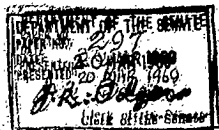


1969



THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

ONE HUNDRED AND FIFTH REPORT

THE REPORT OF THE
AUDITOR-GENERAL—
FINANCIAL YEAR 1967-68

JOINT COMMITTEE OF PUBLIC ACCOUNTS

SEVENTH COMMITTEE

R. Cleaver, Esquire, M.P. (Chairman)
Senator J.F. Fitzgerald (Vice-Chairman)

Senator J.J. Webster	F.W. Collard, Esquire, M.P.
Senator Dame Ivy Wedgwood	J.F. Cope, Esquire, M.P. (1)
	J.D.M. Dobie, Esquire, M.P.
	E.M.C. Fox, Esquire, M.P. (3)
	G.H. Gray, Esquire, M.P. (2)
	D.S. Jessop, Esquire, M.P. (4)
	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.
- (3) Resigned 26th February, 1969.
- (4) Appointed 26th February, 1969.

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 Accounts

One Hundred and Fifth Report

The Report of the Auditor-General
Financial Year 1967-68

Chapter 1

Introduction

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 the Parliament with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed.

2. Each year since 1959 Your Committee has conducted a separate series of inquiries related specifically to matters raised by the Auditor-General in his Reports to the Parliament.

3. In recent years the Reports of the Auditor-General have been tabled during the latter half of August and consistent with this pattern the Report for 1967-68 was presented on 20 August, 1968. As in our previous reports, we would again pay tribute to the Auditor-General and his staff for the sustained effort that they have made over the years to achieve this very commendable objective.

4. On 12 September, 1968, 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 were examined in detail by Your Committee.

5. The items which were selected for detailed examination and which are referred to in Chapters 2 and 6 of this Report were made the subject of a Public Inquiry held at Parliament House, Canberra, on:

Tuesday	8	October, 1968.
Monday	14	October, 1968.
Tuesday	15	October, 1968.
Monday	21	October, 1968.
Tuesday	12	November, 1968.
Tuesday	19	November, 1968.

6. The following witnesses were sworn and examined by Your Committee in relation to the matters referred to in this Report:

Department of the Army

Mr. A. S. Haig	-	Controller, Army Pay Accounts Centre.
Mr. J. W. Nunn	-	First Assistant Secretary, Finance and Logistics.

Department of External Affairs

Mr. K. G. Brennan	-	Senior Assistant Secretary, Management Services.
Mr. P.F.N. O'hehir	-	Project Officer, Property.
Mr. J. P. Walsh, MBE.	-	Senior Executive Officer.

Department of Health

Mr. H. C. Harrison	-	Assistant Director, Administration and Finance, Darwin.
Mr. H. West	-	Acting Assistant Director-General, Establishments and Finance.

Department of the Navy

Mr. M. T. Hyland - First Assistant Secretary,
Finance and Materiel.
Mr. W. H. Monk - Principal Fire Officer.
Mr. R.E.E. Todd - Director of Naval Works.
Captain W. F. Walmsley - Assistant Chief of Naval Technical
Services, Aircraft Engineering.

Public Service Board

Mr. F. C. Nordeck, - First Assistant Commissioner,
OBE Conditions and General.

Superannuation Board

Mr. L. K. Burgess - President.

Department of Works

Mr. J. C. King - Senior Assistant Director-
General.

7. During its inquiry Your Committee was assisted by the following Observers in relation to the matters referred to in this Report:

Attorney-General's Department - Mr. B. J. O'Donovan.
Auditor-General's Office - Mr. R. G. Parker.
Mr. T. R. Rees.
Mr. A. K. Ragless.
Public Service Board - Mr. G. G. Glenn.
Mr. G. N. Vanthoff.
Department of the Treasury - Mr. M. G. Cowie.
Mr. C. T. Monaghan.

Chapter 2.

The Department of the Army.

8. Paragraph 273 of the Auditor-General's Report for 1967-68 contained the following comment:

"An Army Pay Accounting Centre was established in 1962 for the purpose of mechanising and centralising accounting for the pay of members of the Permanent Military Forces.

One of the functions of the Centre is the preparation and issue of pay variation advices which constitute authority to Army units to vary and up-date members' pay entitlements.

Audit test checks during the year disclosed weaknesses in procedures relating to the payment and recording of higher duties allowance and tax instalment deductions, resulting in incorrect entries in members' pay accounts. The unsatisfactory features were represented to the Department which had advised of proposals to issue revised accounting instructions and to undertake an investigation to ascertain the extent of the irregular entries.

An examination of departmental records after the close of the financial year disclosed that advances made to the Commissioner of Taxation based on estimates of tax instalment deductions from members' pay during 1967-68 exceeded the total amount actually deducted by approximately \$1,615,000. The precise amount of the instalment deductions will not be finally determined until all group certificates for the financial year have been issued. The excess of the total of advances over the total of deductions means that the appropriation for pay and allowances of the Department of the Army (Division No. 693-1, Item C1) has been incorrectly debited with the amount of \$1,615,000 and income tax revenue increased accordingly. The absence of an internal audit over the activities of the Army Pay Accounting Centre has been the subject of correspondence between my Office and the Department. The Public Service Board recently created an additional position in the Army's internal audit organisation but, at the date of preparation of this Report, the position had not been filled".

9. We were informed that the system for paying soldiers is necessarily different from the normal weekly or fortnightly salary-sheet system applying in civil life, since the Army system must be capable of continuing to provide pay for soldiers when they are remote from normal communications, and of allowing pay to accumulate while they are on operations, and be drawn in varying amounts when they return to their base. This may occur between

Exhibit 105/7

normal paydays. The system also has to provide for allotments of pay to be made to dependants and to members' own bank accounts, and for deductions for retirement benefits contributions, life assurance, taxation, etc. Comprehensive control and checking arrangements must be incorporated in the system to ensure that all payments are within entitlements. To meet these requirements, the present Army pay system which was established in 1962 is built around two basic records:

- (i) a paybook for each member which is kept in the member's unit, and in which the member's pay entitlements and actual cash drawings are recorded. The paybook is the basis for preparation at units of fortnightly paysheets for the payment of members. Exhibit 105 / 7
- (ii) A central pay account maintained at the Army Pay Accounts Centre, Melbourne, where entitlements are calculated and cash drawings are recorded and checked. The Pay Accounts centre also arranges payment of allotments, tax, retirement benefits contributions, etc.

10. The paybook held at the member's unit contains a record of the member's entitlement to pay and allowances, and of his deductions (allotments, tax, etc), together with an account section rather like a savings bank passbook. Each fortnight a credit is entered in the account section of the paybook recording the member's entitlement to pay, and is added to the progressive total of "credit earnings". As and when the member draws cash at pay parades, the amounts are debited to the paybook account. A comparison of progressive totals of debits and credits at any time shows the amount due to the member. Exhibit 105 / 7

Variation of the member's entitlement shown in the paybook (e.g. because of promotion) may be made by the Unit Pay Representative (Pay Sergeant or Paymaster) only on receipt of an authority from the Pay Accounts Centre, Melbourne. Control of the rate of entitlement is maintained in this way. The pay accounts Centre, by recording payments made to members and comparing these with entitlements calculated independently in the Centre, maintains a continuous check on the accuracy of pay work done at units.

11. As the Auditor-General's Report had stated that the Army Pay Accounting Centre had been established in Melbourne in 1962 for the purpose of mechanising and centralising accounting for the pay of members of the Permanent Military Forces, we asked the witnesses to compare the new system with the manual system that had operated prior

to 1962 particularly in terms of their respective advantages and disadvantages. We were informed that the manual system had an advantage in that when a pay ledger clerk was posting entries each fortnight, he could examine entries that had been made previously. This is not possible under the new mechanised system as the visual records that are maintained are less elaborate than under the previous system. Much of the history maintained under the present system is simply reflected at the end of each fortnight in pay ledger summaries and other summaries that are made and which are subject to check. On the other hand the introduction of the mechanised system has provided an advantage in that when a general pay rise occurs, the Department can issue an authority for all Permanent Army Personnel within about 3 days compared with about 3 months under the manual accounting system.

Higher Duties Allowance.

12. We were informed that higher duties allowance is an allowance payable to officers and soldiers who are authorised to perform the full higher duties of a position on a unit establishment which is temporarily vacant, usually due to absence of the normal occupant on leave or special duty and which provides for a higher rate of pay than that being received by the temporary occupant. The rate of allowance payable is the difference between the member's normal rate of pay and the basic rate applicable to the higher position. When the necessary approval has been given for an officer or soldier to perform the full duties of a higher position, the Pay Accounts Centre advises the member's unit of the daily rate of higher duties allowance which may be paid during the currency of the approval, the additional tax deduction involved, and the net daily increase in the member's entitlement. Higher duties allowance ceases to be payable during any periods in which the temporary occupant is absent from duty or not fully engaged in the duties of the higher position. Similarly, the allowance must be cancelled or reduced if the member is promoted.

Exhibit 105 / 7
and Q.325

13. It was stated that because of these conditions, only the unit is aware of whether or not the member has an entitlement to be paid for any particular day during a pay period. Therefore the present procedure provides for the Unit Pay Representative to calculate the amount payable (using the daily rate in the Pay Accounts Centre

authorisation) and enter it in the member's paybook as an additional amount due. As higher duties allowance is taxable the amount entered in the paybook is the net amount after deduction of tax. Details of the credits entered in paybooks are transferred each fortnight from the units by a document known as a miscellaneous credits adjustment slip. The entries made on that document are sent to the Army pay accounts centre in Melbourne where they are correlated to the pay history record maintained at the pay centre.

Exhibit 105/7
Q.326

14. One criticism made by the Auditor-General was that duplication of payments had occurred where members had been promoted with retrospective effect overlapping periods in which higher duties allowance had previously been paid to them. In elaborating on this criticism, the Audit Observer, Mr. Parker, stated that it had come to notice in the course of a particular appraisal of the accounting records of the Army Pay Accounts Centre and from selected Army Units in Southern Command that the Unit Pay Representative had failed to process the required miscellaneous debits which in turn required processing to the Army Pay Accounts Centre to offset recent payments of higher duties allowance against the increased pay due to a promoted member. Where promotions were made with retrospective effect, substantial overpayments could be involved.

Exhibit 105/7
Q.327

15. In regard to this matter the Department informed us that the difficulty arises from the fact that when a member is promoted and a Pay Variation Authority is being prepared at the Pay Accounts Centre authorising his increased entitlement including arrears, the Centre has not received from units all recent advices of payments of higher duties allowance. The current practice has therefore been to authorise the full amount of arrears, and rely on the Unit Pay Representative to check higher duties allowance paid to the member and to adjust the allowance where necessary. In most cases, these adjustments have been effected, but some cases have been missed. There have also been some cases where members have been authorised to receive higher pay on change of trade group, and adjustment of higher duties allowance has been overlooked.

Exhibit 105/ ?
and Q.335

16. Another criticism made by the Auditor-General related to failures to adjust taxation instalments and statements of taxable earnings, in cases where the whole or part of a period of higher duties allowance has been found to have been overpaid, and has been recovered from subsequent pay of the member.

The Department informed us that when overpayments of higher duties allowance are discovered action must be taken to reverse the whole or part of a previous credit raised in favour of the member concerned. When this is necessary, the Unit Pay Representative is required to reverse the whole or a portion of the credit entered in the member's paybook and at the same time to record details of the transactions on a Miscellaneous Debits list being the medium for adjusting the previous credit in the member's pay record at the Pay Accounts Centre. In some cases, the Miscellaneous Debits List had been processed to the member's pay account, but by oversight had not been passed to the section dealing with the updating of the taxation records, and as a consequence, although the net amount overpaid was recovered, the soldier's gross taxable earnings and taxation deductions were not correspondingly reduced.

Exhibit 105 / 7
and Qs. 346 to

17. To eliminate the occurrence of duplicate payments of higher duties allowance in future, an instruction had been issued on 23 July 1968 to draw the attention of Unit Pay Representatives to the need for adjustment of higher duties allowance in each case where a Pay Variation Authority is issued authorising arrears of an increase in pay. The need for passing to the Taxation section of the Pay Accounts Centre all Miscellaneous Debits Lists adjusting previous credits of higher duties allowance was being emphasised to Pay Accounts Centre staff, and a check on this action was imposed. For the three months prior to our inquiry two officers of the Pay Accounts Centre had concentrated full-time on checking cases where overpayments of higher duties allowance of the types mentioned may have occurred and remained undetected. In respect of the 1967-68 financial year 1432 possible cases had been identified and 807 had been investigated. Of these, 139 cases revealed overpayments due to errors of the types mentioned and recovery action had been taken. The total overpayments involved in these 139 cases was \$2938. The investigations were said to be continuing.

