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DEPARTMENT OF THE SENATE
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PREPARED BY J.R. Odgers
SENATE

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

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JOINT COMMITTEE OF PUBLIC ACCOUNTS

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ONE HUNDRED AND THIRTEENTH  
REPORT

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THE REPORT OF THE  
AUDITOR-GENERAL—  
FINANCIAL YEAR 1968-69

JOINT COMMITTEE OF PUBLIC ACCOUNTSSEVENTH 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.J. 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 26 February, 1969
- (4) Appointed 26 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.

Contents

<u>Chapter</u>		<u>Page</u>
1	INTRODUCTION	5
2	DEPARTMENT OF THE ARMY	8
	(a) Purchase of Utility Trucks in Australia	8
	(b) Purchase of Amplifiers in the United States of America	17
3	DEPARTMENT OF THE NAVY	34
4	DEPARTMENT OF SOCIAL SERVICES	46
5	CONCLUSIONS	57
<u>Appendix</u>		
1	LIST OF EXHIBITS	58

Joint Committee of Public Accounts,

One Hundred and Thirteenth Report,

The Report of the Auditor-General

Financial Year 1968-69

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 1968-69 was presented on 19 August, 1969. 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 27 August, 1969, 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 to 4 of this Report were made the subject of a Public Inquiry held at Parliament House, Canberra, on Tuesday 16 September, 1969.

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

Colonel J.A. Munro	- Colonel Co-ordination, M.G.O. Group, Army Headquarters.
Mr. J.W. Nunn	- First Assistant Secretary, Finance and Logistics.
Colonel J.I. Williamson	- Director of Signals, Army Headquarters.

Department of the Navy

Captain G.A. Bennett (RAN)	- Assistant Chief, Naval Technical Services, Design and Construction.
Mr. C.M. Colgan	- Assistant Secretary, Finance.
Mr. R.A. Grieve	- Civil Assistant, Naval Technical Services.

Department of Social Services.

Mr. C. Calvert	- Director, Finance.
Mr. A.P. Carey	- Assistant Director, Data Processing and Accounts, Sydney.
Mr. H.A. Illa	- Assistant Director, Data Processing and Accounts, Melbourne.
Mr. R.G. Williams	- Acting First Assistant Director-General, Operations.

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

Auditor-General's Office	-	Mr. W. H. Scott.
Public Service Board	-	Mr. G. N. Vanthoff
Department of the Treasury	)	- Mr. G. S. Davidson
	)	- Mr. J. I. Maunder

Chapter 2

Department of the Army

(a) Purchase of Utility Trucks in Australia

8. Paragraph 283 of the Auditor-General's Report contained the following comment:

"A contract was arranged by the Department of Supply in December 1968 for the supply of 200 utility trucks to the Department of the Army.

The contract as amended stipulated, among other things, that the vehicles were to be to the satisfaction of the Army Inspection Service prior to delivery and delivery was to be effected by the contractor to the Base Ordnance Depot at Moorebank, N.S.W.

Inspection certificates for 200 vehicles and vouchers certifying receipt of the 200 vehicles were dated 13 June 1969 and 18 June 1969, respectively. Payment to the contractor of \$629,405, being the full contract price including delivery charges, was authorised by the Department of the Army on 24 June 1969 and payment was effected on 25 June 1969. The expenditure was charged to Division 670, Item 02 - Arms, Armament and Equipment -Transportation and engineer equipment.

According to Audit enquiries and examination of records at the Depot, the vehicles did not commence to arrive until early in July 1969. Deliveries continued progressively and all vehicles have now been received. If the payment had not been made prior to 30 June the funds available under the Appropriation would have lapsed at that date in conformity with section 36 (1.) of the Audit Act.

As it appeared to my Office that the payment for the



vehicles prior to delivery was contrary to the provisions of the Audit Act, the Department's advice was sought on aspects concerning the propriety of the certificates which formed the basis of the transaction. A reply was received that a Court of Inquiry will be assembled to investigate and report on what appears to be a departure from authorised procedures."

9. The Department of Army stated that the approved Army procurement programme for 1968-69 on which the budget estimates for Army equipment and stores were based included 200 utility trucks. A procurement demand for the vehicles was forwarded to the Department of Supply in August, 1968. The contract for the supply of the trucks was let by the Department of Supply in December 1968 and provided for delivery to the Army to be completed by 30 April, 1969. Some components of the vehicles were imported from Britain and others were manufactured in Australia. It was stated that industrial difficulties in Britain delayed the shipping of some components and water front stoppages in Australia in May and June 1969 further delayed the unloading of components and assembly of the vehicles.

Exhibit  
113/1

10. We were informed that in July 1969 the Auditor-General's Office drew the attention of the Department to the fact that payment for the 200 vehicles had been made in June 1969, prior to their delivery. Arising from this advice a preliminary investigation made by the Department of the Army confirmed that there had been some irregularity and a Court of Inquiry was convened by the Master-General of the Ordnance on behalf of the Military Board on 28 July 1969 to investigate and report on the circumstances. The Court comprised 3 regular Army officers, the President being of the rank of Colonel and 2 other members being of the rank of Lieutenant Colonel. The Court was assisted by a legal officer of the rank of Major. The Court assembled on 1 August 1969 and took evidence in Melbourne and Sydney. Its report was received by the convening authority on 2 September and is currently under consideration by the Department of Army.

Exhibit  
113/1  
and Qs. 12  
and 17.

11. The findings of the Court of Inquiry showed that the 200 utility trucks concerned were not received when payment was made to the contractor on 25 June 1969 but deliveries began on 4 July and were completed on 31 July 1969. During the inquiry other cases were disclosed where payment had been made before the vehicles had been received. These comprised 45 trucks each of 2½ tons valued at \$181,920; 16 tractor-type trucks for 20 ton trailers valued at \$419,533 and three wheeled type size 8 tractors, valued at \$109,763.

Exhibit  
113/2

12. The Court found that the irregularities had been introduced so that expenditure which had been programmed for the financial year 1968-69 would actually occur in that year. If this had not been done the expenditure for vehicles delivered during July 1969 would have occurred in the financial year 1969-70. The Court reported that it had no doubt that the actions of the persons concerned stemmed from the quite considerable pressures from both within the Department of the Army and without the Army to achieve full expenditure during the financial year 1968-69 in Division 670, Item O2- Arms, Armament and Equipment -Transportation and Engineering equipment. We were informed by the witness that the persons involved in the irregularities that occurred in Sydney comprised nine Army personnel ranging in rank from a Colonel, 3 Lt.Colonels, a Major, a Lieutenant, 2 Sergeants and a private. Also involved were 5 civilian officers of the Department only two of whom could be classified as senior in status. While all of the persons concerned would not necessarily be aware that payment for the vehicles was being authorised prior to possession the more senior group of officers concerned were aware of that fact.

Exhibit  
113/2  
Qs.25-29

13. In regard to the pressures evidently exercised within the Department of the Army we were informed that the examination of expenditure in the Department is monitored continuously by an Estimates Committee at Army Headquarters appointed by the Military Board. The Committee is chaired by the Secretary of the Department

of the Army and comprised a number of Brigadiers and Colonels, the First Assistant Secretary (Finance and Logistics), the Assistant Secretary, Finance, and other civilian officers. The aim of the reviews conducted is to ensure that expenditure programmes are met as far as possible. In this regard the reviews are required to ensure that the items covered by the funds approved or to be expended are, in fact, received and secondly to ensure that the money that has been sought through the budget is handled in accordance with the programme for which it was obtained. The reports of this Committee are submitted to that Board on a regular basis.

Qs. 34 to 36

We were informed that there is always pressure on the procurement authorities within the Army to obtain equipment as quickly as possible and to this end continuous contact is maintained through the Department of Supply with contractors in order to maintain production and deliveries. Having obtained equipment, it is correct form then to ensure that claims are submitted of contractors and that payment against these claims is correctly paid as soon as possible after the stores concerned have been delivered. However, the officers concerned with the irregularities had mis-interpreted the requirements. At no time within the Department of the Army had any suggestion been made or instruction issued that any irregularities should be engaged in with a view to achieving the objectives mentioned. The Treasury Observer, Mr. Maunder, was unable to suggest the sources of pressure that might have been applied from outside the Army to use funds prior to direct certification of goods being received.

Exhibit 11 3/7

Qs. 25-29 and  
34-43

15. In the cases of the 200 utility trucks; the 45 2½ ton trucks and the 16 tractor trucks for 20 ton trailers the Court of Inquiry found that the irregularities had been made possible because a number of servicemen and civilians employed by the Department of the Army agreed to raise Certificates of Inspection and Certificate Receipt Vouchers before the vehicles had in fact been inspected by the Army Inspection Service and delivered by the contractors. The Certificates

of Inspection and Certificate Receipt Vouchers so raised were used to support accounts for payment as proof that the vehicles conformed to the specifications laid down by the Department and that they had been received from the contractors and brought to account in the Stores Ledger. Because the accounts for payment for the cases referred to were supported by Certificates of Inspection and Certificate Receipt Vouchers, the accounts were prima facie correct and in order for payment when presented to the paying authority. Exhibit  
113/ 2

16. In the case of the tractors, wheeled, size 8, the Court found that the irregularity had arisen because servicemen and civilians employed by the Department had arranged for a variation in the reported sequence of deliveries of the tractors in such a way that the paying authority was misled into paying the full amount of the accounts for the tractors without deducting an amount paid to the contractor as a progress payment at an earlier date. Under the terms of the contract the progress payment should have been liquidated by the deliveries of the first six tractors. The account for the first tractor delivered, however, was identified as the seventh, the second as the eighth and so on. By this means, the contract, which required the amount of the progress payment to be liquidated by the progressive delivery of the first six tractors was circumvented. By 1 August 1969, 11 of the 14 tractors, covered by the contract had been received but an amount equal to the value of 14 tractors had been paid to the contractor. However, a request for refund of \$109,763 was made to the contractor and a cheque for that amount was provided immediately. This amount covered the three tractors for which payment had been made but which had not then been delivered. Exhibit  
113/ 2

17. The Court of Inquiry took the view that at the time of its inquiry no loss had actually been suffered by the Commonwealth. While moneys were paid before the contracts required it or, more particularly, before the contractors had completed their part of the

contract, the evidence at the inquiry showed that the contractors had subsequently completed deliveries in accordance with the contracts and there appeared, therefore, to be no basis on which to show that a loss may have occurred. The Court further indicated that if there had been any loss because the Commonwealth lost the use of the money paid prematurely, such loss, whatever it may be, was not thought to give rise to any claim by the Commonwealth against any persons responsible. The Court reported that it could find no evidence that there was any intent to defraud the Commonwealth or that any of the persons employed by the Department of the Army who were involved in the irregularities obtained any personal benefit. It further indicated that, in its opinion, there was insufficient evidence to suggest that collusion, in the sense of an intention to defraud, existed in the occurrence.

