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J.R. Odgers
Clerk of the Senate

1972

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

ONE HUNDRED AND THIRTY-NINTH
REPORT

INTERNAL AUDIT

JOINT COMMITTEE OF PUBLIC ACCOUNTS

EIGHTH COMMITTEE

J.D.M. DOBIE, Esquire, M.P. (Chairman) (5)
B.W. GRAHAM, Esquire, M.P. (Chairman) (4)
C.J. HURFORD, Esquire, M.P. (Vice-Chairman)

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

SECTIONAL COMMITTEES

(Appointed on 2 August, 1972, pursuant to Section 9
of the Public Accounts Committee Act 1951-1966)

Sectional Committee A

B.W. Graham, Esquire, M.P. (Chairman)
F.W. Collard, Esquire, M.P. (Vice-Chairman)
Senator A.G.E. Lawrie
Senator R.E. McAuliffe
L.H. Irwin, Esquire, C.B.E., M.P.

Sectional Committee B

C.J. Hurford Esquire, M.P. (Chairman)
A.W. Jarman, Esquire, M.P. (Vice-Chairman)
Senator M.G.C. Guilfoyle
J.F. Cope, Esquire, M.P.
J.A. Pettitt, Esquire, M.P.

- (1) Term of service as a Senator expired on 1 July 1971
- (2) Discharged 19 August, 1971
- (3) Appointed 19 August, 1971
- (4) Elected 24 August, 1971
- (5) Discharged 8 September, 1971
- (6) Appointed 8 September, 1971
- (7) Discharged 16 May, 1972
- (8) Appointed 17 May, 1972

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 the 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 THIRTY-NINTH REPORT

INTERNAL AUDIT

Chapter 1

Introduction

1. In paragraph 90 of his Report for 1954-55 the Auditor-General stated that in certain branches of the Northern Territory Administration adequate systems of financial control were non-existent, internal check positions had not been filled and appropriate subsidiary accounting instructions had not been introduced. Positions for internal audit personnel had been created but efforts by the Division to create and hold officers in them had been unsuccessful.

2. The Reports made by the Auditor-General between 1954-55 and 1965-66 contained further critical references to internal audit in several departments and in 1965-66 paragraph 273 of the Report contained a general reference to internal audit in addition to specific references to particular departments. The general reference stated that over the years Reports of successive Auditors-General had made references in particular instances to the scope for improvement in the internal audit arrangements of Commonwealth departments, and had drawn attention to the need for more uniformity in objectives and practices and the value of maintaining stability in the staffing of internal audit establishments. The Report added that as necessary, the Auditor-General's Office had supported the establishment of effective internal audit organisations in Commonwealth departments and authorities. In its reports to the Parliament the Joint Committee of Public Accounts had, on several occasions, also stressed the importance of the internal audit functions and the need to maintain internal audit establishments at adequate strength. The Auditor-General's Report also stated that Permanent Heads of all departments had been requested by the Department of the Treasury to examine critically the functions being exercised by internal audit staffs and to ensure that such staffs were maintained at as near full strength as was reasonable in the circumstances, to enable proper performance of their allotted tasks. The Auditor-General mentioned that early in 1966 an interdepartmental committee appointed by the Public Service Board commenced a review of the functions and duties of Third Division officers engaged in internal audit work in departments, with a view to recommending to the Board whether any change in work levels was necessary and whether qualifications should be prescribed. A senior officer of the Auditor-General's Office had been made available to assist the interdepartmental committee.

3. In each of his Reports from 1966-67 to 1969-70 the Auditor-General made further specific and general references to the internal audit problem. Paragraph 310 of his Report for 1969-70 stated that in previous Reports attention had been drawn to the scope for improved effectiveness of internal audit operations. The necessity to do so had stemmed from a tendency on the part of some departmental administrations to place insufficient emphasis on this important aspect of control over receipts and expenditure of public moneys; and the need to ensure that an internal audit system, when installed, is compatible with current developments, adequately staffed and operating effectively. In that Report the Auditor-General added the following significant comment:-

"The extent to which statutory discretion is exercised by my Office to dispense with all or any part of a detailed audit is influenced in each case by the effectiveness of the system of internal control of which internal audit is an integral part. It is a matter for concern therefore that, although there has been improvement in the overall position, there are still instances in which the effectiveness of internal audit is below the standard that might reasonably be expected".