Exhibit 105 / 7
and Qs. 354 to
360

18. In regard to the nature of the oversights that had occurred at the Army Pay Centre, Melbourne, we were informed that the Centre had a staff of about 50 when it began operations in 1962. At the time of our inquiry the staff numbered 244 and there were 29 positions on the establishment for which staff could not be obtained. It was said that the Centre has a rather rapid staff turnover of about 50 persons per annum. Because of this it operates training courses periodically for groups of 10 or 12 personnel. The difficulties arising from staff turnover,

Q. 348

accompanied by a large increase in the Regular Army since 1962 and the introduction of national service training as well as a substantial increase in the number of soldiers serving overseas had placed a heavy load on the centre. At the same time it was said that of the staff of 244, about 200 were in the age group of 18 to 22 years. This comparatively young age group coupled with a high turnover ratio was a major reason for the clerical oversights that had occurred.

Over-advance to the Taxation Department.

19. The Department informed us that the methods of calculation and recording of taxation deductions for Army personnel necessarily differ from those for civilians who draw their salaries regularly each pay day. It is a relatively simple matter to list on civil pay sheets each pay day, amounts deducted from salaries for taxation, and calculate the total of the deductions for remission to the taxation authorities. On the other hand, Army personnel are not paid on prepared pay sheets issued by an accounting office. A pay list is drawn up at each unit each fortnight based upon the credit balance shown in each soldier's paybook, the soldier nominating the amount he wishes to draw on pay day. The amounts of tax deductions are not shown on the pay lists. There are over 40,000 Army personnel, widely dispersed through Australia and overseas, with tax records maintained in one location, the Pay Accounts Centre, Melbourne. The recording of taxation for Army personnel is also made difficult by the unavoidable lapse of time between the preparation of documents relating to discharged and deceased personnel and illegal absentees, and the processing of these documents in the pay accounts Centre. Further, there is a constant traffic of some 8,000 personnel each year between Australia and overseas areas where tax exemptions apply and in these circumstances also it is impossible for all variations to be processed by the Pay Accounts Centre within the same fortnight as the events occur. The result of these lags is that although the fortnightly machine calculation of members' pay credits carried out at the Pay Accounts Centre produces a total of tax deductions recorded in the central pay account at that time, this total is always subject to subsequent adjustment arising from members who had been discharged, sent overseas or returned, etc, on dates prior to the pay day concerned.

Exhibit 105 / 7

20. Added complications were said to arise from the need for the Pay Accounts Centre to deal with eight taxing authorities, namely the Deputy Commissioners of Taxation in each of the States, and the Collector of Taxes Papua/New Guinea. This is due to the fact that members of the Forces are required throughout their service to lodge their taxation returns with the Taxation Office in the State in which they enlisted. Consequently the Pay Accounts Centre has to make payment of tax deductions of each member to the Taxation Office of the State in which he enlisted, and has to procure Group Certificates from the respective Taxation Offices and return triplicate copies to those offices. This system involves eight types of taxation group certificates and requires careful analysis of members' taxation liabilities on a "State" basis throughout the year compared with regular advances made to each of the taxing authorities. It is necessary to ensure that for each Deputy Commissioner, advances made are approximately equal to the value of taxation deductions made from pay of members enlisted in the respective States. Whilst the total of advances made to all taxing authorities during a year may equal the total value of taxation group certificates issued during and at the end of the year, adjustments on a State basis are usually necessary to remedy "unders and overs". Because of these complications it has been the practice to remit taxation deductions to the taxation authorities by advances at approximately monthly intervals, final adjustment being made after the close of the financial year when group certificates have been issued. It is only when all group certificates for the year have been prepared, including those for personnel who died or were discharged in the closing weeks of the year, that the exact amount of tax deductions for the year is known.

Exhibit 105/7
and Qs. 364 and
365

21. We were informed by the Department that the over-advance to the taxation authorities to which the Auditor-General had referred had arisen from a duplication of advances made in respect of tax deductions in June, 1968. During the period May/June 1968, it became necessary due to sickness, to make two staff changes in the position of the officer responsible for arranging advance payments to the taxation authorities. The changes were necessitated by the absence on sick leave of the regular occupant of the position during the periods 3 to 24 May and as from 3 June. On 16 May 1968, the first relieving officer made an estimate of the tax liability for the final six pay periods of the financial year and arranged for an advance for the amount estimated, viz \$1,709,000.

Exhibit 105/7
and Qs. 367
to 371

Subsequently, another officer relieving in the position in June 1968 made a calculation of the liability arising in June and arranged a further advance on 21 June 1968 of \$1,560,000, overlooking the fact that the earlier advance in May had covered the pay periods in June. The witnesses agreed that a complete error appeared to have been made in this case. Although the Department maintains a control register relative to advances made to the taxation authorities the fact that an earlier advance had been made was not discovered by the second relieving officer. The witness indicated that while no check appeared to have been made to see that the payment was correct, action has now been taken to ensure that no advances are made to the Taxation Department without the approval of the Controller, Pay Accounts Centre, Melbourne. This approval had not been required previously.

22. We were informed that the second advance was made so late in the financial year that it was not possible for it to be corrected prior to 30 June. Hence, Taxation revenue for the financial year 1967-68 had been overstated to the extent of the error. An adjustment of the over-advance has since been made, however, by deducting the amount concerned from advances for the current financial year. The total amount of the over-advance involved is being credited to revenue. The Department informed us that to reduce the possibility of a repetition of the error, instructions have been amended to provide for advances in the future to be made to the taxation authorities at regular fortnightly intervals, based on the estimated liability to date. Some adjustment with the taxation authorities will be unavoidable each July, however, when the actual liability for the previous year has been calculated. The instructions concerned which were issued on 8 July 1968 requested that taxation group certificates issued with respect to members discharged or deceased during the taxation year 1967-68 be listed and advice furnished of the actual amount of tax deducted and that this be treated as a matter of urgency. In view of the substantial amounts involved it was requested that steps be taken to ensure that payments be made only with the personal concurrence of the Controller, Pay Accounts Centre.

Exhibit 105/ 7
and 68.372 to
378

Internal Audit

23. We were informed by the Department that prior to the establishment of the Pay Accounts Centre, the pay accounts of members of the Permanent Military Forces were kept in hand-written ledgers on a decentralised basis in the various States of the Commonwealth. The Pay Accounts Centre was set up to centralise all such pay accounts in one location and to introduce a form of data processing to record the pay accounting entries. The transfer of the accounting records to the centralised location and the development of the procedures were carried out in stages to conform with the progressive availability of office accommodation, machine facilities, and suitable staff. Since the time of transfer, the numerical strength of the Permanent Military Forces has been doubled. This growth, combined with the deployment of additional Army units to overseas locations, imposed a burden which was not anticipated when the Pay Accounts Centre was set up. In consequence, the procedures which were originally introduced have been progressively modified to meet the change of conditions, and additional staff have been allotted to the Centre.

24. As the accounting procedures were being progressively modified and there was a shortage of trained personnel available for allotment to the task, it was decided to delay introduction of continuous internal audit activity into the Pay Accounts Centre during the development period and to rely upon the internal control and checking systems which had been built into the procedures used in the Centre. Generally, these were said to provide for automatic reconciliation of input and output data, the identification of irregular transactions, and that where changes in entitlement are authorised the clerical efforts of one member of the staff are checked by another. This was supplemented by supervisory inspections which, it was claimed, ensured that the control systems were effective. Furthermore, periodic internal audit inspections were said to be made at each unit of the Permanent Military Forces to ensure that pay accounting transactions are correctly processed. During 1967 it was decided that the procedures in use in the Pay Accounts Centre had become sufficiently stabilised to enable a programme of internal audit activity to be drawn up. At that time, the Public Service Board was considering a report from an interdepartmental committee on internal audit work in Commonwealth Departments and it

Exhibit 105/7
and Qs.
382 to 392

was therefore considered desirable to await the outcome of these considerations before introducing internal audit into the Pay Accounts Centre. When that report became available, departmental staffing proposals based upon the Public Service Board's decisions were submitted to the Board in December 1967. The submission included one position for internal audit at the Pay Accounts Centre and this was approved by the Public Service Board. We were informed by the witness that in arriving at the decision to seek one position for internal audit work the Department had in mind that it already had 25 internal checkers operating in the Pay Centre. In these circumstances the Department considered and the Public Service Board had agreed, that one position only of Internal Auditor was required. The Audit Observer, Mr. Q.393 Parker indicated that if the duties of the Internal Auditor are, in fact, directed primarily towards appraisal and evaluation work for the benefit of management, and if the duties include the preparation of reports upon the efficacy of the implementation of procedures, the one internal audit officer, supplemented as required for special assignments, should be able to cope with the responsibilities envisaged.

Conclusions

25. In regard to duplications of payment that occurred involving higher duties allowances, it appears that in some cases Unit Pay Representatives have failed to make adjustments to allowances and in some instances this failure has passed undetected until discovered by Audit during a particular appraisal of the Army accounting records. Your Committee notes with satisfaction that on 23 July 1968 the Department of the Army issued an instruction to draw the attention of Unit Pay Representatives to the need for adjustment of higher duties allowance in each case where a Pay Variation Authority is issued authorising arrears of an increase in pay.

26. So far as the failures to adjust taxation instalments and statements of taxable income of members are concerned, it appears from the evidence that the errors have arisen wholly within the Army Pay Accounts Centre, Melbourne. In regard to those errors it appears that the Centre comprises mainly staff in the age range of 18 to 22 years and suffers from a high staff turnover. Moreover, since its establishment in 1962 the Centre has expanded rapidly in response to increased

Army responsibilities that have occurred since that time. While your Committee is sympathetic to the problems confronting the Army Pay Accounts Centre, the circumstances outlined above highlight the need for supervision within the Centre to be maintained at a high level and for administrative and clerical procedures to be devised with care.

27. The evidence tendered shows that the methods of calculation and recording of taxation deductions for Army personnel are fraught with a number of difficulties. One of these, to which our attention was attracted in particular, relates to the system whereby the Army Pay Accounts Centre is required to deal with eight taxing authorities including the Collector of Taxes in the Territory of Papua/New Guinea. This arrangement was said to have arisen from the fact that members of the Forces are required throughout their service to lodge their taxation returns with the Taxation Office in the State of their enlistment. This system requires careful analysis of members' taxation liabilities on a "State" basis throughout the year, and while the total advances made to all taxing authorities during a year may equal the total value of taxation group certificates issued during that year, adjustments on a State basis are usually found to be necessary. In these circumstances we believe that the Department of the Army should explore with the Taxation Department the possibility of devising a simplified arrangement for the processing of taxation.

28. The over-advance of \$1,615,000 to the taxation authorities that occurred in 1967-68 appears to have arisen mainly from a lack of proper liaison during changes that occurred in staffing at the Army Pay Accounts Centre. Although the Department maintains a control register relative to advances made to the taxation authorities, the fact that an earlier advance had been made was not discovered by a relieving officer. While action has now been taken to ensure that no

advances are made to the Taxation Department without the approval of the Controller, Army Pay Accounts Centre, we believe that this arrangement should have been instituted when the Centre was established. We also believe that when that Centre was established instructions should have been issued to provide for advances to be made to the taxation authorities at regular fortnightly intervals. Your Committee considers that the possibility of such an over-payment occurring should have been foreseen and appropriate preventive action taken.

29. A further aspect of the over-advance of \$1,615,000 under Item 698/1/01 has caused your Committee some concern. An amount of \$125,830,000 was provided for this Item in the Original Estimates for 1967-68 and a further \$1,670,000 was provided for the Item in the Additional Estimates. At the close of the year, expenditure on the Item reached \$127,498,943 compared with a total appropriation of \$127,500,000. This very close result was, of course, achieved as a consequence of the over-advance of \$1,615,000. But for the intervention of this factor, the circumstances on the Item would have been that an amount of \$1,670,000 had been obtained in the Additional Estimates of which only \$55,000 would have been spent by the close of the financial year. Such a result would almost certainly have attracted the attention of your Committee during its inquiry into expenditure from the Consolidated Revenue Fund for 1967-68.

30. So far as the matter of internal audit is concerned, your Committee notes that in December 1967 the Department sought one position of Internal Auditor and that this was acceptable to the Public Service Board. So far as this position is concerned, your Committee agrees with the views expressed by the Audit Observer, that, to be effective, the duties of the Internal Auditor must be directed primarily towards appraisal and evaluation work for the benefit of

departmental management and must include the preparation of reports upon the efficacy of the implementation of procedures. Your Committee would emphasize this requirement, as experience has shown only too frequently that, upon appointment, internal audit staff tend to be diverted to areas of work in the general financial administration of departments to the detriment of internal audit.

Chapter 3.

The Department of External Affairs

31. Paragraph 80 of the Auditor-General's Report for 1967-68 contained the following comment:

" In November 1963, with the approval of Treasury, the Department acquired a property in Paris intended for the accommodation of Embassy staff and the Paris staff of a number of other departments. The purchase price of the property was \$578,000 and under the terms of the purchase the vendor was permitted to remain in occupancy until 31 December, 1965.

During 1967, it came under Audit notice that the premises had remained unoccupied since vacated by the vendor and that certain alterations proposed in order to render the building suitable for occupancy by the Commonwealth had not been effected. The Department was asked for its comments.