Exhibit  
113 / 2  
and Q.21

18. The Court of Inquiry reported that it had found nothing to suggest that the present system and method of control was inadequate, provided it was administered by responsible persons in a correct manner in accordance with the current instructions. It drew attention, however, to shortcomings in the records maintained at one Stores Depot and to the need for some further check in the office of the paying authority concerning progress payments made under contracts. It also indicated that although it had taken no specific evidence in relation to initial checking and audit requirements there was no evidence to indicate that there were any inadequate areas.

Exhibit  
113 / 2

19. The Department of Army informed us that it is clear that there have been departures from authorised procedures. In regard to the payment of claims and the delivery of vehicles these procedures follow a particular order viz: after the purchase order has been issued and the contractor is ready to deliver his vehicles the articles are submitted for inspection by the Army Inspection Service to ensure that they conform to the specifications that have been laid down. Following this a Certificate of Inspection is issued by the Army

Inspection Service to certify that the inspection has been made. The vehicles should then be delivered to the Army Stores Depot where they are received, recorded and taken on charge in the Stores Ledger. As a result of that action the Certificate Receipt Voucher is raised by the Stores Depot to certify that they have been received and this document, together with the Inspection Certificate, is used to support the claim for payment to the contractor for the vehicles that he has supplied. The amount is then passed to the pay office in the Army for attention in accordance with Section 34 of the Audit Act, after which it is transmitted to the Sub-Treasury for cheques to be drawn and sent to the contractor.

Exhibit  
113/ 2  
Q.18

20. We were informed that immediately it was discovered that the irregularities had occurred, instructions were issued by the Department to the inspection authorities in Eastern Command to carry out an inspection of the vehicles. This was carried out in the approved manner. The vehicles were delivered to the Depot and checked by the Depot staff responsible. Also, further checks were carried out by the Army Audit Staff in this instance. The witness stated that the vehicles were in fact received in the Depots completely in accordance with the relevant contract.

Q.44

21. The witness assured us that the Department is seriously disturbed by the circumstances reported by the Auditor-General. He stated that the arrangements that had been entered into by a number of staff in the employment of the Department had been undertaken without the authority of their senior officers who were unaware of the occurrence and would not have condoned the arrangements in any circumstances.

Q.24

Conclusions.

22. The evidence shows that during 1968-69, payments were made prior to delivery in respect of 200 utility trucks valued at \$629,405; 45, 2½-ton trucks valued at \$181,920; 16 tractor-type trucks valued at \$419,533 and 3 wheel-type tractors valued at \$109,763. In all, the payments concerned amounted to \$1,340,621.

23. Your Committee regards in a most serious light, the nature of these transactions and the motives that were said to have inspired them.

24. The persons involved in the irregularities were an Army Officer of the rank of Colonel, 3 Lieutenant Colonels, a Major, a Lieutenant, 2 Sergeants and a Private together with 5 civilian officers, 2 of whom were of senior status. We note with great concern that the more senior officers in this group were aware of the fact that they were committing irregularities and we trust that appropriate action will be taken in these cases by the authorities concerned.

25. So far as the motives underlying these irregularities are concerned, Your Committee accepts that there will always be pressure within the Army and indeed within all departments to obtain equipment as quickly as possible, to ensure that claims are submitted promptly by contractors and that payment against these claims is paid correctly with minimum delay after the stores concerned have been delivered. While the Department claimed in evidence that it had not made any suggestion or issued any instruction that any irregularity should be engaged in with a view to achieving expenditure in the year of Appropriation, we find it somewhat remarkable that several senior Army and civilian officers of the Department should have misinterpreted the relevant requirements. If those requirements are capable of ready misinterpretation, then it appears to Your Committee that they require urgent review.

26. We note from the evidence that the Court of Inquiry took the view that no loss had actually been suffered by the Commonwealth and it found no evidence that there had been any intent to defraud the Commonwealth. It further indicated that there was insufficient evidence to suggest that collusion in the sense of an intention to defraud, existed in the occurrence.

In this regard Your Committee can only observe that several senior officers had successfully acted in concert to achieve an improper purpose. Moreover, they had acted in a manner which, with different motives, could have resulted in a large scale fraud with substantial loss to the Commonwealth.

27. Based on the findings of the Court of Inquiry we believe that the Department should examine, as a matter of urgency, the records maintained at its stores depots and that matters relating to progress payments made under contract should be examined in the offices of paying authorities.

28. The Court of Inquiry indicated that while it had taken no specific evidence in relation to initial checking and audit requirements, there was no evidence to indicate that there were any inadequacies in these areas. Nevertheless, Your Committee is strongly of the opinion that the Department should examine these areas of its administration at the earliest opportunity.

29. Finally, Your Committee would report with concern, that the present case is not the first to come to its attention, in which an unacceptable course of action has been pursued to ensure the expenditure of funds in the year of Appropriation.

30. In our examination of Expenditure from the Consolidated Revenue Fund, 1967-68, the evidence showed that the Department of Civil Aviation had arranged for the variation of contracts to achieve that objective. In that case we expressed the view that our Reports and the relevant Treasury Circular 1967/63 were directed to the problems that arise where claims for work performed and services rendered are not obtained and paid promptly. Accordingly, we were unable to reach the conclusion that the Treasury Circular concerned in that case either intended or sought to encourage the varying of contracts to ensure the expenditure of Appropriated funds.



(b) Purchase of Amplifiers in the United States of America.

1. Paragraph 283 of the Auditor-General's Report also included the following comment:

"Orders for the supply of 170 and 200 amplifiers were placed in May 1967 and January 1968, respectively, in the United States of America with the representatives of the manufacturer. A total of 370 amplifiers was delivered to the freight forwarding contractor during April 1968 and subsequently shipped to Australia. Payments totalling \$US405,602, being the value of 2 orders, were made to the supplier in April and May 1968.

It appeared from Audit examinations in the United States of America and Australia that the Department required an amplifier which would boost the radio frequency output of radio sets already in use in the Army and be capable of operation in both a vehicular and manpack role.

The manufacturer however supplied 370 amplifiers intended for use in a manpack only role. The Department was not aware of this operational limitation until June 1968; that is, after the payments had been made. The Department also became aware, subsequently, that the amplifiers as supplied were unsuitable for either of the roles for which they were purchased and were not capable of meeting the operational requirements originally specified.

The 370 amplifiers, except for a small number undergoing evaluation tests, have been held in storage at an Army Depot since the latter half of 1968.

At the time of compiling this Report, the Department had indicated to my Office that it is currently considering

a technical report following an investigation as to the feasibility of modifying the amplifiers for use in either role and the probable cost involved."

(1.) The Need for the Amplifiers.

32. We were informed by the Department of the Army that the Radio Set AN/PRC 25 was introduced into service in the Australian Army in 1963/64. Two configurations of it were procured, one the basic AN/PRC 25 for use in the manpack role and the other, known as the AN/GRC 125, for the vehicular role. The AN/GRC 125 is a basic AN/PRC 25 but with ancilliary equipments added to enable it to be mounted and operated from a vehicle. At the same time, a higher powered vehicular mounted radio known as the AN/VRC 46 also became available but procurement of this radio was restricted to the numbers required for armoured corps units. The AN/VRC 46 is heavier and more expensive than the AN/GRC 125 and could not be deployed outside the vehicle without considerable effort as it was designed purely as a vehicle mounted set.

Exhibit  
113/1

33. It was stated that Australian Army concepts of operations envisage that they will be conducted in areas where supporting vehicles sometimes cannot be taken and also with some elements operating at extended ranges from their base. Although the AN/PRC 25 and AN/GRC 125 radios are a very great improvement on any previous VHF (Very High Frequency) sets, these concepts still raise the requirement for a set with an increased range of operation and with improved performance over marginal circuits without the necessity of a vehicle to carry the radio. For this reason the AN/VRC 46, although having increased power, was not an operationally acceptable solution for all units. The requirement has been highlighted in Vietnam where it has proved necessary to provide additional radio sets on some radio nets for the retransmission of all traffic. This is often done by using a light aircraft to carry the retransmission equipment but is expensive in aircraft and pilot hours. Alternatively, the retransmission station can be

Exhibit  
113/1

located on a suitable high point, with the men and equipment that provide the station being re-supplied at intervals. The physical security of this detachment is always a problem, particularly when the area is not secure. Other expedients include the provision of elevated antennae and the issue of some of the vehicular sets AN/VRC 46 for use in other than armoured units where their use is feasible.

