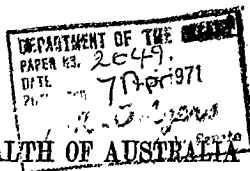


1971



THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

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JOINT COMMITTEE OF PUBLIC ACCOUNTS

---

ONE HUNDRED AND  
TWENTY-SEVENTH REPORT

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THE REPORT OF THE  
AUDITOR-GENERAL—  
FINANCIAL YEAR 1969-70

JOINT COMMITTEE OF PUBLIC ACCOUNTS

EIGHTH COMMITTEE

J.D.M. Dobie, Esquire, M.P. (Chairman)

C.J. Hurford, Esquire, M.P. (Vice-Chairman)

Senator J.F.Fitzgerald

Senator J.J.Webster

Senator Dame Ivy Wedgwood

F.W.Collard, Esquire, M.P.

J.F.Cope, Esquire, M.P.

B.W.Graham, Esquire, M.P.

A.W.Jarman, Esquire, M.P.

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

The Senate and the House of Representatives appointed their  
Members on 25 November, 1969.

DUTIES OF THE COMMITTEE

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

8. The duties of the Committee are -

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth and each statement and report transmitted to the Houses of Parliament by the Auditor-General in pursuance of sub-section (1.) of section fifty-three of the Audit Act 1901-1950;
- (b) to report to both Houses of the Parliament, with such comment as it thinks fit; any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
- (c) to report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
- (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

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

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JOINT COMMITTEE OF PUBLIC ACCOUNTS  
ONE HUNDRED AND TWENTY-SEVENTH REPORT  
THE REPORT OF THE AUDITOR-GENERAL  
FINANCIAL YEAR 1969-70

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 (i) 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 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 1969-70 was presented on 26 August 1970. We would express appreciation to the Auditor-General and his staff for the considerable effort they have made over the years to achieve this objective.

4. On 22 September 1970, Your Committee discussed with the Auditor-General several items on which he had commented in his Report. Written statements were subsequently obtained from several departments and Statutory Authorities. After a selection had been made some of these were examined in detail by Your Committee.

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

Tuesday 20 October 1970

Tuesday 23 February 1971

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

Department of Education and Science

Mr.R.A.Foskott	- Assistant Secretary, Territorial Education Branch
Mr.C.J.Lenihan	- Director, Establishments and Finance Branch

Department of the Interior

Mr.M.W.Frankcom	- Chief Property Officer, A.C.T.
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Department of the Navy

Mr.F.H.Brown	- Deputy Director of Naval Works
Captain H.G.Burgin	- Director of Naval Ordnance Inspection
Mr.T.E.Sullivan	- Chief Executive Officer (materiel)

Department of Social Services

Mr.C.Calvert	- Acting Assistant Director-General (Operations)
Mr.J.F.Mallam	- Inspector, Regional Offices, New South Wales
Mr.J.A.Stemp	- Chief Internal Auditor
Mr.R.G.Williams	- First Assistant Director-General (Management)

Department of Works

Mr.W.C.Alexander - Director, South Australia  
Mr.K.W.Jack - First Assistant Director-General (Engineering)

Australian Wool Board

Mr.H.K.Lay - Administration Director  
Mr.A.D.McKinloy - Finance Director

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

Mr.A.K.Bagless } Auditor-General's Office  
Mr.W.H.Scott }  
Mr.L.Z.Jolinok- Department of Primary Industry  
Mr.R.N.McLeod } Public Service Board  
Mr.G.N.Vanthoff }  
Mr.G.S.Davidson -Department of the Treasury

Chapter 2  
Department of Education and Science

8. In paragraph 79 of his Report for 1969-70 the Auditor-General stated:

"My Report for 1968-69 made reference to a fire at the Lyneham Primary School in June 1969. Assessment of the damage to the building had not been made at the time of preparation of this Report".

9. In its written submission the Department of Education and Science stated that the original capital cost of the Lyneham Primary School, excluding minor works and costs associated with transportable classrooms was \$635,293. The submission also stated that the National Capital Development Commission was not in a position to assess the original construction cost of the portion of the building destroyed by fire in June 1969 as the building was not totally destroyed. In fact, the original foundations and almost all of the outside walls were used in the reconstruction.

10. During our preliminary consideration of this matter we noted from the Report of the Commonwealth Fire Board for 1968-69 dated 30 August 1969, that the fire that occurred on 21 June 1969 at the Lyneham Primary and Infants School was the largest fire reported to the Board during that year.

11. The Board's report stated that reports on the fire had been submitted by A.C.T. Police and the Chief Fire Officer to the Coroner's Court. The suspected arsonist had been apprehended and charges had been laid. As the Coronial enquiry had not been held, the Department of Education and Science had no access, at that stage, to the Police or Fire Brigade reports. Consequently the Department had been unable to officially advise the Board on the extent of the loss.

12. During our preliminary consideration we also noted that on 23 June 1969 a Press report stated that a spokesman for the Department of the Interior had said the fire had caused damage worth \$750,000 to the permanent part of the school.

13. In these circumstances and in view of the property responsibilities of the Department of the Interior we sought evidence from that Department as well as from the Department of Education and Science in connection with the fire at the Lyneham School.



14. The witness representing the Department of Education and Science stated that his Department had been created in 1966. Its responsibilities include the planning and provision of pre-school, primary and secondary schools in the A.C.T. in conjunction with the New South Wales Department of Education in the case of primary and secondary schools. That responsibility covers the planning of schools, the provision of accommodation through the National Capital Development Commission, the equipping and furnishing of schools and the general operation of schools, taking into account that the New South Wales Department of Education provides the teaching services and the curricula. The Department of Education and Science is also responsible for the general upkeep of the schools and for ensuring that adequate fire protection provision is made. In relation to these matters the witness representing the Department of the Interior informed us that his Department's responsibilities for schools in the A.C.T. are confined to the provision of cleaning services for, and at the request of, the Department of Education and Science. It was explained that when the latter Department took over the responsibility for schools in the A.C.T., it lacked the necessary expertise and staff in this particular field. The Department of the Interior has continued to provide this service by contract cleaning.

Qs.9 to 13

15. The witness representing the Department of the Interior informed us that when a new school has been completed in the A.C.T. the National Capital Development Commission passes it over to the Department of the Interior as it is required to do under section 14 of the National Capital Development Commission Act. At that stage the Department hands the keys of the school over to the Department of Education and Science. In this process of transfers a handover certificate is supplied by the National Capital Development Commission to the Department of the Interior. The certificate, a copy of one of which was tendered to us, is signed by a representative of the Department of Works/Construction Agent and by a representative of the National Capital Development Commission and by a representative of the Department of the Interior as the client on behalf of the

Qs.14 to 17,27  
and Committee  
File 1970/9

Commonwealth. While the certificate bears a notation that the keys of the building have been handed over to the Department of Education and Science, no documentation evidently accompanies the handing over of the keys to that Department by the Department of the Interior. We note from the evidence, however, that when the National Library Building was transferred by the Department of the Interior to the control of the National Library, documentation effecting the transfer was made.

16. We were also informed that no costs are included on the handover certificate. It could be from six to twelve months after the completion of a project before its final costs are available. The evidence shows, however, that the Finance and Supply Branch of the Department of the Interior receives a monthly return from the National Capital Development Commission of completed works in Canberra for municipal, territorial and land accounting purposes. The return provides expenditure on a project for previous years, the current year and the project total. We were informed by the witness representing the Department of Education and Science, however, that his Department takes separate action by telephone or correspondence to ascertain the completed cost of a school building from the National Capital Development Commission. The cost is recorded on the Department's file. Committee File 1970/9

17. In explaining these transfers of property the witness representing the Department of the Interior informed us that if a building is constructed for the Department of the Interior, it is taken over by that Department and the asset is recorded on the Department's asset register. However, the Department regards schools as being in the nature of special purpose buildings built and designed for another Department. Because the upkeep, control and management of these schools are not the responsibility of the Department of the Interior, they are passed to the Department of Education and Science for control. Under these arrangements the Department of the Interior sheds its responsibilities for upkeep, fire protection and other necessary measures of protection. Qs. 17 to 22

18. In commenting on this evidence the Audit Observer, Mr. Ragless, informed us that under the Treasury Directions, the Department of the Interior is responsible for recording all buildings in the A.C.T. except certain special purpose buildings. Treasury Q. 33 Direction 32/53 states:-

"The Property Branch of the Department of the Interior maintains a register of all land required by the Commonwealth showing cost, title, particulars and description. It is not, therefore, necessary to keep detailed records within Departments. A simple form of record showing the location of each holding will suffice. Each Department will record improvements effected subsequent to purchase. Commonwealth owned buildings in the States used jointly by a number of Departments, and Commonwealth buildings in the A.C.T. except Government House, Parliament House and buildings used exclusively for postal purposes, will be recorded only by the Department of the Interior".

Mr. Ragless added that in 1969 the Department of the Treasury agreed that other special purpose buildings could be controlled by the Departments occupying them. The Department of the Treasury suggested to the Department of the Interior that where departments have not a satisfactory record, the Department of the Interior should negotiate a transfer of the records held by it to the Department concerned. Qs. 33, 49 and 50

Mr. Ragless expressed the view that the onus would be on the Department of the Interior to ensure that the Department of Education and Science did in fact have adequate asset records before it could shed its own responsibility under the Treasury Directions. A witness representing the Department of Education and Science confirmed that the assets registers maintained by his Department do not include land and buildings and that his Department is not required to maintain such a record in its registers.

19. The Treasury Observer, Mr. Davidson, agreed with the Qs. 159 to 161 views expressed by the Audit Observer. He confirmed that negotiations were proceeding with the Department of the Interior for the transfer of some buildings to other Departments, including the Department of Education and Science but added that the negotiations were incomplete.

20. The Iynehams Primary and Infants school was completed about seven years prior to the creation of the Department of Education and Science. We were informed by the Department of the Interior witness that the school was taken over by the Department of the Interior from the Department of Works (the construction authority) on 5 June 1959 and became the responsibility of the Education Branch of the Department of the Interior. At that stage the school would have been included as an item on the assets register of that Branch. Following the creation of the Department of Education and Science the whole of the Education Branch of the Department of the Interior was transferred, together with its records, to the newly-created Department. Those records would have included records of all of the schools in existence in the A.C.T. at that time and their costs. The records may not have been set out in a formal register but they would have been recorded in the relevant files that were involved in the transfer. The witness felt that it could be argued that there should have been a list of all the schools transferred from the Department of the Interior to the Department of Education and Science, but, for reasons unknown to him, such a list was not prepared. Following our public inquiry, the witness supplied us with copies of correspondence relating to the transfer of functions and related files that took place between the two Departments concerned at the time of transfer of the Education function and subsequently. The correspondence showed that on 18 September 1968 a meeting had taken place between officers of the Department of the Interior, the Department of Education and Science and the National Capital Development Commission relating to procedures to be followed in the handover of educational buildings. The minutes of the meeting showed that a representative of the Department of the Interior had explained that the question of the assets register was under examination by his Department. It had been decided to investigate whether the assets register would be compiled by the Department of the Interior or whether this function would be decentralised.

Qs.3 to 7,31  
and Committee  
File 1970/9

Committee  
File 1970/9

21. A witness representing the Department of Education and Science explained that for nine months prior to the transfer of the education function he had occupied the position in charge of the Education Branch of the Department of the Interior and he had personally transferred

to the Department of Education and Science. He confirmed that the transfer included all of the Education Branch records held in the Department of the Interior at that time in the form of files.

22. In response to a question the witness representing the Department of the Interior expressed the view that the Lynham school should not be included in the assets register maintained by the Department of the Interior. In support of this view he explained that the Education Branch had been wholly transferred to the Department of Education and Science. In its letter of 21 May 1969 the Department of the Treasury had referred to schools as special purpose buildings. He argued that with reference to special purpose buildings for which a department is responsible for all operational and maintenance aspects, for example schools in the A.C.T., it seemed logical that the particular Department responsible should maintain the assets register in conjunction with associated records it must keep for maintenance purposes. He added that the record could be corrected by listing all schools with the cost of construction and having them formally handed over from the Department of the Interior to the Department of Education and Science. Q.56

23. In relation to the value of the damage that occurred at the Lynham school during the fire in June 1969, the Department of Education and Science stated in its submission that the National Capital Development Commission was not in a position to assess the original construction cost of the portion of the building that had been destroyed. The witness representing the Department of Education and Science stated that a number of additions had been made to the school after the original building was completed in 1959. The original building and the additions had cost \$635,000. As the building was not completely destroyed but parts of the building were destroyed and other parts slightly damaged it was difficult for the Commission to assess the value of the actual damage. In fact the original foundations and almost all of the outside walls were used in the reconstruction of the school. The witness representing the Department of the Interior was unable to elaborate on the difficulties experienced by the National Capital Development Commission in assessing the cost Exhibit 127 / 1 and Qs. 80 to 89

of the fire damage as his Department had not been interested in the matter.

24. When questioned on the Press report of 23 June 1969 to the effect that a Department of the Interior spokesman had stated that the fire had caused damage estimated at \$750,000 the witness representing that Department informed us that the spokesman referred to could not be identified. The witness had discussed the matter with the Director of Information and Publicity who is responsible for issuing all statements to the Press on behalf of the Department. The Director had no record of such a statement having been issued. Qs.90 and 91

25. The witness representing the Department of Education and Science stated that his Department has notified the Commonwealth Fire Board of its estimates of the cost of damage to furniture and equipment occasioned by the fire. However, on the ground that the Department of the Interior is responsible for the building, the Department of Education and Science does not propose to submit a report to the Commonwealth Fire Board regarding the cost of damage to the building itself. The witness representing the Department of the Interior also declined to accept that his Department had a responsibility to report to the Commonwealth Fire Board on the matter. Qs.111 to 115

26. In its Report for 1968-69 the Commonwealth Fire Board stated that the cost of restoration of the building had been estimated by the Department of Works at \$580,000. In its submission the Department of Education and Science informed us that on 20 August 1970 the National Capital Development Commission had formally notified the Department that the estimated cost of restoration of the building was \$442,820. In commenting on these figures the witness advised us that the figure of \$580,000 represented the first estimate of the cost of restoration prepared by the Department of Works. Later, that Department had supplied a pre-tender estimate of \$525,000. The actual tender prices received, however, varied between \$400,000 and \$570,000. The lowest tender of \$400,000 had been accepted by the National Capital Development Commission. However, subsequent variations were made which brought the contract price to \$420,589. It was explained that in the course of reconstruction the opportunity was taken to achieve internal rearrangements aimed at improving operational efficiency. These included the relocation of the library; Exhibit 127/ 1 and Qs.101 and 115 to 117

the provision of one large staff room in lieu of two smaller rooms; the inclusion of tutorial rooms and provision of removable partitions between some classrooms. In addition to the contract price of \$420,589 the cost of day labour by the Department of Works on site preparation prior to construction amounted to \$22,231 thus bringing the total figure to \$442,820.