4. In view of this observation and having regard also to the substantial growth that has occurred in the responsibilities of the Auditor-General in recent years - which was reported in our One Hundred and Twenty-seventh Report.- the Committee decided to conduct a general inquiry into internal audit. It also decided that, in this connection, it should, in the first instance, obtain a submission from the Public Service Board relating to developments in this area of administration following the appointment of the interdepartmental Committee in 1966, and also submissions from the Superannuation and Defence Forces Retirement Benefits Boards, the Postmaster-General's Department and the Department of Supply, each of which had been the subject of specific criticism by the Auditor-General in his Report for 1969-70. The Committee also decided to obtain specific submissions relating to internal audit from several other departments,

5. This Report relates to the submissions tendered by the Public Service Board, the Superannuation and Defence Forces Retirement Benefits Boards, the Postmaster-General's Department and the Department of Supply. The Committee proposes to present further reports in due course relating to other groups of departments from which submissions relating to internal audit have been obtained.

6. For the purpose of matters referred to in this Report a public inquiry was held at Parliament House, Canberra on:

Tuesday 27 April, 1971

Thursday 29 April, 1971

Thursday 3 June, 1971

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

Postmaster-General's Department

Mr. J. D. Kirkham -Chief Internal Auditor, Management Services.

Mr. D. G. McQuitty -Senior Assistant Director-General, Finance and Accounting.

Department of Supply

Mr. J. L. Eades -Acting Assistant Secretary, Personnel and Establishments.

Mr. K. McKnown -Assistant Secretary, Finance.

Mr. E. M. O'Connell -Director, Accounts and Audit.

Department of the Treasury

Mr. G. F. Grant -Director, Establishments and Finance.

Mr. D. J. Hill -First Assistant Secretary, Accounting and Supply.

Superannuation Board and Defence Forces Retirement Benefits Board

Mr. L. K. Burgess -President, Superannuation Board and ex-officio Chairman, Defence Forces Retirement Benefits Board.

8. During its inquiry the Committee was assisted by the following Observers:

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

Chapter 2

Public Service Board

9. The submission tendered by the Public Service Board showed that the Board had established a joint Board-departmental committee in 1966 to review the functions and duties of Third Division positions engaged in internal audit work in Commonwealth departments. The committee was required to make recommendations on the appropriate number and composition of work levels for internal audit in accordance with the Board's general policy of simplification and rationalisation of classification structures, and also to consider whether formal qualifications should be required for each or any work level.

10. In addition to a representative of the Public Service Board's Office, the review committee comprised a representative from each of the Department of the Army, the Postmaster-General's Department and the Department of Supply, all of which departments maintained extensive internal audit organisations. The committee was assisted by an Observer-consultant from the Auditor-General's Office.

11. The Board's submission stated that extensive inspections and discussions were held in Commonwealth departments and offices, including those with major internal audit organisations. On completion of these inspections and discussions the committee's report was circulated to all departments and to the Auditor-General for comment. The Board gave careful consideration to the views of departments and the Auditor-General before reaching its decisions on functions, work levels and qualification requirements for internal audit work.

12. On 11 July 1968 the Public Service Board announced the introduction of the new Internal Audit structure. This advice was conveyed to departments by Circular No. 1968/20, a copy of which is set out as Appendix No. 2.

13. In introducing the new structure the Board adopted the following definition of the function of internal audit:-

"Internal auditing is an independent, post-operative appraisal function performed within a department as a service to management. It covers the revenue, expenditure, stores, personnel and related operations of a department and also any financial, accounting and supply activities arising from particular functions of a department".

14. The Board emphasised the importance that there be an understanding and general acceptance throughout the Service of the traditional meaning and objectives of internal audit, as extended by this definition. The Board added that whilst internal audit is only a part of the machinery for internal managerial control, it is an important control in that it functions by providing a post hoc check for the protection of public funds and assets and by measuring and evaluating the effectiveness of other controls. In its advisory role it furnishes analyses, appraisals, recommendations and pertinent comments on accounting and financial controls from an objective viewpoint inside the department but independent of line control. Indeed the Board expressed the view that the advisory function of internal audit distinguishes it from in-line or operating functions or checks.

