-pinning to adjoining building	2,080
Tinting of pre-cast floor units	1,310
Total	28,160

Source : Department of Works.

306 Before the building was designed the Department of Works had received advice from expert foundation engineers who had conducted bore tests on the perimeter of the site. Although these tests could not be carried out over the whole area because of the presence of buildings on the site at that time, it was expected, when the tests were undertaken, that a well founded strata would be available at some fifty to seventy feet below ground level. After each foundation was sunk, tests were made to ensure that suitable strata had been reached and these indicated the need in some cases for deeper foundations than had been expected. While the deepest bore in the foundations of the building is some 113 feet in depth, the increase in the size of the foundations of the building when compared to the increase in depth was said to be slight and the variation to be little from that expected. When asked whether the additional expenditure of \$24,000 on foundations for the building was reasonable the witness stated that additional expenditure of this type has to be anticipated with every building contract and that provision is made in the bill of quantities for adjustment by a rate quoted by the contractor, before acceptance of a tender to cover any variance in the depth of foundations from that expected.

Qs.895
to 898

Q.899

307 We were informed that the need for under-pinning to an adjoining building was known when the contract documents were prepared, but the extent of this requirement was not known until the ground had been opened up by excavation. It was claimed to be a normal practice to provide a variable amount for under-pinning.

Qs.903
to 904

(iii) Contract Variations Originated by the Client Department.

308 Major Contract variations originated by the client department are shown in Table No. 16.

Table No. 16

Department of Works: Customs House, Melbourne.

Major Contract Variations Originated by
the Client Department

Exhibit
AGR1966-67/4.

Item	Amount
	\$
Extra Counters	2,902
Provision for compactus in basement	2,988
Increased lighting in documents and stationery stores for compactus	<u>2,490</u>
Total	8,380

Source: Department of Works.

309 The exact date on which the client department advised the Department of Works of the changes shown in Table No. was not known by the witness representing the Department of Works but was said to have occurred subsequent to the letting of the contract and prior to the construction of the finish to the basement area. These changes involved the provision of a special track for compact shelving equipment which led to the installation of additional lighting facilities. It was said that instead of being a storage area, as planned, the basement became a filing area.

(iv) Contract Variations Originated by other Authorities.

310 Major Contract variations originated by authorities other than those already mentioned are shown in Table No.17.

Exhibit
AGR 1966-67/4

Table No.17

Department of Works: Customs House, Melbourne
Major Contract Variations by Other Authorities.

Item	Authority	Amount \$
Additional rising water main	Fire Underwriters Association	2,996
Additional manhole pits	Metropolitan Board of Works	700
Lead flashings to sinks	Metropolitan Board of Works	966
	TOTAL	4,662

Source: Department of Works.

Q.907 and
908

311 The proposed drawings for the building were submitted to the Fire Underwriters Association before tenders were invited in March 1963. However, firm recommendations were not received by the Department of Works from the Association until 20th January 1964. At that stage a specific request was made for an additional rising water main and four other items to be incorporated in the construction of the building. It was admitted that in inviting tenders before a clearance

was received from the Fire Underwriters Association, the Department of Works would have been aware that a request of this kind was likely.

(d) Rise and fall in wages and materials costs

Exhibit
AGR1966-
67/4

312 At the time of our Inquiry an amount of \$81,727 had been paid to the contractors to cover rise and fall variations in wages and materials costs. Other claims to the value of \$20,000 were being investigated and it was expected that further claims amounting to between \$20,000 and \$25,000 would be incurred.

313 In accordance with Treasury procedures for Works Programming, no financial provision for rise and fall was made in the original authorization for this project. The Treasury observer Mr. Hunter, Q.909 said that on major buildings of this nature, particularly those where construction time is likely to exceed one year, it is considered to be essential, and is provided for by the approved works programming procedures, that provision for rise and fall claims should be made. He said that no firm provision for this could be made in the early stages of the construction project, because reliable estimates of likely claims could not be assessed. The procedures provide for claims to be made by the contractor, and if these are approved by the Department of Works the authorised expenditure for the project is increased. The witness representing the Department of Works informed us that there has been considerable discussion between the Master Builders' Association and architects generally on the question of rise and fall and that master builders would not tender on sizeable projects unless provision was made for this contingency. Contracts entered into by the Department of Works and exceeding twelve months duration provide for a schedule of materials at fixed prices at the time of tender and for wages at the prevailing award rates. It was said that there are other means of adjusting rise and fall, such as percentage increases, which are used by practising architects and builders generally.