27. In its submission the Department of Education and Science stated that an amount of \$6,870 for the provision of a thermal fire alarm system in the new building had been included in the reconstruction contract. A similar system had not been installed in the original building. In this regard we noted the statement made by the Commonwealth Fire Board in its report for 1968-69 to the effect that all high schools in the A.C.T. have thermal alarms installed but these are not installed in the primary or infant schools.

Exhibit  
127/1

28. In commenting on this apparent difference in approach the witness representing the Department of Education and Science informed us that no public primary or secondary school in the A.C.T. is provided with a sprinkler system and there are no proposals to vary that policy. Thermal fire alarm systems are provided in all secondary schools and on the recommendation of the Commonwealth Fire Board, action is in hand to instal these systems progressively in all existing primary schools. Also, thermal fire alarms are being provided in all public primary and secondary schools under construction. The witness was unable to offer any specific reason why thermal fire alarm systems had not been included in primary schools in the past. He suggested the reasons might be the lower enrolments in primary schools compared with those in high schools and the lesser extent and complexity of buildings in primary schools. He added, however, that all plans for primary schools have met the requirements of the local fire regulations. The witness informed us that in the existing primary schools fire protection is provided in the design of the schools which enables quick exit in an emergency and the positioning of fire extinguishers in various parts of the buildings.

Qs. 121 to 133  
and 168

29. In relation to alarm systems we also questioned whether

burglar alarms have been installed in schools in the A.C.T. as deterrents to vandalism. We were informed by the witness representing the Department of Education and Science that such systems have not been installed. He added that the question of vandalism is currently a major issue. Janitors are employed in the schools between the hours of 7AM and 4PM but recently the Department has been searching for improved methods of minimising vandalism. The witness informed us that most of the methods that had been suggested so far would be more costly than the cost of damage attributed to vandalism. Q5.998 and 100

#### CONCLUSIONS

30. In considering the evidence tendered on this matter Your Committee is disturbed by the fact that neither the Department of the Interior nor the Department of Education and Science recognise an ownership responsibility on behalf of the Commonwealth for school buildings in the Australian Capital Territory.

31. It is clear from the remarks made by Observers that under Treasury Direction 32/53 the Property Branch of the Department of the Interior is required to maintain a register of all land acquired by the Commonwealth showing cost, title particulars and descriptions. Commonwealth owned buildings in the States used jointly by a number of Departments, and Commonwealth buildings in the A.C.T. except Government House, Parliament House and buildings used exclusively for postal purposes are required to be recorded only by the Department of the Interior.

32. It appears that in 1969 the Department of the Treasury agreed that special purpose buildings other than those presently referred to in Treasury Direction 32/53 could be controlled by the Departments occupying them and that where the Departments concerned do not hold a satisfactory record, the Department of the Interior should negotiate a transfer of its records to them. At the time of our inquiry in October 1970 these negotiations between the Department of the Treasury and the Department of the Interior had not been concluded. Moreover, the evidence shows that, at that time, the assets register of the Department of Education and Science did not include land and buildings.

33. In these circumstances Your Committee believes that school



buildings in the A.C.T. are presently the property responsibility of the Department of the Interior and not that of the Department of Education and Science. From this it follows that the schools concerned should be listed on the Assets register of the Department of the Interior. It also follows that advice to the Commonwealth Fire Board regarding the value of damage to the Lynneham Primary School building occasioned by the fire that occurred there in June 1969 is a matter for the Department of the Interior.

34. The evidence also shows that subsequent to the creation of the Department of Education and Science, the Education Branch of the Department of the Interior was transferred, together with its relevant files, to the new Department. Your Committee believes that, consistent with the intention of Treasury Directions 32/53, the Department of the Interior should have ensured that it retained details of the school buildings on its Assets Register when that transfer took place.

35. In relation to the foregoing matters Your Committee has considered also the processes involved in making new school buildings available to the Department of Education and Science subsequent to the assumption of the education function by that Department. In this process a handover certificate is supplied by the National Capital Development Commission to the Department of the Interior as the Commission's client on behalf of the Commonwealth. These certificates bear a notation that the keys of the building have been handed over to the Department of Education and Science but no documentation evidently accompanies the handing over of the keys to that Department. Your Committee considers that proper documentation should be associated with this transfer of keys. This should include an acknowledgement by the Department of Education and Science that the keys have been received. To this we would add that in our view the transference of keys between departments merely acknowledges a right of occupancy but does not necessarily convey the transfer of property responsibility. For this reason Your Committee believes that all schools in the A.C.T. that have been constructed subsequent to the transfer of the Education Branch of the Department of the Interior to the Department of Education and Science should presently be included on the Assets Register of the Department of the Interior. In this regard and also in connection with the earlier transfer of education functions to the Department of Education and Science, Your Committee agrees with the views expressed by the Audit Observer, Mr. Ragless, that the onus would be on the Department of the Interior to ensure that the Department of Education

and Science had adequate asset records before it could shed its own responsibility under the Treasury Directions.

36. From the evidence tendered it is clear that the Department of the Interior is not at present justified in regarding schools in the A.C.T. as being special purpose buildings in terms of the Treasury Directions. Your Committee believes that if it is the wish of that Department to have those buildings so classified it should complete its present negotiations with the Department of the Treasury as soon as possible. When agreement has been reached between these two Departments, Your Committee would expect the Department of the Treasury to amend Treasury Direction 32/53 without delay so as to give effect to the new arrangements.

37. Arising from the evidence we also note that while thermal fire alarm systems have been installed in Secondary Schools in the A.C.T. they have not, in the past, been installed in Primary Schools. While possible reasons for this difference in policy were suggested by witnesses, no firm reason for this difference could be adduced. Your Committee believes that such systems should have been installed in primary schools erected in the past. We are reinforced in this view by the fact that current policy on this point provides for thermal fire alarm systems to be installed in existing primary schools and in such schools to be built in the future. On this point we would observe that the evidence shows that the installation of such systems in existing schools will prove to be much more costly than would have been the case had it occurred during the construction of the buildings.

38. Allied to the matter of thermal alarm systems Your Committee also notes that burglar alarm systems have not been installed in schools in the A.C.T. The evidence indicates that the Department of Education and Science has recently examined the possibilities of improving its existing methods of minimising vandalism. Your Committee is surprised to learn from the witness representing that Department that most of the methods that had been suggested in this connection would prove more costly than the cost of damage attributed to vandalism. In this regard we note that the fire that occurred at the Lynoham Primary School was apparently lit by a petty thief who had entered the building. Your Committee is strongly of the opinion that the Department of Education and Science should continue to regard the question of vandalism as a major issue and should pursue its investigations into burglar alarm systems for all Government owned schools in the A.C.T. as a matter of urgency.

Chapter 3  
Department of Social Services

39. In paragraph 236 of his Report for 1969-70 the Auditor-General stated:-

"Following a departmental investigation into irregularities at a regional office in New South Wales, the former Registrar of the office was convicted under the Crimes Act of a number of offences involving the fraudulent issue and negotiation of cheques and was sentenced to six months imprisonment.

Defalcations admitted to by the defaulter totalled \$12,190:50 of which \$3,370:83 was recovered from moneys due to him.

Weaknesses in internal controls were revealed by the Department's investigations into the circumstances surrounding the irregularities. Measures to overcome these weaknesses have since been instituted."

40. We were informed that the irregularities referred to by the Auditor-General occurred at the Department's Regional Office Lithgow, New South Wales, when a Registrar, who commenced duty in the office in 1959, fraudulently issued, forged, and uttered cheques drawn against the Regional Office Advance Account. Exhibit  
127 / 2  
and Q.176

41. It was explained that an Advance Account is provided at each of the Department of Social Services' Regional and District Offices, principally for the payment of unemployment, sickness and special benefits and is usually conducted at a Branch of the Commonwealth Trading Bank. A sum estimated to provide payment of benefits for three to four weeks is credited to the account which is operated on the imprest system. Payments, authorised by officers holding delegations under the Social Services Act, are made from Regional and District Offices. Certified cash sheets relating to these payments are summarised and transmitted weekly to the State Office of the Department from which a re-imbursement payment is made to the bank. The Drawing Account is fully reconciled. Q.177

42. We were informed that if a person who is unemployed registers for employment with the Commonwealth Employment Service and a position is not available immediately, a claim for unemployment benefits is offered to the applicant, completed immediately and forwarded by the District Employment Officer to the Regional Office of the Department of Social Services. The Regional Registrar of the latter Department is then required to investigate the claim in accordance with the requirements of the Social Services Act. The first income statement is lodged if, two weeks later, the claimant reports to the District Employment Office that he is still unemployed. The income statement is then returned to the Department of Social Services and the first week's unemployment benefit paid. Q.179

43. The witness added that the Department of Labour and National Service is not normally involved in a claim for sickness benefits, although it accepts claims as agent for the Department of Social Services. A claim for sickness benefits is normally directed to the Department of Social Services together with a medical certificate. Investigation and payment is carried out by the local Regional Office of that Department. Q.179

44. Concerning the discovery of the fraud and subsequent action it was stated that the Registrar of the Lithgow Regional Office occupies a position of Clerk Class 7 (Third Division). The staff Establishment of the Office under his control provides for twenty-six positions. Q.175

45. On 18 February 1969, an Assessor Grade 1, aged 19 years who had been employed at the Lithgow office for about nine months, detected suspicious entries on the ledger card for an unemployment beneficiary. He reported his suspicions to his immediate supervisor, an Assessor Grade 2, who in turn was responsible, as was each member of the office staff, to the Registrar. The Assessor Grade 1 and the Assessor Grade 2 approached a Pensions Examiner who was the officer normally responsible for determination of the continuation payments. That officer questioned the two Assessors regarding their suspicions Exhibit 127/2 Qs.183 to 187

46. The three officers allowed the particular card that was the subject of suspicion to be processed in the normal manner and observed the actions of the Registrar in connection with the payments. It was noted that a cheque had been prepared for a particular claimant and the cheques were left in the Registrar's office. On examining the cheques before despatch the particular cheque was found to be missing and did not reappear. The most senior of the three officers, the Pensions Examiner, reported the matter direct to the Assistant Director(Establishments) at the Sydney Office of the Department. The Registrar was unaware that he was under suspicion until departmental investigations were commenced by senior officers from the New South Wales Headquarters of the Department. These investigations led to his suspension on and from 21 January 1969.

Q.187 and  
188

47. We were informed that Commonwealth Police investigations of irregularities in the processing of some 616 cheques commenced in April 1969. However, neither the departmental nor the Commonwealth Police investigations revealed any evidence of collusion between the Registrar and any other person. The Registrar admitted sole responsibility and in March 1969, tendered his resignation from the service.

Exhibit  
127 /2  
and Q.197

48. It was stated that defalcations in thirty-two cases, totalling \$12,791, were admitted by the Registrar. The cheques had been cashed over the counter of a bank at which the Registrar had established his bonafides and at which he had operated his own bank account for many years. Some cases were difficult to prove and some could not have been proven because the cheques concerned had been destroyed in accordance with approved cheque destruction programmes.

Q.198

49. It was stated that on the advice of the Deputy Crown Solicitor ten charges only were laid. On 11 November 1969, the Registrar pleaded guilty to all of those charges under section 71(1) of the Crimes Act in respect of offences committed between 11 July 1967 and 11 February 1969. He was sentenced to six months imprisonment with hard labour on each charge, to be served concurrently. Details of the number and value of cheques negotiated fraudulently

Exhibit  
127 /2  
Qs.198 and 200

between 1962 and 1969 are shown in Appendix No. 1 to this Report. In March 1970, default judgment was obtained by Supreme Court action enabling set-off of certain moneys due to him. The recovery position is summarised as follows:-

	\$	\$	
Misappropriations admitted		12,190:50	Exhibit
Loss Amounts recovered			127/2
Refund of Superannuation	4,135:46		
Accrued Salary	170:44		
Accrued Recreation Leave	206:98		
Furlough Entitlement	<u>2,857:95</u>		
		<u>\$4,819:67</u>	

At the time of our inquiry the defaulter was an invalid pensioner possessing no assets.

50. In connection with the technique of the fraud we were informed that as officer-in-charge, a Registrar is responsible, inter alia, for proper performance of all work associated with assessment and payment of unemployment, sickness and special benefits by the Regional Office staff. He is empowered by delegation under the Social Services Act to approve payments and has full access to all documents. In the present case, the Registrar used his position and detailed knowledge of procedure to authorise irregular continuation payments of unemployment benefit, to steal the cheques issued in certain cases and to convert them to cash. Exhibit 127/2

51. It was explained that the prescribed procedures for making continuation payments of unemployment benefit, in conformity with Treasury directions, provide for the allocation of tasks involved in the procedures between a number of officers and the establishment of adequate records for audit purposes. Basically, an income statement is required to be lodged weekly by the beneficiary and assessment of entitlement is entered on a ledger card from which cash sheets and cheques are prepared. Exhibit 127/2

52. Although the Registrar is responsible for the approval of benefits he need not approve continuation payments. Two officers  
Qs. 203 and 209

are involved in a continuation payment, the Assessor who makes the recommendation and another officer, who is responsible for authorising the payment. Normally, an Examiner Grade 3 is required to handle the weekly continuation payments. Should there be an accumulation of work it would not be unusual for the Registrar to be required to approve weekly continuation payments.

53. We were informed that at the Lithgow office, the Registrar frequently assisted personally with payment procedures, ostensibly to expedite payments and to supervise subordinate staff. It was said that he deliberately created a climate of urgency and by participation in a variety of his subordinates' tasks, accustomed them to his involvement in daily activities.

Exhibit  
127 /2

54. The witness stated that the Registrar was a good manager and the procedures at the Lithgow office were performed efficiently. Claims were treated expeditiously and special instructions issued to avoid delays. The Registrar personally supervised office procedures. By this means, it became accepted throughout the office that the Registrar would, on occasions, personally process ledger cards. As he had quite properly established this pattern of involving himself in the office procedures, his illegal actions had been undetected over a long period of time.

Q.210

55. Typically, unemployment benefits terminate when the beneficiary fails to lodge an income statement and only in a small number of cases is advice received that employment has been resumed. While approving genuine payments, the Registrar made a practice of inserting ledger cards for which no income statements had been lodged in order to generate illegal payments.

Exhibit  
127 /2  
and Q.211

56. In 1962 the Registrar issued a local office instruction to the effect that cheques were to be placed on his desk by 1PM daily in order that he might verify that the number of cheques enveloped corresponded with the number of cheques issued. It was stated that instructions such as this are examined by inspectors who visit Regional Offices at regular intervals. The Regional Office Inspector for New South Wales had seen the instruction which he considered to be desirable and to have been issued mainly to prevent more than one cheque being sealed and posted in one envelope. Observance of this

Exhibit  
127 /2  
Qs.211 to  
214.

instruction, which was consistent with the Registrar's insistence on urgent processing and close supervision, provided the opportunity to extract fraudulently issued cheques.

57. The witness indicated that the issue of the instruction was not consistent with procedures operating in regional offices generally. However, as the basis for the instruction was to maintain a thoroughly efficient office, the Registrar could have been commended for this action had it been brought to notice.