15. The Board added that the internal audit function is "post-operative" in the sense that it follows after management objectives have been determined and appropriate executive decisions taken. Further, it excludes the in-line checks which are essential for the proper finalisation of transactions. However, internal audit examination would not necessarily await completion of all operational activities required to implement management decisions. Indeed, the Board felt that to place such a strict limitation on internal audit would, in many circumstances, circumvent the prime objective of the function.

16. The Board stated that the placement of internal audit within the organisation framework of a department and the degree of management acceptance and support accorded the function are significant factors in determining the range and effectiveness of the service which management obtains. The decision as to placement of the internal audit function will be individual in respect of each department but clearly it is undesirable that the function should be responsible to an officer in direct control of operations which are to be the

subject of internal audit review and appraisal. The Board stated that the basic principles which flow from its definition had been accepted by the Auditor-General as providing an appropriate conceptual basis for the conduct of internal audit work.

17. Consistent with the meaning of the definition of internal audit adopted by the Board, the functions of internal audit staff were defined in the following terms:-

"Within a department, internal audit staff assist in, perform and are responsible for, audits of: revenue, expenditure, stores, personnel and related operations. The audits may cover financial, accounting and supply activities specific to the department. Internal audit staff operate independently of line control and report to a sufficiently high level of management to ensure that their observations are dealt with in an effective and impartial manner. Internal audit staff ascertain whether the legislation applicable to, or administered by, the department is correctly applied; whether departmental procedures and instructions are adequate and effective and are being observed. They evaluate the adequacy and application of internal checks and internal controls and, where necessary, recommend corrective action in respect of any inadequacies in, or departures from, approved policies, procedures, controls and established practices. Internal audit staff serve management by providing independent information and advice based on the internal audit of departmental operations."

18. The Board decided that positions of officer-in-charge and some Central Office subordinate positions together with positions involved in the audit of Automatic Data Processing systems should be accorded special consideration in the specification of duties and salary classification levels. As at 4 February 1971 there were 28 such positions which were classified within the Third Division as follows:-

<u>Salary Range</u>	<u>No. of Positions</u>
\$10,374-10,776	1
\$ 9,571- 9,972	10
\$ 8,767- 9,169	17

19. With the exception of the positions mentioned above, the Board decided that five work levels in the clerical-administrative structure in the Third Division would be required to carry out the functions of internal audit. The designations and salary classifications of these levels are set out below:-

<u>Work Level</u>	<u>Designation</u>	<u>Salary Classification</u> (as at 4 February 1971)
1	Clerk (Internal Audit)	\$4,513-5,213
2	Internal Auditor Grade 1	\$5,413-6,016
3	Internal Auditor Grade 2	\$6,217-6,819
4	Senior Internal Auditor Grade 1	\$7,020-7,559
5	Senior Internal Auditor Grade 2	\$7,827-8,366

The definitions of these work levels as determined by the Board are set out in Appendix No.2.

20. With respect to the qualifications required by officers engaged in internal audit work, the Board concluded that formal accountancy qualifications should not be prescribed but it endorsed the view that, as a general principle, some training in accounting is desirable at the lower levels of the internal audit structure, and completion of appropriate formal training in accountancy is desirable at the directing and supervisory levels.

21. In order to implement its decisions on functions and work levels the Board invited Permanent Heads to re-appraise their internal audit functions, to develop new audit programmes in accordance with the principles set out in the Board's Circular and to nominate representatives for the joint Board-departmental inspection teams set up to review internal audit organisations. The internal audit establishments which were approved as a result of the recommendations of the joint inspection teams were provided to enable a significant upgrading of the methods and standards of internal audit and the achievement of a higher level of effectiveness.

22. The Board informed us that as a result of new or changed circumstances since this general review of internal audit some additional departments and offices have introduced internal audit programmes and others have increased the scope of their internal audit operations. The Board supplied details of the internal audit establishments which existed prior to the review and also as at 1 December 1970. This information showed that the number of positions provided had increased from 555 prior to the review to 665 as at 1 December 1970.