The Department in reply stated that the future use of the building had been the subject of close examination over a long period in conjunction with other Commonwealth authorities and that, for a variety of factors including the high cost of alterations and the now known non-acceptability of the premises for an Australian chancery, it had been decided to dispose of the property on the most favourable terms and conditions possible.

At the time of preparing this Report the building had not been sold and remained unoccupied. According to departmental records a significant loss may result from the transaction.

In the circumstances, although some strengthening of controls is contemplated, it is a matter for further consideration whether the procedures relating to major purchases of property overseas should be thoroughly reviewed in order to ensure that Commonwealth interests and requirements are fully safeguarded."

32. We were informed that the premises at 59 Rue de la Faisanderie had been purchased in November 1963 at a cost of \$578,000 on the following terms:

- (a) the vendor would retain occupancy of the building until the end of 1965 without payment of rent but would be liable to a penalty of \$14,000 should it not vacate the premises by 30 June, 1966, plus \$180 per day thereafter;
- (b) title would pass to the Commonwealth immediately on payment of the purchase price;
- (c) the vendor would be responsible for full maintenance costs during the rent-free period; and
- (d) the sale agreement would contain all possible legal safeguards to the Commonwealth and the vendor would be required to carry full insurance cover.

Exhibit
105/2 and
Q.59

In explanation of these terms it was stated that, at the time, the vendor had in mind the construction of another building to which it would move but the building concerned would not be ready until a date which, at the time of purchase, could not be forecast accurately.

33. The purchase was approved by the then Prime Minister, the Right Honourable Sir Robert Menzies, KT, CH, QC, MP, and the then Treasurer, the Right Honourable H. E. Holt, MP, on the basis of a recommendation made on 11 September, 1963, by the then Minister for External Affairs, the Right Honourable Sir Garfield Barwick, PC, GCMG, QC, MP.

Exhibit
105/2

34. It was stated that the purchase of this building followed a search by the Embassy over a period of three years during which more than fifty proposals were examined. In regard to this search, and the question of whether or not the Embassy officers were qualified to engage in such a search, the witness expressed the view that, in retrospect, the Department had "sent a boy on a man's errand" and that, in general, the Australian taxpayer had not fared well in the operation. One of the reasons for this was a misguided

Exhibit
105/2 and
Q.60

effort on the part of the persons involved to attempt to keep the ancillary costs of acquisition to a low level. While the officers concerned in the search for accommodation would have been well informed on the functional needs of a chancery, subsequent events had shown that they were not well qualified to make a technical appraisal of the suitability of a multi-storey building for what are, in fact, substantial office purposes of a specialised nature.

35. The search began in 1960 when Mr. W. T. Haslam, a retired Australian Director of Works residing in Britain, was commissioned to examine the accommodation situation in Paris, mainly in regard to the market rather than an examination of specific properties. Following discussions with leading property authorities, including officials of the British Ministry of Works who had extensive experience in property matters in Paris, and the inspection of six properties in the hands of one of the largest property agents in Paris, Mr. Haslam reported on 12 July, 1960, that there was a serious lack of suitable office accommodation and expressed the view that Paris was probably the most difficult European capital in which to obtain accommodation.

Exhibit
105/2 and
Qs. 62
to 65

36. It was stated that very few of the buildings inspected over the subsequent three years merited serious consideration, the remainder, for a number of reasons including size, cost, locality and structural condition, having to be discarded. Prices of the buildings that were considered during this period ranged from \$700,000 to \$1,000,000.

Exhibit
105/2 and
Q. 61

37. In 1962 the real estate firm of John Arthur and Tiffen, in Paris, reported to the Embassy that an extreme shortage of suitable accommodation existed in Paris. The

demand for residential or office accommodation had been growing constantly; most existing buildings were being used to full capacity; the Administration had to forbid the transformation of residential premises into business or other offices and construction of new buildings had been insufficient to keep pace with growing needs. Moreover, it had been the policy of the Administration, particularly in the preceding four years, to slow down the excessive development of Paris which had led to underdevelopment in some French provinces. Therefore the French Government had become anxious to stem the rush of population towards Paris and had restricted severely the number of new offices in that city.

Exhibit
105/2 and
Qs. 69
to 72

38. We were informed that one proposal to purchase an office type building under construction in Rue Docteur Lanceriaux at a cost of \$1,020,000 had been regarded as very attractive and had been pursued to the stage of detailed negotiation with the owners. The proposal had been abandoned, however, when the owner requested that the Australian Government purchase shares in his company which would develop the site.

Exhibit
105/2 and
Qs. 61 and
81 to 87

39. It was claimed that the decision to negotiate for the purchase of 59 Rue de la Faisanderie was therefore taken having regard to the fact that fewer suitable properties were coming on the market and that, in the meantime, property prices were rising steadily. Moreover, the premises, though not ideal, apparently represented the best value for money among those that had been inspected.

Exhibit
105/2 and
Q. 90

40. We were informed that prior to the conduct of detailed negotiations for the premises at Rue de la Faisanderie a report on the premises had been prepared by M. Jean Demaret who, prior to his death, had been one of the most eminent architects in France. He had reported that

Exhibit
105/2 and
Qs. 99 to
103

altogether the construction of the building was of good quality, the premises were in very good condition and had been well maintained. In particular, the roof had been renewed and the central heating installation had been completely modernised. Because of the presence of laboratories, electrical wiring and distribution of gas were considered to require little extension and it was said that little work would be required to put the offices to use. M. Demaret reported, however, that it would be necessary to contemplate redoing the parts used at present as laboratories. He added that, in addition, the construction of a strongroom in the chancery would perhaps need to be envisaged. M. Demaret valued the property at 3,565,000 fr. In regard to this survey we were informed that while no written brief setting out the Department's requirements had been given to M. Demaret, he had been associated with the Australian Embassy in Paris in connection with its search for premises back to the stage where Mr. W. T. Haslam had made his report and had, in fact, participated in discussions with Mr. Haslam. It was claimed that in these circumstances M. Demaret would have understood clearly the needs of the Paris Embassy.

Qs. 126
and 127

41. The Department informed us that prior to the purchase of the property a survey was made in December 1962 of the current and future needs of all Commonwealth Departments represented in Paris. Details of the estimates made at that time are given in Table No.1.

Exhibit
105/2 and
Qs. 145
to 148

Table No. 1.

Commonwealth Departments Located in Paris

Estimated Staff and Office Requirements : 1962 to 1976

(as at December 1962)

Department	1962-63		1969		1976	
	Staff	Area (sq.ft.)	Staff	Area (sq.ft.)	Staff	Area (sq.ft.)
External Affairs	26	4,400	44	5,635	51	6,730
Trade and Industry	9	1,265	14	1,755	14	1,755
Immigration	22	2,535	19	2,000	19	2,000
News and Information Bureau	3	395	4	450	6	650
Supply	8	650	10	1,325	2	350
Air	10	1,310	32	3,745	9	950
Total	78	10,555	123	14,910	101	12,435

Source : Departmental of External Affairs

42. In a letter dated 11 September, 1963, to the Treasurer, recommending the acquisition of the Rue de la Faisanderie property, the Minister for External Affairs pointed out that in terms of space the building would be well suited to the present and future requirements of the Embassy. Without immediate structural alteration the useable space available would be about 11,500 sq.ft. and the current needs of the Embassy and immediately foreseeable expansion requirements could be met. The Embassy had assessed that up to 30 additional staff could be housed in the event that Embassy functions grew in volume or variety. It was also said that it would be possible to provide for further expansion by undertaking some structural alterations internally. In the event of unanticipated expansions of staff over a very

long term, additions could be made to the existing building. The Minister also pointed out that the Embassy had a verbal option on the premises until 15 September, 1963, and believed that the vendor (which had another assured purchaser) was scrupulously respecting that date. The vendor was not willing to extend the period of option unless a very firm indication was given that the Australian Government was willing to purchase the premises. The vendor had suggested as an alternative the negotiation of a "promesse de vente" (an option) for which the Embassy would have to pay 10 per cent of the purchase price (\$A57,800). This would extend the period of option until 15 November, 1963, although the 10 per cent would be forfeit in the event of the purchase not being carried through. The Minister stated that in effect a decision whether or not to buy the premises must be made before the expiry of the verbal option, i.e. within two days. He added that he realised that in the normal course of events Cabinet would wish to consider a purchase of substantial premises involving the expenditure of nearly \$600,000, particularly as no provision had been made in the departmental estimates for this expenditure. He continued that while no time had been lost in studying the building since it was discovered in the previous month, his scheduled departure overseas and that of the Treasurer on Government business, coupled with the short verbal option given by the vendor, had led him to the conclusion that reference of the proposal to Cabinet was not practicable. He expressed the view that the proposition was economic and suggested that, as an alternative to reference to Cabinet, the proposal should be decided by the Prime Minister, the Treasurer and himself.

Exhibit
105/2 and
Qs. 90, 103,
139 to 143
and
Committee
File 1968/6

43. We were informed that subsequent to acquisition of the premises at Rue de la Faisanderie the Department of External Affairs, in conjunction with other interested

departments embarked on an examination of the modifications which would be required in order to adapt the building to the purpose for which it had been acquired. The Department sought to have a survey made of the necessary detailed planning and rearrangement by a qualified architect. At first it explored the possibility of using the services of Department of Works personnel who were on leave in Europe or who were expected to visit Europe for other official purposes. Two such architects were in Europe on leave in mid 1964 while another was expected to proceed there on official business late in that year. None of these proposals eventuated. In July 1965 a Department of Works architect, Mr. S. G. Parker, who was in Paris, inspected the building and produced plans for the reallocation of space within it. Mr. Parker's visit revealed that, if the building were to be brought into line with normal Australian office standards, a major re-design of the interior of the building, including possibly the removal of a number of existing walls, would be required. He was unable, however, to assess the extent of the modifications needed without a more thorough knowledge of the structural arrangements of the building, which he felt could only be ascertained by a full architectural survey. Subsequent to this visit the Department sought to produce the most economical scheme for the utilisation of the building. However, the staffs of the various user instrumentalities were increasing rapidly and the scheme of allocation that had been made for their use became obsolete.

Exhibit
105/2 and
Q. 154

44. A further inspection of the premises was made by a senior Department of Works architect, Mr. C. D. Osborne, in the course of an overseas visit in June 1966. Mr. Osborne formed the conclusion that the cost of putting the building into a condition architecturally suitable to house the Departments for which it had been acquired would, if the modifications could be carried out at all, be \$300,000

Exhibit
105/2 and
Q. 155

based on Australian costs. In regard to its location, he stated that the area had a disappointing air of a declining town house quarter and was also suspect in regard to convenience for both public and representational conduct. He added that the property certainly could never create, by its location, the image and national prestige that a well selected chancery site should do. Sir Ronald Walker, who had been Ambassador in Paris for many years, did not agree with this view and felt that, from a representational viewpoint and having regard to conditions in Paris, Rue de la Faisanderie was a better situation than that implied by the comments of the Department of Works. He added that in Paris, embassies are scattered and many are located in streets that are narrow by Australian standards. At that time Rue de la Faisanderie contained the Malayan and Yugoslav Embassies and was close to both the NATO Headquarters (although these were to be moved to Brussels) and to OECD.

45. We were informed that simultaneously with the inquiries made by Mr. Osborne investigations were made of the technical acceptability of the building. It was stated that before the premises were purchased arrangements had been made for the senior Australian Security Intelligence Organisation (ASIO) representative in London to inspect them. He had expressed the view that the premises could be made acceptably secure with a minimum of expenditure. In May 1966, however, serious doubts about the security of the building were raised. The Director-General of Security had a thorough examination made of the plans and location of the building. In conjunction with officers of the Department of Works, ASIO examined whether the various security defects might be overcome by structural alterations in the building. It was not possible to arrive at a satisfactory solution, however, and the Director-General of Security was forced to conclude that the building must be regarded as completely unacceptable from a security viewpoint as a site for an Australian chancery.

Exhibit
105/2 and
Committee
File 1968/B

46. In the circumstances, an examination was made in 1967 by the Department of External Affairs of the economics of alternative uses to which the building might be put by the Commonwealth and it was concluded that the best course, on economic grounds, was to sell the property. In reaching that decision it was recognised that further decisions would need to be made on the renting or purchase of office space in Paris suitable to accommodate the staff of the Embassy, which, not least in respect of the External Affairs section, was already seriously overcrowded.

Exhibit
105/2,
Qs.173 to
178 and
Committee
File 1968/8

47. In preparing the economic assessment of the various uses to which the premises could be put, the advice of John Arthur and Tiffen and the Paris Town Planning authorities was sought. John Arthur and Tiffen advised that there had been a fall in real estate values since 1963. If the premises were to be sold as office space the price could be in the vicinity of \$A461,425. The firm thought, however, that only a limited number of buyers might be interested in the property as it stood and that it might be more realistic to value it as a cleared site. In this case an estimated value of \$289,406 was placed on the property. The Town Planning authorities estimated the value of the premises at \$A496,339. This was a tentative estimate only and the authority was reluctant to provide a firmer estimate. The general depression in property values in the Faisanderie area was said to be due partly to NATO vacating its headquarters in the area. It was said that these have since been purchased by the University and price trends may now recover.