Qs.211 to 214

58. For many years the Registrar operated an arrangement whereby, on request, he cashed salary cheques at a branch of the Commercial Banking Company of Sydney Limited where he conducted a private account and delivered the money to officers desiring the service. These cheques were endorsed by the payees and signed on the back by the Registrar over an official stamp 'Registrar of Social Services.' No defalcation occurred in this connection, but the practice accustomed bank officials to cashing cheques for him and he was able to cash unemployment benefit cheques which he had caused to be issued unlawfully. He signed his own name in full on the back of such cheques and endorsed them with his official office stamp.

Exhibit  
127/2  
and Q.237

59. We were informed that the inspection of endorsement signatures on cheques is not undertaken as some forty million are issued by the Department each year and it was said to be extremely difficult to detect a signature which is not that of the payee. Cheques on the unemployment and sickness benefit account are returned from the Bank, marked off and reconciled within the Department. In connection with the cheques involved in the fraud it had not been noticed that a significant number had been endorsed by the Registrar. The witness added that there would have been genuine cases where cheques had been cashed by the Registrar on behalf of payees.

Qs.238 to 242

60. The Registrar selected his cases carefully in order to maximise his thefts and minimise the risk of detection. Most were those of married men with children, who lived a distance from Lithgow, and whose income statement could be expected, on occasion, to be delayed in transit. He made it a practice to ensure that no genuine income statement had arrived and then fraudulently authorised two or three weeks benefit followed by fraudulent weekly payments.

Exhibit  
127 /2  
and Q.243

Exhibit  
127 /2 and  
Q.243



61. It was stated that the departmental system provides for a checking of income statements against authorisation. A Fourth Division officer matches the continuation income statement with the ledger card and passes them to an Assessor Grade 1. They are then passed to the Examiner Grade 3 for approval of the payment and subsequently passed for cash sheet and cheque preparation. The Registrar had made a practice of inserting cards with fraudulent entries, but which appeared to be proper entries, into the stack of cards before they were passed for the cash sheet preparation process.

Exhibit  
127/2 and  
Q.243

62. We were informed that an intensive check of available records back to 1962 disclosed that the Registrar had perpetrated eight cases of fraud sporadically from that year until 1966. He subsequently introduced a further twenty-four irregular cases before being detected early in 1969. Up to ten illegal cases were current at one time, the average weekly number from 1967 onwards being five. Fraudulent payments totalled 545 out of some 44,000 cheques. Appendix No. 1 to this Report, which shows the number and value of the defalcations in relation to all payments of unemployment, sickness and special benefits made from the Lithgow office, supports the view that the frauds commenced on a small scale and grew as the Registrar's confidence in his methods employed increased.

Exhibit  
127/2

63. It was claimed in evidence that since the establishment of the Department of Social Services in 1942 some \$15,000 million has been paid in benefits and until this case was detected, some \$12,000 had been lost in internal fraud of which about \$8,000 had been recovered.

Qs.215 to 217

64. Regarding procedures followed in the Lithgow Regional Office the Department stated in its submission that no officer other than a Registrar could have carried out such a fraud, involving duties and utilisation of records normally carried out by a number of subordinates. Apart from the interference in the prescribed division of duties other weaknesses were discovered in that the ledger card entries bore the initials only of the approving officer and prepared cheques were permitted to enter the control of an officer who had approved payment.

Exhibit  
127/2

65. When questioned as to how weaknesses of this nature could have entered the system and remained there for such a long period of time, the witness noted that the Registrar had intervened at two stages of the procedures. Because of his authority in the office, he gained access to the ledger cards before they were given to the typist, inserted the fraudulent ledger card, and then, after the cheques had been typed, obtained them and the ledger cards again, extracted the card relating to the continuation payment and extracted the cheque which he retained. Q.244

66. Full details of the fraud were forwarded to all State Directors of Social Services on 27 May 1969. The text of the advice was as follows:- Exhibit 127 /2 Committee File 1970/9

"Payment of unemployment, sickness and special benefit

"Following a large scale fraud at a regional office, consideration has been given to a variation in the procedures for the payment of the above benefits.

The fraud was perpetrated by the Registrar under the guise of assisting in the determination of unemployment continuation payments. While approving genuine payments, the Registrar would insert ledger cards on which payments had ceased because the beneficiaries had returned to work or failed to report.

These payments always began with a double, and an occasional treble, instalment because the Registrar had to be certain that an income statement had not been lodged. All but one of the payments were made on the cards of beneficiaries living in areas some distance from the regional office so that the delay in lodgement of the income statements did not arouse undue suspicion.

After preparation, the cheques were passed to the Registrar so that he could ensure that the number of envelopes agreed with the number of cheques issued. The illegally drawn cheques were then misappropriated, fraudulently endorsed, signed by the Registrar on the back as a guarantee that the endorsement was valid and cashed at a private bank.

The bank cashed these cheques because of a similar long-standing arrangement with regard to the fortnightly staff salary cheques that were also signed on the back by the Registrar. The bank failed to appreciate the distinction between the salary cheques drawn by the Sub-Treasury and payable to staff members and Advance Account cheques payable to beneficiaries.

The Registrar would then assist in resorting the ledger cards in alphabetical order for storage before the next day's business and would retain possession of those cards on which an illegal payment had been made.

It will be appreciated that the Registrar's position made it possible for him to have access to all benefit documents in the office and, at times, to break his own instructions e.g. he had continuation cards prepared occasionally without recording them in the register kept for that purpose.

To avoid the possibility of similar occurrences in the future, payments on ledger cards at S.H.Q.'s. regional and district offices are now to be initialled by the assessor making the entry as well as by the determining officer. The form will be re-designed for those actions at the next print.

The procedure is to be commenced immediately. So that there will be places for the two initials to appear, you may consider it desirable for a line to be ruled down the centre of the "initials" column of your existing stocks of ledger cards.

If not already in force, arrangements are also to be made that prepared cheques are never to be made available to any person who has been concerned with assessment or determination or who has signed or countersigned the cheques. They should be delivered to an independent officer to hold until despatch.

In regional and district offices, this officer is to ensure that the cheques so held agree in number with the entries on the day's cash sheets and should endorse both copies of the cash sheets that this check has been carried out.

In the event of a beneficiary requiring payment over the counter, a suitable entry should be made against the cash sheet item by

the officer holding the cheques and an amendment made to the cash sheet endorsement mentioned above. In no circumstances are cheques handed over the counter to be "opened" -Instruction 4/B/1(b) refers.

Would you please arrange for these instructions to be implemented immediately and acknowledge receipt of this communication."

67. The Audit Observer, Mr. Ragless stated that in the light of experience at that time, the procedures followed at the Lithgow Office of the Department were accepted by his office as being satisfactory, having regard to the cost of more elaborate checks and procedures. He noted the fact that by exercising his authority as a senior officer and being the only officer in a position to do so, the Registrar had succeeded in neutralising precautionary measures. The Department, in its wisdom, had subsequently introduced a more elaborate system of checks. He said that the Auditor-General's Office regards the system of checks recently introduced as being satisfactory in the circumstances. Q.247 Q.248

68. It was stated that as is the case in all Regional Offices, regular administrative and internal audit inspections were carried out at Lithgow by officers from the Department's State Headquarters during the period of the fraud, i.e. from July 1962 to February 1969. The programme of the Regional Office Inspector is not designed to detect fraud, although this would have occurred had one of the illegal payments been selected for examination. The inspections are in respect of matters of administration, technical competence and efficiency. Exhibit 127 /2

69. Between July 1962 and January 1969, twenty-two visits were made to Lithgow by internal audit clerks. The programme of inspection required inter alia, the selection for check of five per cent of entries on all continuation cash sheets for one week per month and observation of the process of preparation and checking of cheques in order to ensure compliance with approved procedures. While no fraudulent payment was selected by the eight clerks who visited Lithgow during the period of the illegal payments, several of the Exhibit 127/2

cases involved were checked when the payments were genuine and on a number of occasions one selected for check was only a few entries from a fraudulent payment.

70. We were informed by the Auditor Observer, Mr. Ragless that the method of selection used by internal auditors over the period of the fraud has been used since the inception of the concept of test checking and is still widely used and accepted. Over the last decade, however, there has been a gradual move towards statistically oriented sampling procedures. He indicated that the Department of Social Services had been a leader in this field and had implemented these methods, but it was not until April 1969 that a random selection under a statistical sampling plan was introduced at the Lithgow Office. At that time, a fraudulent payment was included in the selection made. Q.249

71. The Department informed us that subsequent to a discussion held on 17 July 1970 between its officials, the Department of the Treasury, the Reserve Bank of Australia and the Commercial Banking Company of Sydney Limited, advice of the fraud was issued by the Australian Bankers' Association to its members on 22 July 1970. The banks were asked to draw the attention of their officers to the dangers which could be involved in cashing for a departmental officer, cheques drawn in favour of another party, and to instruct them to exercise caution in cashing Social Services or other Commonwealth cheques should there be suspicious circumstances. Exhibit 127 /2 Qs.259,255 and 256.

72. The Department stated that the procedure for payment of unemployment benefits had been in force with only minor changes since the introduction of the scheme in 1945. No other frauds of this nature have been detected and the department considers it to be fortuitous that in this instance detection was evaded. Exhibit 127 /2

73. As well as alerting Directors, internal audit staff and Regional Office inspectors of the Department were informed in detail as to how this particular fraud was effected and were asked to watch for further similar occurrences. It was claimed, however, that further illegal payments would be most unlikely as Q.253

the Department's Registrars are regarded as being important, responsible and very trustworthy members of the community.

74. The Department also stated that frauds involving a breach of trust by a senior, knowledgeable and experienced officer tend to be inherently difficult to detect. However, the Department considers that it has effectively closed the loopholes through which one was effected and that this isolated case of dishonesty amongst its thousands of officers has received sufficient publicity to serve as a deterrent to like-minded individuals. Exhibit  
127 /2

75. The witness representing the Department of Social Services agreed that well devised procedures and systems of internal audit are of paramount importance and noted that measures introduced had included the strengthening of the Department's internal audit programme, without serious detriment to working procedures. Q.257

#### CONCLUSIONS

76. The evidence shows that the fraud perpetrated over the years 1962 to 1969 by the then Registrar at the Department's regional office at Lithgow was carefully conceived and skillfully operated.

77. It appears that a significant factor in the fraud was the issue by the Registrar in 1962 of a local office instruction to the effect that cheques were to be placed on his desk by 1PM daily to enable him to verify the number of cheques issued and enveloped. The Regional Office Inspector for New South Wales had examined this instruction at the time of its issue and had considered it to be desirable on the grounds that it would prevent more than one cheque being sealed and posted in one envelope. At the same time it was evidently recognised that the issue of the instruction was not consistent with procedures operating in Regional Offices generally.

78. Your Committee believes that the unusual nature of the instruction issued by the Registrar might well have prompted the Regional Office Inspector to consider the reasons why the need for

such an instruction should have become necessary suddenly at only one Regional Office. Had the Inspector considered the instruction in that manner he might well have reflected on its full implications and may have seen the danger inherent in the procedure involved or alternatively, he might well have arranged for the instruction to be issued to other Regional Offices under his control.

79. The evidence also shows that, apart from the issue of the instruction referred to, the Registrar interfered in the prescribed division of duties within the office, ostensibly to promote efficiency. Other weaknesses in the system included the fact that ledger card entries bore the initials only of the approving officer and prepared cheques were permitted to enter the control of an officer who had, in fact approved payments. These weaknesses appear to have been introduced into the system by the Registrar and to have had the effect of neutralising precautionary measures.

80. It appears that, as is the case in all Regional Offices, regular administrative and internal audit inspections were carried out at Lithgow by officers from the Department's State Headquarters during the period from July 1962 to February 1969. Your Committee must express some surprise and concern that these inspections did not, evidently, result in the detection of any of the weaknesses in the system referred to in evidence.

81. We are also disturbed to learn that the programme of the Regional Office Inspector was not designed, at that time, to detect fraud. Your Committee believes that internal control systems are ineffective unless they protect the resources of the department concerned from waste, fraud and inefficiency; ensure accuracy and reliability in accounting and operating data; secure compliance with policy and evaluate the level of performance within the Department.

82. Finally we would refer to the circumstances in which the fraud was detected and reported. The evidence shows clearly that the fraud was detected by a comparatively junior officer, who, in association with his immediate superiors reported their discovery direct to the State Headquarters of the Department. As this action involved the submission of a report on their senior officer, the Registrar, it obviously required considerable courage. Your Committee believes that the officers concerned are to be commended for the action that they took in the circumstances.

Chapter 4  
Department of Works

83. At paragraph 280 of his Report for 1969-70 the Auditor-General made the following statement:

"Provision was made in the Defence Works Programme for 1966-67 for the construction of 2 timber towers and ancillary works at Port Wakefield South Australia, for the Department of the Navy at an estimated cost of \$220,000.

In March 1967, a contract for the major part of the work was let for \$182,149 and provided for completion by March 1968. Later, the contract was varied to an amount of \$197,921 and the date for completion was extended to September 1969. Expenditure by the Department in 1969-70 on the overall project, charged to Division 656-Department of the Navy - Buildings, Works, Fittings and Furniture, was \$3,035 making total expenditure to 30 June 1970 of \$148,290.

The ancillary works, comprising buildings, roads etc., were substantially completed, but the contractor experienced difficulties in the erection of the towers and, since December 1969, no construction has taken place on the site.

Departmental papers indicate that the towers were only partially complete at 30 June 1970. At the date of preparation of this Report, the action to be taken in connection with the project was under departmental consideration".

. Sponsors Brief and Department of Works Specification

84. We were informed that in 1964 the Department of the Navy requested the Department of Works to design an ammunition testing facility at Port Wakefield in South Australia consisting of two 240' high timber towers 400' apart, access roads, gun platform, motors and winches to raise and lower the target, associated electrical installations and minor buildings. A specific requirement of the sponsor's brief was that metal above ground was to be kept to a minimum and if possible, dispensed with altogether. The nature of the ammunition to be tested by the Department of the Navy was the determinant of this request.

Exhibit  
127/ 3  
and Qs.  
285 to 289



85. It was stated that the Department of Works carried out considerable investigations into the possibility of using non-metallic bolts. These investigations were concluded during 1964. Three types of material were considered for the bolts, Permal, a resin bond improved wood; Nyllex; and Elastic. All three were believed to have inherent weaknesses. The Department of Work's concern regarding the use of non-metallic bolts was discussed with a representative of the Department of the Navy at Port Wakefield on 3 June 1964.

Exhibit  
127/3 Qs. 290  
Through 303 and  
Committee  
File 1970/9

86. The evidence shows that the Department of Works advised the Department of the Navy in July 1964 that it did not favour the use of non-metallic bolts and a recommendation was made for the use of steel bolts if at all possible. It was suggested that the towers might be placed further apart and thus further from the field of influence in the tests and that the height of the target, which would be suspended between the towers, could be maintained by a slight increase in the height of the towers.