23. We were informed that the Board had conducted a four-day training course in October 1969 to assist departments in developing internal audit procedures and practices in accordance with the principles embodied in the circular to departments. This course was attended by officers-in-charge of internal audit organisations in 24 departments.

24. Concerning the training of internal auditors in Automatic Data Processing techniques the Board stated that since the introduction of computer-based systems into Commonwealth departments it has taken a major role in the planning, developing and conduct of Automatic Data Processing practitioner and appreciation training programmes throughout the Service. It stated that some of the officers who attended these courses are no doubt engaged in internal audit work in departments.

25. With regard to the staffing of internal audit positions the Board informed us that the expansion of the number of positions and the higher salary classifications in the internal audit field which resulted from the general review and from subsequent adjustments to internal audit establishments created a heavy demand for suitable personnel to fill these positions. The implementation of new internal audit programmes was said to be dependent upon the availability of staff, and the necessary staffing adjustments had taken some time to finalise. A survey conducted early in 1971 showed that as at 1 December 1970 some internal audit positions were vacant but that the staff/establishment ratio was 88 per cent. The Board felt that, generally, the incidence of vacancies was not sufficiently large to cause concern and, in the few instances where a higher proportion of vacancies existed, departments had advised that they were taking action to fill the positions with minimum delay. The Board also felt that shortages of internal audit staff, where they existed, constituted principally local problems which could, subject to "restraint" policies, be overcome by departmental management.

Chapter 3
Superannuation Fund

26. Paragraph 24 of the Auditor-General's Report for 1969-70 contained the following comment:

"In my 1967-68 Report it was mentioned that the question of internal auditing arrangements in relation to operations of the Superannuation Fund and the Defence Forces Retirement Benefits Fund was being considered in conjunction with a general organisation review. Paragraph 23 of my Report dated 18 August 1969 referred to an advice from the President of the Superannuation Board that a stronger internal audit establishment had been proposed as a consequence of this review.

At the time of preparation of this Report, no proposals for additional internal audit staff had been approved. Only one Internal Auditor was on duty, the other position having recently become vacant.

In view of the large contributions received by the Board, the magnitude of the assets held by the Superannuation Fund and the Defence Forces Retirement Benefits Fund and the position reported above in respect of the Board's financial statements, it is regarded as important that an internal audit staff of appropriate strength should be maintained, and that a well planned and effective internal audit of the Board's financial transactions be achieved as soon as possible."

27. Until 1959 the administrations of the Superannuation Board and the Defence Forces Retirement Benefits Board were separate. The staff of the Superannuation Board had been placed in an office of that Board in Canberra and the administrative work for the Defence Forces Retirement Benefits Board had been undertaken by the Defence Division of the Department of the Treasury in Melbourne. When the defence group of departments moved to Canberra in May 1959, the Defence Division of the Department of the Treasury accompanied them. The Treasury staff associated with the work of the Defence Forces Retirement Benefits Board was located within the office of the Superannuation Board. It was considered that the similarity of functions and number of services that both organisations had in common justified the joining of the two staffs, and in 1963 the Public Service Board agreed to integrate them.

P.P. No.160
of 1964-66
Exhibit
139/2 and
Q.105

28. When the present President of the Superannuation Board was appointed in 1964 some proposals for a re-organisation of the integrated organisation to support the two Boards had been completed and were under review. Q.105

29. When the President reviewed the organisation with the assistance of the Public Service Inspector it was considered, having regard to the range of work to be undertaken, that there was a need for internal audit activities in addition to the internal audit controls that were already incorporated into the systems. In addition, the President was influenced in this regard by the fact that he had previously had experience in the Auditor-General's Office and was conscious of the need for internal audit. A further factor in the situation was that computer operations were in the early stages of development, and the President was well aware of the need for internal audit perusal and appraisal of proposed changes in systems arising from the introduction of computers. These factors influenced the decision to seek the creation of a position of Internal Auditor. Exhibit 139/2 and Q.106