Exhibit
105/2 and
Q. 182

48. Following the decision to dispose of the premises, the Department has been examining the best method of ensuring that the highest possible price is obtained. At the suggestion of the Westminster Bank and the British Department of Works, a leading real estate firm, Messrs. Weatherall,

Exhibit
105/2

Green and Smith, was engaged to negotiate the sale of the building. The firm recommended that, apart from making a detailed valuation of the premises, it should also prepare an outline planning application as an outline planning approval increases automatically its market value. Such a plan was being developed at the time of our inquiry. Some delay had occurred in the work of preparing the property for sale because of a recent period of unrest, during which it would have been impossible to make a realistic valuation, and more recently because of the European summer holidays, during which the real estate firm was closed for a month. Having regard to the work still being done by Weatherall, Green and Smith, the Department felt that the likely result from the sale could not be predicted. However, prior to placing the premises in the hands of Weatherall, Green and Smith for sale, the Embassy received inquiries from a Paris real estate agent on behalf of two clients who wished to purchase the building. The prices offered were \$309,000 and \$317,625 respectively. Compared with these valuations and offers, the Department had spent no less than \$582,000, including the purchase price of \$578,000, by October 1968. Q. 111

49. Based on its experience with the Rue de la Faisanderie property, the Department stated that it now believes that the use of a local architect as the sole architectural adviser when the Commonwealth is making a major purchase in another country has been shown to be unsatisfactory, particularly where the purchase of an existing building which will require modification is under consideration. It recognised the need, however, in some cases for local consultants to be engaged to complement the work of Australian architects. The Department also expressed the view that before acquisition of any major office property, or property on which a building is to be erected, occurs, a thorough and detailed inspection by a security Exhibit 105/2

officer, qualified and adequately briefed and aware of the special needs of a Mission in a foreign country, should be undertaken. The Department recognised that in purchasing properties for office use overseas, it is of first importance to ensure that facilities for the Government's operations will be adequate. Location is important and must be decided having regard to the differing needs of Departments represented in the Mission. The Commonwealth would usually expect to retain possession of a site on a very long term basis, but the possibility of its later disposal should not be overlooked. The Department also recognised that a further aspect which needs close examination is that of the possible expansion of Commonwealth activities in the country concerned. It stated that it is not always possible for Departments to make accurate forecasts of their future needs and, in the case of the Rue de la Faisanderie project, the forecasts received from Departments some months before purchase were found to be inadequate in the light of subsequent events. Within reason it is, therefore, important that buildings required for office purposes should have some space available for expansion whether or not there is evidence that expansion will occur. In addition, wherever possible the premises should be capable of extension should the need arise later.

50. It was stated that following the purchase of 59 Rue de la Faisanderie, continuing attempts have been made to protect the Commonwealth from such dangers as arose in that case. The Department of External Affairs has acquired a number of other properties and has entered into many major accommodation leases. In all of these matters there has been close consultation with Departments whose staffs are attached to the Missions and with the Department of Works, the Department of the Treasury and the Public

Service Board. The Department cited, as an example, the need for a new office in Saigon which had become urgent over the past few years. Early in 1968 the Government appointed a team comprising representatives of the Department of External Affairs, the Department of the Treasury and the Department of Works to carry out an on-the-spot investigation and make recommendations as to ways of remedying the accommodation problem. A detailed report was made for consideration by Ministers. A detailed security assessment was also made by a very senior and highly experienced officer from ASIO. Senior officers of the Department of Works have also examined several other properties in other countries before decisions were made regarding their acquisition. Indeed, the Department of Works was said to be embarking on a policy of outpostting architects to meet the needs of Commonwealth Missions overseas. The future accommodation needs of the Department of External Affairs and the best ways of meeting them are discussed at monthly meetings with representatives of the Department of the Treasury and the Department of Works, and a long term building programme is being developed.

Exhibit
105/2 and
QB. 192
to 196

51. During our inquiry into the Department of Immigration we were informed that an interdepartmental committee comprising officers of the Department of External Affairs, the Public Service Board, the Department of Works and the Department of the Treasury had been established late in 1964 to examine building projects referred to it in connection with overseas posts. The Treasury Observer, Mr. Cowie, informed us that the committee had been established to plan and supervise the construction of the Washington Chancellery and was expanded subsequently to consider overseas building projects. While the Committee is primarily concerned with the construction of buildings overseas, it has

P.F. No.207
of 1967

Q.193

directed its attention also to alteration of existing buildings that have been acquired overseas and, in fact, had examined in considerable detail the various proposals that had been put forward for the premises at the Rue de la Faisanderie.

Conclusions

52. The evidence shows that the property at 59 Rue de la Faisanderie was purchased in November 1963, having regard to the fact that fewer suitable properties were coming on the market and that property prices were rising.

53. Your Committee agrees with the views expressed in evidence by the Department of External Affairs that the use of a local architect as the sole architectural adviser when the Commonwealth is making a purchase in another country is unsatisfactory. Your Committee believes, however, that the matter of security in relation to the acquisitions by the Department of Missions in overseas countries is of paramount importance. In this regard the evidence shows that, before the Rue de la Faisanderie premises were purchased, arrangements were made for the senior Australian Security Intelligence Organisation representative in London to inspect them, and he had expressed the view that the premises could be made acceptably secure with a minimum of expenditure. However, on the admission of the Department of External Affairs and the circumstances relating to security that arose after the premises had been acquired, it is clear that the ASIO officer concerned was not adequately briefed and made fully aware of the special needs of a Mission in a foreign country. Indeed, the evidence shows that it was very largely the inability to overcome the security defects of the premises, even if structural alterations were to be made, that led to the conclusion that the building must be regarded as completely

unacceptable as a site for an Australian chancery. Leaving all other considerations aside, it appears to Your Committee that had the initial security survey been adequate, the Department would not have proceeded with the acquisition of the building. We would add that we find this aspect of the matter quite remarkable, having regard to the experience of the Department in the acquisition of properties in overseas countries.

54. The evidence tendered also shows that the survey that was made of departmental accommodation needs in Paris lacked thoroughness. We would emphasise that such surveys are of considerable importance when they are linked to the possible acquisition of property and should be made with care.

55. We were informed in evidence that, compared with the purchase price of \$578,000, it appeared that, due to a fall that had occurred in property values, the property might realise \$461,425 or as little as \$289,406 if sold as a cleared site, thus involving a substantial loss to the Australian Government and hence the Australian taxpayers. More recently, however, we have been advised by the Department that since a selling campaign commenced on 29 November, 1968, the property has been advertised in Paris newspapers and 2,500 descriptive advertising brochures have been distributed by mail. A price has been fixed which, after allowing for a negotiating margin and for sale expenses, would result in recovery by the Commonwealth of the amount paid by it for the building. On 23 January, 1969, the Ambassador in Paris reported that two organisations of good financial standing were interested in the building and that the agents believed that a firm offer approaching the asking price could be made in the near future. Your Committee trusts that it will prove possible for the building to be sold without loss.

56. Your Committee also notes that an interdepartmental committee comprising officers of the Department of External Affairs, the Public Service Board, the Department of Works and the Department of the Treasury was appointed in 1964 to examine building projects referred to it in connection with overseas posts. This committee had been concerned with the proposed building alterations at 59 Rue de la Faisanderie. Your Committee believes that a useful purpose might be served if the terms of reference of the interdepartmental committee were to be widened to include the acquisition of premises overseas as well as their construction or alteration, and if the membership of the committee were to be widened to include ASIO representation and, for the purposes of property acquisition, a representative of the Property Branch of the Department of the Interior.

57. Finally, the evidence shows that difficulties were experienced by the Department of External Affairs in securing the services of Australian architects during important phases of the Rue de la Faisanderie project. In this regard we note the policy on which the Department of Works was said to be embarking of posting Australian architects overseas to assist with the needs of Commonwealth Missions. Your Committee would welcome a firmly based assurance that the policy envisaged is fully justified.

Chapter 4

The Department of Health

Northern Territory Health Services

58. Paragraph 116 of the Auditor-General's Report for 1967-68 contained the following comment:

"According to departmental records, sundry debtors of the 4 Northern Territory hospitals totalled \$215,367 at 30 June 1968. Of this amount \$117,406 was in respect of debts outstanding in excess of six months, \$79,687 of which related to debts outstanding over twelve months. During 1967-68 amounts totalling \$8,073 were written off as irrecoverable. The sundry debtors position and recovery procedures are currently under examination by the Department of the Treasury."

59. In connection with this comment, the Department submitted statements of sundry debtors of the hospitals concerned as at 30 June, 1968, and an age analysis of the debts. These statements are set out in Tables No. 2 and No. 3 below.

Exhibit
105/6

Table No. 2.

Northern Territory Hospitals
Outstanding Fees as at 30 June, 1968.

Hospital	Hospital Ledgers	Divisional Office Ledgers	Total
	\$	\$	\$
Darwin	83,942	60,436	144,378
Alice Springs	14,546	23,092	37,638
Tennant Creek	4,378	6,196	10,574
Katherine	10,550	12,227	22,777
Total	113,416	101,951	215,367

Source : Department of Health

Table No. 3.

Northern Territory Hospitals
Age Analysis of Debts as at 30 June, 1968.

Ledger	Up to 3 Months		3 to 6 Months		6 to 12 Months		Over 12 Months		Total	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
	\$		\$		\$		\$		\$	
Divisional Office	1,242	1.2	4,926	4.8	21,272	20.9	74,511	73.1	101,951	100.0
Darwin Hospital	50,968	60.7	16,590	19.8	12,003	14.3	4,381	5.2	83,942	100.0
Alice Springs Hospital	10,984	75.5	2,183	15.0	1,379	9.5	-	-	14,546	100.0
Tennant Creek Hospital	2,050	46.8	349	8.1	1,511	34.5	468	10.6	4,378	100.0
Katherine Hospital	5,256	49.8	3,413	32.4	1,554	14.7	327	3.1	10,550	100.0
Total	70,500	32.7	27,461	12.8	37,719	17.5	79,687	37.0	215,367	100.0

Source : Department of Health

60. Of the total debts of \$215,367, we were informed that \$34,826 related to compensation and insurance cases. It was said that considerable delays occur in the collection of these debts because often they involve court action. This is particularly so in third party cases. A further \$39,557 of the outstanding debts related to accounts in the hands of the Crown Law Office, Darwin, for recovery action. Here again, delays were said to occur due to the time factor in court proceedings involving the tracing of the debtor, issue of summons, hearing of the case and the enforcement of the judgment. In regard to these delays the Department of Health witness informed us that hospitals in South Australia have a system whereby their own clerical staff issue summonses and he felt that such an arrangement might prove useful in the Northern Territory. The witness

Exhibit
105/6 and
Qs. 209
to 217

representing the Northern Territory Branch of the Department stated that his office would consider the suggestion and discuss it with the Crown Law Office in Darwin. A further \$70,484 related to debts for which recovery action was continuing within the Department. These debts include those being paid by instalments, those referred to Government Departments for recovery by deduction from salary and accounts for which letters of demand have been issued prior to reference to the Crown Law Office.

Exhibit
105/6

61. Increases that had occurred in the level of hospital fees were said to have contributed to the level of outstanding debts as at 30 June, 1968. As from 1 April, 1967, daily fees for ordinary inpatients had been increased from \$5.60 to \$6.80, while daily fees for compensation and insurance cases had been increased from \$5.60 to \$8.00. These represented the first increases in fees since 1 February, 1963. The increase in 1967 was said to have been fixed having regard to the public ward charges applying generally in the States and the level of insurance available through hospital insurance tables. In addition to the increased charges it was also stated that admissions to hospitals in the Territory had numbered 13,090 in 1967-68 compared with 12,095 in 1966-67, representing an increase comparable with the general percentage increase in population in the Territory.

62. We were informed that the Department's recovery procedures provide that accounts be rendered to patients at the time of discharge from the hospital or shortly after when discharge takes place outside normal business hours, and on a fortnightly basis. Initial follow-up action on unpaid accounts is undertaken by hospital staff. Where difficulty is met by the hospital, i.e. payment or arrangements for payment have not been made, the account is referred to the Darwin Divisional Office for further action. Where the

Exhibit
105/6 and
Qa.236
to 246

Divisional Office is unsuccessful in recovery of the debt, the account is forwarded to the Crown Law Office for legal action. Details of the recovery procedure were submitted in evidence. It was stated that these procedures incorporated changes made during 1967-68 to provide for earlier issue of accounts, more prompt follow-up action by hospital staff, earlier reference to the Divisional Office and, consequently, to the Crown Law Office where necessary. It was claimed that the procedures currently provide that all reasonable efforts be made to obtain payment before the patient leaves the hospital. Whenever possible, hospital staff will encourage patients to assign hospital benefit entitlements. The procedural changes made by the Department in 1967-68 followed discussions with the Audit Office and the Department of the Treasury in relation to the level of outstanding accounts in that year. The changes made represented the first major review of charging procedures since 1955 when they were introduced concurrently with the charging of fees.