Exhibit 127/3  
and Q.301

87. After considering this advice the Department of the Navy asked the Department of Works, on 21 March 1966, to proceed with a design of two 280' towers 600' apart with steel bolts and ring connectors for the tower sections using plywood gusset (or jointing or connecting) plates. This decision was made having regard to the influence of steel on the tests to be undertaken. The witness representing the Department of Works agreed that two years was an unusual length of time for the department to take in reaching a decision on the type of bolts to be used in the structures.

Exhibit  
127/3 Qs. 305,  
307 and Committee  
File 1970/9

88. The witness representing the Department of the Navy indicated that the decision in respect of the bolts was a matter that required considerable investigation as it involved a change in the original stated requirement. The Department of the Navy had recommended in May 1965, that instead of the towers being 240' high and 400' apart they should be 280' high and 600' apart. It was at that time that the Department of the Navy agreed that Permal bolts could not be used. Consideration was then given to

Q.306

the use of steel bolts. The decision to use steel bolts was made in February 1966.

88. Because of the type of ammunition to be tested, the Department of the Navy continued to emphasise the need for a minimum of metal in the structures, so much so that lightning protection of the towers was not agreed to. Lightning protection problems were raised by the Department of Works after the decision had been made to use steel bolts, on 27 June 1966 before the contract was let. The matter was raised by the Department of Works a second time in September 1966 when the decision was made to minimise the quantity of metal in the structure and to dispense with lightning protection.

Exhibit  
127/3  
and Q.308  
and Committee  
File 1970/9

90. We were informed that during the Department of Work's initial investigations in 1964 reference material had been found relating to construction, prior to 1963, of similar towers in the United States of America. The 357' high towers used in that country are of laminated timber construction, assembled with steel bolts and ring connections in plywood gussets. The Department of Works subsequently found, in early 1970, when one of its officers inspected the American towers, construction problems had been encountered and, that as a result the design had been modified for the erection of a second pair of towers in that country. The witness was not aware of the nature of the problems encountered.

Exhibit  
127/3  
and Qs.309 to  
316

91. At the time of preparation of the designs for the Port Wakefield towers the Department of Works was aware of another somewhat similar timber tower installation located in Britain and constructed during World War II. Both were different in significant respects from the towers proposed for Port Wakefield which were said to be most unusual. We were informed that there was and still is a lack of experience and also of knowledge, outside the Department of Works of this type of construction in Australia.

Exhibit  
127/3  
and Qs.345 to  
347

92. The question of using laminated timber members was considered and discussed with the trade about 1966 during the documentation stage of the project. No definite information could be obtained, however, to indicate that satisfactory laminated

Exhibit  
127/3  
Qs. 317 to  
323

members could be produced in Austria. It was decided therefore to use solid timber members of select engineering grade douglas fir. The decision to use this timber was based on the Department's knowledge of timbers and the fact that the type of timber proposed is probably the best known timber used in this class of work.

93. No tenderer had been able to offer the specified material. It was said that the timber offered was not equal to the standard of select engineering grade. The witness representing the Department of Works informed us that his Department was responsible for accepting the timber used. It was claimed that the timber used provided the only solution to the problem. The witness was asked whether merchantable oregon, select merchantable oregon or clear oregon was specified by the Department. We were informed that a higher quality than merchantable oregon had been specified but that the timber accepted on the site, by the Department of Works, was a lower quality than that specified.

Qs. 326 to  
328

94. It was stated that provision for construction in laminated timber as an alternative was included in the specification. As plywood gussets were regarded as an established proprietary line they were adopted. The design of the towers and all tolerances were carried out in accordance with the U.S.N.R.O. Timber Engineering Handbook.

Exhibit  
127/3

95. Because the only suitable place for creosote preservative treatment of timber of the size involved was at Mount Gambier, involving the transport of approximately 150 tons of timber 300 miles and return, it was decided, in order to avoid high transport costs, to use treatment by impregnation with a salt solution of copper-chrome-arsenate. We were informed that this is a normal and acceptable means of preserving timber. It was said, however, that had creosote treatment been possible within a reasonable distance of Adelaide or Port Wakefield this form of treatment would have been specified.

Exhibit  
127/3  
Qs. 343 and 409

96. The design of the project was subjected to the usual intra and inter-departmental scrutinies. We were informed that the Department of Works maintains a technical co-ordination committee for the examination of projects above a specified value. Projects referred to that Committee are referred to the Head Office of the Department of Works. During its preliminary stage the Port Wakefield towers project was referred to the Head Office of the Department. However, at that time, the future complexities of the project were not appreciated and it was exempted from review except for examination of the design by the Chief Structural Engineer during the various stages of its development. Exhibit 127/3 and Q.348

97. Drawings were forwarded to the Department of the Navy and were discussed with representatives of that Department in November 1966. Current procedures relating to the planning and design of major defence works provide for private technical advisers to the Defence Business Board to examine, comment and/or concur in the proposed plans of the project before contract documentation commences. In December 1966, the plans of the Port Wakefield Towers were examined by the Department of the Navy Technical Adviser to the Defence Business Board. The total cost estimate supplied to the Department of the Navy by the Department of Works amounted to \$200,000. This included a component of the project, a superstructure of two towers at an estimated cost of \$84,000. The Department of the Navy Technical Adviser to the Defence Business Board commented as follows: Exhibit 127/3 Q.348, 370 and 371

"I have given consideration to the greater use of Australian produced timbers than is anticipated in the design. The Commonwealth has at an earlier date had unfortunate experience in the use of certain Australian timbers where the Timber Engineering concept has been employed.

The large sections of timbers described in the drawings may be available from Australian sources, but if used quite radical modification to the design would be required. Quite substantial differences in dead weight of material are

involved. A greater "collapse" shrinking occurs in most of the Australian Hardwoods as the drying processes occur. This leads to serious weakening at all points of mechanical connection. If suitable Australian timber was available for the main structure, its cost would not be appreciably less than American West Coast timber, and indeed, it may be more expensive.

Provision can, and has been made for the use of Australian produced timbers where these can be safely incorporated in the structures.

The design adopted is sound .....  
.....The ability of a contractor who offers to carry out the work at an estimated cost of \$84,000 (superstructure of the towers only) should be carefully examined."

98. Witnesses were questioned regarding the inference to be drawn from the Adviser's comment that the ability of a contractor who offers to carry out the work at an estimated cost of \$84,000 for the structure only should be examined carefully. The witness representing the Department of the Navy informed us that the comment by his Department's Adviser did not imply that the towers could not be built for the amount of \$84,000 but that he desired to be sure that the contract was awarded to a reliable contractor. On this point the Department of Works witness indicated that a fairly thorough investigation had been made into the ability of the contractor to construct the towers with large timbers. In this regard the contractor had performed work for the Department of Works prior to 1963 and had completed satisfactorily several bridges of large timber construction. The witness considered, in retrospect, that a closer examination could have been made of the proposed towers having regard to the special problems involved. These problems, however, were not known to the Department when the contract was let.

Exhibit 127/3  
Qs. 351 to 359,  
373 and 433 to  
440

. Tender and Construction

99. We were informed that public tenders for the project were invited in January 1967. Four tenders were received in respect of the Department's basic design of solid timber construction. Only one tenderer, the highest, offered an alternative based on some large members being laminated, at a price exceeding \$118,000 and 65 per cent higher than the lowest tenderer. Although seasoned timber had been specified each tenderer advised that it was not possible to supply the larger sizes of timber in the grade specified and each offered unseasoned timber conforming to the West Coast Lumbermen's Association standard grading and dressing rules. The successful tenderer stated that because of the effect of drying and subsequent pressure impregnation for preservative purposes, an assurance could not be given of final conformity with the cross-sectional dimensions specified. A guarantee was given, however, that the timber would meet the size requirements when first milled in America. This statement was an indication that the timber would be comparatively unseasoned when procured. The tender was accepted with these qualifications.

Exhibit  
127/3

100. The witness representing the Department of Works was questioned on whether the acceptance of a tender with the qualification that the timber would be comparatively unseasoned when procured was a normal qualification. He informed us that it would be regarded as a normal provision in offering commercial timber. He added that it is common for timber to be milled in a comparatively unseasoned state and for timber that is normally 4'x2' in fact to measure approximately 3 7/8'x1-7/8'.

Q.374

101. It was stated, however, that subsequent experience has demonstrated that the problems of seasoning and using unseasoned timbers in large sizes were not sufficiently appreciated at that time by either the Department of Works or the Contractor. It was explained that neither the Department nor the Contractor had had any real experience of the seasoning of comparatively unseasoned oregon in

Exhibit  
127/3  
Q.375 and  
370

large sizes, and that advice had not been sought from those involved in other projects involving the use of unseasoned timber in large sizes either in Australia or elsewhere.

102. We were informed that had no delays occurred in the construction process it is possible that the towers could have been completed with the use of unseasoned timber. However, there were delays in construction and these resulted in deterioration of the unseasoned timber members to an extent that construction as designed was impossible.

Exhibit  
127/3

103. A contract for the Port Wakefield project was entered into on 14 March 1967 at a cost of \$182,149. At that stage the contractor had several other contracts in hand including the Jervois Bridge, Port Adelaide at an estimated cost of \$1.25 million. His progress and performance on these projects were reported to be satisfactory.

Exhibit  
127/3

104. It was stated that during construction, the contractor experienced problems in the fabrication of the timber arising from twisting, warping and splitting caused by the considerable difference between the moisture content on the surface and at the centre of the unseasoned timber. Witnesses representing the Department of Works thought that there would be no reason to believe that an incorrect type of timber had been used in the towers.

Exhibit  
127/3  
and Q.377

105. We were informed that as well as the problems associated with the fabrication of the timber, difficulties were experienced concurrently by the Contractor in obtaining the specified penetration and retention for the preservative treatment. After investigation by the Department, it was concluded that with the specified method of treatment, it was impossible to achieve the results required and the contract was varied in July 1968, to provide for creosote treatment instead of the multi-salt preservative treatment that had been specified. This involved transporting the

Exhibit  
127/3,  
Qs. 379 and 384

timber to Mount Gambier for treatment, a factor which had been stated as the main reason for the original rejection of that method of treatment. It was said that while transport costs were high and while there were numerous other treatments available, it had been considered that creosote, or copper-chrome-arsenate, the treatment originally specified, or creosote were probably the most effective for the purpose.

106. When questioned further on the reason for reversing the earlier decision not to use creosote treatment the witness informed us that when the contractor attempted the copper-chrome-arsenate treatment a satisfactory penetration of the timber was not achieved. It was demonstrated subsequently that in order to achieve satisfactory penetration into oregon, incision of the fibres was necessary. The witness was questioned as to the reasons for these tests not being made prior to a decision being taken regarding the type of timber to be used. He admitted he could not provide a satisfactory answer to this question but indicated that it had not been realised earlier that problems were involved in the copper-chrome-arsenate method of preservation.

Qs. 381 to  
386

107. We were informed that in May 1968 the Director of Works, Adelaide had requested from the Department of the Navy an increase in the contingency provision of the contract on the grounds of the many problems involved both in design and construction. In particular the Department of the Navy was advised of an additional cost of \$7,272 which had been incurred in respect of the use of creosote in lieu of the multi-salt pressure impregnation originally specified. The contract was varied accordingly in July 1968. The witness representing the Department of Works indicated that the contractor should not be held responsible for the failure of the multi-salt method of preservation of the timber as the Department specified a process which the contractor could not achieve.

Qs. 387 to 393  
and 408



108. It was stated that from December 1967, onwards, the contractor had experienced difficulties in procuring satisfactory laminated plywood for use as gusset plates in the erection of the tower. The problem related to a separation of the laminations of the plywood which prevented the achievement of full structural strength in the gusset.

Exhibit  
127/3  
and Q.414

109. Some delamination of plywood gussets which had been made to an Australian Standards Association specification for marine plywood, had been discovered by the Contractor in December 1967. In January 1968, samples of the 2½" thick plywood for the gussets were forwarded to the Defence Standards Laboratories at Woodville North, South Australia for examination. It was later found that serious delamination was occurring in all thicknesses of plywood. Subsequently the problem was carefully observed by the Department's supervisors and engineers. The gusset had been made to a Department of Works' specification, but the witness for the Department indicated that the gussets did not comply with the specification.

Exhibit  
127/3  
and Q.415 to  
421

110. The Commonwealth Ordnance Factory, Maribyrnong, Victoria commenced testing over 100 samples of various thicknesses of plywood in May 1968. Further samples were forwarded during that month and an interim report, received in July of that year confirmed the belief of the Department of Works that the delaminations were significant and serious enough to warrant rejection of the plywood.

Exhibit  
127/3  
and Q.422

111. In an endeavour to overcome the problems indicated by the tests, the Chief Officer of the Forest Products Division of the C.S.I.R.O. was consulted. Discussions were held between the plywood manufacturer, officers of the Plywood Division and Structural Division of the C.S.I.R.O. and the supplier of the glue. A report dated 23 August 1968 from the Division of Forest Products of the C.S.I.R.O. to the Department of Works stated that no conclusions could be drawn as to the cause of the failures.

Exhibit  
127/3  
Q.423 and  
Committee  
File 1970/9

It was also stated that production of plywood exceeding 1" in thickness is not common in Australia but panels of similar thickness have been produced successfully both in Australia and abroad. A letter dated 28 August 1968 from the C.S.I.R.O. to the contractor regarding the gussets, stated that a proportion of glue lines tested in 4"x4" samples cut from the sheets showed a low bond quality, and so some doubt existed regarding the adequacy of coherence of glue lines in all the gussets. An opinion was also given, as requested by the contractor, of the suitability of using special split ring connections for making the joints and the effect of this measure substantially increasing the bearing area of the rings in the gussets.

112. It became apparent that plywood free of defect could not be produced without introducing further considerable delays into the project and the contractor ultimately approached the Department in September 1968, for approval to use nails to prevent delamination in the gussets due to glue failure. The Department of Works approached the Department of the Navy in November of that year for advice on this proposal because of serious doubts that it held concerning the effect which additional metal in the towers would have on test results. Later in that month the Department of the Navy advised that the proposals were acceptable. The contractor's firm proposals were received in December and he was given authority on 23 December 1968 to proceed, without cost to the Commonwealth.

Exhibit  
127/3

113. In March 1969 erection of the towers commenced on the site and the contractor, despite considerable difficulties, erected the first 80' of each tower. Apart from the difficulty of the plywood gussets, the various timber members had twisted and warped considerably thus making it extremely difficult to assemble the joints. Some of the joints had up to sixty or seventy connectors which had to fit into their correct grooves and as the timbers were not in correct alignment or of the correct size this proved an extremely difficult operation for the contractor.