34. It was claimed that the best solution to these problems was, and still is, to provide an amplifier for the AN/PRC 25 series of radios to lift the power output and so help to provide the increases in range found necessary for some operations. This, the United States Army undertook to develop and is identified as the Amplifier RF AM-4306. The numbers of AM-4306 amplifiers procured by the Australian Army were based on the operational needs of the Australian Army at the time. The first order of 170 was to meet the basic requirements of the Australian Task Force in Vietnam plus a small training and repair pool in Australia. The next order of 200 sets was to equip a second Task Force in Australia so that training on the equipments could be carried out prior to duty in Vietnam. There was also an element in these 200 sets to meet more of the training and repair requirement.

Exhibit  
113/ 1

(2) Normal Procedure for Introduction of Equipment into the Army

35. We were informed that the provision of new equipment into the Australian Army entails a considerable amount of planning and co-ordination involving several branches and directorates within Army Headquarters. Each of these elements plays an active part in the introduction of an equipment into service starting at the initial concept stage through to the issue of the item to Army units. Various directorates within Army Headquarters act as sponsors for certain categories of equipment. Sponsorship responsibilities are allocated on the basis of the major user directorate e.g. the Director of Infantry is responsible for sponsoring small arms such as rifles; the Director of Signals for communication equipment. The equipment sponsor, taking into account

operational experience, operational research findings, forward operational concepts and related combat development studies, prepares equipment policy statements. These state the broad requirement and also define in outline the essential characteristics of equipments. The equipment policy statements are considered by a screening Committee known as the Army Headquarters Weapons and Equipment Policy Committee. The Committee is chaired by the Deputy Chief of the General Staff and its membership comprises a number of Brigadiers and Colonels, the First Assistant Secretary (Finance and Logistics) of the Department of the Army and the scientific advisor to the Military Board. The Committee is required to examine the equipment requirements of the Army, to consider whether the equipments that have been proposed to meet the military requirements will, in fact, meet those requirements and, if not, the courses that should be followed to obtain appropriate equipment. The Committee screens the equipment purchasing programme for the Army, usually on the basis of monthly meetings, but it also meets prior to the commencement of each financial year to consider the equipment ordering programme in connection with the formulation of Army estimates. After consideration by the screening committee, the policy statements are submitted to the Chief of the General Staff for approval.

Exhibit  
113/1  
and Q.48

36. It was stated that the means of meeting the characteristics required are considered in relation to whether items available from commercial sources are acceptable; whether an item developed overseas should be selected; or whether local design and development should be undertaken. New types of equipment are constantly being examined by equipment sponsors and the policy and technical branches. These examinations lead to recommendations for the adoption of equipment. If approved, the various stages of acquisition including programming and ordering are initiated. This process involves several directorates and existing procedures provide for a logical progression

Exhibit  
113/1

of events leading to the receipt and issue of the item to Army units.

37. It was stated that United States Army classified equipment into various categories and these are useful guidelines in considerations leading to the selection of equipment. For example the definition of Standard A and Limited Production (LP) classifications is used by the United States Army are:-

- . Standard A. An acceptable item which will fill an operational requirement and which is being produced in quantity or could be produced to fill shortages.
- . Limited Production An item under development commercially available or available from other government agencies for which an urgent operational requirement exists and for which no other existing item is adequate; which appears to fulfil an approved qualitative material requirement or other Department of the Army approved requirement and to be promising enough operationally to warrant initiating limited procurement.

Exhibit  
113/ 1

Equipment which is not classified Standard A is not usually purchased for introduction into the Australian Army. However, there have been occasions when the urgency of the requirement has justified the acquisition of items which have not been so classified.

(3) Procedure for Purchase in the United States of America

38. The Department informed us that prior to 1 July 1968, the following agencies in the United States were responsible for procurement, to the degree indicated:-

- . The Australian Consulate General (ACG), New York.

This office was the official agency to which all procurement demands were forwarded. A copy of each procurement demand was also sent to Australian Army Staff, Washington (AAS(W)) for information. The ACG

Procurement Section was responsible for seeking commercial quotations, requesting AAS(W) to approach United States Services for a Letter of Offer, (i.e. a quotation) as appropriate, and for processing all such quotations to the ACG Contracts Board. This Board did not have any AAS(W) representation. The eventual purchase order or contract (CG order) was raised by ACG and a copy forwarded to AAS(W) for information. Subsequent delivery advices, invoices etc were processed by ACG, and shipping arrangements handled by that Office. No documents relating to these post-contract stages were provided to AAS(W).

. Australian Army Staff (Washington).

Exhibit  
113 /1

The procurement element of AAS(W) did not have any purchase delegations. Its main tasks were to; maintain a watching brief on all demands sent to ACG, New York and, being accredited to the various United States Service Military sales branches, to act as an agent for ACG in obtaining Letters of Offer, on forwarding purchase orders raised on the Services, and initiating Service correspondence as requested by ACG. No member of the ACG procurement staff was accredited to the US Services. The procurement element of AAS(W) was also required to assist ACG procurement staff in New York by obtaining commercial quotations in the Washington area and obtain recommendations from Army Headquarters as to acceptance or otherwise of quotations received.

39. From 1 July, 1968, following a comprehensive study by representatives of the Public Service Board and the Department of the Treasury, it was decided to close the ACG Defence Procurement Sections and transfer all responsibilities for procurement to the Australian Embassy in Washington. A separate Contract Board consisting of an officer from the Department of External Affairs and one officer from each of the three Services is now established in Washington to deal

with Defence contracts. The New York Contract Board handles contracts for Departments outside the Defence Group. When items are ordered from private contractors in the United States the order raised by the Australian Consulate General is endorsed with a statement of the inspection requirements. A typical endorsement would indicate that inspection by United States Services is required prior to shipment of the material. The inspection would be arranged by the Australian Military Attache and the supplier would be contacted by the United States Government Area Inspector. Material must not be shipped until inspection has been completed. AAS(W) arranges with the United States Army for inspection to be carried out and for an order to be issued to cover this service. The United States inspection authority examines the equipments to ensure that they comply with the latest specification issued for the item.

(4) History of the Amplifiers Purchase

40. The sponsor for this equipment (Director of Signals) was aware that the United States Army had been developing the Amplifier RF AM-4306 and in April 1966 it was type classified by the United States Army as Limited Production Type. In August 1966 the Director of Signals sought approval for the item to be introduced into the Australian Army. At that time he knew that the manufacturer had been awarded a limited production contract in March 1966 by the United States Army for 2,561 sets and understood that these equipments were for use in both the manpack and vehicular role. The fact that the United States Army had decided to abandon the use of the equipments in the vehicular role first became available to the Australian Army on 24 June 1968 when officers of the Australian Army Staff at Washington visited the manufacturer.

Exhibit  
113/1  
and GS.49-52

41. We were informed that the abandonment of the intention to use the amplifier in the vehicular role would have been indicated by a change in the specification which the United States Army would have set out for the limited production contract. The Australian Army

would not be supplied with this sort of information. It is not known at what stage this change took place. The witness added that the Australian Army does not undertake a great amount of designing and research on equipment of this nature in Australia due to its limited ability in this field and therefore it relies to a considerable extent upon the development work carried out in the United States.

Exhibit  
113 / 1  
Qs. 49-56

42. The ordering programme for the financial year 1966-67 provided for the purchase of 170 amplifiers. In December 1966, AAS(W) sought a letter of offer from the United States Army and also a quotation from Associated Industries, the agents for the sole manufacturer of the equipment. We were informed that it was normal procedure to inquire as to price and availability from both the United States Army and from private contractors. Experience has shown that there is advantage in comparing the terms available from both sources and it is in accordance with standard contract procedure that quotations should not be restricted other than in exceptional circumstances. The United States Army did not submit a quotation but in February 1967 it suggested that the request be resubmitted in six months time when the quotation was expected to be classified Standard A.

Exhibit  
113 / 1  
Q.57

43. The Department informed us that Associated Industries submitted a quotation for 170 amplifiers manufactured to the latest modification which adapts the unit for use with AN/PRC-25 and AN/PRC-77 (a product improved version of the AN/PRC-25 radio set). They pointed out that they were unable to quote price and delivery on vehicular installation kits as drawings for the kits were not available at that time. Following a recommendation from AAS(W) and confirmed by the Director of Procurement and Distribution in the Ordinance Branch in Melbourne that the Associated Industries quote be accepted, ACG (New York) issued an order on that firm on 3 May 1967 for the supply of 170 amplifiers. In regard to the confirmation action that was taken the witness informed us that the Australian Army would necessarily rely on the information

Exhibit  
113 / 1  
and Qs. 59-62



that was being forwarded from the liaison officer in the United States. That officer's contact would not have been with the manufacturer but rather with the United States Army.

44. It was stated that in response to an inquiry from Associated Industries, AAS(W) advised the contractor in writing in September, 1967 that the Australian Army required the amplifiers for use both in the vehicular and manpack roles. On 17 October 1967, Associated Industries advised AAS(W) that the basic amplifier was the same for manpack and vehicular operation but certain auxiliary items, including brackets, cabling and certain amplifier units necessary to enable the equipment to be mounted physically in the vehicle, connect it to the vehicle power supply; connect it to the vehicle antenna and provide certain monitoring facilities over the installation itself, would be required when the equipment was used in the vehicular role.

Exhibit  
113 / 1  
and Q. 65

45. A further 200 amplifiers were programmed for ordering in the financial year 1967-68. As for the first order of 170 amplifiers, quotations were sought from both the United States Army and Associated Industries. At the time the quotations were sought for these 200 amplifiers the United States Army suggested that the request should be resubmitted in September 1968 when it was expected that the equipment would be classified Standard A. As the additional quantity was required urgently the quotation of Associated Industries was accepted by the issue of an order from A.C.G. (New York) in June 1968. As it is not customary for specifications to be provided to the Australian Army when items are not fully developed, the specification for the amplifiers had not been made available to the Australian Army and accordingly reliance was based on the broad concept recorded on the Small Development Requirement which officially launched the product in the United States Army. That requirement was quite specific in

Exhibit  
113/1  
and Qs.  
66 - 70

requiring operation of the amplifier in both the manpack and vehicular roles.