63. The recovery procedures, as amended in 1967-68 provide for recovery by each of the hospitals in the Territory and by the Divisional Office of the Department of Health in Darwin. So far as the hospitals are concerned the procedures were said to be as follows:-

- (a) The Charge Sister of the ward is required to notify the Officer-in-Charge of Charging of any discharges made from the hospital whether inside or outside normal business hours. Several systems that reconcile with each other are employed to ensure that this action is, in fact, taken. The admission and discharge forms are a composite document that must be returned because they include other matters such as catering and general medical records. It was

Exhibit
105/6
and Q.276

explained that the difficulties that arise in this area occur mainly where patients are discharged during rather than after normal working hours.

- (b) The Officer-in-Charge of Charging will arrange for interviews and follow-up action in relation to the raising of charges.
- (c) Charging Section is to ensure that patients receive accounts prior to discharge from hospital and that all reasonable efforts are made to obtain payment before the patient leaves the hospital. Exhibit 105/6
- (d) If the account cannot be given to the patient prior to discharge (e.g. discharge "out of hours") then the Charge Sister must notify the Officer-in-Charge Charging Section on the morning of the next working day. Charging Section will then raise and despatch the account. Exhibit 105/6 and Qs. 285 and 286
- (e) Residential addresses, employee's occupation, employer's name and address must be obtained and written on the account card. No action is taken, however, to verify this information prior to the discharge of a patient. Addresses such as "c/- Post Office, Darwin" are not acceptable. However, the latter may also be noted on the card for mailing purposes. Exhibit 105/6 and Q.287
- (f) If payment or arrangements for payment have not been made within 14 days, a final notice is forwarded to the debtor. A copy of the form of this notice was submitted during the hearing. Exhibit 105/6 and Qs.291 and 292

(g) If there is no response to the final notice within 14 days then the ledger card and any relevant information and correspondence will be forwarded to the Divisional Office immediately. It was pointed out that there should not be any accounts held by hospitals that are more than 5 weeks old. This includes accounts covered by insurance, compensation, accounts being "paid off" by instalments and those covered by hospital benefits. The early transfer of accounts to the Divisional Office had been laid down in the procedural amendment made in 1967-68 as it had been considered that the hospitals would become overloaded by the amount of work required in subsequent follow-up action.

Exhibit
105/6 and
Q. 293

(h) Accounts will be forwarded to the Divisional Office weekly, under cover of a schedule. All accounts cards forwarded to Divisional Office will clearly indicate whether the account is covered by insurance, compensation, instalment "pay off" or hospital benefit, etc.

Exhibit
105/6

(i) Any first or final account notice which is returned "address unknown" will be forwarded to the Divisional Office immediately without waiting for the 4 week period to expire. This is to enable the case to be referred to the police in order to trace the location of the debtor. We were informed that while that action is taken as soon as possible, there could be a delay of 2 or 3 weeks in some cases, depending on the amount of work outstanding in the Divisional Office. That office has only 1 section dealing with sundry debtors.

Exhibit
105/6 and
Q.294

64. So far as the procedures within the Divisional Office are concerned, we were informed that immediately on receipt of the schedule by the Sundry Debtors section of that office, letters of demand are forwarded to the debtors who have not responded to reminders by the hospitals. If payment, or arrangements for payment, are not made within 14 days, the debt is referred to the Crown Law Office or, in the case of a Public Servant, referred to the debtor's Department for recovery in accordance with Treasury Regulations which provide for recovery by the Commonwealth of a debt.

Exhibit
105/6 and
Q. 296

65. We were informed that following the changes made to procedures during 1968, older debts are being transferred to the Divisional Office ledger and hospitals will retain accounts in their ledgers no longer than 5-6 weeks. The purpose of these transfers is to relieve hospital clerical staff of time-consuming recovery action and place these accounts in a centralised recovery section. The transfer of all older accounts in hospital ledgers at Alice Springs, Katherine and Tennant Creek to the Divisional ledger has been completed and the transfer of the older accounts in the Darwin Hospital ledger was expected to be completed by November, 1968.

Exhibit
105/6 and
Q. 247

66. In regard to membership of registered hospital and medical benefit organisations, the payment of contributions and enrolment in the registered organisations was said to be rendered more difficult due to the isolation of population centres and the large number of the population whose residence in the Northern Territory is of a temporary nature only. To assist the Department in the exercise of greater control over the level of outstanding debts, a revision of existing management returns submitted by the hospitals and Divisional Office has been made. Arrangements were made in March 1968 for quarterly statements indicating the number and value of outstanding accounts at each hospital and the

Exhibit
105/6 and
Qs. 200 and
266

Divisional Office, an age analysis of these debts and comments on recovery action taken, to be submitted to the Department as from 1 July, 1968.

67. The Department expressed confidence that the recovery procedures now operating and the revised management returns will assist in the prompter collection of hospital charges in the Territory. The Audit Observer, Mr. Ragless, expressed the view that while the procedures now evolved are considered to be theoretically satisfactory, their effectiveness in practice has yet to be demonstrated.

Exhibit
105/6 and
QS. 297
and 298

Conclusions

68. It appears to Your Committee that the main causes of the increase that occurred in sundry debtors related to increases made in fees as from 1 April, 1967, and increased hospital admissions consistent with the growth of population in the Territory. It also appears, however, that debt recovery procedures that were instituted when the charging of hospital fees commenced in 1955 were inadequate but were not amended until the increased level of debts came under Treasury and Audit notice in 1967-68. In this respect we believe that the Department of Health was remiss in not testing the validity of its debt recovery procedures prior to that time.

69. Your Committee also notes that to assist the Department in the exercise of greater control over the level of outstanding debts, a revision of management returns submitted by the hospitals and Divisional Office in Darwin has been made. In particular, arrangements were made in March 1968 for quarterly statements indicating the number and value of outstanding accounts at each hospital and the Divisional Office in Darwin; an age analysis of these debts and comments

on recovery action taken, to be submitted to the Department of Health in Canberra as from 1 July, 1968. We believe that these returns should have been sought as early as 1955 when the debt recovery procedures were introduced.

70. So far as the revised procedures for debt recovery by the hospitals are concerned, Your Committee notes that where action is required by the Charge Sister of a Ward, most of the difficulties appear to arise when discharges occur during rather than after normal working hours. Difficulties that arise in that area obviously require the close attention of the hospital authorities concerned. The evidence shows that while information is obtained from patients relating to their residential addresses and occupations and the names and addresses of their employers, no action is taken to verify this information prior to their discharge. While it may not be possible to verify this information in all cases, Your Committee believes that some checks could be made without distress to patients. For example, patients could be asked to produce their motor drivers licences when applicable, checks could be made with employers and patients addresses could be checked with electoral authorities.

71. The evidence also indicates that considerable progress has been made in the transferring of hospital debts to the Divisional Office of the Department of Health in Darwin where subsequent recovery action is required to be performed. We note, however, that that office has only one section dealing with sundry debtors and we believe that the Department must be vigilant to ensure that effective recovery is not impeded through lack of adequate facilities in that office.

72. Your Committee also notes that of the \$215,367 outstanding as at 30 June, 1968, no less than \$39,557 of the debts concerned were in the hands of the Crown Law Office in

Darwin for recovery action. In this area delays arise due to the time involved in court proceedings, the tracing of debtors, issue of summonses, hearing of cases and enforcement of judgments. In regard to these delays Your Committee would commend for the consideration of the authorities concerned the practice adopted in South Australia whereby the clerical staffs of the hospitals issue summonses direct against debtors.

73. Finally, Your Committee believes that if the sundry debtor problem of the Northern Territory hospitals is to be contained as the population of the Territory increases, the authorities concerned must keep under close surveillance the operations of the debt recovery procedures that have been evolved and must adjust and refine those procedures without delay should changes in circumstances warrant.

Chapter 5.

The Department of the Navy

74. Paragraph 268 of the Auditor-General's Report included the following comment:-

"The Department has reported extensive damage by fire at H.M.A.S. Albatross, Nowra on 25 December 1967, to valuable equipment recently acquired in the United States of America for training of Tracker aircraft crews. According to advice received from the Department, the estimated cost to replace the equipment has been assessed at \$1,600,000.

A Board of Enquiry found that the fire was probably caused when the element in an electric urn became red hot and subsequently set fire to the box upon which the urn was standing inside the adjoining building. The urn, which had been placed in the building as a temporary arrangement for use by contractors engaged on alterations to the building and installation of the equipment, was not mounted on a fire resistant base as recommended by the Commonwealth Fire Board.

At the time of the fire, no form of alarm or warning system had been provided or installed in the building, which was being altered for use with the training equipment.

75. We were informed that the contract for the purchase of the trainer was arranged on behalf of the Royal Australian Navy by the United States Navy in 1965. Final details of the arrangement were embodied in a negotiated contract dated 29 March 1967 between the United States Government and the Link Group, General Precision Incorporated. The contract provided for the trainer to be made to the United States Naval Training Device Centre specification and for delivery to be accepted at the contractor's plant at Maryland following final Government acceptance testing. The contract also provided for the contractor to instal and set the equipment to work in Australia with the assistance of technicians engaged by The Royal Australian Navy. This arrangement was made to enable the personnel of the local company selected by the Royal Australian Navy to acquire necessary experience with the equipment. Final inspection of the installed device at Nowra was to have been undertaken by a representative of the United States Navy design authority i.e. the United States Naval Training Device Centre. The negotiated price for the trainer including technical data, publications, some administrative expenses and some support spares was \$2,192,000.

Exhibit 105/7
Qs.406 to 409

76. It was stated that the trainer is used for operational flying courses and continuation training of Tracker aircrew in the use of the weapons system of the aircraft. Location and tracking of submarines, the use of sonobuoys and the delivery of weapons can all be simulated, so that a financial saving estimated at \$1,000,000 per annum for 10 years may be effected in submarine and aircraft hours, sonobuoys and weapons. A model of the cockpit of the aircraft, fully instrumented, is sited in the personnel trailer, where there is also space for instructional staff. The training problems are calculated automatically in the computer trailer and presented to the aircraft instruments in the personnel trailer. Exhibit 105/7 and Q.406

77. The trainer arrived at the R.A.N. Air Station Nowra on 29 November, 1967, and was sited beside a wooden and fibro constructed building which was to be used as a maintenance work shop. Power supplies were provided by a motor generator sited on a nearby concrete pad. The trailers were placed in their normal operating position, side by side, with a connecting covered walkway and abutting onto the workshop building. It had been intended that the first operational flying course should commence on 12 January, 1968 with the initial tactical training starting also on that date in the Weapons System Trainer. Exhibit 105/7

78. We were informed that the Trainer was damaged by fire in the early morning of 25 December, 1967, when the computer trailer was almost completely destroyed and the personnel trailer suffered superficial damage. The cost of replacing the computer trailer is expected to be of the order of \$1,600,000 and replacement is not expected to be made before about November, 1969. Hence the Naval base at Nowra would be without the use of the equipment for a period of about 2 years from the time of the fire. In addition to the loss of the Computer Trailer the wooden and fibro building which had a book value of \$2,100 was also destroyed. We were informed that the Department had included an amount of \$70,000 in its estimates to cover the replacement of that building with a permanent building which will be equipped with modern fire protection facilities. Exhibit 105/7 and Qs.410 to 428

79. It was stated that the fire was first noticed at approximately 7 a.m. on 25 December when smoke was seen to be coming from the area where the Trainer was located. The Air Station's Fire Brigade commenced fire fighting operations at 7.10 a.m.. The fire was contained but not before the building was gutted and the computer trailer extensively damaged.

80. We were informed that a Board of Enquiry comprising the Chief Staff Officer (Technical), Fleet Headquarters, Garden Island; the Executive Officer from H.M.A.S. Penguin and an officer from the staff of the General Manager, Garden Island Dockyard was convened by the Flag Officer-in-Charge, East Australian Area on 28 December 1967 to investigate the fire and began taking evidence on that date. A copy of the Board's Report, dated 18 January 1968 was tendered at our request.

Exhibit 105/7
and Qs.434 to
437

81. The conclusions reached by the Board of Inquiry, and accepted by the Naval Board were as follows:-

- (i) The fire started in the wooden and fibro building (building No.298) in a room in which an electric urn and an electric jug were situated
- (ii) After hearing the evidence and carrying out a detailed examination of the building the Board reached the opinion that the fire was caused by the element in an electric urn becoming red hot and subsequently burning the box on which it was standing and the fire spread from that point
- (iii) Damage to the computer trailer would not have been so extensive had the door between the trailer and building No.298 been closed.
- (iiii) The fire fighting organisation in H.M.A.S. Albatross was adequate during the leave period and the fire was fought both expeditiously and efficiently.