30. On 22 February 1965 the Public Service Board approved the creation of a position of Clerk Class 5 (Third Division) Internal Auditor. The position was advertised in March of that year but when there were no suitable applicants at that level the Public Service Board was requested to raise the level to Clerk Class 7 (Third Division). The Public Service Board agreed that the position should be advertised at the Clerk Class 6 (Third Division) level and, in the event, one suitable applicant applied for the position. The position was reclassified and a provisional promotion was made on 4 November 1965. This officer took up duty on 20 January 1966. Exhibit 139/2 and Q.107

31. The initial appointee occupied the position of Internal Auditor until June 1966 when it became essential to select a suitably qualified and experienced officer to supervise the internal control method of reconciliation of documents authorising the payment of \$40 million from the Quinquennial Surplus, as well as the investigation and approval of complex individual payments. The Internal Auditor was selected for this task and was subsequently transferred to a position of Finance Officer Grade 1 (Third Division) at the same level in the General Investigation and Instruction Section. Between January and June Exhibit 139/2 and Qs.108-110

1966 the officer concerned had been engaged in the establishment of an internal audit manual prepared under the personal supervision of the President of the Board. This was described as a complex problem involving the identification of major groupings of internal audit tasks. In addition, as there were no procedure manuals within the organisation it was necessary for procedures to be included in the internal audit manual. In these circumstances it was necessary for the Internal Auditor to explore procedures and the range of activities which might first be brought into the internal audit programme, and then to prepare drafts. These drafts were examined and certain aspects of the work, the cash sensitive areas of which could be audited immediately, were identified.

32. On 23 February 1967 the position of Internal Auditor was re-advertised together with a position of Clerk Class 4 (Third Division) Internal Auditor, which the Public Service Board had provided in view of the growth of work volume in the office. A suitable applicant, however, was not obtained for the Clerk Class 6 (Third Division) position due to the fact that at that time there was a shortage of officers available who would be capable of undertaking the type of work required. The position of Clerk Class 4 (Third Division) Internal Auditor was filled and the appointee took up duty on 24 August 1967.

Exhibit
139/2

33. During April 1967 it became clear that there were no suitable applicants for the Clerk Class 6 (Third Division) position. As the Clerk Class 4 (Third Division) position had been filled, further action on the matter was not taken at the time because of the establishment by the Public Service Board of the interdepartmental committee. It seemed at the time that a period of some months should be allowed to elapse because of the significance of the findings of the committee from the viewpoint of the Superannuation Board's internal audit position. In September 1967 advice was received by way of a Public Service Board memorandum that the internal audit committee had submitted a report and that the matter was reaching its final stages.

Q.135

34. Subsequently, the President of the Superannuation Board discussed the matter with an officer of the Department of the Treasury. On 22 November 1967 a proposal was made by the Superannuation Board requesting a position of Clerk Class 9 (Third Division) as auditor in charge, retaining the Class 6 (Third Division) and Class 4 (Third Division) positions. The purpose of that proposal was to develop the audit plan

Exhibit -
139/2 and
138, 139
136 and
139.

and the manual, and to determine the complexity in internal audit as a basis for an examination by the Public Service Board of staffing needs, based on the audit programme. Because of its relationship to the review then being conducted by the Public Service Board, however, this proposal was not developed. The vacant Class 6 (Third Division) position was advertised and the successful applicant commenced duty as Senior Internal Auditor in October 1968. He remained in the position until July 1970 when he was promoted to another Department.

35. When our inquiry occurred in April 1971 the internal audit establishment for both the Superannuation and Defence Forces Retirement Benefits Boards had not been varied since February 1967. The position of Senior Internal Auditor Clerk Class 6 (Third Division) had been occupied from 20 January 1966 to 22 February 1967, vacant from 23 February 1967 to 30 October 1968 and reoccupied from 31 October 1968 to 7 July 1970. The position had again been vacant since that time. Applications for the filling of this position were invited on 23 February 1967, 27 June 1968, 7 May 1970 and 30 July 1970. There were no suitable applicants in response to the more recent advertisements and no further action had been taken in view of advice received from the Secretary to the Treasury that he had decided to centralise internal audit activities within the Department of the Treasury and specifically within the Establishments and Finance Branch of the Department. The Internal Auditor Clerk Class 4 (Third Division) position was occupied from 24 August 1967 to 4 March 1969 and was vacant from 5 March 1969 to 16 June 1969. At the time of our inquiry in April 1971 it had been occupied since 17 June 1969.