46. It was stated that during 1967 the Australian Army became aware through informal advices that arose from personal contact between its liaison officer with individual officers in the United States Army who were engaged on the evaluation of the limited production equipment, that the United States Army was encountering problems with the design of this equipment and that a series of modifications had been incorporated in the specification with a view to overcoming the problems they were encountering. A letter from Associated Industries addressed to ACG (New York) on 14 November 1967 advised that the equipment had at that stage been fully accepted by the United States Government.

Exhibit  
113 / 1  
and Q.71

47. The Department stated that on 11 April 1968, acting on advice informally received, AAS(W) advised that the United States Army had suspended all action on the amplifiers while they reevaluated another equipment. In retrospect, this information might have generated a more prompt reaction for review of the orders by the purchasing and technical staffs than was, in fact, the case. However, in view of the apparent protection afforded by the inspection clauses of the two contracts no particular anxiety arose that unsatisfactory equipments would pass inspection and be delivered to the Freight Forwarders in New York. It was said that this attitude was probably contributed to by a breakdown in the normal procedure in that the advice of suspension by the United States Army was inadvertently not referred to the technical staff concerned. In this regard we were informed that the relevant communications had been handled on a signals basis due to the time taken for air mail deliveries. In this particular case, the Ordnance Branch would probably have raised queries had they received the advice.

Exhibit  
113 / 1  
and Qs.73-75

48. On 24 June 1968 officers from AAS(W) visited the manufacturer to discuss these equipments. They reported that sufficient evidence was produced to confirm that the 370 amplifiers supplied to the Australian Army were built to the specifications called for in its

purchase orders and incorporated all modifications called for by the United States Army. They also established that additional modifications carried out on the Australian sets by the manufacturer improved the performance of this equipment in that the amplifier was less susceptible to tuning changes due to ground plane or antenna impedance variations and confirmed that the United States Government inspection had been accomplished on all 370 amplifiers. They also reported that although an early brochure on the AM-4306 described its use in a vehicle mounted configuration and certain development took place in this regard, the project was abandoned when the United States Army deleted the requirement from Specification MIL-A-55484(EL). The amplifiers supplied to the Australian Army were intended therefore for use in a manpack role only. Exhibit 113 / 1

49. In view of the advice that the amplifiers had been built to the approved specification and had been passed by the inspection authorities and other information that 200 sets had been shipped to Australia on 2 May 1968, it was decided to call forward to Australia the remaining 170 sets which were in the hands of the Freight Forwarder. An Export Licence had been issued for the 200 sets, it was alleged later, "inadvertently", but the State Department was reluctant to issue an Export Licence for the 170 sets. In the event, an Export Licence was issued but conditions were stipulated that were described as unique. These conditions stated that:

"It shall be understood that by its review of this transaction the United States Government does not waive any rights to which it is now or later entitled, accept any liability, necessarily endorse any items or statements concerning such items, or necessarily approve the proprietary or amount of any charge or the proprietary of any business arrangements involved in the agreement. There is no interference with any United States Government contracts or sub-contracts as a result of this transaction. Any use of United States Government

Exhibit  
113 / 1  
and Qs.77-78

owned facilities or special tooling in connection with this transaction is authorized by the United States Government contracting officer.<sup>11</sup>

Unfortunately, these conditions were not conveyed to Army Headquarters. Had they been it is likely that they would have been considered before the decision was taken to call forward the 170 sets.

50. We were informed that in this case the usual inspection arrangements were made by raising orders on the United States Army to cover both the 170 and 200 amplifiers. In response to inquiries raised as a result of the submissions that the Department of Army received from the Auditor-General's Office, AAS(W) advised the Department that all sets were subjected to United States Government inspection and testing during the production processes. Invoices relating to the first order of 170 sets were duly stamped with the United States Government inspection stamp of acceptance. The manufacturer shipped the remaining 200 sets to the Freight Forwarders in New York before obtaining formal inspection certification on the invoices, allegedly in error. This error was not known to AAS(W) until it was discovered in ACG Procurement Section after, it is understood, payment had been made to Associated Industries.

Exhibit  
113 / 1

51. The witness informed us that the provision of documents to support payments to contractors is a matter that falls directly between the contractor and the ACG (New York). The inspection documents should have been provided with the claim for payment. Thus, staff in the Army office in Washington would not have been aware that these documents had not been provided until they were informed of this fact by the ACG (New York). AAS(W) thereupon instructed ACG(New York) to arrange for the return of the sets to the manufacturer for completion of inspection formalities but was later informed that this could not be done as they had already been shipped to Australia on 22 May, 1968. The regional officer for the United States Government Inspection Authority subsequently refused to endorse the invoices with his acceptance on the grounds

Exhibit  
113 / 1  
Qs. 80 and 81

that there were no amplifiers to inspect, notwithstanding the fact that the inspection itself had been accomplished.

(5) Action Following Receipt of the Amplifiers in Australia

52. We were informed that as advice had been received in June 1968 that the amplifiers were intended for use in the manpack role only, whereas the Army's requirement was for an amplifier for use in both vehicular and manpack roles, it was decided that a technical evaluation of the equipment would be necessary prior to issue of the equipments to units. Consequently, soon after the first consignment was received in Australia in August 1968 the Army Design Establishment (ADE) was asked to assess the feasibility of using the amplifier AM-4306/GRC with the AN/GRC-125 in Australian Army radio vehicles. The report was to provide information on how far the United States Army progressed in development to meet the initially stated requirement that the equipment was to be capable of operation by using power from the vehicle electrical system. In addition, the ADE was requested to examine the reason why the United States Army had deleted this equipment and provide an outline of the design and development foreseen as being necessary to produce a modification kit for Australian Army Amplifiers AM-4306/GRC which will permit their operation using power from 24 Volt vehicle electrical systems and utilizing the vehicular antenna system of the Radio Set AN/GRC-125. Exhibit  
113/ 1

53. The report was received in August, 1969. The delay in producing the report was said to have been caused by the time taken in obtaining and assembling the information received from the United States and in conducting necessary tests at Army establishments in Melbourne. Also, the investigation was conducted concurrently with other important investigations which were carried out by ADE at that time. The report, which is in technical terms, indicates that the amplifier, in its present form, has the following unsatisfactory features: Exhibit  
113/ 1

- . Difficulty in antenna tuning
- . Excessive weight and poor weight distribution in the manpack role.
- . Very poor mechanical design of the internal circuitry resulting in poor maintainability.
- . Water leakage into the battery compartment.
- . Susceptibility to output transistor failures.

54. In addition the report stated that AM-4306/GRC equipment is not considered to be of the standard desired for military communications equipments, due primarily to its poor mechanical design and the departure from the current policy requirement for plug-in assemblies, repair accessibility and minimum down-time. From the size, shape and composition of the assemblies, plus the interconnecting wiring arrangements, it appears that the AM-4306 equipments are assembled from left-overs or common items from other communication equipments with additional fabricated sub-units required, occupying the limited chassis and front panel areas available. The resultant outcome is a repair technician's "nightmare". In general, the equipments accessibility for repair is considered to be poor, and secondary faults can be anticipated during repair as dismantling and desoldering will be commonplace even for minor faults.

Exhibit  
113 / 1

55. The report also indicated that, although all the difficulties referred to above could not be overcome, it would be possible for development of the amplifiers to be undertaken to be used in the vehicular role. This development, would involve essential modifications at a cost of \$96,000 to increase their reliability and ease of maintenance. Development of a modification kit for use in the vehicular role would cost \$307,000. These costs were said to be broad estimates only and would require detailed examination and justification before they could be accepted as a basis for undertaking the modification and development. The ADE report has not yet been finally considered by the superior technical

Exhibit  
113 / 1

authority. Apart from the technical considerations, the high estimated cost of modification and development make it appear unlikely that this line of action would be an economic proposition.

56. The Department submitted a statement in confidence indicating the further action that it proposes to take in respect of the amplifiers.

Conclusions .

57. From the evidence submitted it appears to Your Committee that, due to the urgency of the requirement an order for 170 amplifiers was placed on a United States manufacturer in May 1967 and a further order was placed in June, 1968.

58. When the first order was placed it was known that the United States Army had placed a limited period contract on the same manufacturer for the same type of equipment. As the Australian Army does not undertake a great amount of designing and research work on equipment of this nature in Australia it relies to a considerable extent upon the development work carried out in the United States and was therefore guided by the fact that the United States Army had placed such a contract.

59. During 1967 the Australian Army was aware, through informal advices that the United States Army was experiencing problems with the design of the equipment and that modifications had been introduced into the specifications relating to that contract. Although, evidently, the United States Army accepted the equipment later in that year, Your Committee believes that the Australian Army should have been alerted when it was discovered that difficulties were being experienced by the United States Army.

60. In April, 1968 the Australian Army became aware, again through informal advices, that the United States Army had suspended all action on the amplifiers while it re-evaluated another equipment. Due to a breakdown in signals however, this information was not conveyed to the appropriate technical staff. Your Committee takes a most serious view of the failure of a signal to reach its proper destination. But for this failure, the Army could well have avoided the placing of the second and larger order.

61. Following a visit by AAS(v) to the United States manufacturer late in June 1968 it was reported that the 370 amplifiers concerned had been built to the specifications called for in the Australian Army contract and incorporated all modifications sought by the United States Army. The report also indicated, however, that the amplifiers concerned were intended for use in a manpack role only. We believe that this limitation should have prompted the Department of the Army to a closer examination of the matter rather than make a decision to expedite deliveries to Australia.

62. Your Committee notes with concern that, evidently due to a further failure in communication, Army Headquarters in Australia was not made aware that unusual stipulations had been applied by the American authorities to the export licence covering 170 of the sets.