Exhibit  
127/3 and  
Q.424

114. We were informed that some of the joints at the 40' level were not passed as satisfactory despite approval by the Department of Works of various changes of detail following experiments carried out by the contractor to achieve a practicable method of construction. The Department permitted the contractor to gain more tolerance by enlarging the size of the grooves into which the timber connectors were to fit. Permission was also given to substitute a different type of connection so that the bolt holes could be drilled on the site in order to achieve a degree of tolerance that could not have been obtained under the original design. We were assured that during this time the Department of Works maintained a full-time surveillance of the project, at the construction site.

Exhibit  
127/3  
and Q.425

115. It was stated that in October 1969 the contractor claimed that it was impossible to build the towers as designed because the arrangements of joints allowed insufficient tolerance for split ring and shear plate connectors. He proposed an alternative blank plate connection drilled on site, provided that the Commonwealth would recognise the costs as a variation to the contract. The contractor's proposal in regard to costs was rejected by the Department of Works on the basis that it was his responsibility to complete the towers under the contract.

Exhibit  
127/3  
and Q.432

116. The witness representing the Department of the Navy informed us that about 29 May 1969 his Department wrote to the Departments of Works to ask whether and when the contract would be completed. The Department of Works replied that the contract would probably be completed late in November 1969. In a subsequent memorandum dated 7 October 1969 the Department of Works advised the Department of the Navy that the anticipated completion date would be about mid-1970. On 24 October 1969 the Department of the Navy wrote to the Department of Works requesting that the feasibility of the project and the capability of the contractor be investigated. The reasons for this request were said to be twofold. The question of feasibility of the project was a design matter and had arisen from the fact that the timber was warping and twisting to an extent

Qs. 442 and  
443

that prevented the mating up of the joints. The other matter concerned the question of the ability of the contractor to implement that design.

117. The constructional and contractual difficulties associated with the project were discussed in Adelaide by representatives of the Department of the Navy and the Department of Works in December 1969. The general discussion at the meeting was related to the fact that the contractor, under the terms of the current contract, could not implement the design. Following the meeting the Department of Works wrote to the Department of the Navy on 10 December 1969, in the following terms:-

Exhibit  
127/3 and  
Q.442

"Further to my memorandum of 24 November, 1969, I have now been advised of the discussions which took place in Adelaide on 3 December, 1969, between Messrs. Brown and Fraser of your Department and the Director of Works and other officers of the South Australian Branch of this Department.

Exhibit  
127/4

At those discussions, it was indicated that completion of the towers is still feasible, although still fraught with major problems, but that there is little point in endeavouring to hold the contractor to the present contractual arrangement, as this would probably result merely in liquidation of the Company and consequently failure to advance progress of erection beyond that already achieved.

It should be added that, although this Department has maintained to date that the design is practicable and that the Commonwealth has no responsibility for the costs involved in overcoming the problems encountered, the contractor does not accept this attitude and there is no certainty that he would not achieve at least some degree of success in the event of a claim being submitted to arbitration.

Furthermore, although the Company carrying out this work is not a large organisation, it is a well respected one which has carried out successfully numerous

contracts requiring a high degree of engineering skill. Until recently, it has been most co-operative in its efforts to honour its obligations under the contract and to experiment at considerable expense with possible solutions to problems and, although it has in recent weeks displayed considerable reluctance to press on with the work, it seems very clear that its attitude is due to heavy financial losses incurred on the contract.

It was agreed at the discussions that this Department would investigate:-

1. the likely cost of terminating the present contract on the basis of an agreement with the contractor that he would enter into a fresh contract, on a mutually acceptable basis, for completing the work.
2. the probable cost of terminating the present contract at an appropriate stage without any arrangements for completion. This assumes that the immediate need for the towers may not warrant substantially more expenditure on them and that your Department will explore alternative means of providing for your testing needs in the future, if or when requirements warrant it.

With regard to (1), it is very difficult to give a reliable estimate prior to resolution of a mutually acceptable contractual arrangement for completion of the work, but it is considered that the cost might be \$50,000 to \$100,000 above the current contract amount. No prospect can be seen of completing the project on this basis before the end of September, 1970. As for (2), it is doubtful whether the cost would be materially less than the current value of the contract.

In any consideration of costs, it must also be borne in mind that the nature of construction of the towers must result in quite substantial annual maintenance costs.

The contractor is making virtually no progress on site at present and is unlikely to resume operations until after mid-January, when the annual close-down of the building industry ends.

It is essential that decisions in regard to the future of this project be made by that time and it would therefore be appreciated if your Department could examine your needs in the light of the cost and time factors referred to above and advise me as urgently as possible of your views about proceeding with the project."

118. In a memorandum dated 28 January 1970 the Department of the Navy expressed concern at the proposals made by the Department of Works and sought further advice regarding the completion of the project. It suggested an inspection by the Chairman of the Technical Works Committee, Defence Business Board and a representative of the Department of the Navy. A meeting was held on 25 February 1970 in Adelaide, both in the office of the Department of Works and later at the site. The Navy Technical Advisor to the Defence Business Board and a representative of the Department of the Navy were present at these meetings. Both submitted independent reports. The reports indicated that the then current design could not be implemented by any contractor and recommended that alternative means of meeting the test requirements should be investigated.

Exhibit  
127/3  
and Q.448

119. The witness representing the Department of Works stated that from the point of view of his Department, the inspection held at the site on 25 February 1970 had revealed "fairly complete agreement" with the representatives of the Department of the Navy that the condition of the timbers on site had deteriorated to such an extent that completion of the towers was virtually impossible. It had been agreed that it was unreasonable to expect the contractor to complete the contract within the financial limits of the present contract and that alternative methods of meeting the Department of the Navy's testing needs should be explored. This was confirmed

Exhibit  
127/3 Qs.  
449, 456, 470  
and Committee  
File 1970/9

in a memorandum to the Department of the Navy in March 1970 when representations were made regarding the need for urgent decision and action. It was also advised that the contractor had put forward, in a letter dated 24 February 1970, proposals calling for increasing quantities of metal in the timber structures. The letter from the contractor included the following paragraph:

"Careful examination of the erection difficulties on the above contract leads us to believe that it will be essential to modify the field connections at present being used. The unforeseen problems and unknowns have become so extensive that we cannot satisfactorily estimate the costs necessary for completion of the structures. In order to complete the structure we suggest that a new type of field joint should be provided, using steel gusset plates with single pin connectors on each of the 6 legs and 3 central intersections at the 80, 120 and 185-ft levels. Sections could then be lifted in complete and the 9 pins at each level driven home to complete the field jointing. The cost of completing the structure and the remainder of the contract upon this basis is \$166,726."

Qs. 456,  
470 and  
Committee  
File 1970/9

120. We were informed that the contractor did not provide any detailed information as to the quantity of steel that would be involved in his proposal. The witness representing the Department of Works informed us that a formal request was not made to the contractor to obtain details but that discussions were held with him on the matter. The contractor proposed to introduce steel gussets at certain positions in the tower which would facilitate their erection. A verbal description of the proposals was obtained and given to the Department of Supply for examination.

Exhibit  
127/3  
Qs. 454, to  
458

121. Investigation into the possible effect of incorporating some steel into the design in the form of suggested gussets was initiated by the Department of the Navy with the Department of Supply, but we were informed that the problem was exceedingly complex and involved reference to British authorities in regard to their experience with the particular tests concerned.

Exhibit  
127/3 and  
Qs. 464 to 473

The witness representing the Department of the Navy said that on 25 March 1970 his Department received advice from the Department of Works which included the following- "It is significant that completion of the towers in accordance with the original brief-with little or no metal - is not now possible". The witness indicated that in view of this advice his Department could not instruct the Department of Works on the matter without some knowledge of the amount of steel required in the revised design. A request was therefore made to the Department of Works for comments on this matter and, for suggestions as to the extent to which the design brief should be modified to enable tower structures of the size and disposition envisaged to be constructed. In addition it was indicated that there was a suggestion from the Department of Works that even with the proposed design changes the towers may not prove to be satisfactory structures. This suggestion contributed to the reluctance on the part of the Department of the Navy to instruct the Department of Works to proceed with the proposed modifications.

122. When our Inquiry occurred on 23 February 1971 the results of correspondence with the British authorities regarding experience of the particular tests to be undertaken were inconclusive. Written interim reports had been received from the Weapons Research Establishment in South Australia but as these were also inconclusive a decision could not be made on the matter. It was said, however, that theoretical studies had been completed and trials were being considered.

Qs. 467, 468,  
471 to 473 and  
498

123. In May 1970 the Department of the Navy was further advised by the Department of Works that in order to complete the towers it would be necessary for steel gusset plates to be used and that whilst structural adequacy could be obtained by the use of sufficient steel, durability was still likely to be poor. However, in view of the high cost of this project and the doubt as to whether it could be really satisfactory, the Department of the Navy was advised that the Department of Works proposed to investigate other possible alternatives

Exhibit  
127/3  
and Q. 476



and suggested that a conference of all parties concerned should be convened to discuss the proposals.

124. It was stated that at a meeting held in Melbourne on 24 June 1970, the Department of Works advised the Department of the Navy that, during a recent inspection of the towers it had been assessed that further deterioration of the timbers had occurred and that it was unlikely that the towers could be satisfactorily completed even with the use of steel gusset plates. This view was later confirmed by the Department's Chief Structural Engineer who reported that in his judgement it was no longer practicable to complete the Port Wakefield towers to the existing design or to any variation of that design which could reasonably be undertaken as a variation to the current contract.

Exhibit  
127/3

125. At the same meeting information was given regarding the cost of possible alternatives and the representatives of the Department of the Navy indicated that their Department intended to continue research and experiments in conjunction with the Weapons Research Establishment, with a view to determining revised requirements for the testing of ammunition at Port Wakefield. At the time of our Inquiry no firm details of the costs of possible alternatives could be given.

Exhibit  
127/3  
and Qs. 479 to  
485

126. It was stated that for most of the construction period of the project, the attitude of the Department of Works was that the contractor had entered into a contract to provide completed towers and that it was his responsibility to overcome the difficulties encountered in achieving satisfactory joints at the various levels of the towers. In letters dated 18 September, 1969, 21 October, 1969 and 24 February 1970 and in various unrecorded discussions during this period the contractor had insisted that the design of the towers was unsatisfactory. The contractor considered that insufficient tolerance had been provided in the type of joint incorporated into the design to allow possible construction to be practicable. The witness representing the Department of Works

Exhibit  
127/3  
Qs. 486 to 488  
and Committee  
File 1970/9

indicated that in retrospect his Department would now agree with the contractor on this matter. The contractor also considered that he should not be held wholly responsible for the costs he had incurred. These were substantially in excess of the total contract amount as varied of \$197,921.

. Termination of the contract

127. We were informed that further consideration was given by the Department of Works to its attitude on the question of responsibility and discussions were held with representatives of the Deputy Crown Solicitor on contractual aspects of the matter. We were informed that one meeting was held on 2 June 1970 when the matter was discussed extensively. Subsequently, a written opinion dated 28 September 1970 was received from the Deputy Crown Solicitor confirming the opinions given at the meeting. A full copy of the written opinion was submitted to us in confidence.

Exhibit  
127/3  
Qs. 489 to  
491 and  
Committee  
File 1970/9

128. We were informed by the Department of Works that one of the questions considered by the Deputy Crown Solicitor was whether it was "fundamentally impossible" to build the towers in timber in accordance with the design. His view was that it was doubtful, but not certain, whether "fundamental impossibility" could be proved.

Exhibit  
127/3

129. Another aspect considered by the Deputy Crown Solicitor was whether the contractor, having entered into a contract for the erection of the towers, could be held responsible for completion, or alternatively for damages, even though the design was faulty and it was impossible for the towers to be constructed strictly in accordance with that design. The Deputy Crown Solicitor had emphasised that in such circumstances the contractor must be allowed to introduce any logical changes to enable him to produce the two completed towers. Doubts as to liability must therefore arise from the restrictions on the use of metal in the towers, a factor of which the contractor was either unaware or, at most could have been only remotely aware by inference at the time of tendering. The subsequent inability of the Commonwealth to give favourable decisions on proposals involving the use of metal put forward by the contractor to enable the towers to be completed and the delay

Exhibit  
127/3

in conveying decisions was considered to be frustrating the contractor in the completion of his work.

130.               Regarding the specific requirement that metal above ground should be kept to a minimum and, if possible, dispensed with altogether, the Deputy Crown Solicitor expressed the view that doubts as to liability must arise from the restrictions on the use of metal in the towers.               Exhibit 127/3 and Q.492

131.               In this regard the witness representing the Department of Works informed us that while the brief prepared by the Department of the Navy had included the specific requirement that metal above ground should be kept to a minimum and if possible, dispensed with entirely, the client had not requested that this requirement should be stressed in the contract document. As it is not normal practice for such special requirements to be emphasised in contracts, this requirement had not been made clear in the contract document although it may have been evident to a person already aware of the Department of the Navy's need. The requirement had been taken into account in the designing of the structure which was somewhat abnormal insofar as a greater amount of timber was included than would usually be required in a structure of the type concerned.               Qs.492 to 497

132.               The Deputy Crown Solicitor expressed the view that the Department of Works could not persist in its attitude that the contractor was solely responsible for the difficulties as it was far from certain that litigation on this point would support that view. He considered that the case called for negotiation with the contractor in order to obtain the best possible settlement on the basis of mutual release from the contract.               Exhibit 127/3

133. Because of the opinion received from the Deputy Crown Solicitor and the Department of Works' knowledge of the situation at the site of the project, the conclusion was reached that the project could not be completed under the existing contract and the Department of the Navy was advised in a memorandum of 25 June 1970 that it would be in the best interests of the Commonwealth to abandon the project in its present form and to terminate the contract on the best possible terms. A deed of Mutual Release was executed on 10 September 1970. At the time of our Inquiry the project was in abeyance pending completion of investigations by the Department of the Navy into its revised requirement.

Exhibit  
127/3

Exhibit  
127/3  
and 498

134. In relation to the financial adjustment we were informed that on request the contractor submitted to the Department of Works a statement of costs incurred on the project. Subsequently two officers of the Department examined the books and claims of the contractor and it was agreed that the statement of expenditure was somewhat understated. It was agreed that the contractor would be paid half of the amount of \$94,000 outstanding. An amount of \$48,500 was paid to the contractor, including an outstanding amount of \$1,500 which was due to him.

Q.508

. Administrative Arrangements

135. Subsequent to our Inquiry we were informed in a letter dated 19 March 1971 from a witness of the Department of Works that for several years his Department has been pursuing an active policy of becoming more closely associated with client departments, particularly during the very early stages of consideration and concept of works proposals.

Q.504  
and Committee  
File 1970/9

136. In this regard the Department of Works has taken the view that it is essential to the provision of an efficient and effective service to client departments for its key staff to be involved with the client at the stage at which the nature of the project to be undertaken is first under consideration. The Department

Q.504 and  
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of Works also considers it to be appropriate to undertake with or for the client department any of the basic feasibility studies required to determine the practicability, cost, economies and time-table for the project or for some significant element of it and in effect to produce a reasonably detailed brief from the client Department's statement of essential operating requirements which the project must meet.