(e) Additional costs to be finalised

314 At the time of our Inquiry authorization was being sought for expenditure of \$43,000 on work associated with partitioning of the tenth, eleventh and twelfth floors to meet the needs of new

Exhibit
AGR1966-
67/4

client departments. As noted previously it was expected that further costs associated with Rise and Fall, amounting to between \$40,000 and \$45,000 could be expected.

315 The approved provision for construction contingencies on the project was \$420,000 at the time of our Inquiry of which \$362,663 had been committed. It was expected that the balance of the contingency provision would be required before the completion of the project and that all disputed claims for extra work would be resolved. Exhibit
AGR1966-67^A

316 The Department of Works expressed no doubt that it would receive substantial claims from the contractor for losses of overheads and increased expenses alleged to have been incurred due to the delays which have affected progress on this contract. It had already received from the contractor, claims submitted on behalf of a number of sub-contractors, the total amount involved being approximately \$136,000, and it expected that the amount which the contractor would claim in his own right would be substantial. The Department of Works informed us that while there are some elements of these claims which it would not be prepared to consider, there seemed to be little doubt that others would be substantiated by the contractor on his own behalf and on behalf of sub-contractors and that in due course, the Department would be faced with the task of negotiating a settlement of the claim. It was said that a vital factor in those negotiations would be the question of time and the responsibility for delay. Exhibit
AGR1966-
67/4

(f) Delay in Completion of the Building

317 At the time of our Inquiry, the main building contract had been extended to 13th June, 1967 subsequent to the Department of Works having gained possession of portion of the building. Accommodation was made available progressively for occupation by the client department from the end of April 1967 until final completion of the building in November of that year. During the course of the contract many overlapping claims were made by the contractor. Where an extension of time was sought for one factor an extension of time had not been made for another that ran concurrently. Also the contractor had made claims for extensions of time for which he Q 910

himself was responsible and which had not been granted. The main contracts for the Customs House Building, Melbourne are shown in Table No. 18

Table No. 18

Department of Works: Customs House, Melbourne
Details of Main Contracts

Exhibit
AGR1966-67/4

Main Contract	Date of Acceptance	Dates of Completion		
		Original	As Currently Extended	Probable Finish
Building-K.G.Hooker P/L	13.5.63	21.6.65	13.7.67	30.9.67
Mech. Service -A.E.Smith P/L	4.9.63	24.5.65	30.9.67	15.11.67
Air Conditioning-A.E. Smith P/L	19.9.66	7.8.67	30.9.67	30.11.67

Source: Department of Works.

318 Causes of delay in the completion of the building, other than those discussed previously, were related to the laying of the foundations and the delivery of steel. These are discussed below.

319 The contract required the foundations of the building to be carried down to a solid footing by means of bored piers. As noted in an earlier section of this chapter some of these piers had to be taken to much greater depths than had been provided for in the documents. The difficulties involved in this work and other foundation encroachments resulted in a delay of 3-1/7 weeks in the completion of the building.

Progress on the building was delayed by 23-4/7 weeks during the initial stages because the contractor could not obtain steel supplies in the required sequence for the building due to a change in the rolling programme of the supplier, Broken Hill Pty.Ltd., arising from industrial difficulties. It was also said that insufficient notice of the changed programme had been given to the

Exhibit
AGR1966-67/4

Exhibit
AGR1966-67/4

steelwork fabricator by the supplier of the steel.