63. It appears that the manufacturer shipped the remaining 200 sets to the Freight Forwarder in New York before obtaining formal inspection certification on the invoices, allegedly in error. The error was not known to AAS(v) until it was discovered by ACG Procurement Section after payment had been made to the manufacturer. The evidence shows that the inspection documents should have been provided with the claim for payment but the staff in the Army Office in Washington were not aware that the documents had not been provided until they were informed of this fact by the ACG(New York). At that stage it was too late for the sets to be returned to the manufacturer as they had been shipped to Australia. Your Committee believes that this situation should not have been permitted to arise and that it reflects adversely on the Australian Consul-General's Office in New York.

64. In this regard Your Committee notes that in its Ninety-eighth Report it commented critically on the location and administration of the Australian Consul-General's Office in New York office in connection with accounting arrangements in North America and the purchase of destroyers by the Department of the Navy. Your Committee also notes that, following a comprehensive study by representatives of the Public Service Board and the Department of the Treasury a decision has been taken with effect from 1 July, 1968 to close the ACG Defence Procurement Sections in New York and transfer all responsibilities for procurement to the Australian Embassy in Washington where they will be under the control of a separate Contract Board.

P.P.No.53  
of 1968



This change in arrangements should overcome the problems that have arisen in the past in that area.

65. A technical evaluation made of the amplifiers subsequent to their arrival in Australia indicated a number of unsatisfactory features which have been set out in this Report. Apart from those matters, Your Committee notes with considerable concern the fact that the equipment is not considered to be of a standard desired the military communications equipments, due primarily to its poor mechanical design and the departure from the current policy requirement for plug-in-assemblies, repair accessibility and minimum down-time.

66. After taking into account the estimated cost \$307,000 for the development of a modification kit to enable the amplifiers to be used in a vehicular role and the further action contemplated by the Department and submitted in confidence, Your Committee, recognising that commercial alternatives should not be disclosed, believes that the Department should pursue to the fullest extent possible the proposed course of action set out as the first alternative in its confidential submission.

67. Finally, Your Committee believes that a major cause of the failure of the amplifiers to meet the Australian Army's requirement has arisen primarily from the fact that the equipment was not classified "Standard A" by the United States Army when it was ordered but was classified "Limited Production". While we recognise that instances will always arise where the urgency of a requirement justifies the acquisition of items that have not been classified "Standard A" Your Committee believes that special arrangements should be introduced in the Department of the Army to provide review procedures additional to those already in operation, to meet the needs of such cases.

Chapter 3

Department of the Navy

68. Paragraph 278 of the Auditor-General's Report included the following comment:

"Approval was given in May 1965 for the purchase of 2 craft of suitable design to fulfil an interim 'search and rescue' role in the Sydney-Jervis Bay area pending the introduction of patrol boats of the type referred to elsewhere in this paragraph. The Department anticipated at the time that the 2 craft to be purchased would be absorbed into the harbour personnel boat programme and be made available for harbour duties when replaced by patrol boats.

The boats selected for purchase at a cost of \$138,386 were 38 foot flybridge cruisers which were being manufactured and marketed in the United States of America.

Subsequent to their delivery in Australia in 1966, work involving certain modifications, correction of design deficiencies and installation of R.A.N. furnished equipment was carried out at a cost of \$22,001 to fit the boats for their interim role as 'search and rescue' craft.

The boats were accepted for service at Jervis Bay in December 1967, 2 years later than originally planned, but were found to be unsuitable for operation in open waters or inside Jervis Bay in adverse weather conditions. The 2 boats were returned to Garden Island in June and November 1968 respectively and have since been used on harbour duties.

According to advice received from the Department, both boats have been out of service for lengthy periods since their return to Garden Island, because of breakdowns and non-availability of spares which it had been anticipated would be readily available in Australia."

69. We were informed that the primary function of SAR craft, particularly in the Jervis Bay area, is to serve at sea whenever aircraft are operating from the air station at Nowra. The craft, however, have a large number of secondary functions which include range clearance for the bombardment range at Beecroft Head; daily checking of naval moorings in Jervis Bay; fleet marking duties for missile firing, such as Ikara; fishery surveillance duties as required; limited training of reservists and cadet mid-shipmen from the Naval College; target towing duties for the fleet; pilotless aircraft recovery; simulating fast patrol boat attacks on the fleet, and assistance to civil authorities in emergencies.

Q. 102

70. It was stated that the 1965-68 defence programme provided for replacement of the 4, overaged, 63 ft. SAR craft in the Jervis Bay area by patrol craft authorised in that programme, and it was expected that they would be available in 1967. About October-November 1964 a cursory inspection of the 4 SAR craft then in use was carried out and this was followed by a replacement inspection carried out in February 1965. The latter inspection revealed that 2 of the SAR craft were unfit for operational service although the witness was unable to inform us of the length of time for which this situation had obtained. A further craft had an assessed life of about 2 years and the fourth craft of about 11 years. We were informed that the 4 craft concerned had been obtained from the Department of Air in 1963 where they had been in operation as SAR craft. At that stage they were about 20 years old. The witness informed us that such craft would, under normal operating conditions, have a life expectancy of about 15 years. The circumstances revealed by the survey conducted in February 1965, together with delays in the construction and delivery of the patrol craft, made it essential to provide an interim replacement for at least 2 of the SAR craft in the Sydney-Jervis Bay area.

Exhibit  
113 / 3  
and Qs. 90 -  
93, 96 and  
99.

71. We were informed that in the circumstances three possibilities faced the Department. The first was to rebuild and re-engine 2 of the existing SAR craft at an estimated total cost of \$150,000 and with a possible completion date of mid 1966. The second was to construct new, 63 ft. SAR craft at an estimated cost of \$174,000 per

craft and with a possible completion date of November 1966. The third was to procure two similar interim boats to perform the SAR function and which could eventually be absorbed into a harbour role. The estimated cost in this case was \$70,000 per craft with a possible delivery date of August 1965. It was agreed that this alternative had the most merit because of the need for early replacement of the SAR craft and the high cost of the first two possibilities as interim arrangements.

Exhibit  
113 / 3

72. The Department informed us that to be effective in the interim SAR role the boats to be purchased would need to be between 35 and 40 feet in length, of proven design, with a high speed capability and preferably constructed of glass re-inforced plastic for long life and ease of maintenance. The Department required boats which could rescue from the sea, people who were possibly injured and return them to safety. The boats therefore were required to provide a reasonably soft ride and not expose passengers to unnecessary stresses. Having regard to these requirements the local market was investigated, but without success, for suitable boats of proven design.

Exhibit  
113 / 3  
Q. 94

73. During its investigation the Department ascertained that the parent organisation in America of an Australian-based subsidiary company had supplied the United States Navy with boats of similar hull form and construction. The Australian Navy representative in Washington advised subsequently that although experience of this type of boat in the SAR role was not available, the United States Navy was using 31 ft. boats of similar hull form in an armed patrol role.

Exhibit  
113 / 3

74. We were informed that from 7 April to 30 June 1965, technical investigations and evaluations which necessarily had regard to both the proposed interim SAR role and the permanent harbour role were conducted in relation to such aspects as the type of engine to be installed; the maximum displacement of the boats with diesel or gasoline engines; alternative steering and engine controls available

for bad weather travelling at cockpit level; navigational and communication equipment; the accessories that would be required and the naval equipment that would need to be fitted. The investigation determined the probable displacement of the boat after the necessary modifications to suit the interim SAR role had been completed and from those details estimates were made of the probable speed which could be achieved with that weight. The estimated speed at this displacement was of the order of 19 - 19.5 knots.

Exhibit  
113/ 3  
Q. 104

75. A procurement demand for two boats at an estimated cost of \$130,000 was forwarded to the Department of Supply on 30 April 1965. In forwarding the quotation from the United States company on 12 November 1965 the Department of Supply indicated that the delay that had occurred was due mainly to the time taken by the Australian subsidiary company in obtaining sufficient data from its parent company in the United States of America. The quotation received was for an amount of \$142,940 but this was later reduced to \$139,586. Delivery was quoted at 6 to 7 months after receipt of specifications, the rate of delivery being dictated by the availability of the engines.

Exhibit  
113/ 3

76. It was stated that following a request by the Department of Supply on 9 March 1966, that Department was assured that a suitable alternative craft for SAR purposes could not be obtained locally. The order for 2, 38 ft. Bertram, Flybridge Cruisers was placed by the Department of Supply on 13 April 1966. The first boat was delivered in Australia on 20 September 1966 and the second on 25 November 1966. We were informed that both craft were designed and constructed in accordance with the terms of the order that had been placed.