137. It was said that for several years Department of Works' personnel have become increasingly involved in that way with a number of important client departments, including the Department of the Navy, particularly for the larger or more intricate works where the consequences are great or where previous experience of similar projects is either limited or does not exist. This policy was said to be reflected in a conference held on 30 November 1970 with the Permanent Head of the Department of Defence and senior executive officers of the Service Departments and the Department of the Treasury. The notes of the conference record the following:

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"Mr. Reihor said he wished to make it clear that he was completely in agreement with the concept of the presentation of Form DF1 (a new briefing form being developed by the Defence Department) and that his department was anxious to become associated with the development of works proposals at the earliest possible stage. The requirements in Form DF1 required a higher degree of consultation between the Works Department and the client departments and the Department of Defence if the task were to be done properly, and he proposed setting up within the head office of the Department of Works a central integrated planning point for defence works so as to make available the maximum consultative facilities at the earliest practicable stage in project development".

138. We were informed that a second important policy being followed by the Department of Works in providing a complete and efficient service to client departments relates to the planning and control of works within the Department of Works itself.

139. It was stated that it is now a firm and continuing policy of the Department, in particular with the larger or more complex works, but also applying to works generally, to ensure that projects are planned and time-tabled in a comprehensive and logical way, using the most modern planning techniques from concept to completion of construction and hand-over, and to see that as far as is practicable all problems of significance and the development and execution of the work are identified before they become critical and to ensure that the appropriate skills are applied to the resolution of the problems whether such skills are available from within the Department or whether they need to be sought elsewhere.

Q. 504 and  
Committee File  
1970/9

140. In order to execute this policy in an efficient manner and in order to maintain a close and continuing association with client departments throughout the complete period of development and construction of projects, the Director-General of Works, with the concurrence and support of the Public Service Board has appointed a number of Project Managers to be responsible for certain major and specialised works. The duties and responsibilities of Project Managers have been defined broadly as follows:-

"The major responsibility of a Project Manager is to ensure that the Sponsor Department receives an integrated efficient service on all aspects of projects from the initial consultation associated with establishing the brief and throughout the planning, design and construction phases. He will ensure that there is an appropriate balance between quality time and cost. He will be the prime point of contact with the sponsor Department."

Q. 404 and  
Committee  
File 1970/9

141. Regarding procedures within the Department of Works, we were informed that in addition to the policies referred to, the Department is concerned at all times to see that appropriate skill and experience is available to resolve the problems it faces and if this is not available from the Department's own staff it is sought and obtained from wherever it might be available. There have been a number of important cases in recent times where specialised skills have been sought from the other departments of the Commonwealth and State Government Organisations and from specialist consultants in Australia and abroad. The Department of Works is not impeded in any significant way in seeking and obtaining such skills as are required.

Q.504 and  
Committee File  
1970/9

142. We were informed that in order to obtain the latest information and techniques in the particular areas of technical skills where the Department employs highly specialised key staff of its own, it is departmental policy to send its officers overseas at appropriate and reasonably frequent intervals so that they can become fully conversant with current practices and experiences. This policy has been effected on a number of occasions in recent years.

143. Within the last three years formal works review arrangements, beyond those already existing at the Central Office of the Department, have been introduced into each of the Department's Regional Offices and these procedures, whereby proposals are extensively scrutinised by experienced personnel, are aimed at avoiding serious error in the development or construction of the works undertaken by Branch offices.

Q.504 and  
Committee File  
1970/9

144. We were also informed in the letter of 19 March 1971 that with the policies, practices, and procedures now being followed and developed by the Department there is far less possibility of situations similar to that reflected by the Port Wakefield project

Q.504 and  
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1970/9

recurring. He added the qualification, however, that much of the work of the Department is highly complex and developmental in character. If world-wide experience is any indication, there will still be occasions when difficulties of some consequence arise and complete and adequate solutions will be difficult and costly to find.

#### CONCLUSIONS

145. It appears to Your Committee from the evidence tendered that the ammunition testing facility required by the Department of the Navy at Port Wakefield was an unusual structure requiring that metal above ground was to be kept to a minimum and, if possible, dispensed with altogether. This specific requirement had evidently been emphasised by the Department of the Navy from the outset.

146. It also appears that when, in 1964 the Department of Works was conducting its initial investigation into the facility required by the Department of the Navy, it discovered reference material relating to the building of a similar structure in the United States of America prior to 1963. Also, when the Department was engaged in the preparation of the design for the Australian project it was aware of another somewhat similar timber tower installation located in Britain and constructed during World War II. The evidence indicates, however, that it was not until as late as 1970 that the Department of Works discovered that construction problems had been encountered during the building of the American structure. Your Committee believes that the Department of Works should have investigated fully these structures during the planning and design stages of the Australian facility. Such an investigation might well have obviated many of the problems that were later encountered.

147. Much of the evidence tendered, particularly in relation to timber and lamination problems and problems connected with the preservative treatment of the timber selected suggests that the Department of Works was illequipped, at that time, to meet the problems that were encountered.



148. So far as administrative arrangements within the Department of Works is concerned we note that for several years the Department has been pursuing an active policy of becoming associated with client departments, particularly during the early stages of consideration and concept of works proposals. The Department also considers it appropriate to undertake with or for the client department any of the basic feasibility studies required to determine the practicability, cost, economies and time-table for the project or for a significant element of it and, in effect, to produce a reasonably detailed brief from the client department's statement of essential operating requirements.

149. We also note that it is now an established policy of the Department to ensure that projects are planned and time-tabled in a comprehensive and logical manner using the most modern planning techniques from concept to completion of construction and handover and to ensure that as far as practicable all problems of significance and the development and execution of the work are identified before they become critical. It appears also that within the past three years, formal work review arrangements, beyond those already existing at the Central Office of the Department, have been introduced into each of the Department's Regional Offices. These procedures are aimed at avoiding serious error in the development or construction of the works undertaken by branch offices.

150. In view of the circumstances reflected by the Port Wakefield Project Your Committee would commend the Department of Works for the policies it is in the process of implementing. Some of these, however, are of comparatively recent origin and we believe might well have been introduced sooner.

Chapter 5

Australian Wool Board

151. At paragraph 203 of his Report for 1969-70 the Auditor-General stated:

"A fire in the Botary compound on 30 September 1969 completely destroyed 9 stores and caused damage to other stores belonging to the Board. The buildings were occupied by private firms for storage purposes on tenancy bases. Contents of the stores, the property of the tenants were also destroyed or damaged. The buildings were insured and at the date of preparation of this Report a claim by the Board for \$553,854 was in course of settlement. The claim included amounts for removal of debris and loss of rent. Consequences of the fire in relation to losses by tenants were sub-judice when this report was prepared."

152. We were informed by the Australian Wool Board that the fire had started at about noon on 30 September 1969 in Store No.207 and, in strong wind conditions, had spread to other stores in the Botary compound. Nine separate buildings had been destroyed completely and others damaged. The following amounts, which had been settled by the Board's Insurance Underwriters and accepted by the Board, represented a reasonable valuation for the assets concerned.

Exhibit  
127 / 6

	\$
Damaged Buildings	47,268
Total loss-9 stores	451,468
Removal of Debris	19,017
Loss of Rent	32,764
Tools and Equipment	<u>3,337</u>
<u>Total</u>	<u>\$553,854</u>

153. It was stated that altogether 268,660 sq.ft. of storage space had been lost. The buildings concerned had been erected in 1941-42 for the storage of wool. They were of timber construction with wooden floors and corrugated asbestos cement roofing. As certain claims against the Board arising from the fire had become the subject of legal processes and were therefore sub-judice the

Exhibit  
127 / 6

Board supplied us in confidence with information relating to the alleged cause of the fire, Third Party claims that had been made and the effects of possible judgments against the Board.

154. The Board explained in evidence that during the period from 1941 to 1945 the Central Wool Committee had been faced with the problem of storing an annual wool clip of about 3 million bales until such time as world conditions would allow a resumption of shipment overseas. It had been estimated that storage would have to be found for approximately 8 million bales and, in due course, 407 stores were erected containing 13,106,000 sq.ft. of floor space. The stores were built on the most convenient sites and with materials available at that time. Consequently they were not constructed as long-life buildings. In elaborating on this the witness indicated that a number of the stores had been clad with masonite. Others were clad with fibrous cement sheeting. Most stores erected in northern areas were clad with hardboard timbers. Asbestos cement roofs were applied in all stores. A limited number had concrete floors but most stores had timber floors erected either on timber sole plates or on concrete beams. The stores had been built rapidly. The witness added that if they were being built currently they would be constructed to a design different from that employed at the time.

Exhibit  
127 / 5  
Q.520 and  
Committee  
File 1970/9

155. We were informed that control of the wool stores passed from the Government to the Wool Bureau, later named the Australian Wool Board, in 1955. In January 1954 the Bureau held 322 stores. Since that time, 47 stores have been sold, 18 have been lost by fire including the 9 destroyed at Botany in 1969, and 8 have been demolished. At the same time 10 new stores have been constructed. As at June 1970 the Board owned 269 stores containing 8,795,875 Sq.ft. of floor space with an additional 448,000 sq.ft. under construction. It was claimed that the Board is the major provider of bulk storage space in Australia.

Exhibit  
127 / 5  
and Q.522

156. The objects and powers of the Board relating to wool stores are set out in Part V of the Wool Industry Act. We were informed that, broadly, these powers have been interpreted to mean that the Board

Exhibit  
127 / 5  
and Q.523  
to 534

should take the maximum commercial advantage from its ownership of the stores subject to the rights of the Crown to have stores revested in it in the event of a national emergency and for its use for defence purposes. In relation to ownership of the stores it was stated that the titles to the land on which the stores are located are held in the strongroom at the office of the Australian Wool Board which is located in a sprinklered building. The Board has not considered it necessary to arrange for the titles to be lodged for safe custody with a bank.

157. It was claimed that the Board has recognised the possible need to reserve space for the requirements of a Marketing Plan and therefore must ensure that a reasonable proportion of space is held under short tenancy in each State. The Wool Marketing Committee of the Wool Board had ruled that sufficient space should be retained to handle 20 per cent of the Australian wool clip and the Board had largely complied with this requirement.

Exhibit  
127 / 5  
and Q.536

158. The Wool Industry Act states that it is the function of the Board to manage, control and maintain the stores. We were informed that it is basic policy on the part of the Board to perpetuate the organisation by maintaining in good condition and protecting the stores and compounds, by efficient maintenance, adequate insurance and fire protection programmes.

Exhibit  
127 / 5

159. In relation to maintenance it was stated that the programme is divided into two parts. Current or normal maintenance is performed by the Board's 62 maintenance staff. Long-term or preventive maintenance, which includes the recladding of stores with fire resistant material, provision of ventilation, lighting and roadways is undertaken when the Board finds it possible to allocate financial resources for that purpose. Over the past three years preventive maintenance expenditure has been incurred on about 3 million square feet of store space. The witness added that, apart from the need to observe priorities, preventive maintenance is controlled mainly by a limitation of available funds.

Qs. 539, 540  
and 547

160. In regard to fire protection programmes it was stated that the Board conforms to the requirements on sprinkler systems and hydrants laid down by the Underwriters Association. In addition, training is provided for the Board's staff in fire protection and a watching system is employed beyond normal working hours. Where the Board has found it possible and has had funds available, it has installed sprinkler systems in its stores. It proposed that two new complexes each of about 250,000 sq.ft. and under construction late in 1970 will have sprinkler systems installed. Information submitted by the Board subsequent to our inquiry in February 1971, showed that sprinkler systems have been installed in only 14 of the Board's 269 stores. We were informed that the provision of sprinkler systems in all stores would be a substantial problem and the costs of such a proposal would exceed \$4 million. All store compounds however, are provided with fire hydrants.

Exhibit  
127 / 5  
and Qs. 541 to  
546 and 555

161. In elaborating on its fire protection programme the Board informed us that following its establishment in 1962, progressive steps were taken to make staff aware of the dangers and the care necessary to support existing fire protection devices which comprise fire hydrants and hoses, fire extinguishers and watching services. At yearly conferences of State Managers discussions have taken place on available fire protection programmes and the administration has endeavoured to have its staff attend safety training courses and lectures in fire protection. Fire drills have been arranged.

Q.548 and  
Committee File  
1970/9

162. The Wool Board received a report outlining a programme for planning and development of wool stores and this was approved at the Board Meeting held on 2 May 1969. Among other things the following matter was adopted at that meeting :

Q.548 and  
Committee File  
1970/9

"Fire Protection

Our view remains that the stores, in their present condition, present a high fire risk. Conflagrations could be serious when spread of fire in extreme conditions could destroy a group of stores. It is, however, not feasible to give existing stores the full protection

of sprinkler systems owing to the high capital cost, but we will continue to instal sprinklers in new buildings. Our objective is therefore to take the maximum precautions, viz:

- (a) Organise efficient fire watching services
- (b) Police regulations regarding the storage of hazardous merchandise.
- (c) Arrange frequent fire drill

In planning the five year programme we have worked on the following essentials to provide at least a half hour fire rating:

- (a) Finally re clad all stores and doors with fire resistant materials such as Hardiflex, Wundaflex and iron.
- (b) Replace fixed side windows with steel framed pivot windows.
- (c) Instal thermal alarm systems which, for the protection provided, are the most economical and efficient".

163. Under the Wool Industry Act the Wool Board has power, with the consent of the Minister, to acquire, build, demolish or sell land and wool stores. We were informed that where vacant land exists or sites are left vacant by fire or where it has become uneconomic to spend further money on restoration, the Board will consider projects involving the building of new stores with roads and loading areas to meet the needs of industry. The Board gives preference of occupation to the Wool Industry provided tenants meet the Board's normal conditions of occupation. No concessions, however, are granted in respect of rentals for the Wool Industry as the Board is engaged in a commercial operation.

Exhibit  
127 / 5  
Q.556

164. We were informed that the Minister has approved the granting of leases at the discretion of the Wool Board up to a period of three years. Longer term leases require the approval of the Minister. It was stated that the Board has authorised the Managing Director to approve leases up to three years duration but that details are reported to the Board for confirmation. The relevant delegation

Exhibit  
127 / 5  
Qs.558 to 560  
and Committee  
File 1970/9

was conferred on the Managing Director by Resolution of the Board on 22 June 1967 in the following terms.

"That the Board delegate to the Managing Director power to approve routine leases for wool stores, provided a list of such leases is submitted to the Board at each Meeting; in cases where a change in policy, such as a long term lease, or a change in rental charges, is involved, the matter to be submitted to the Board before approval is given".

165. We were informed that, in consultation with its solicitors, the Wool Board had revised its lease and tenancy agreements in 1970. The revised agreements contain specific provision to ensure that the lessee will be solely liable for any loss, liability, claim or legal proceeding arising out of any event which may occur on the premises and which might make void any insurance policy effected by the Board. A copy of a previous lease agreement and a revised standard form of lease agreement for wool stores was tendered by the Board.