(g) Performance by the Contractor

320. It was said that it would be impossible to assess to what extent the contractor's management of the project may have contributed to the delay in the completion of the building. An analysis of the "Instructions to Contractor" issued on site by the Department of Works during the course of the contract reveal that over 50 per cent (some 600 in number) deal with either rectifications of faulty work or give instructions which the Department of Works considered would have been unnecessary if the contract had been adequately and competently managed. Exhibit
AGR 1966-
67/4
321. When questioned about the number of instructions issued by the Department on this building the witness informed us that a total of 1,371 had been given of which 577 were of a purely administrative nature and 794 dealt with technical items. Of the latter, 365 were instructions from the Department of Works to the contractor, while the remaining related to items which the Department of Works considered that the contractor was responsible for correcting or for which the Department considered that it was not responsible. Q955
322. It was said that many more instructions had been issued by the Department of Works on this building than would normally have been issued on a comparable project. However, the completed building varied considerably from that for which tenders had been invited and the scope of the work had also been increased considerably. Q951 to
957
323. We were advised that the sub-contractors had repeatedly requested information from the Department of Works supervisory staff regarding the co-ordination of work, thereby indicating that the main contractor was not performing adequately this function which is considered essential for good management. The contractor had to be instructed repeatedly to 'clean up' the site, a sign of poor management in a high rise building. Exhibit
AGR 1966-67
/4.
324. The contractor responsible for the building had undertaken work other than the Customs House building for the Department of Works, and, prior to commencing the Customs House Building had been engaged on a major building costing more than \$1 million for the Department of Works at Monash University. We were informed that, in general the problems that arose between the Department of Works and the contractor in respect of the Customs House Building were. Q951 to
957

Qs. 939
and
940

been engaged on a major building costing more than \$1 million for the Department of Works at Monash University. We were informed that, in general, the problems that arose between the Department of Works and the contractor in respect of the Customs House Building were similar to those which had arisen on the Monash University Building.

325 We were informed that the Department of Works was proud of the Customs House Building and that it had been well regarded by those who had viewed it. It was also said, however, that some features of the building were disappointing. While the contract had been extended at several stages because of wet weather, the Department of Works had hoped that the builder would have performed better than he had on this project. However, the number of variations to the contract which the Department had found necessary to impose on the builder were much greater than the contractor would have been entitled to expect. Q.949
Q.954

326 The witness representing the Department of Customs and Excise accepted that his Department had been responsible for changes made to the building, after the contract had been let, involving additional expenditure of \$524,000 namely, for \$314,122 in respect of partitioning and other alterations, and \$209,810 in respect of additional costs incurred in the installation of full air conditioning. Q.929
and
930

CONCLUSIONS

327 The evidence shows that as at November 1967 estimated expenditure on this project stood at \$5,100,000 compared with the original estimate of \$3,600,000 representing an increase of about 42 per cent and that the delay in the completion of the project was in excess of two years.

328 In regard to the problems associated with floor layout and partitioning of the building, it appears that although tenders were invited in March 1963, it was not until some six months later in September 1963 that the Department of Primary Industry advised the Department of Customs and Excise of its changed needs in regard to analytical work and that the design consequences of this changed requirement could not be conveyed to the Department of Works until June 1964. On the evidence it would seem that during the initial design stage of the building there was a lack of proper liaison between these two client departments. As a consequence of this delay the Department of Works was unable, due to pressing commitments on defence works, to supply the Contractor with full details of the required changes in floor layout and laboratory design until early 1965.

329 Your Committee notes that it was not until August 1964 that a decision was made that the Department of Shipping and Transport

would occupy the remaining floors of the building. This decision having been taken we are somewhat concerned at the need for an interdepartmental conference to be held in May 1966 relative to occupancy of the building and the consequences of that conference. We believe that the Department of Customs and Excise should have advised the Department of Works that it would require additional floor space in the building as soon as this need became apparent and that this information should not have been acquired on a hearsay basis by a Department of Works Architect. The need to provide additional accommodation for the Department of Customs and Excise clearly involved a large scale accommodation re-arrangement involving several departments and left the Department of the Interior with the problem of locating new tenants for two floors. Circumstances of this nature are disruptive and costly in terms of administrative effort.

330 In regard to air conditioning of the building your Committee notes that when the Customs House project was before your Public Works Committee that Committee decided on the recommendation of the Department of Works that air conditioning would not be required. The subsequent decision to install air conditioning however, was made by the Cabinet after representations by the Minister for Customs and Excise and following an earlier Government decision that air conditioning should be installed at stage two of the Melbourne Commonwealth block project.