Exhibit 105/7
Q.440 and
Committee File
1968/8

82. We were informed that the urn in question was made available for use by civilian contractors' staff who were engaged on "setting to work" of the Weapons System Trainer on behalf of the United States manufacturers. It was stated that this urn was one of a number

Exhibit 105/7
and Q.447

that had been made at the Station up until about 1958 and was not fitted with a manual re-set device. Its electrical parts had been fitted by the Station's electrical officer. The urn concerned had been checked by the electrical officer about 4 months prior to the fire.

83. About 1953 the Naval Board had issued an order concerning ships of the fleet which required a manual re-set device. It did this because of the danger of contacts welding in ships using direct current. The components which the Air Station at Nowra was using were those that had hitherto been used in ships. We were also informed that the Naval Board of Inquiry into the fire at Nowra had recommended that all hot water urns without a manual re-set device should be withdrawn from service immediately. As a consequence, an instruction had been issued in January 1968 making it mandatory that urns be fitted with a manual re-set device. Qs. 440, 451 and 504

84. The assumption, not having positive proof, was that one of the civilian technicians who was working on the installation on 24 December, 1967, either unwittingly turned on or omitted to turn off the power to the urn when leaving the building at 6.00 p.m. on that day. This is necessarily an assumption as the technician concerned, when giving evidence at the Board of Inquiry, denied having used the urn. Whilst there was no evidence to dispute this, there was also no evidence that any other person had entered the building after the technician had left. As the Board's finding was based on an assumption, we questioned the witnesses as to persons other than the technician concerned having had access to the building. We were informed that questions had been asked by the Board of Inquiry as to the state of the wiring in the building at the time but there was no suggestion, from the answers received, that the wiring of the building might have caused the fire. The Board of Inquiry, however, did not consider the possibility of an electrical fault within the appliance. The cut-out of the urn was destroyed by the fire, as was the electrical part of the urn generally. All that was recovered, apart from the twisted sheet metal work of the container was the element, which was still operable. The Board of Inquiry considered the possibility of the fire having been caused by a cigarette or a match, but discounted this on the basis that as the majority of the work was carried out either Exhibit 105/7, Qs. 448 to 473 and Committee File 1968/8

in the computer trailer or in the personnel trailer, the fire would have started in either of these compartments. The Board also considered the possibility of the fire having started as a result of combustible material having caught fire, but found that no combustible material that could have given rise to spontaneous combustion was present in the building. As to occupancy of the building on Sunday, 24 December, 1967, we were informed that the evidence taken by the Board of Inquiry showed that the technician concerned had drawn the keys to the building at noon on that day and had returned them at 6.45 p.m. that evening. The witness added that there was no reason to suppose from the evidence taken at the inquiry that there was anyone in the building except the technician, although the technician was working in the computer trailer itself, which adjoins building No.298 and he would therefore not necessarily have heard anyone entering the building.

85. The Department informed us that the importance of the security of the Trainer had been recognised by the Commanding Officer of the Air Station and special orders concerning the security check of the trainer were issued on 20 December, 1967. The terms of the order were as follows:-

"During leave period until 0600 on 2 January 1968 the following night rounds are to be carried out by the duty personnel indicated:

Exhibit 105/7
and Q.476

Main rounds 1930	- Duty Executive Officer
Security rounds between 2200 and 2359	- Duty Chief Petty Officer
Security rounds between 2359 and 0200	- Duty Executive Officer
Security rounds between 0200 and 0400	- Duty Engineering Chief Petty Officer
Security rounds between 0400 and 0600	- Duty Electrical Chief Petty Officer

The only departure from the normal routine is that the 0400 and 0600 rounds are to be carried out by the Duty Electrical Chief Petty Officer instead of the Duty Air Officer. Security rounds are to cover the entire air station and not just a particular department or area. Particular attention is to be given to the weapon system trainer."

86. In its Report the Board of Enquiry stated that it found that the rounds performed by the Duty Executive Officer at 0030 were efficiently and thoroughly carried out in accordance with instructions. The Board considered that if the remainder of the rounds during the middle and morning watches had been carried out as thoroughly, the fire would probably have been detected earlier. It added that the fact that rounds were not carried out as efficiently as might have been expected on such valuable equipment was due in part to the restricted manpower and transportation available during the leave period at the Air Station. Under normal circumstances, the vehicles would have been available for Chief Petty Officers during the middle and morning watches which would be independent of the mobile patrol. The Board felt that had this transportation been available it is probable that a more thorough investigation of the area would have been carried out. The captain of the shore base at Nowra, however, did not agree that there had been a shortage of either manpower or transportation for the purpose of rounds.

Committee File
1968/8 and
Q.483,873 to
887

87. We were also informed by the Department that Internal Security of the building and Trainer was left to the civilian technicians who were briefed on security and fire precaution aspects. The responsibility had been assigned for practical purposes, by memorandum from the weapons system trainer officer to the Link and General Equipment employees. Their instructions were to complete a security check and to ensure that inflammable waste was not left lying around the building before securing the weapons systems trainer on completion of work. The key was to be returned to the guard house. It was explained that this procedure had been adopted because of the irregular working hours of the team during the installation period and because it was considered to meet service requirements.

Exhibit 105/7
and Q.490

88. In regard to the briefing of the civilian technicians on internal security and fire precautions we were informed that the Naval office at the air station had posted two notices in the building. One concerned fire risks and the other concerned security of the building and the trailers. The notice regarding fire requested that the amount of combustible material in building 298 be kept to a minimum and it noted

Q.491

the telephone number for fire reporting. The teams were cautioned verbally against the possibility of allowing the urn to boil dry. The notice regarding security dealt with such matters as the locking of doors, windows and classified material and requested that unauthorised persons be asked to leave the building and that the matter be reported.

89. The Department informed us that the Naval Board considered the placing of internal security of the building and trainer with civilian technicians had been in error due to a misinterpretation of Naval Board instructions. At the time of the fire the instructions read as follows:-

'At the close of business the premises are to be checked for safety by a responsible officer of the branch or section concerned, in accordance with local instructions, and locked. The outside key and the key to the internal keyboard are to be returned on the one ring to the dockyard police office where they are to be retained on the establishment keyboard.'

Exhibit 105/7
and Qs. 494
to 498

On 11 October, 1968, a new instruction was issued which amended the first sentence of the instruction above by adding the word 'securely' before the word 'locked' and adding the following sentence:

'The responsible officer in this case is to be an officer of the RAN or the Department of the Navy.'

90. The Department informed us that the urn involved in the fire had been temporarily removed from its permanent location at the ground air training school, where it had been mounted on a fire resistant base. The liaison officer for the weapons system trainer had borrowed the urn for use in building No.298 but was not aware of the need for the urn to be equipped with a fire resistant base. As the Commonwealth Fire Board had issued circulars in 1956 and 1961 setting out the base mounting requirements for electric urns and food heating appliances, the Naval Board took the view that a fire resistant base should have been used with the urn when it was re-located in building No.298. The witness informed us that hitherto the Fire Board's

Exhibit 105/7,
Qs. 500 and 501

recommendations had been circulated to the various commands but there had been no concurrent order from the Naval Board making some or any of the Fire Board recommendations mandatory. However, the Fire Board recommendations contained in Circular No.45 of 18 January 1968 were repeated in formal Naval orders in June 1968 to the extent that they referred to the need for fire resistant bases.

91. Building No.298 had a telephone installed on an external wall for the convenience of officers doing rounds so that they could more quickly report any untoward circumstances in that area of the Air Station. As it had previously been used as a small training hut, and having regard to its value, the building had not been considered to warrant a fire alarm system. However, having regard to the future use of the building, a proposal had been raised in August 1967 to provide a fire alarm and air conditioning monitoring system to the building, but at the date of the fire alterations to the building were still in course and this particular aspect had not been implemented.

Exhibit 105/7,
Qs. 515 to 519,
564 and
Committee
File 1968/8

92. In examining generally the observations of the Board of Inquiry into the fire, we noted the view expressed by the Board that the door between the computer trailer and building No.298 should not have been made of masonite but of a more substantial material and with some degree of fire-proofing, particularly as it was replacing a metal door. The witness representing the Department of the Navy informed us that the masonite door had been fitted by employees of the Department of Works. The Department of Works witness, however, stated that before the work on building No.298 was undertaken a briefing meeting was held between Works staff and Navy staff at Howra. At that meeting the Works officers had specifically asked whether a fire rated door was to be provided, but the Navy officers had not required such a door to be fitted. The witness added that the Fire Board has made no recommendations regarding fire rated doors and does

Qs.898
to 900
and 1055

not feel it necessary to make them as the matter of the nature of doors is generally covered thoroughly by State building regulations or local authority building regulations.

93. The Board of Inquiry also expressed the view that had the door between building No.298 and the computer trailer been closed, the extent of the damage to the equipment in the trailer would have been reduced significantly. We were informed by the witness that this door had been left open mainly for convenience of movement in and out of the trailer and to enable the staff concerned to take advantage of some of the cool air provided by the air conditioning in the computer trailer.

Committee
File 1968/8
and Q.897

Conclusions

94. The evidence shows that the purchase of a trainer, comprising a computer trailer and a personnel trailer, for use in the training of tracker aircraft crews was arranged by the Royal Australian Navy in 1965. It was delivered at HMAS Albatross on 29 November, 1967, at a cost of \$2,192,000 and was sited beside a wooden and fibro building which was to be used as a maintenance workshop. It was expected that the equipment concerned would be brought into operation on 12 January, 1968, and would provide the Department with financial savings estimated at \$1,000,000 a year for ten years. The computer trailer and the building were destroyed by fire on 25 December, 1967. The cost of replacing the computer trailer has been assessed at about \$1,600,000 and replacement is not expected to be made before November 1969. In these circumstances the Department will sustain a loss of expected savings of about \$2,000,000 arising from the failure of the equipment to be placed in service before early 1970. In addition, it is expected that the cost of replacing the building involved will amount to about \$70,000. In total, therefore, the economic cost of the fire would appear to be not less than some \$3,670,000.

95. Your Committee deplores the decision taken by the Department to instal this highly specialised and expensive device beside a temporary wooden and fibro building. We believe that the Department should have provided a permanent building equipped with modern fire protection facilities to serve as a workshop for this equipment. We further believe that, as the Department was aware in 1965 that the trainer would be acquired and installed in 1967, it had ample opportunity to provide a building of a suitable standard.

96. Your Committee also notes that it was not until August 1967, some three months prior to the expected delivery date of the trainer, that a proposal was raised to provide a fire alarm and air conditioning monitoring system for the wooden and fibro building, but at the date of the fire alterations to the building were still proceeding and this aspect had not been implemented. Having regard to the unsatisfactory decision to use that building in association with the trainer equipment, we believe that decisions relating to the alteration of the building were not taken soon enough and that the Department should have ensured that a fire alarm and air conditioning monitoring system were installed and operative before the trainer equipment was delivered.

97. Your Committee also notes that a masonite door was installed between the computer trailer and the wooden and fibro building. At a meeting held between officers of the Department of Works and officers of the Department of Navy stationed at Nowra, the Department of Works officers had specifically raised the question of whether a fire-proof door was required in that location. The officers of the Department of the Navy, however, had not required such a door to be fitted. Your Committee considers that such a decision represented an error of judgment and believes that a fire-proof door should have been installed, particularly as the masonite door was replacing a metal door.

98. The evidence also suggests that had the door between the wooden and fibro building and the computer trailer been closed, the extent of the damage to the equipment in the trailer might have been reduced significantly. The apparent need for this door to be left open to provide easy access to the trailer and to enable staff to take advantage of cool air provided by the air conditioning in the computer trailer reflects a lack of adequate planning in the interests of work efficiency as well as contributing to the fire hazard.

99. Although the Naval Board of Enquiry appointed subsequent to the disaster was unable to specifically determine the actual cause of the fire, it formed the opinion that the fire had been caused by the element in an electric urn located in the wooden and fibro building becoming red hot and subsequently burning the box on which it was standing and the fire spread from that point.

100. The urn concerned had been made available for use by civilian contractors' staff who were engaged on 'setting to work' of the weapons system Trainer on behalf of the United States manufacturers. The evidence shows, however, that when the urn was installed in the wooden and fibro building it was not located on a fire-resistant base, although in its previous location it had been set up on such a base in accordance with recommendations that had been made by the Commonwealth Fire Board. The liaison officer for the weapons system trainer, who had arranged for the urn to be transferred to the wooden and fibro building, was unaware of the need for a fire-resistant base to be supplied with it. The evidence also shows that hitherto the Fire Board's recommendations had been circulated to the various commands, but there had been no current order from the Naval Board making these recommendations mandatory. Your Committee believes that, as the recommendations of the Fire Board had been circulated to all commands, the liaison officer concerned should have been aware of the need for a fire-resistant base to be used

in conjunction with the urn. We also believe that the Naval Board has been remiss in not making this Fire Board recommendation mandatory in naval establishments.

101. Your Committee notes with concern that the components used in the production of the urns at Nowra had been withdrawn from use on naval ships using direct current as there was a recognised danger of their contacts welding. We note also the recommendation made by the Board of Inquiry appointed subsequent to the fire that all hot water urns without a manual re-set device should be withdrawn from service. Your Committee believes that the danger inherent in such urns should have been recognised and manual re-set devices fitted. Moreover, we believe that where equipment of this nature is produced by apprentice mechanics in training, very great care must be exercised to ensure their safety in service and to ensure also that they incorporate appropriate modern electrical devices.