Exhibit  
127 / 5  
and Q.561

166. The witness informed us that the Board's lease documents had been examined by the Deputy Crown Solicitor about four or five years previously. By 1970 the Board had felt that a further review was needed and in this it was influenced partly by the fire that had occurred at Botany in 1969.

Exhibit  
127 / 5  
and Qs.561  
to 563

167. The Wool Industry Act provides that the Board shall, to the satisfaction of the Minister, insure and keep insured its property and rights in and in respect of its buildings. We were informed that in terms of this requirement the Board insures all stores against damage or destruction by fire, flood, storm or tempest. As at 30 June 1970 the insured value of the buildings stood at \$14,744,521 compared with a book value of \$3,635,027.

Exhibit  
127 / 5  
Qs.564 to  
567 and  
Committee  
File 1970/9

168. The Board also informed us that it had recently negotiated an increase in its third party cover from \$500,000 to \$5,000,000. It was explained that early in 1966 a Sub-Committee of the Board had

been established to examine various aspects of the wool stores administration and policy. At that time the Public Risk Insurance amounted to \$100,000. With the support of a recommendation from the Board's insurance brokers, the Sub-Committee recommended and the Board approved, an increase in this cover to \$500,000. This level was increased to \$1 million on 17 December 1969; \$1.5 million on 21 January 1970 and \$5 million on 15 September 1970. The last mentioned increase had been prompted by the fire at Botany in 1969.

Exhibit  
127 / 5  
Qs. 568 to 570  
and Committee  
File 1970/9

169. In relation to the future development of the wool stores we were informed that prior to 1969 the Wool Board had operated on a five year improvement programme by the allocation of revenue to reserves for rebuilding and preventive maintenance work. By March 1969 it had become clear that the Board would be unable to generate its own reserves to an extent sufficient to modernise its stores, protect them from fire and meet the requirements of the Wool Industry Act regarding storage capacity. The Board therefore commenced plans to borrow funds for this purpose. In April 1970 it submitted a document to the Australian Wool Industry Conference with a recommendation that an approach be made to the Government for power to borrow for this purpose. The document included a programme for the expenditure of \$12 million over a period of five years. The Act was amended in June 1970 to include the power for the Board to borrow. Subsequently the Wool Board submitted a request that the Government guarantee the loan to facilitate loan raising. As at 23 February 1971, when our public inquiry took place, the Government had not informed the Board of the terms on which it may be able to borrow although it had approved the proposal to borrow funds for the redevelopment of the wool stores.

Exhibit  
127 / 5  
Qs. 571 to  
573

170. It was stated that the redevelopment programme entails the replacement of existing column spacings in the stores with wider spans to take advantage of modern requirements; the laying of concrete floors to meet the demands of containerisation and mechanical handling; the replacement of external wall cladding with fire-rated material and, with the double object of increasing rentals and reducing fire insurance premiums, the installation of sprinkler systems.

Exhibit  
127 / 5



171. The evidence shows that almost all of the stores owned by the Wool Board, including those destroyed or damaged by the fire at Botany in September 1969, were constructed early in World War II to meet wartime wool storage needs. The stores had been built on the most convenient sites and with materials available at the time. Some of them were clad with masonite and others with fibro-cement sheeting. Some stores had concrete floors but most had timber floors. None of the stores were regarded as long-life buildings when they were constructed and it appears from the evidence that their design is not appropriate for their present purposes.

172. Initially the stores were the property of the Commonwealth but they were transferred to the control of the Wool Bureau in 1954 and to the control of the Australian Wool Board in 1962.

173. The evidence shows clearly that the wool stores, as constructed, represent a high fire risk and this fact was recognised by the Australian Wool Board following its creation in 1962. At that stage progressive steps were taken to make the Wool Board's staff aware of the dangers and the care necessary to support existing fire protection devices. However, for financial reasons it was not until 1969, that the Board was able to develop an adequate plan for the redevelopment of the stores, including the installation of sprinkler and thermal fire alarm systems. As almost all of the stores had been constructed about twenty-years prior to the creation of the Australian Wool Board, Your Committee believes that appropriate action to provide adequate fire protection facilities and to redevelop the stores so as to minimise the risk of fire, should have been taken by the responsible authorities as soon as it became apparent that the stores would be required to meet long term post-war needs. While we are sympathetic regarding the problems inherited by the Wool Board, we also believe that, from its early appreciation of the fire risks involved, the Board should have regarded the large-scale redevelopment of the stores as a matter of considerable

urgency. As matters stand at present it appears that the plans developed by the Board as late as 1969 will not be implemented fully before 1975. Your Committee regards the Board's current redevelopment plan as a matter requiring the most urgent attention particularly in view of the high fire risk presented by the nature of the stores and the fact that only fourteen of the two hundred and sixty-nine stores are equipped with sprinkler systems. Only twenty-two of them have thermal fire alarm systems.

174.

Your Committee notes that arising partly from the consequences of the fire at Botany in 1969 the Australian Wool Board revised its lease and tenancy agreements in 1970 to ensure that the lessees will be solely liable for any loss, liability, claim or legal proceeding arising from any event which may occur on the premises and which might make void any insurance policy effected by the Board. These leases had been reviewed by the Deputy Crown Solicitor some five years previously. As nine stores had been lost by fire prior to the fire at Botany and as the Wool Board has been well aware since 1962 of the fire risks involved with the stores, Your Committee believes that the lease and tenancy agreements should have been appropriately amended many years earlier.

175.

Your Committee also notes that prior to 1966, third party insurance cover amounted to \$100,000. This was increased to \$500,000 in that year. It was further increased to \$1 million in December 1969, \$1.5 million in January 1970 and \$5 million in September 1970. The last mentioned increase arose from the Board's experience of the fire at Botany in September 1969. In view of the Board's stated policy that it should take the maximum commercial advantage from its ownership of the stores, subject to the rights of the Crown, Your Committee believes that the third party insurance cover should have been examined and adjusted prior to 1966. It also appears from the substantial variations that have been made to that cover subsequent to that year that the extent of third party insurance cover should be kept under regular and frequent surveillance.

## Chapter 6

### The Responsibilities of the Auditor-General

176. In paragraph 318 of his Report the Auditor-General stated that during 1969-70 he was required to examine and report on the accounts and records of the Parliament, 27 departments and 123 Commonwealth Statutory authorities, Commonwealth-owned companies, banks, universities and other bodies. The majority of statutory authorities also submit separate reports to the Parliament or other legislative bodies. Forty-six such reports, incorporating the Report or certificate of the Auditor-General relating to the financial and accounting aspects of their respective responsibilities are tabled in the Parliament and six reports are tabled in the Northern Territory Legislative Council.

177. Additionally, as provided by the Papua and New Guinea Act 1949-1968, the Auditor-General is required to audit the accounts of the Administration of the Territory of Papua and New Guinea and to furnish a report upon the Administrator's Statement of Receipts and Expenditure of the Public Account of the Territory. A copy of his Report is tabled in the House of Assembly. Also, by virtue of various statutory requirements or by arrangement, the accounts, records and financial statements of 20 statutory authorities in the Territory, including the Papua and New Guinea Development Bank are subject to audit examination and report. The Auditor-General's reports in respect of 11 of these are included in reports tabled in the House of Assembly of the Territory.

178. The Auditor-General stated that under recent Commonwealth legislation promulgated in respect of the Postmaster-General's Department, the Commonwealth Scientific and Industrial Research Organisation and the War Service Homes Division, he is now required to report to the responsible Minister on the statements reflecting the financial transactions of those activities. Such reports are tabled in the Parliament and are included in the number of 46 referred to in paragraph 176.

179. New Audit responsibilities to be assumed in 1970-71 include Qantas Wentworth Holdings Limited and its subsidiary companies,

Anglo-Australian Telescope, Institute of Marine Science, Australian Film Development Corporation, Snowy Mountains Engineering Corporation, Australian Industry Development Corporation, new categories of expenditure included in Appropriation Acts and a number of other new activities which were under consideration when the Auditor-General transmitted his Report for 1969-70 to the Parliament.

180. The Auditor-General indicated that during the past 10 years, the accounts and records of 3 new Departments of State and 44 new statutory bodies have come within the ambit of his audits within Australia, the Northern Territory and the Territory of Papua and New Guinea. In addition, 53 departmental overseas posts have been created and 42 departmental branch or regional offices have been established in Australian Capital cities and country areas. Moreover, the number of banks subject to his investigations under the provisions of the Banking Act has increased from 20 to 25 and there has been a substantial expansion of the number of branches and business of the Commonwealth Banks throughout Australia. The initial audit of the Papua and New Guinea Development Bank was commenced in 1967.

181. The Auditor-General's Report also shows that, apart from the increase in the number of Commonwealth and Territorial activities that has occurred, there has been a significant increase in the volume of business transacted by departments and authorities. The total receipts of the Consolidated Revenue Fund, the Trust Fund and the Loan Fund increased from \$5,243,735,000 in 1959-60 to \$12,591,162,000 in 1969-70 while expenditure from these 3 Funds (including refunds of revenue) increased from \$5,328,999,000 to \$12,007,124,000. Commensurate with the growth in activities and the volume of business transacted, the staff of departments increased by about 34 per cent from 162,903 as at 30 June 1959 to 218,795 as at 30 June 1970.

182. During the 10 year period substantial increases also occurred in the volume and value of transactions of statutory authorities. Receipts and expenditure of such authorities (including activities in Papua and New Guinea) increased from about \$764,103,000 and \$686,147,000

respectively in 1958-59 to \$2,349,520,000 and \$2,167,799,000 in 1968-69. At the same time the staffs employed by the authorities etc subject to audit in Australia increased by 66 per cent from about 44,000 as at 30 June 1959 to 73,000 as at 30 June 1969.

183. During the same period data processing by electronic computers was introduced in Commonwealth departments and authorities. 131 computers were installed as at 30 June 1970. Of these, 76 were used on commercial applications.

184. The Auditor-General stated that notwithstanding the greatly increased workload demonstrated in some measure by the preceding statistical comparisons he has been able to contain the necessary growth in his approved staff establishment to 58 positions over the 10-year period concerned. This has been achieved for the most part by refinement of auditing techniques, together with appropriate use of his discretionary authority to dispense with detailed audits under the provisions of sections 45A and 45B of the Audit Act.

185. In view of the growth in the volume, variety and complexity of the audit function over the 10 years to 1969-70 we have examined the Reports of the Auditor-General over that period in relation to the adequacy of audit staff and organisation to implement the expanded audit programme.

186. In his Report for 1959-60 the then retiring Auditor-General Mr. H. C. Newman, C.B.E., stated that during that year, many experienced officers were lost to Audit by promotions to other departments. This followed the pattern of previous years. He added that it was, unfortunately, only too apparent that the Audit Office was, in fact, a training ground for officers aspiring to higher classified positions in other branches of the Public Service.

187. In his Report for 1960-61 the newly-appointed Auditor-General, Mr. V. J. W. Skermer, C.B.E., also referred to audit staff losses. He stated that these losses, which had been occurring for some years,

continued during 1960-61, undiminished in both rate and severity. He added that while they had occurred in several Branches, the losses had been felt particularly in the Central Administration of his office and in the Australian Capital Territory Branch. In the latter office there had been almost a complete replacement of inspectorial staff during the five years ended 30 June 1961. The Auditor-General expressed serious concern at the waste to the Audit Office of training in auditing objectives and procedures which ensues from these losses; by their impact on the maintenance of the Audit programme; and of the increasingly heavy responsibilities which they impose on the senior staff.

188. In each Report from 1961-62 to 1969-70 inclusive, the Auditor-General has continued to report the loss through promotion, retirement and resignation of experienced audit personnel.

189. During 1961-62 the Public Service Board established a Central Classification Committee to review the reclassification of positions of Audit Inspectors and Senior Audit Inspectors. In 1962-63, consequent upon the receipt of that Committee's Report the Board agreed to approve re-classifications of all grades of Audit Inspectors and Senior Audit Inspectors.

190. Also during 1962-63 the Public Service Board approved the tentative creation of a new Division on the Central Administration of the Auditor-General's Office for the purpose of Audit functions relating to electronic data processing. It was planned that this division, comprising an Assistant Chief Inspector and 4 Senior Audit Inspectors would receive special training in the use of the various types of equipment being installed by departments and authorities. They would thus be available to assist with the formulation and recommendation of Audit policy, to develop associated audit programmes and techniques, to train auditors in the use of such equipment and generally to co-operate with and render assistance to departments conducting feasibility studies relating to the introduction of electronic data processing.

191. During 1963-64 the Public Service Board completed its review of the Auditor-General's recommendations for re-organisation and re-classification of the Central Office establishment. The Auditor-General reported that, as a result, an all round strengthening of the organisation had been effected, particularly at top level, where the positions of Secretary and Chief Inspector and Assistant Secretary and Chief Inspector were replaced by the more highly classified positions of Deputy Auditor-General and two Assistant Auditors-General. In 1966 this organisation was varied to provide for two positions of First Assistant Auditor-General and one of Assistant Auditor-General.

192. With the approval of the Public Service Board, a Cadet Auditor scheme was introduced in January 1967 to assist in obtaining continuity of availability of qualified and trained staff, in order to maintain the staff establishment at a level which would enable the satisfactory discharge of the responsibilities of the Auditor-General. Cadet Auditors, on appointment, are required to undertake an appropriate full-time course of studies at a university or technical education institution. These courses are followed by a period of special instruction and practical training in the Auditor-General's Office. On successful completion of their cadetships the officers concerned are promoted as Assistant Audit Inspectors.

193. In 1967-68 an Audit investigation was completed relating to the desirability of revising operational procedures and organisational arrangements to keep pace with developments and growth in the work and responsibilities of the Auditor-General. To ensure continuing efficiency, it was proposed that the Central Office in Canberra should be re-organised into a number of functional directorates each responsible for the planning, direction and evaluation of the audits of a group of departments and authorities. Agreement was reached with the Public Service Board on certain establishment changes which were to be introduced progressively. It was expected that these changes, which were regarded as of fundamental importance to the Auditor-General's Office, could be introduced without a significant staff increase. In his Report for 1969-70 the Auditor-General indicated that the results of the Directorate operations had proved

satisfactory and the next phase of the re-organisation involving a review of Branch operations, had commenced.

194. In his Report for 1969-70 the Auditor-General stated that during the 10 year period ended 30 June 1970 the services of 221 qualified key-type officers of Audit Inspector Grade 1 or higher had been lost to his Office. He indicated that the losses of Audit staff over the years have been met, often with difficulty and delay, by recruitment of qualified officers from within and outside the Public Service and in the two years 1968-69 and 1969-70 from the outturn of the Cadet Auditor Scheme. 27 graduates of this scheme were employed in positions of Audit Inspector Grade 1 or higher by 30 June 1970. The Auditor-General added that continuous losses of the magnitude mentioned not only seriously disrupt and delay application of the audit programme but inhibit the development and maintenance of the expertise and experience which is so necessary for the discharge of his statutory responsibilities.