331 The evidence shows that the principle contract variation originated by the Department of Works related to spandrel panels. Although the panels specified originally had evidently proved satisfactory in use in overseas countries it appears from the evidence that it was not possible for them to be manufactured locally to the required standard. We believe that the inability of the Department of Works to ascertain whether aluminium sandwich panels had been

used satisfactorily in Australia should have alerted it to this possibility. Although tests were carried out by the Commonwealth Experimental Building Station both on the originally proposed panels and on panels of revised structure we note with concern that the Station evidently did not advise the Department of Works that tests carried out on the latter panels had shown evidence of delamination while under test. Production of these panels commenced and deliveries to the site began in March 1965. At this late stage it was discovered that the panels were delaminating. We believe that the problems experienced with the spandrel panels were such that the Department of Works ought to have taken a decision prior to August 1965 to change the whole design of the panels and to use aluminium plate in lieu of the sandwich type.

332 In regard to other contract variations originated by the Department of Works we consider that proper care should have been exercised to ensure that provision was included in the bill of quantities for air-locks for toilets to ensure that a correct provision was made for removable panels. It appears that the Department of Works was aware that in the case of other buildings, cracking and damage had occurred to stair treads of the type specified for the Customs House and we believe therefore that this information should have guided the Department during the design stage towards the use of thicker stair treads.

333 It appears from the evidence that, during the planning stage, insufficient care was taken in the selection of lighting for the building and we note that while strip lighting had been specified, a detailed specification had not been given.

334 So far as contract variations originated by the Department of Works as construction requirements are concerned, we believe, on the basis of the evidence, that the need to measure the sizes and depths of foundations and the need to provide additional under-pinning to adjoining buildings could not reasonably have been foreseen. In regard to contract variations originated by the Department of Customs and Excise and comprising additional counters, provision for a compactus unit in the basement and increased lighting in document and stationary stores the evidence suggests that the client Department had taken insufficient care during the early

basement area. Although the amount involved in contract variations initiated by other authorities is small, the variation required by the Fire Underwriters Association is of some concern. It appears that the Department of Works submitted plans to the Association and then proceeded to invite tenders prior to receiving a clearance from the Association but being aware at that time, that the Association might request changes to be made in respect of rising water mains and other items in the building. We believe that, in the circumstances, the views of the Association should have been obtained before tenders were invited.

335 There can be little doubt, based on the evidence, that the Department of Works will be required to meet at least some claims put forward by the Contractor and sub-contractors on this project. At the same time, however, it is also evident that some of the costs associated with delays that occurred on the contract, will need to be sustained by the claimants. It appears that during the course of the contract many overlapping claims were made by the Contractor and in some cases, when an extension of time had been sought for one factor, extensions of time had not been sought for other factors that operated concurrently.

336 Finally, we would comment on the evidence tendered in relation to the performance of the Contractor. It was claimed that about one half of the instructions that the Department of Works had found it necessary to issue to the Contractor dealt in some cases with either rectifications or faulty work and generally reflected an inadequacy in the management of the contract. This view was re-inforced by the frequency with which sub-contractors had sought information direct from the Department of Works' supervisory staff regarding the co-ordination of work and the need for repeated instructions to be given to the Contractor to clean up the site. A disturbing feature of this aspect of the evidence is that when the Department let the contract it had experienced similar difficulties with the Contractor concerned in relation to work at Monash University in Victoria.

CHAPTER 11
CONCLUSIONS

337 In the introduction to this Report we stated that the Report of the Auditor-General for 1966-67 had been presented to the Parliament on 17th August, 1967. Your Committee expresses its appreciation for the early tabling of the Report and again pays tribute to the Auditor-General and his staff for the effort they have made to achieve that objective.

338 Our inquiry into the Auditor-General's Report for 1966-67 concerned eleven departments. In some cases, such as those relating to accounting arrangements in New York and naval procurement problems, the matters examined related to current issues requiring early solution. In regard to the matter of fraud that occurred in the Commonwealth Police Office in Sydney, Your Committee felt that while the immediate problem had been solved, the circumstances in which the fraud had occurred should be examined fully and reported on as a guide to departments generally regarding weaknesses in administrative arrangements that permit frauds to occur. In the case of the Stores and Services Trust Account operated by the Postmaster General's Department on the other hand, we felt that, with accounting and procedural changes pending in the Department a useful purpose would be served for the Parliament if we were to obtain a submission relative to the current operations of that Account.