Exhibit  
113 / 3  
Q. 105  
and  
Q. 110

77. On 21 September 1966, following the delivery of the first boat on the previous day, pre-acceptance trials were carried out before the boats were accepted from the contractor. A copy of the report, dated 23 September 1966, by the Naval Architect was tendered in evidence. The report indicated that, although well-finished, the boat fell short of requirements for the SAR role. The report also

indicated that during acceptance trials with 14 passengers on board, a speed of 21.8 knots had been obtained at the maximum continuous rating of the engine and 23.2 knots with throttle wide open. On this basis the Naval Architect had offered the opinion that, fully loaded and fitted out for SAR duties, the boats would realize a speed of 19 knots which approximated the minimum speed for the SAR role. He had also reported that the boat was soundly constructed, well-finished and well suited for its role as a pleasure craft which was the purpose for which the boat was primarily designed. The report also included the remarks that the fendering of the boat was totally inadequate, comprising only a swelling of hull mould at the gunwale and chromium plated cope bar. Particular care would need to be exercised by the crew when coming alongside. The fittings were found to be light and neat but would not stand much punishment and no doubt would need to be replaced in the near future. Exhibit 113/4

78. The Naval Architect reported that the boat had been taken out for two runs. There was a moderate sea running and the boat behaved well, giving no feeling of insecurity. It did, however, give the usual feeling of discomfort experienced with any planing boat at high speed in a seaway. Subsequent to the trials a meeting had been held to discuss additions and modifications to the boat. At that meeting it had been stated that the SAR craft had about three emergency calls for service each week and there was an increasing requirement to assist fishing boats etc. It was envisaged that the most arduous service for the boats would be in attending exercises which are conducted about 60 miles offshore. For rescue purposes it was normal practice to stream or lash a life raft alongside SAR craft and as it was not unknown for one to be lost during a rescue, two 6 or 8-man types would be preferred. When a Captain who attended the meeting was informed that the boat had no inbuilt buoyancy and that Navy office thinking was that a life raft would not be required he expressed the view that the boat would not be allowed to put to sea. Exhibit 113/4

79. The report continued that on the basis of present policies and the discussions held, it appeared that 26 items would need to be

added to the boat or replaced in the not distant future. These included life rafts, radio equipment, batteries, hand signal lamp, lead wiring, medical chest, splints, life jackets, fenders and anchor line. The Naval Architect stated that the performance of the boat depends on weight and the indications were that the list of 26 items would need to be pruned if the boats were to achieve a speed of between 19 and 20 knots. He added that the full power endurance of the boat had been previously estimated to be only 170 miles which appeared hardly adequate if the boat was to operate 60 miles offshore. The boats were accepted after the Naval Architect had made his report as there was deviation from the specifications on the basis of which they had been purchased.

Exhibit  
113/4,  
Qs. 106,  
107-109

80. We were informed that the time between delivery of the boats (November 1966) and the forwarding of a procurement demand to the Department of Supply in May 1967 for their modification for use in the interim SAR role was taken by unexpectedly long technical investigations and trials, the latter disclosing a number of deficiencies which were of major importance in relation to the SAR role. This delayed the preparation of specifications and guidance drawings. Modifications were completed by the contractor in November-December 1967. The boats were placed in service at Jervis Bay in November 1967.

Exhibit  
113/3  
Qs. 116 -  
119

81. In March 1968, the Commanding Officer, H.M.A.S. Creswell at Jervis Bay reported that the two 38 ft. Bertram craft were far from ideal in the SAR role, but had considered it essential that both should remain at Jervis Bay to meet the SAR commitment as an interim measure. He also considered it desirable that one of the boats should remain at Jervis Bay as a stand by SAR craft on a longer term basis. We obtained from the Department a copy of a further report tendered on 19 April 1968 by the Commanding Officer of H.M.A.S. Creswell. That report showed that the Bertram 38 had limitations in the SAR role when operating in adverse conditions and due to their comparatively low speed. For general purposes in Jervis Bay however, the craft were proving to be most useful and it was felt that when their speed had

Exhibit  
113/5

been improved by the fitting of new propellers their value would be enhanced.

82. The Commanding Officer, H.M.A.S. Creswell added that before acquisition of these boats the naval officer in charge at Jervis Bay had no suitable, presentable craft for the various local requirements involving the transport of important personages and visitors to and from ships of the fleet or public relations cruises in the Bay. In a short period after the acquisition of the Bertrams, the Minister and a large party of pressmen were embarked, the flag officer second in command Far East Fleet was conveyed to and from his flag ship and parties of headmasters and distinguished visitors had been afloat. He observed that undoubtedly the size and appearance of the Bertrams had created a very favourable impression and had resulted in good public relations for the Navy. Exhibit 113/ 5

83. The report continued that in the absence of the Bertrams the only other available craft which could be used for these purposes were the aging 38 foot motor boat known as the Captain's Barge, or a work boat. The use of such craft on the occasions referred to above tended to confirm the long held view in the mind of the public at large that the Navy is old-fashioned. In contrast, the advent of the Bertrams had provoked favourable comment to the effect that the Navy is being modernized. Exhibit 113/ 5

84. The Commanding Officer, H.M.A.S. Creswell further reported that just as important as the public relations reasons were the many supporting tasks that the Bertrams can perform, such as range clearance, co-operating with R.A.N.A.S. Nowra operation and other exercises and trials with fleet units in the immediate vicinity of Jervis Bay. He added that a further important aspect was that the Bertrams could be slipped at Jervis Bay and routine maintenance carried out on the spot resulting in a high serviceability rate. On the basis of these considerations he concluded that the retention at Jervis Bay of one Bertram 38 ft. boat was highly desirable and in the interests of the service. Exhibit 113/ 5 Qs. 121 and 122



85. We were informed that one of the boats was returned to Garden Island in June 1968 and the other in November 1968 for duty as harbour personnel boats; a patrol boat having been allocated to Jervis Bay in October 1968 as a replacement. Exhibit 113 / 3

86. The Department informed us that both boats are now operating in the harbour personnel role but, because of breakdowns including, for example, damage to propellers and failures of a gear-box, steering box and injectors the extent of their service has been limited. It was claimed that the cause of failure of the propellers is a very common instance of propeller damage in Sydney Harbour due to flotsam and jetsam, particularly in the case of high speed boats. The gear box had failed 15 months after delivery. The witness informed us that the gear-box and the engine should not be associated with the boat as such, as far as the satisfactory performance of the boat is concerned. While the gear-box and the boat comprise a single system, the failure of the gear-box is not related to the boat. The part required to rectify the failure in the gear-box was not available in Australia and had to be obtained from overseas. Similarly, the steering box and injectors, in isolation, as failures in themselves, were said to be of minor consequence and would not require investigation to establish the cause. It was stated that the one major period when the craft was not available was attributable to the gear-box failure. During this period, advantage was taken of the opportunity to refit the boats, a process which would normally have taken about 8 to 10 weeks but in the present case kept the boat out of commission for up to 2 or 3 months waiting for parts.

Exhibit  
113 / 3  
Qs. 124 -  
128, 149 -  
151

87. In a general comment the Department claimed that the procurement of the 2 boats from the United States for use in an interim SAR role with eventual permanent utilization as harbour boats was a correct decision on the grounds of need and economy. Exhibit 113 / 3 Investigations made through the Australian Naval Attache, Washington, had established that this family of boats was being used by the United States Navy on arduous duties such as armed patrols.

88. Doubts began to emerge after the craft were accepted and after the full extent of the modifications necessary became apparent, as to whether, when the craft were modified after delivery, for use in the SAR role, their speed would be adequate to handle the extreme conditions which could be met in that role. It was considered, however, that their anticipated performance could be improved by fitting modified propellers, eliminating all unnecessary weight and by using special light-weight equipment. Accordingly the craft were purchased and modified for the SAR role. The craft are now being used in their permanent role as harbour personnel boats with a long and useful life expected. It was stated, however, that if the Navy were to require craft purely for harbour personnel duties, which in fact is the purpose for which these craft are being used, it would not require craft of this type. The Navy, however, required craft which would fill an interim SAR role and then have a useful purpose afterwards. The witness claimed that if the Navy had not acquired craft which could fill the SAR role, all flying from Nowra would have ceased when the SAR Airsprite was not available. It was further claimed that the craft had in fact performed a useful function as interim SAR craft for a period of about 12 months.

Exhibit  
113/ 3  
Qs. 129-  
131 and  
136

89. It was stated that the question of what further modifications if any, may be required or are necessary to enable the boats to continue to be used with maximum efficiency as personnel craft has not been finally resolved. It was said that the only modifications which would be considered at this stage would comprise the removal of the radio equipment and some of the life saving equipment that was necessary for their operation in the open sea but which is not necessary for operating in harbour. This equipment has not been removed up to this stage and it is still a matter for negotiation as to whether it should be removed or whether it should be retained so that the craft can be used in an SAR emergency when no other craft are available. The boats are considered by the officer responsible as the most suitable in the area, other than the patrol boats, for the saving of life at sea outside the harbour.

Qs. 142 to 145

Conclusions.

90. There are several features of the evidence in this case to which your Committee would invite attention.

91. In 1963 the Department of the Navy acquired 4 craft from the Department of Air for use in the SAR role off Jervis Bay in New South Wales. Following a cursory inspection in October-November 1964 a replacement inspection carried out in February 1965 showed that 2 of the craft were unfit for operational service and had been in that condition for an unknown period of time; the third craft had a life expectancy of 2 years and the fourth craft a life expectancy of 11 years. Your Committee believes that the Department of the Navy should have inspected these craft thoroughly before acquiring them from the Department of Air, particularly when it was known that they had been used by that Department in the SAR role and were 20 years old at the time of acquisition. While we recognise that each of those boats should have been assessed in relation to its particular condition at that time, nevertheless the expert evidence tendered indicated that, under normal operating conditions, the average life expectancy of a boat used for SAR work is about 15 years. We believe that a proper inspection made at that time may have resulted in the non-acquisition of 2 or perhaps 3 of these boats. The acquisition of these boats, in the circumstances at that time, suggests strongly that forward planning on the part of the Navy in relation to the SAR role had been inadequate.

92. Your Committee also notes that the decision to acquire the 2, 38 ft. Bertram craft was influenced in large part by the fact that a United States company had supplied the United States Navy with boats of a similar hull form and construction to those contemplated. While those craft were being used in an armed patrol role they had not been used in an SAR role. Your Committee believes that this was an inadequate basis for assessment, particularly in view of the report made by the Naval Architect subsequent to the delivery of the first boat.