#### CONCLUSIONS

195. Your Committee notes the substantial growth that has occurred in the volume, variety and complexity of the Audit function over the past ten years and the continuing action taken by the Auditor-General in relation to organisation and staffing in an endeavour to meet these developments effectively. It appears that, due mainly to the introduction of refined auditing techniques together with the use by the Auditor-General of his discretionary authority to dispense with detailed audits under the provisions of the Audit Act, this growth pattern has been associated with an increase of only 58 positions on the staff establishment of the Auditor-General's office over the period.

196. While recording its appreciation of this achievement, Your Committee also notes that, notwithstanding assistance provided by the Public Service Board and organisational changes made to the staff structure of the Auditor-General's Office, the past ten years have also been characterised by a significant loss of trained and experienced audit staff. This has resulted in difficulties in relation to the maintenance of auditing objectives



and procedures and the effective prosecution of the audit programme.

197. We believe that the importance of the Audit function in the interests of the Parliament, the administration of the Government and the effective operation of Your Committee under the Public Accounts Committee Act cannot be overemphasised. Having regard to the experiences of the Auditor-General over the past ten years and the fact that further expansion in the scope and complexity of the Audit function is evidently in prospect, Your Committee believes that the resources available to the Auditor-General must be maintained at a level and quality which will enable that function to be discharged adequately and confidently.

198. Your Committee has been disturbed for some time by the fact that the status of the Auditor-General is currently below that of a number of First Division Officers of the Commonwealth Public Service. Your Committee believes that, in view of the importance of the Audit function and its continuing growth and complexity, this situation places the Auditor-General at an organisational disadvantage in the exercise of his onerous responsibilities. Accordingly, we believe that, as a matter of principle, the status of the Auditor-General should be reviewed.

For and on behalf of the Committee.

*David N. Reid*

DAVID N. REID  
Secretary,  
Parliament House,  
Canberra.

7 April, 1971

*Don Dobie*

DON DOBIE  
Chairman

*Ivy Wedgwood.*

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Department of Social ServicesSummary of Cheque Issues - Lithgow Regional OfficeApril 1962 - April 1969

Internal Audit Periods	Value of Payments Made	No. of cheques Issued (where known)	No. cheques negotiated fraudulently	Value of Fraudulent Cheques
	\$			\$
20/ 4/62 - 22/ 7/62	47,814.39		2	60
23/ 7/62 - 26/10/62	125,094.27		5	143
27/10/62 - 18/ 1/63	79,734.91			
19/ 1/63 - 26/ 4/63	101,564.52		7	242
27/ 4/63 - 16/ 8/63	102,366.62		3	104
17/ 8/63 - 20/12/63	100,964.85			
21/12/63 - 17/ 6/64	131,950.69			
18/ 6/64 - 29/ 8/64	43,625.10			
30/ 8/64 - 15/11/64	50,082.56		5	136
16/11/64 - 26/ 3/65	69,571.39		7	187
27/ 3/65 - 7/ 5/65	20,237.19			
8/ 5/65 - 27/ 9/65	82,600.75			
28/ 9/65 - 3/ 1/66	56,313.84		5	170
4/ 1/66 - 20/ 5/66	83,940.35		14	352
21/ 5/66 - 19/ 9/66	78,971.60		17	379
20/ 9/66 - 3/ 1/67	63,534.83		6	132
4/ 1/67 - 25/ 4/67	66,804.99	6,432	37	699
26/ 4/67 - 4/ 8/67	58,805.84	6,598	61	1,140
5/ 8/67 - 3/11/67	67,717.30	5,530	54	1,020
6/11/67 - 1/ 3/68	74,485.67	7,576	70	1,322
4/ 3/68 - 14/ 6/68	55,896.37	5,716	107	2,022
15/ 6/68 - 13/ 9/68	54,889.68	5,642	97	1,832
16/ 9/68 - 24/12/68	50,695.15	4,807	89	1,682
30/12/68 - 3/ 4/69	53,917.83	4,449	30	568
	1,721,580.69		616	12,190

Source: Department of Social Services

MR. PRESIDENT,

ON BEHALF OF THE PUBLIC ACCOUNTS COMMITTEE I PRESENT  
THE ONE HUNDRED AND TWENTY-SEVENTH REPORT.

MR. PRESIDENT I HAVE A STATEMENT AND I SEEK LEAVE TO  
HAVE IT INCORPORATED IN HANSARD

(WHEN LEAVE HAS BEEN GRANTED)

I COMEND THE REPORT TO HONOURABLE SENATORS AND MOVE  
THAT IT BE PRINTED.


Mr. McNeill

The Senate

Public Accounts Committee

One Hundred and Twenty-seventh Report

Senator Dame Ivy Wedgwood proposes to table the report today,  
Wednesday 7 April, 1971.

  
(David N. Reid)  
Secretary  
7 April, 1971

JOINT COMMITTEE OF PUBLIC ACCOUNTS  
ONE HUNDRED AND TWENTY-SEVENTH REPORT  
STATEMENT BY SENATOR DAME IVY WEDGWOOD

THE ONE HUNDRED AND TWENTY-SEVENTH REPORT RELATES TO THE REPORT OF THE AUDITOR-GENERAL FOR THE FINANCIAL YEAR 1969-70.

YOUR COMMITTEE WOULD CONGRATULATE THE AUDITOR-GENERAL AND HIS STAFF FOR THEIR SUSTAINED EFFORT OVER MANY YEARS TO PRESENT THE REPORT TO PARLIAMENT DURING AUGUST. THE TABLING OF THE REPORT AT THAT TIME EACH YEAR HAS ASSISTED YOUR COMMITTEE GREATLY IN THIS VERY IMPORTANT AREA OF ITS WORK.

THE MATTERS EXAMINED PUBLICLY IN THIS INQUIRY RELATED TO FIRES THAT OCCURRED IN 1969 AT THE LYNEHAM PRIMARY SCHOOL IN CANBERRA AND AT THE WOOL STORES AT BOTANY, NEW SOUTH WALES; A FRAUD PERPETRATED IN THE LITHGOW OFFICE OF THE DEPARTMENT OF SOCIAL SERVICES AND THE CONSTRUCTION OF TOWERS AND ANCILLARY WORKS FOR THE DEPARTMENT OF THE NAVY AT PORT WAKEFIELD, SOUTH AUSTRALIA.

THE EVIDENCE RELATING TO THE FIRE AT THE LYNEHAM PRIMARY SCHOOL SHOWS A STRONG NEED FOR THE PROBLEM OF CLASSIFICATION OF ALL SCHOOLS IN THE AUSTRALIAN CAPITAL TERRITORY AS SPECIAL PURPOSE BUILDINGS TO BE RESOLVED WITHOUT DELAY BY THE DEPARTMENT OF THE INTERIOR IN CONSULTATION WITH THE DEPARTMENT OF THE TREASURY AND THE DEPARTMENT OF EDUCATION AND SCIENCE. WE ALSO BELIEVE THAT, IN ACCORDANCE WITH THE REQUIREMENTS OF TREASURY DIRECTION 32/53, THE DEPARTMENT OF THE INTERIOR HAS BEEN IN ERROR IN FAILING TO MAINTAIN APPROPRIATE DETAILS RELATING TO THESE SCHOOLS ON ITS ASSETS REGISTER. WHILE IT IS CLEAR THAT THERMAL FIRE ALARM SYSTEMS ARE CURRENTLY BEING INSTALLED IN PRIMARY SCHOOLS IN THE TERRITORY WE BELIEVE THAT THIS ACTION COULD WELL HAVE BEEN TAKEN SOONER. WE ALSO BELIEVE THAT, AS A MATTER OF URGENCY, THE DEPARTMENT OF EDUCATION AND SCIENCE MUST CONTINUE TO PURSUE ITS INVESTIGATIONS INTO BURGLAR ALARM SYSTEMS FOR ALL GOVERNMENT OWNED SCHOOLS IN THE TERRITORY.

THE EVIDENCE TAKEN IN RELATION TO THE FIRE AT THE WOOL STORES AT BOTANY SHOWS THAT THE STORES, WHICH WERE BUILT EARLY IN WORLD WAR II TO MEET WARTIME NEEDS CONSTITUTE A HIGH FIRE DANGER. YOUR COMMITTEE BELIEVES THAT APPROPRIATE ACTION TO PROVIDE ADEQUATE FIRE PROTECTION AND TO REDEVELOP THE STORES IN LINE WITH CURRENT NEEDS SHOULD HAVE BEEN TAKEN BY THE RESPONSIBLE AUTHORITIES AS SOON AS IT BECAME APPARENT THAT THE STORES WOULD BE REQUIRED TO MEET LONG TERM POST-WAR NEEDS. YOUR COMMITTEE ALSO BELIEVES THAT IN VIEW OF THE FIRE RISKS INVOLVED AT THE STORES, THE AUSTRALIAN WOOL BOARD'S LEASE AND TENANCY AGREEMENTS SHOULD HAVE BEEN EXAMINED CRITICALLY AND AMENDED SEVERAL YEARS AGO AND THAT THE BOARD'S THIRD PARTY INSURANCE COVER, WHICH HAS BEEN AMENDED RECENTLY, SHOULD BE KEPT UNDER REGULAR AND FREQUENT SURVEILLANCE.

REGARDING THE FRAUD THAT OCCURRED AT THE LITHGOW OFFICE OF THE DEPARTMENT OF SOCIAL SERVICES THE EVIDENCE SHOWS THAT A NUMBER OF WEAKNESSES EXISTED IN THE ADMINISTRATION OF THAT OFFICE DURING THE PERIOD IN WHICH THE FRAUD WAS PERPETRATED. IN PARTICULAR WE WERE DISTURBED TO LEARN THAT THE PROGRAMME OF THE REGIONAL OFFICE INSPECTOR FOR NEW SOUTH WALES WAS NOT DESIGNED, AT THAT TIME, TO DETECT FRAUD.

IN RELATION TO THE AMMUNITION TESTING FACILITY FOR THE DEPARTMENT OF THE NAVY AT PORT WAKEFIELD IT APPEARS FROM THE EVIDENCE THAT THE STRUCTURE REQUIRED WAS UNUSUAL IN NATURE BUT WAS SIMILAR TO FACILITIES PREVIOUSLY CONSTRUCTED IN BRITAIN AND THE UNITED STATES OF AMERICA. YOUR COMMITTEE BELIEVES THAT THE DEPARTMENT OF WORKS SHOULD HAVE INVESTIGATED THESE OVERSEAS STRUCTURES FULLY DURING THE PLANNING AND DESIGN STAGES OF THE AUSTRALIAN FACILITY. SUCH AN INVESTIGATION MAY WELL HAVE OBIATED MANY OF THE PROBLEMS THAT AROSE LATER DURING THE CONSTRUCTION OF THE PROJECT. MUCH OF THE EVIDENCE TENDERED SUGGESTS THAT THE DEPARTMENT OF WORKS WAS ILLEQUIPPED, AT

THAT TIME, TO MEET THE PROBLEMS THAT WERE ENCOUNTERED. YOUR COMMITTEE WOULD COMPLAIN THAT DEPARTMENT FOR THE INTRODUCTION OF NEW POLICIES AND PROCEDURES DESIGNED TO OVERCOME PROBLEMS OF THE TYPE MANIFESTED IN THE PORT WAKEFIELD PROJECT, BUT BELIEVES THAT THESE DEVELOPMENTS SHOULD HAVE BEEN INTRODUCED SOONER.

YOUR COMMITTEE HAS NOTED THE GROWTH THAT HAS OCCURRED IN THE VOLUME, VARIETY AND COMPLEXITY OF THE AUDIT FUNCTION OVER THE PAST TEN YEARS AND THE CONTINUING ACTION TAKEN BY THE AUDITOR-GENERAL IN RELATION TO HIS ORGANISATION AND STAFFING TO MEET THESE DEVELOPMENTS EFFECTIVELY. DUE TO THE INTRODUCTION OF REFINED AUDITING TECHNIQUES AND THE USE BY THE AUDITOR-GENERAL OF HIS DISCRETIONARY AUTHORITY TO DISPENSE WITH DETAILED AUDITS UNDER THE PROVISIONS OF THE AUDIT ACT, THE GROWTH PATTERN IN THE AUDIT FUNCTION HAS REFLECTED AN INCREASE OF ONLY 58 POSITIONS ON THE STAFF ESTABLISHMENT OF THE AUDITOR-GENERAL'S OFFICE OVER THIS DECADE.

IN RECOGNISING ITS APPRECIATION OF THIS ACHIEVEMENT, YOUR COMMITTEE ALSO NOTES THAT, NOTWITHSTANDING ASSISTANCE PROVIDED BY THE PUBLIC SERVICE BOARD AND ORGANISATIONAL CHANGES MADE TO THE STAFF STRUCTURE OF THE AUDITOR-GENERAL'S OFFICE, THE PAST DECADE HAS BEEN CHARACTERISED BY A SIGNIFICANT LOSS OF TRAINED AND EXPERIENCED AUDIT STAFF. THIS HAS CAUSED DIFFICULTIES IN RELATION TO THE MAINTENANCE OF AUDITING OBJECTIVES AND PROCEDURES AND THE EFFECTIVE PROSECUTION OF THE AUDIT PROGRAMME.

WE BELIEVE THAT THE IMPORTANCE OF THE AUDIT FUNCTION IN THE INTERESTS OF THE PARLIAMENT, THE ADMINISTRATION OF THE GOVERNMENT AND THE EFFECTIVE OPERATION OF YOUR COMMITTEE UNDER THE PUBLIC ACCOUNTS COMMITTEE ACT CANNOT BE OVEREMPHASISED. HAVING REGARD TO THE EXPERIENCES OF THE AUDITOR-GENERAL OVER THE PAST TEN YEARS AND THE FACT THAT FURTHER EXPANSION IN THE SCOPE AND COMPLEXITY OF THE AUDIT FUNCTION IS IN PROSPECT, YOUR

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YOUR COMMITTEE BELIEVES THAT THE RESOURCES AVAILABLE TO THE AUDITOR-GENERAL MUST BE MAINTAINED AT A LEVEL AND QUALITY WHICH WILL ENABLE THAT FUNCTION TO BE DISCHARGED ADEQUATELY AND CONFIDENTLY.

YOUR COMMITTEE HAS BEEN DISTURBED FOR SOME TIME BY THE FACT THAT THE STATUS OF THE AUDITOR-GENERAL IS CURRENTLY BELOW THAT OF A NUMBER OF FIRST DIVISION OFFICERS OF THE COMMONWEALTH PUBLIC SERVICE. YOUR COMMITTEE BELIEVES THAT, IN VIEW OF THE IMPORTANCE OF THE AUDIT FUNCTION AND ITS CONTINUING GROWTH AND COMPLEXITY, THIS SITUATION PLACES THE AUDITOR-GENERAL AT AN ORGANISATIONAL DISADVANTAGE IN THE EXERCISE OF HIS ONEROUS RESPONSIBILITIES. ACCORDINGLY, WE BELIEVE THAT, AS A MATTER OF PRINCIPLE, THE STATUS OF THE AUDITOR-GENERAL SHOULD BE REVIEWED.