339 On the basis of the evidence submitted during this inquiry Your Committee sees no reason to depart from its practice established in 1959, of critically examining each year the Reports of the Auditor-General and, where the circumstances appear to warrant, of conducting 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.

30th May, 1968.

Postmaster-General's Department

POST OFFICE STORES AND SERVICES TRUST ACCOUNT

SUMMARY OF TRANSACTIONS FOR 1966/67

DEBITS	(Section A) Stores & Materials	(Section B) Workshops Suspense	(Section C) Transport	CREDITS	(Section A) Stores and Materials	(Section B) Workshops Suspense	(Section C) Transport
BALANCE BROUGHT FORWARD	\$m. 133.847	\$m. 6.176	\$m. .115	BALANCE BROUGHT FORWARD	\$m. 5.861	\$m.	\$m. .517
SECTION A				SECTION A			
Cash Payments in Australia for stocks and Direct Supplies				Direct Supplies	49.920		
Payments to other States for stores of Interstate Transfer				Issues to Votes Engineering Non-Engineering material	101.424 3.664		
London payments	7.524			Receipts from sales of material	5.255		
New York Payments	3.960			Receipts from other states for Stores on Interstate Transfer	8.136		
Returned Surplus Stores and Overcharges on Stores Issues	.059						
Manufactured and Reconditioned Stores Administration Charges	10.199						
	6.177						
	5.568						
SECTION B				SECTION B			
Workshops Costs		23.155		Completed Workshops Jobs		22.123	
SECTION C				SECTION C			
Motor Vehicle Repair Costs			2.562	Hire Rate Charges			5.074
Motor Vehicle Maintenance and Running Costs			2.515	Driving Time Charges			3.675
Driving Costs			3.959				
Credit Balance Carried Forward	6.946		.596	Debit Balance Carried Forward		7.208	.281
TOTAL	174.280	29.331	9.547	TOTAL	174.280	29.331	9.547

Source : Postmaster-General's Department NET BALANCE TRUST ACCOUNT \$,053 MILLION

Modifications to the Lighthouse Vessel
M.V. 'Noel Buxton' Decided upon in September, 1963.

1. Wood Sheathing on Wheelhouse Top deleted.
2. 1" Navy Board fitted to underside of Wheelhouse Top.
3. Width of Wheelhouse reduced to line of house side.
4. Fixed wood awning over Wheelhouse Top deleted.
5. Chain locker lowered to below Store Flat. Chain pipes extended to suit.
6. Spare anchor to be stowed at tank top level.
7. Funnel reduced in size and manufactured from 1/8" in lieu of .30" aluminium. Silencers lowered in Casing.
8. Deckhead linings deleted from accommodation spaces.
9. The deck coverings are to be made up of a 1/16" thick (max.) Semtex underlay covered with 45 gauge Poly-Flor Vinyl sheet or tiles in all cabins, messrooms etc., and 3/16" thick mosaic tiles in the washplaces and Galleys.
10. Wood sheathing deleted at after end of Main Deck.
11. 3/16" thick Fleximer Deck composition fitted in lieu of Item 10.
12. Double roller fairleads are to be fitted in lieu of triple roller fairleads.
13. Bollards are to be welded direct to the deck plating - no base plates are required.
14. The emergency steering equipment is to be located on the Main Deck abaft the capstan. Access hatch to the steering gear compartment deleted and access provided through a W.T. door at W.T.B.H.
15. Aluminium awnings to be fitted in lieu of painted canvas sheathed awnings.
16. The rails on the Wheelhouse top are to be arranged to suit the repositioned ladder on the starboard side of the Boat Deck.
17. Mast scantlings reduced from that proposed by Walkers Ltd., and rigging modified.
18. Boat Deck gutterways are to be 2'.9" wide abaft frame 21½.