93. While Your Committee takes cognisance of the fact that the 2 Bertram craft were required to perform in an interim SAR role only, pending the acquisition of new patrol boats, the fact remains that they were required to be adequate for SAR work including rescuing from the sea, people who were possibly injured and return them to safety. The boats therefore were required to provide a reasonably soft ride and not expose passengers to unnecessary stresses. The report of the Naval Architect, however, based on the trials referred to, showed that the boat produced the usual feeling of discomfort experienced with any planing boat at high speed in a seaway. The report also indicated that, fully loaded and fitted out for SAR duties, the boat would achieve only the minimum speed required for the SAR role; it was insufficiently robust in certain important respects, for SAR work; substantial additions and alterations would need to be made to the craft but these would have an adverse effect on its speed. The report also indicated that its full power endurance was estimated at only 170 miles which appeared hardly adequate if the boat was to operate, as planned, 60 miles offshore.

94. On the basis of that report, Your Committee believes that the 2 boats that were acquired were unsatisfactory for use as SAR craft, even in an interim role. Your Committee accepts the view of the Naval Architect however, that the boats were well fitted for their role as a pleasure craft which was the purpose for which they were primarily designed. In this regard, we have noted the report made in April, 1968, by the Commanding Officer of H.M.A.S. in which he referred to considerations that had evidently been taken into account prior to the acquisition of the boats. These included the fact that, at that time, the naval officer in charge at Jervis Bay had no suitable, presentable craft for the various local requirements involving the transport of important personages and visitors to and from ships of the fleet or public relations cruises in the Bay. The advent of the Bertram craft had overcome these problems, however, and had created a favourable impression regarding the modernisation of the Navy.

95. The evidence shows that following protracted delays connected with their modification for the SAR role the boats went into service at Jervis Bay in November 1967. One boat was returned to Garden Island in June 1968 and the other in November 1968 for duty as harbour personnel boats, a patrol boat having been allocated to Jervis Bay in October 1968. In these circumstances it appears that one boat fulfilled its function as an SAR craft for only about 6 months and the other for about 12 months, after extensive modifications had been made to them for work in that role. The evidence also shows that, subsequent to the return of the boats to Garden Island for harbour duties, their service in that role has been limited due to breakdowns, mainly to failure of a gear-box but also including damage to propellers and steering box and injector failures. In this regard Your Committee is unable to accept the claim made in evidence that a failure of a gear-box is not related to the failure of the boat in which it is installed.

96. Your Committee is also disturbed by the statement made in evidence that if the Navy were to require craft purely for harbour personnel duties, which is in fact the purpose for which these craft are now being used, it would not require expensive craft of this type. This indicates that not only were these craft inadequate for interim use in the SAR role but also they are inappropriate for the long-term harbour duty role which was also contemplated when they were acquired.

97. Your Committee regards the circumstances surrounding this matter as most unsatisfactory and believes that the Department of the Navy has a clear responsibility to ensure that they are not repeated in other areas of its administration.

Chapter 4

Department of Social Services

98. Paragraph 230 of the Auditor-General's Report contains the following comment:

"In paragraph 240 of my 1963-64 Report, reference was made to the problems inherent in any attempt to reconcile certain departmental drawing accounts due mainly to the volume of cheques issued. These accounts included the No.2 Drawing Accounts of the Department of Social Services used for the payment of pensions. It was also indicated that the concern evinced by the Audit Office at this situation was shared by Treasury, and that the latter had expressed the view that there did not seem to be any real prospect of the position being rectified until the use of electronic computers, coupled with magnetic ink character recognition devices, could be implemented.

Since 1965, the application of automatic processing techniques to cheque issues and paid cheques, including magnetic ink character recognition devices, has been extended to most departmental drawing accounts and in such cases regular reconciliations have been effected. In the case of the Department of Social Services, computer processing has been progressively introduced since 1967 and for this purpose new drawing accounts were opened to process the bulk of the Department's cheque issues. However, pending complete implementation, the Department found it necessary to continue issuing cheques for certain types of benefits from the unreconciled drawing accounts referred to above.

Early in 1969, by which time the volume of cheques processed through these latter accounts had decreased

considerably, it became apparent that the balances remaining in the Sydney and Melbourne accounts would be insufficient to meet all cheques still outstanding.

The Department instituted a detailed investigation into the position and calculated that the deficiencies were expected to approximate \$127,250 and \$241,000 in the Sydney and Melbourne drawing accounts, respectively. The total of \$368,250 was made available during 1968-69 from the Consolidated Revenue Fund, Special Appropriations - Department of Social Services for payment to the National Welfare Fund in relation to expenditure authorised by the Social Services Act 1947-1968.

The Department has stated that, because all documents for early years are not available, it is unable to determine precisely all the factors which contributed to the discrepancies but considers that, as protection against loss was maintained by other means, the discrepancies were mainly attributable to errors in departmental accounting which arose from a change in the procedure for reimbursing the drawing accounts, introduced from 1 July 1961. These errors led to a failure at the time to lodge the required funds to the credit of the accounts. As observed by the Department, the discrepancies are small relative to the magnitude of transactions processed through the accounts for the payment of pensions.

Issues of cheques from the unreconciled accounts have now ceased in all States except Tasmania and the accounts will be closed when all outstanding action has been completed. The Department has indicated that, in respect of Tasmania, cheque issues against the accounts will cease

early in 1970. Under these circumstances, the possibility exists that further discrepancies may be disclosed before final closure of the accounts, although the Department considers that any such discrepancies are likely to be comparatively minor.

Aspects regarding these drawing accounts were under correspondence by my Office with Treasury at the date of compilation of this Report."

99. We were informed that the Drawing Accounts under review have operated continuously since 1941-42, when the Department of Social Services assumed responsibility from the Treasury for the issue of pension cheques. In that time over 200 million cheques have passed through the Sydney and Melbourne No.2 Accounts. Until 30 June 1961 the method of operation followed principles formerly applied by the Treasury and introduced in March 1940 in order to save the very large amount of work that would have been involved in reconciling the account during a period of staff shortage. The value of cheques issued was credited to the Pensions Suspense Trust Account from which the value of cheques paid by the bank was withdrawn to reimburse the Drawing Accounts. Therefore, at any time, the balance of the Suspense Account should have equalled the value of cheques yet to be presented at the bank. The Drawing Accounts continuously in overdraft to the extent that the bank had not been reimbursed for cheques paid.

Exhibit  
113/ 6  
and Q.158

100. On 1 July, 1961 the normal practice of reimbursing the bank accounts daily for all cheques drawn was introduced at the request of the Department of the Treasury and phasing out of the Pensions Suspense Trust Account commenced. We were informed by the Treasury Observer, Mr. Davidson, that, at that time, the question of opening new bank accounts had been considered by the Department of the Treasury but as the Department of Social Services was



holding extensive stocks of cheques relating to the existing accounts and as the lead time in cheque production was approximately three months and as it was not considered that the retention of the existing bank accounts would pose serious problems, it had been decided to retain those accounts, on the basis of reconciled balances as at 30 June 1961. While the Department of Social Services witness informed us that the bank accounts were known to be correct as at 1 July 1961, the Audit Observer, Mr. Scott, stated that the accounts were not, in fact, reconciled at that date in so far as proving the amount of outstanding cheques was concerned.

Exhibit  
113/ 6  
and Qs.158  
to 166 and  
178.

101. The Department stated that because the same bank accounts continued in use it was necessary to distinguish between cheques issued under the 'old' and the 'new' systems. Subject to the bank being correctly reimbursed for 'old' system cheques, the balances of the Drawing Accounts should, at any time after 1 July 1961, have equalled the value of cheques issued under the 'new' system and unrepresented at the bank. As paid cheques were received from the bank they were sorted (after summation and checking to prove that all cheques and amounts were properly chargeable to the drawing account) into the categories "issued prior to 1 July 1961 and "issued after that date". For the former, transfer of funds from the Pensions Suspense Trust Account to the credit of the relevant Drawing Account was necessary.

Exhibit  
113/ 6

102. We were informed that the onerous work of dissecting the great volume of paid cheques (then being issued at the rate of 400,000 per fortnight in Sydney and Melbourne) was not perfectly performed, with the result that insufficient funds were paid into the Drawing Accounts in those centres to meet 'old' system cheques and credit balances remained in the Pensions Suspense Trust Account in both cities. At that time all other States reported deficiencies in their sections of the Suspense Account. On

closure of the account in 1962-63, the position throughout the Commonwealth disclosed a net surplus of \$203,648 which was transferred to Revenue as an unrequired balance of a trust account. Exhibit  
113/ 6

103. The Department stated that when the reasons underlying the surplus were examined the short-reimbursements referred to were obscured by three factors viz -

- o the bank balances varied substantially from day to day within a 28 day cycle embracing daily, fortnightly and four weekly issues for various benefits;
- o the account balances changed from overdraft to credit in July 1961. They remained in credit at a high fluctuating level until 1968-69 and it was not apparent, in the absence of listings of unrepresented cheques that the credits were insufficient; and
- o the discrepancies are small relative to the transactions involved.

104. It was stated that because of the lengthy period over which the Suspense Account had operated, all relevant documentation was no longer available and it was not possible to establish conclusively the extent to which each of a number of causes had contributed to the discrepancies. The same factors which affected the Suspense Account in respect of cheques issued prior to 1 July 1961 affected the Drawing Accounts when the cheques were issued after that date. The principal avenues for error were a failure to reimburse the Drawing Accounts for cheques issued under Suspense Account procedures in mistakes in repaying to revenue, cheques which were listed as stale; and omission to adjust the Drawing Account when original and duplicate cheques were both paid. (Recovery of excess payments is effected in these cases).