102. The evidence shows that the importance of the security of the trainer had been recognised by the commanding officer of the Air Station and, in special orders issued on 20 December, 1967, relating to night rounds during the Christmas and New Year leave period, the need for particular attention to be given to the weapons system trainer had been emphasised. However, the Naval Board of Enquiry found that some of the rounds carried out prior to the fire had not been made as efficiently as they might have been, due partly to restricted manpower and transportation available during the leave period. Your Committee believes that, in the interests of security generally, this lack of facilities should not have been permitted to arise in a Commonwealth defence establishment.

103. It also appears to Your Committee that, arising from a misinterpretation of Naval Board instructions, the responsibility for the internal security of the wooden and

fibro building had been placed in error with the civilian technicians who were engaged in work on the weapons system trainer. While we believe that such a misinterpretation should not have occurred, it is clear that the relevant Naval Board instructions, as they were framed at the time of the fire, were insufficiently precise to present such a misinterpretation. We believe that, as the relevant instruction was amended on 11 October, 1968, so as to remove any doubt as to the meaning of the term 'responsible officer', the Naval Board would agree with this finding.

104. Certain other features of this matter will be dealt with in Your Committee's later report relevant to the Commonwealth Fire Board.

Chapter 6

Superannuation Board

105. Paragraph 22 of the Auditor-General's Report for 1967-68 contained the following comment:

"During the year, Audit questioned the practice adopted by the Board of investing moneys in "buy back" investments. It was considered that such transactions were not authorised by section 12 (2) (a) of the Superannuation Act 1922-1968. In the belief that such were investments in Commonwealth securities in accordance with the above Act and with the object of improving earning rates on cash balances, a number of short term loans, with Commonwealth Inscribed Stock as collateral, was made during 1966-67 and 1967-68. A legal opinion, subsequently obtained by the Board, confirmed the Audit view that this type of investment was not authorised by the Act.

"The number of ultra vires transactions by the Superannuation Board during 1966-67 and 1967-68 was 20, and the total amount involved was \$14,100,000. Transactions of this nature were discontinued in 1967-68 by the Board following receipt of the legal advising.

"The Superannuation Board has advised that the matter is being taken into consideration in a current review of the Board's powers of investment provided for in section 12 of the Superannuation Act 1922-1968."

106. We were informed by the Superannuation Board that "buy back" investments are arranged when a broker, as principal, sells to the Board, at market price, selected stocks of sufficient value to cover the amount of the investment. The Stock is inscribed in the Board's name at the appropriate Registry. Under these arrangements, the Broker undertakes to re-purchase the stock at the expiration of an agreed period at a price equivalent to the original sale price together with interest on the principal sum at a rate agreed at the outset i.e. at a price calculated to give the Board a specific return. Also under the arrangements, the Board agrees, in view of the negotiated re-purchase price, to refund to the Broker any interest falling due on the stock during the period of the arrangement. However, stocks with interest falling due during the

Exhibit 105/1
& Qs. 12, 46
& 47

arrangement are not generally accepted by the Board and it has not been necessary to pay back interest. The Broker may substitute stocks, provided the value of the substitute security is not less than the amount of the investment. In the event of the Broker doing so, fresh transfers and acceptances are exchanged and the substitute stock is inscribed in the Board's name. If, at the end of the period of the arrangement, the broker should fail to re-purchase the stock, the Board is entitled to retain or dispose of the stock and to make good any interest payment due. It was stated that no cases had arisen where the Brokers had failed to re-purchase the stock.

107. We were informed that the Superannuation Board had first invested in "buy back" arrangements on 16 February 1966. In regard to the need to enter into this type of transaction it was stated that an amendment of the Superannuation Act towards the end of 1965, provided that as a consequence of surplus assets established in the Superannuation Fund as at 30 June 1962 during the quinquennial review, a number of steps should be taken. One was to provide for a reduction of contribution rates retrospective to 1 July 1962. The difference between those rates and the rates previously paid was to be accumulated at interest and distributed to eligible contributors. The Board called for a refund of excess contributions. In addition, the Actuary was to recalculate the assets and liabilities of the Fund. In the event, the recalculation was made on the basis of $5\frac{1}{2}$ per cent for the first 10 years and $4\frac{1}{2}$ per cent thereafter. This was to establish the amount of surplus assets as at 30 June 1962 which in turn were to be distributed to eligible pensioners and contributors. The other provision was that the interest payable on Provident Account was to be increased to the actual earning rate of the Fund from the beginning of that quinquennial period, which would have been 1 July 1957. This additional amount was to be paid either to the credit of the accounts of existing Provident Account

Qs. 5 & 12

contributors or to those who had previously been contributors and who had left the Fund. In fact, the Superannuation Board distributed about \$41,000,000 and it proved necessary to accumulate these funds because the payments were made in stages. In the first stage which occurred in December 1965, an interim payment of about \$1,000,000 was made to pensioners and this amount was found from available cash. However, the Board had to reconstruct completely the records of the Fund from the inception of the scheme in 1922 and, by March 1966, this work had been advanced sufficiently to enable a refund of excess contributions amounting to about \$11,000,000 to be distributed. A distribution of this magnitude however, could not be met from the normal fortnightly/monthly cash flow and it became necessary for the Board to accumulate funds. Shortly afterwards, the Board also initiated payments to former Provident Account contributors. The Board was able to predict that by the end of 1966 it would be able to pay the surplus to contributors and the remaining surplus to pensioners. The actual amounts to be paid, however, could not be predicted accurately until final work had been completed on the computer. An amount of about \$10,000,000 or \$11,000,000 was spread over a few months but it became necessary to make a second payment of about \$16,000,000 within a comparatively short period of time and, in the event, a very high proportion was paid within 3 or 4 weeks of the issue of documents to the Departments.

108. The need to make these payments constituted a problem. We were informed that while the short term money market usually gives quotations for short periods only, the Board was contemplating the accumulation of funds for periods of 3 or 4 months. Consequently, it became necessary to investigate the best way of accumulating the required cash with the best possible security and the best possible earning rate. Q.5
The witness informed us that the Board could have

purchased Commonwealth stocks and some semi-government stocks on the open market and taken the risk of a forced sale because it could not predict accurately the time at which it would require the money. The Board could also have invested in fixed deposits. However, after considering the alternatives available, it was decided that quotations should be called for the purchase of Commonwealth stocks and semi-government securities that would be inscribed in the Board's name and would therefore provide a first class security. It was also decided that the seller should be required to repurchase the securities at an agreed rate. This provided the Board with certainty of sale at a rate that was also certain. The witness claimed that from an investment and trustees viewpoint, "buy back" investments are an excellent arrangement. He emphasised that at no stage was the money invested in any way in jeopardy.

109. It was stated that in deciding to enter into "buy back" investments, the members of the Superannuation Board had relied on Section 12 (2) (a) of the Superannuation Act on the grounds that as trustees of the Fund they may invest, either absolutely or conditionally, in any securities and interests authorised by Sub-section (2) and may deal with and dispose of the same as the Board deems fit in the best interests of the contributors. The witness informed us that, on a previous occasion, the Board had been making deposits with the official short term money market and that the Auditor-General had queried the practice because, at that stage, it was held to be beyond the terms of Section 12 of the Superannuation Act which, so far as this type of transaction is concerned, depends on State Trustee legislation. However, an amendment had been made to the trustee legislation in Western Australia and as a consequence of the general clause in Section 12 of the Superannuation Act, the Board was empowered to invest in the official short term money market.

Exhibit 105/1
& Q.13

110. In its submission the Board stated that it regards Section 12 (2) of the Superannuation Act as a statement of powers which are applied against the background of the Australian capital market in which transactions of the type referred to are well established investment practices. In elaboration of this view the witness stated that the Board has certain major functions. One is that members of the Board are trustees, in the sense of public trustees for the Fund. As trustees they follow the concepts which were set out in the opinion dated 20 February 1968 given by the Attorney-General's Department. As a consequence, the Board seeks the best possible security; the best return it can obtain in the circumstances and the protection of the Fund.

Exhibit 105/1
& Q.14

111. The Superannuation Board stated that in the case of "buy back" investments, the property in the stock actually passed to the Board and was inscribed in the Board's name with the appropriate Inscribed Stock Registry. The Board agreed to re-sell the stock to the transferor subject to certain conditions being met on an agreed date and the normal transfer documents were executed in due course. If the transferor had not adhered to the terms of the agreement, the securities would simply have been incorporated in the investment portfolio or disposed of in the normal course of business, as appropriate. These particular transactions were said to have been arranged in order to obtain the most favourable rates of interest on moneys not immediately required for other forms of investment and were regarded by the Board as being in a different category from the investments made on the Official Short Term Money Market pursuant to Section 12 (2) (e) of the Act. The witness explained that in the case of short term money market transactions a certificate is issued when purchases are made but the title to the stock does not pass to the purchaser. The certificate that is issued in such cases is used

Exhibit 105/1
& Q.17

by the Board as a control over the money that is due to be paid back to it. In the case of "buy back" investments, on the other hand, the stock is actually purchased and inscribed in the name of the Superannuation Board.

112. The practice of engaging in "buy back" investments was queried by the Auditor-General's Office during the normal audit examination of the investments of the Board prior to the receipt and examination of the financial statements for the year 1966-67. When oral queries raised at the time did not resolve the matter, a formal query was raised in September 1967. On 6 October 1967 the Superannuation Board sought a legal opinion on the matter and this was provided by the Attorney-General's Department on 20 February 1968.

Q.9

113. The legal opinion indicated that "buy back" investments cannot be regarded as investments in securities of the Commonwealth or of a State notwithstanding that a dealing in securities of the Commonwealth or of a State may be involved in such investments. It appeared to the Attorney-General's Department that a "buy back" investment involves simply a loan or deposit of money by the investor with a broker on terms and conditions requiring its repayment on an agreed date with interest at a rate agreed upon between the investor and the Broker. The securities of the Commonwealth or of a State that may be transferred to the investor at the time the loan is made, appeared to the Attorney-General's Department to constitute merely collateral security for the repayment of the moneys lent or deposited by the investor. Mr. O'Donovan, the Observer representing the Attorney-General's Department, informed us that he knew of no case in which the term "buy back" investment had been defined as a matter of law and he entertained doubts as to whether it would be possible to define, with a single definition, the whole range of transactions that might be covered by

Exhibit
105/1
and Q.40

the generic term "buy back" investment. For the purpose of formulating its opinion, the Attorney-General's Department had obtained from the Superannuation Board a copy of a contract which was referred to as a "buy back" arrangement. This had revealed that such an arrangement is, in fact, a contract which contains particular provisions under which one party agrees to transfer, for a consideration, securities to another party. Part of the consideration is that the party to whom the securities are transferred will, upon the performance of the obligation undertaken by the first party, transfer the securities back to that party. Q.40

114. In its legal opinion, the Attorney-General's Department indicated that two main considerations appeared to support its conclusion that a "buy back" investment involves simply a loan or deposit of money by the investor with a broker. First, the investor is not entitled to receive and retain the interest payable on the securities transferred to him but is entitled only to interest at a rate agreed to between himself and the broker. Secondly, the fact that the broker reserves the right to substitute different securities from those originally transferred to the investor points unmistakeably to the conclusion that the securities are transferred merely as collateral to the promise of the broker to repay with interest at the agreed rate the money deposited with or lent to him. Exhibit 105/1

115. The Attorney-General's Department pointed out, however, that it does not follow that, because "buy back" investments by the Superannuation Board cannot be justified as investments in securities of the Commonwealth or a State under Section 12 (2) (a) of the Superannuation Act, those investments are necessarily unauthorised investments. It mentioned that by paragraph (e) of sub-section (2) of Section 12 of that Act, the Superannuation Board is authorised to invest moneys of the Fund "in any manner for the

time being allowed by an Act or State Act, or by an Ordinance of a Territory of the Commonwealth, for the investment of trust moneys in Australia, other than in stock or shares issued by a company." In this regard the Attorney-General's Department pointed out that Section 14 of the Trustee Act of New South Wales authorises a trustee, unless expressly forbidden by the instrument creating the Trust, to invest trust moneys in his hands in securities authorised by the Act. The investments authorised by the Act include, among **others**, investments on "deposit in the Commonwealth (Trading) Bank of Australia or in the Commonwealth Savings Bank of Australia or in the Rural Bank of New South Wales or in any bank or corporation prescribed by rules of Court."