19. Open guardrails are to be fitted in lieu of a steel bulwark from about 14'-0" abaft amidships to the stern on the Main Deck.
20. The underside of the Boat Deck abaft frame 13 inside the deckhouse is to be lined with 1" thick Navy Board.
21. A signal and aerial mast is to be fitted at frame 13 in lieu of an extension to the funnel structure.
22. The accommodation is to be arranged in accordance with Drawing No. 105-33 issued on 2nd October, 1964. The arrangement is as follows :
 - (a) The house on the Boat Deck is reduced in length and is to accommodate the Wheelhouse, one Official, the Master and an external W.C.
 - (b) Three lockers and a food hoist are to be located immediately abaft the Boat Deck house. The top of the lockers and hoist is to be below the window level.
 - (c) The area previously covered by the aft end of the Boat Deck house is to be sheathed with 2½" timber.
 - (d) The fixed aluminium awning is to be extended to cover the area previously covered by the aft end of the Boat Deck house.
 - (e) The forward section of the Main Deck house between frames 21½ and 36½ is to be carried out at the sides to within 12" of the ship's side and arranged internally as follows:
 - (f) A fore and aft passageway is to be fitted between frames 21½ and 36½.
 - (g) Port side, reading forward to aft - Engineer, One passenger, Officers' Wash and Laundry.
 - (h) Starboard side, reading forward to aft - Two passengers, Saloon and Officers' Galley.
 - (i) A wood door is to be arranged at the aft end of the fore and aft passageway at about frame 26.
 - (j) The crew's laundry is to be re-arranged to give internal access, two wash basins being deleted.
 - (k) The two berth crew's cabin on the starboard side between frames 13 and 20 has been re-arranged to provide internal access.
 - (l) Watertight steel doors are to be fitted as follows:
 - (1) House Front.
 - (2) House side P. and S. at about frame 21.
 - (3) Access to stores flat - Port side aft.
 - (m) The Accommodation Flat has been re-arranged as follows:
 - (n) Port side, reading from forward to aft - cabin for four crew, cabin for two crew, dry store and deep freeze unit.

- (o) Starboard side, reading from forward to aft - cabin for four crew, cabin for four crew.
- (p) A wood bulkhead and door is to be arranged in the fore and aft passageway.
23. Permanent ballast is to be fitted as follows:
- Concrete - Frames 27 to 39 - 16.76 tons.
Cast Iron - Frames 35½ to 40½ - 26.00 tons.
24. Air Conditioning machinery is to be installed. The Freon compressor and condensing unit is to be located in the engine room. To be provided with unit driven condenser, S.W. circulating pump, and oil separator.
25. The conditioning unit comprising fans, cooling and filter sections and pressure regulators is to be located in the aft end of the hold.
26. A unit driven drain-water pump is to be provided to pump collected drain-water from the cooling section overboard.
27. Due to the addition of air conditioning fitted to the above vessel it will be necessary to increase the generator capacity from 2 at 40 K.W. to 2 at 65 K.W.
28. The fitting of the air conditioning will involve the addition of the following:
- | | | | |
|---|---|----------|----------------------|
| 1 | - | 15 H.P. | Refrig. compressor |
| 1 | - | 1.7 H.P. | Condenser circ. pump |
| 1 | - | 3 H.P. | Supply fan |
| 2 | - | ½ H.P. | Exhaust fans. |
29. Modifications to the main switchboard will be necessary as indicated in Drawing No. E.816 Revision No. 2.

Repairs and Replacements M.V. 'Noel Burton' (1st July, 1966
to 27th October, 1967)

Item	Amount
<u>Financial year 1966/67</u>	
(1) Costs associated with repairs to air conditioning plant	880
(2) Modification to stern tube to reduce operating temperature of gland.	163
(3) Modifications to generator sub-frames, fitting of resilient mountings, modifying necessary piping and fitting flexible sections in piping as necessary, together with charges for light, power, water, berthing fees, etc. incidental thereto.	4,143
(4) Charges for crane hire etc. necessarily incurred to effect repairs and modifications	89
(5) Minor items of consumable materials etc. required as part of repair activity.	253
(6) Purchase of new diesel engine and overhaul of existing diesel engine to 'as new' condition, together with necessary transport charges.	7,152
	<hr/> \$12,680 <hr/>
<u>Financial year 1967-68</u>	
(1) Further crane hire charges (refer item (4) above)	184
(2) Further charges for minor items of consumable materials (refer item (5) above)	713
(3) Further freight charges arising out of item (6) above	1,225
(4) Charges for tug hire in Brisbane.	203
(5) Charges incurred by Lloyds representative in connection with repair activity	265
	<hr/> \$ 2,590 <hr/>

Source: Department of Shipping and Transport