105. In 1965/66, the Reserve Bank of Australia regionalised certain accounting functions upon its Sydney and Melbourne branches and the No.2 Drawing Accounts operated in four States were closed with a relatively small surplus which was transferred to Revenue. Regionalisation of Reserve Bank accounting did not cause closure of the No.2 Drawing Accounts in Sydney and Melbourne. In those cities issues made after 1 July 1961, totalling approximately 55 million cheques to the value \$1,360 million and 40 million cheques to the value of \$900 million respectively, together with the surplus referred to above, yielded discrepancies estimated at \$127,250 and \$241,000. The combined results arising from the closure of the Pensions Suspense Trust Account and in respect of the Drawing Accounts that were operating concurrently with that account revealed a debit balance of \$147,507. Exhibit 113/6

106. In regard to mistakes that occurred in repaying to Revenue cheques that were listed as stale, we were informed that it had been necessary to replace every cheque damaged by the public, during bank processing or during departmental proving operations with a substitute card. Failure to do so or omission to file a card in place of a paid cheque extracted to satisfy a query would lead to the stale cheque lists carrying excess entries and to greater repayments to Revenue than should be made. Records showing the value of stale cheques repaid to Revenue in each year from 1941-42 are no longer available but the Department was aware that from 1961-62 the aggregate exceeded \$100,000 each year. Hence it had been assessed that the overall total from 1941-42 would exceed \$2,000,000. Exhibit 113/6

107. In connection with the omission to adjust the Drawing Account when original and duplicate cheques were both paid, the Department informed us that further deposits are not made when duplicate cheques are issued, funds having been provided on issue of the original cheque. When both original and duplicate cheques are paid, the Drawing Account

should receive a deposit to adjust the second withdrawal. Occasionally, prior attention to the matter of recovery of the amount of dual payment has resulted in Drawing Account adjustment being overlooked. However, the Department claimed that, in the absence of documentary evidence, any attempt to assess the effect of this factor over the years would be purely speculative.

108. The Department admitted that all errors of the types mentioned could have been detected with certainty only by a full reconciliation of the accounts. Under conditions existing prior to the advent of automatic data processing, however, this would have involved very heavy additional expense. The cost of introduction of full reconciliation under punched card methods was estimated by the Department in 1964 as approaching \$200,000 per annum. In the absence of full reconciliation, protection against loss was maintained by means of stringent controls over cheque forms prior to issue and by proving operations upon returned paid cheques. These operations included checks on counting and/or listing to ensure that all cheques debited were received from the bank and that bank totals were correct; checks against fraudulent alteration (for punched card cheques by machine reading of values punched prior to issue combined with double punch detection); checks on currency of serial numbers and on any duplication of numbers; and examinations to ensure that cheques issued by other State offices or chargeable to other accounts were not included.

109. During recent investigations to determine the causes of the discrepancies in the Sydney and Melbourne Drawing Accounts, particular attention was given to the question of whether they might reflect loss of Commonwealth moneys due to fraudulent withdrawals from the account, including fraudulent alteration of amounts of cheques; omission by the bank to credit deposits correctly; or incorrect chargings to the accounts by the bank. We were informed that fraudulent withdrawals and incorrect chargings to No. 2 Drawing Accounts are avoided by the

system mentioned above which provides for proof that cheques paid are bona-fide issues by the department, not fraudulently or inadvertently altered as to amount, and that debit entries to the account are supported by paid cheques. Omissions to credit deposits or to make adjustments as necessary in consequence of departmental examination of paid cheques are guarded against by reconciliation in accordance with Treasury Regulation 99, which proved that debits and credits to the account were valid but did not extend to proof of a listing of unrepresented cheques against the bank balance. It was stated that the investigation had revealed no evidence of unauthorised or irregular drawing of cheques on these accounts, nor any weakness in procedures providing for strict control over the custody and issue of cheques. These aspects were, of course, subject to intensive, continuous internal audit checking throughout the years that the accounts operated.

110. The Department claimed that for years it has maintained the objective of achieving a full and effective reconciliation of all drawing accounts as soon as this was practicable and economic. Introduction of computers permitted those sections of issues from the Drawing Accounts with highest volumes to be brought under the Treasury reconciliation system within months of installation of the equipment in all mainland States. Necessarily, because of the magnitude of the task and the limited programming resources available, the change to Automatic Data Processing methods has been effected in stages, the latest being a system for capture of data relating to cheques issued in payment of unemployment, sickness and special benefits in Sydney and Melbourne, which cheques ceased to be issued from the No. 2 Drawing Accounts on 1 August 1969. Issues from unreconciled Drawing Accounts have ceased in all mainland States but the accounts will remain open until twelve months have elapsed from the last dates of issue as cheques remain current for 12 months. The possibility, mentioned by the Auditor-General, of further discrepancies arising was not

Exhibit  
113/6

denied by the Department. The greatly reduced volume of transactions however, allows very close attention to be paid to accounting for outstanding cheques and the discrepancies are expected to be small.

111. It was stated that Hobart is now the only centre where issues are being made from an unreconciled account. Earlier this year a system specially devised for economical capture of issue data in respect of the most common rates of pension and endowment cheques was installed to enable reconciliation to be undertaken through use of the Treasury computer, pending installation of a computer in the Department's Hobart Office. The Department claimed, however, that it is not economically feasible for the remaining Hobart issues, (cheques of variable amount issued by punched card or by manual process on a variety of due dates) to be brought under the Treasury system and it will be some months before the objective of wholly eliminating issues from unreconciled accounts is achieved. Since less than one-third of cheque issues by the Hobart Office were said to be in that category and reconciliation of the bulk of current issues will relieve the situation, very close attention can also be paid in this centre to accounting associated with the unreconciled No.2 Drawing Account

Exhibit  
113/6

112. The Department informed us that the problem of reconciliation of high volume Drawing Accounts which has caused concern is now virtually overcome by the use of modern computing equipment. The Audit Observer, Mr. Scott, confirmed that in general, the deficiency has been liquidated although there is a likelihood of small deficiencies continuing to be discovered. The witness informed us that, currently, new accounts operating under computer methods are fully reconciled. As regards past years, it was claimed that the book discrepancies which are attributable to accounting errors, represent a fraction of the real costs which would have been incurred in avoiding them. The Treasury Observer, Mr. Davidson, conceded that, viewed in retrospect, the decision taken in 1961 to retain the bank accounts operative at 1 July 1961 was possible not a correct judgment or the best decision.

Exhibit  
113/6  
and Qs.  
172 to 178.

Conclusions

113. From the evidence submitted it appears to Your Committee that the decision taken by the Department of the Treasury in March 1961 to retain the existing bank accounts under the new Drawing Account arrangements operative from 1 July 1961 and based on a reconciliation of those bank accounts as at 30 June 1961 was an unwise decision. While the accounts concerned were known to be correct as at that date, they had not been reconciled in so far as proving the amounts of outstanding cheques was concerned.

114. The evidence shows that investigations carried out early in 1969 by the Department of Social Services revealed no evidence of unauthorised or irregular drawing of cheques from the Sydney and Melbourne Drawing Accounts nor any weakness in procedures providing for strict control over the custody and issue of cheques. While we note that these aspects were subject to intensive, continuous internal audit checking throughout the years in which the accounts operated, other evidence suggests that over those years there were, in some areas of the Department's accounting operations inadequate standards of performance. The evidence indicates that following the introduction of the new Drawing Account arrangements the onerous work of dissecting the large volume of paid cheques was not perfectly performed, with the result that insufficient funds were paid into the Drawing Accounts. Also, the same factors which affected the Suspense Account in respect of cheques issued prior to 1 July 1961 affected the Drawing Accounts when cheques were issued after that date. These errors included failure to reimburse the Drawing Accounts for cheques issued under Suspense Account procedures; mistakes in repaying to Revenue cheques listed as stale and omission to adjust the Drawing Account when original and duplicate cheques were both paid. It also appears that occasionally, prior attention to the matter of recovery of the amount of dual payment resulted in Drawing Account adjustments

being overlooked. Although these accounting errors have not resulted in a loss of Commonwealth moneys Your Committee believes that they do not reflect creditably upon the Department's past financial administration.

115. Your Committee notes with satisfaction, however, that the problem of reconciliation of the high volume Drawing Accounts has been virtually overcome and that new accounts operating under recently introduced computer methods are fully reconciled.



Chapter 5.

Conclusions.

116. Due to the pending dissolution of the House of Representatives Your Committee's Inquiry this year covered only four matters involving three departments and constitutes one of the smallest of the inquiries conducted by Your Committee in this important area of its work. The evidence taken during the Inquiry, however, relates to matters of considerable importance in terms of the responsibilities vested in Your Committee under the Public Accounts Committee Act.

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

Department of the Army

Purchase of Utility Trucks in Australia - Page 15  
Purchase of Amplifiers in the United States of America - Page 31

Department of the Navy

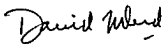
Interim Search and Rescue Craft - Page 43

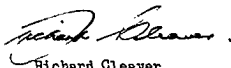
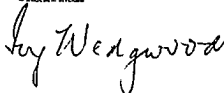
Department of Social Services

Deficiencies in Drawing Accounts - Page 55

118. Your Committee's decision to inquire into only four items on this occasion has inhibited inquiry into a range of matters referred to in the Auditor-General's Report that would, in other circumstances, have led to public examination. Your Committee would therefore refer its successor Committee to other matters mentioned in that Report, for evaluation in the context of further public inquiry.

For and on behalf of the Committee,

  
David N. Reid,  
Secretary,  
Parliament House,  
Canberra.  
23 September, 1969.

  
Richard Cleaver  
Chairman  


List of Exhibits

<u>Exhibit No.</u>	<u>Title</u>
1	Submission by the Department of the Army - Purchase of Utility Trucks in Australia.
2	Supplementary Submission by the Department of the Army - Purchase of Utility Trucks in Australia.
3	Submission by the Department of the Navy - Department's Explanation in Relation to the Purchase of 38 ft. Boats to Fulfil an Interim Search and Rescue Role.
4	Submission by the Department of the Navy - 38 ft. Bertram : Interim S.A.R. Craft. Notes on pre-acceptance Inspection.
5	Submission by the Department of the Navy - 38 ft. Bertram : Interim S.A.R. Craft.
6	Submission by the Department of Social Services relating to Deficiencies in Drawing Accounts.