116. The banks and corporations prescribed for the purposes of section 14(2)(F) of the Trustee Act were listed by the Attorney-General's Department in its opinion. The Department pointed out in its opinion that if the broker with whom the "buy-back" investment is made is a prescribed corporation for the purposes of section 14(2)(F) of the Trustee Act of New South Wales, the investment would be one that the Superannuation Board is authorised to make by reason of paragraph (c) of sub-section (2) of Section 12 of the Superannuation Act. In those circumstances we questioned the Attorney-General's Department Observer as to whether it would be legal for the Superannuation Board to engage in "buy-back" investments providing it were to do so under the provisions of paragraph 12(2)(c) of the Superannuation Act in relation to section 14(2)(F) of the Trustee Act of New South Wales. The Observer informed us that such investments would be legal. He explained that when the question of the legality of "buy-back" investments was submitted originally to the Attorney-General's Department for advice it was not entirely clear whether the investment that was concerning the Auditor-General and the Superannuation Board was an investment on the official short term

Exhibit
105/1 and
Qs.29 to 34

money market or an investment of the "buy-back" type. There are certain operators on the short term money market, who are incorporated because of certain requirements of the Companies Act, which have the Reserve Bank of Australia as a lender of last resort.

But apart from this official short term money market there is the unofficial short term money market which consists primarily of brokers who hold in their port-folios substantial amounts of Commonwealth securities. They operate on the strict "buy back" arrangement. The formal difference existing between these operations is that the unofficial short term market operator transfers title to the stock involved to the person who lends money to him, whereas the official short term money market operates by marked transfers of the stock. Apart from that, the only substantial difference is that if an unofficial operator were to suffer problems of liquidity and found that he had more maturing loans that he could redeem, he would not have the Reserve Bank to support him with advances of credit to enable him to meet his obligations. In that situation the lender would need to realise on his security.

117. In seeking an opinion on the legality of "buy back" investments the Superannuation Board also posed the general question of whether it is precluded in any way from investing either absolutely or conditionally in any securities or interests authorised by Section 12 of the Superannuation Act or in dealing with or disposing of the same as the Board deems to be in the best interests of the contributors from time to time. On this matter the Attorney-General's Department advised that in exercising its powers of investment under section 12 and in dealing with its investments the Superannuation Board is bound to act as a trustee of the Superannuation Fund and to use the Fund in the best interests of the contributors. As a trustee, the Board must exercise, in relation to all the investments which it is permitted to make, at least the care which an ordinary prudent man of business would take in the management of his own affairs. The Department pointed out that it has been stated judicially that it is the duty of a trustee "to take such care as an ordinary prudent man would take if he

Exhibit 105/1

were minded to make an investment for the benefit of other people for whom he felt morally bound to provide." The Department added that in dealing in securities of the Commonwealth or of a State, the Board would fulfil its obligations if it satisfied itself that its dealings were at reasonable prices at the time of purchase or sale. In making other investments authorised by the Superannuation Act, the Board would be bound to satisfy itself that any proposal for investment was reasonable from the point of view of security and of return on investment.

118. Finally, the Attorney-General's Department stated that if any doubt should arise as to the rights and obligations of the Board in relation to any particular investment or proposed investment, advice on the particular issue should be obtained. The observer representing the Attorney-General's Department, however, did not consider that the Superannuation Board should have sought an advising before entering into the "buy back" investment arrangements. The witness representing the Superannuation Board informed us that the opinion given by the Attorney-General's Department on "buy back" investments had raised the question as to how far the Superannuation Board must regard its powers as a fairly rigid piece of administrative legislation. Where any doubt exists in relation to those powers the Superannuation Board will obtain legal advice.

Exhibit 105/ 1
& Qs. 38 & 39

119. In its submission the Superannuation Board stated that although it was not entirely satisfied with the interpretation placed on the legislation by the Attorney-General's Department, it had decided not to engage further in "buy back" investments or to pursue the matter further pending the Government's decision on a proposal which had already been submitted, for a revision of the investments provisions of the Superannuation Act, and which had been referred

Exhibit 105/ 1
& P.P. No. 69
of 1968

to in paragraph 24 of the Forty-fifth Report of the Board. In that paragraph the Board stated:-

"The Board has been concerned for some time about its inability to obtain the best possible return from investments and to arrange adequate diversification of the investment of contributors' funds and has sought a revision of the investment provisions of the legislation including some extension of investment powers; . . ."

120. The witness informed us that the Superannuation Board became concerned about this problem prior to 1964. At that stage an amendment had been made to the Superannuation Act to extend the powers of the Board to provide for investment in debentures. However, the problem of a surplus arose and this disturbed the operations of the Board. It was not until this problem had been resolved that the Board was able to consider the need for a 3 year programme for its investments. Arrangements were made for the Attorney-General's Department to prepare regulations for the use of the Board in relation to its debenture power. However, the approval to invest in debentures was subject to the promulgation of regulations within certain limitations and difficulties arose when the Board commenced to relate these to the actual market. This led the Board, therefore, to consider whether the matter should be raised as a policy issue. The question of the revision of the investment provisions of the legislation was referred to the Department of the Treasury in March 1967. Although discussions between that Department and the Superannuation Board had followed the reference, the Treasury Observer, Mr. Cowie, informed us that, at the time of our inquiry, a decision had not been reached on the matter.

Conclusions

121. It appears to Your Committee that the Superannuation Board entered into "buy back" investment arrangements in February 1966 and subsequently, arising from amendments that had been made to the

Superannuation Act in 1965. These amendments required, inter alia, the accumulation of Funds beyond the Board's normal cash flow to enable excess contributions to be refunded to contributors to the Fund and to beneficiaries of the Fund.

122. While it appears that no question has been raised as to the sufficiency or the adequacy of the securities involved in this type of investment and while the funds involved have not been placed in jeopardy, the legal opinion tendered by the Attorney-General's Department indicates that "buy back" investments cannot be regarded as investments in securities of the Commonwealth or of a State as specified in section 12 (2) (a) of the Superannuation Act, notwithstanding that a dealing in securities of the Commonwealth or of a State may be involved in such investments. In these circumstances Your Committee must conclude that the Board should not have engaged in such investments.

123. Whether the Board should have sought a legal advising before engaging in "buy back" investments is a question to which Your Committee has given careful consideration. In this regard we noted that the Attorney-General's Department Observer did not consider that the Superannuation Board should have sought an advising before entering into these arrangements. On the other hand the evidence shows that on a previous occasion the Board had been making deposits with the official short term money market and that the Auditor-General had queried the practice because at that stage it was held to be beyond the terms of Section 12 of the Superannuation Act which, so far as that type of investment was concerned, depended on State trustee legislation. However, an amendment had been made to the trustee legislation in Western Australia and as a consequence of the general clause in section 12 of the Superannuation Act, the Board was empowered to invest in the short term money

market. In view of this earlier experience relative to investments we are inclined to the view that it would have been prudent for the Board to seek an advising before embarking on investments of the "buy back" type.

124. The evidence submitted also shows that since the early 1960's the Board has been concerned about its inability to obtain the best possible return from investments and to arrange adequate diversification of the investment of contributors' funds. In these circumstances the Board raised with the Department of the Treasury in March 1967, the question of a revision of the investment provisions of the Superannuation Act including some extension of its investment powers. Although this has been the subject of discussion between the parties concerned, we were disturbed to learn that, at the time of our inquiry, no decision had been reached on the matter. Having regard to the problems that have confronted the Board in recent years we believe that the Department of the Treasury and the Superannuation Board should make strenuous efforts to resolve the matter satisfactorily.

Chapter 7

Higher Duties Allowance

125. Paragraph 307 of the Auditor-General's Report for 1967-68 contained the following comments:

"During 1967-68 an Audit investigation of payments in respect of allowances for officers acting in higher positions disclosed overpayments in a number of offices and branches of departments throughout the Commonwealth.

The overpayments arose through non-compliance with the provisions of General Order 7/A/16, issued by the Public Service Board under the authority of the Public Service Act 1922-1967, which sets out the conditions applicable to payment for higher duties during absences on leave.

Where the incidence of overpayments disclosed in individual offices and branches by the Audit checks was considered high, the departments concerned were asked to undertake further reviews. At the time this Report was prepared overpayments in excess of \$9,000 had been disclosed from both the Audit investigation and subsequent departmental reviews but the departmental reviews had not been completed in all cases.

The Public Service Board was recently informed of the result of the investigation and it was suggested that departments be circularised concerning their responsibility to ensure compliance with the General Order.

The Board has issued a memorandum to all departments which, in addition to drawing attention to their responsibility to ensure compliance with General Orders, has sought information from departments on the nature of procedures in force for ensuring there is an adequate check of higher duties payments. The Board has advised that on receipt of departmental replies it will give consideration to the possible need to establish uniform procedures which will eliminate or minimise the type of overpayment reported."

126. We were informed by the Public Service Board that officers who are temporarily occupying or "acting" in higher

positions are entitled to additional remuneration by way of higher duties allowance in accordance with Determinations of the Public Service Arbitrator and Public Service Regulation 87. An officer who is in receipt of higher duties allowance at the time of proceeding on leave may be paid the allowance during his absence under certain conditions which are set out in detail in the Board's General Order 7/A/16. The extent to which higher duties allowance may be paid during periods of leave is largely dependent upon whether the officer's previous acting service in higher positions was "long-term" i.e. for 12 months or longer, or "short-term"; although in both cases the usual requirement is that the officer would have been required to continue acting in the higher position but for his absence.

Exhibit 105/9,
Qs. 588 to 591,
and 609

127. On 15 July, 1968, the Auditor-General's Office informed the Public Service Board that in the course of Audit review, a number of overpayments of higher duties allowance had been disclosed. These overpayments had occurred through failure of almost all Departments to comply with the provisions of General Order 7/A/16. The Auditor-General's Office requested that the Board draw the attention of Departments to their responsibility to ensure compliance with the Board's General Orders and to their responsibility to make such internal arrangements as will avoid any past failure to comply with the provisions of General Order 7/A/16.

Exhibit 105/9
and Q. 594

128. The Board informed the Auditor-General's Office that it would circularise Departments as requested and that it would consider the possible need to establish uniform procedures which would ensure that there is adequate check of an officer's entitlement to continued payment of higher duties allowance during periods of leave. Accordingly, on 9 August 1968, the Board issued P.S.B. Memorandum No. 1968/6 which drew the attention of

Exhibit 105/9.
Qs. 596 and 597

departments to the failure to comply with General Order 7/A/16. It also sought from departments, information as to the relevant procedures that they had been following and their advice of any general changes in procedure, forms design and the like, which might be instrumental in ensuring that overpayments of higher duty allowances are not perpetuated. At the time of our inquiry not all departmental replies had been received by the Public Service Board.

Exhibit 105/9

129. We were informed by the Board that the processing of leave applications and the processing of higher duties allowance payments are separate functions within the Personnel sections of some departments and it was thought that this separation might be the basic reason for the overpayments having occurred. The witness agreed that in cases where these functions are separated, it would be helpful if the clerk responsible for higher duties allowances were to keep the clerk responsible for leave applications fully informed of the current higher duty allowance being paid.

Exhibit 105/9
and Qs.610 to
612

130. The Audit Observer, Mr. Ross, stated that in some departments, leave forms do not provide for a cross check against higher duties entitlements. It was felt that this situation had arisen possibly due to the fact that the work concerned is carried out by comparatively junior officers who may not be fully aware of the finer points of General Order 7/A/16 and that there had possibly been some slight breakdown in the training or instruction of these officers. This was suggested by the widespread nature of the cases where these errors had occurred.

Q.606

Conclusions

131. Your Committee is disturbed by the fact that there has evidently been a wide spread failure on the part of departments to comply with the provisions of Public Service Board General Order 7/A/16. We trust that the action commenced by the Board in its circular of 9 August 1968 to departments will yield positive results in regard to compliance with the General Order, and will also provide information to enable the Board to establish satisfactory uniform procedures in relation to higher duties allowances. We will appreciate advice in due course, of the outcome of the Board's inquiries in this matter.

132. The evidence taken also suggests that there may have been some breakdown in departments in the training or instruction of comparatively junior officers who are engaged in the calculation and checking of higher duties entitlements. We trust that all departments will examine this aspect of their operations without delay.

Chapter 8.


Conclusions

133. Your Committee's inquiry this year covered eight matters to which the Auditor-General had referred in his Report. One of these, however, related to Subscriber Trunk Dialling Telephone facilities, a matter with which we have been concerned in the context of some of our more generalised departmental inquiries. Because of this wider area of interest and the considerable importance of these facilities, we felt that we should report separately on this matter and accordingly a report on these facilities will be presented to the Parliament shortly. Arising from the hearings into the fire that occurred at the Naval establishment at Nowra, New South Wales, on 25 December, 1967, we also had occasion to examine the arrangements of the Commonwealth Fire Board. The specific evidence tendered led us to the conclusion that a separate report should be submitted to the Parliament on that matter.

134. Your Committee's conclusions relative to the matters included in this Report are set out as follows:-

Department of the Army	- Page 17
Department of External Affairs	- Page 34
Department of Health	- Page 44
Department of the Navy	- Page 55
Superannuation Board	- Page 70
Higher Duties Allowance	- Page 76

For and on behalf of the Committee,


DAVID N. REID
Secretary,
Joint Committee of Public Accounts,
Parliament House,
CANBERRA, . . . A.C.T.


RICHARD CLEAVER
Chairman.



27 February, 1969.