Exhibit
139/2

36. The activities of the joint Internal Audit Section for the Superannuation and Defence Forces Retirement Benefits Boards, as envisaged, were to be covered by an internal audit manual sub-divided into parts relating to the Superannuation Fund, the Defence Forces Retirement Benefits Fund, and administrative expenditure of both Funds combined. It was stated that the focal points of the activities of the two Funds are the annual accounts which are related to a full range of associated records, supporting information and procedures. Provision is also necessary for appraisal audits and investigations, in general, and, in particular, for a critical examination of computer developments and operations from the internal audit viewpoint. In elaborating on this

Exhibit 139/2
and
Q. 130

the witness informed us that during the previous ten years activities under both the Superannuation Act and the Defence Forces Retirement Benefits Act have been subject to very considerable changes. A series of very far-reaching amendments had been made to the legislation and there had also been a very considerable growth in the Funds. As at April 1971 there were no less than 300,000 contributors and pensioners. Since 1964 the number of contributors to the Defence Forces Retirement Benefits scheme had doubled and the number of contributors to the Superannuation scheme had risen substantially. These developments had given rise to a considerable increase in the volume of work, as well as increased complexity and a broadening of the work base. Associated with these developments was the necessity to handle the volume of material that passes through the Fund and the Board by computer. In these circumstances there was a need to develop a computer system, integrated closely with daily activities, which would, in fact, replace work otherwise undertaken by clerical officers and clerical assistants. This has involved considerable changes in procedures and in practices. The witness claimed that because the organisation has grown considerably and because there has also been movement of staff, the organisation does not have available among its senior staff the capacity to examine the internal controls and procedures in operation from the viewpoint of an internal control and internal audit. As a corollary to these developments the preparation of the annual accounts has now become a more complex operation. The introduction of computers has given rise to the need to change the data introduced into the accounts, and this has required critical appraisal. To the extent that the office has employed internal auditors it has been able to appraise some of its systems. However, the stage has been reached when the office can no longer proceed to support the annual accounts without prior internal audit.

37. It is proposed that the annual accounts should be certified after the completion of an approved internal audit programme but prior to their submission to the Superannuation and Defence Forces Retirement Benefits Boards and subsequent transmission to the Auditor-General in accordance with the relevant sections of the legislation. In this regard the Audit Observer, Mr Scott, indicated that each year the Auditor-General's Office has found errors or mistakes in the annual financial statements of the Boards, requiring that they be returned for correction. If the statements were checked by an internal auditor operating on the basis of a well-designed programme the statements should, apart perhaps from

Exhibit
139/2 and
Q.151

an occasional error which might occur anywhere, be correct. The Auditor-General's Office has experienced difficulty in dealing with these statements, the details of which have not been subject to sufficient verification or check.

38. The witness informed us that some progress had been made towards the establishment of an internal audit manual for these purposes. The manual was commenced in draft form, being developed around cash audits and other urgent audits when the Internal Auditor took up duty in January 1966. Attention was concentrated on the cash audits. As each of these was completed the Internal Auditor set up notes, and draft programmes were developed. This system proceeded until June 1966 when the Internal Auditor was transferred to other duties. Early in 1967 a senior finance officer, the President of the Superannuation Fund, and another officer commenced to establish the internal audit manual on a formal basis. When the Clerk Class 4 (Third Division) Internal Auditor took up duty in August 1967 the office resumed its cash audits, and the further testing of programmes and their consolidation, and proceeded with further detail on the internal audit manual. By early 1968 the office was in a position to forward to the Auditor-General's Office an audit plan, a statement of the functions of an internal audit, an outline of the accounting arrangements which underlay its activities and a programme of its cash transactions for the Superannuation Fund. Two months later a similar plan was forwarded to the Auditor-General's Office for the Defence Forces Retirement Benefits Fund, and also one for the administrative expenditures setting out the plan, functions, administration and cash transactions. The office then proceeded to develop the internal audit manual until the senior Internal Auditor was appointed and commenced duty in October 1968. He immediately extended the cash audits, consolidated the programmes and set about the appraisal of selected procedures. By April 1969 the office had two further programmes for assurance policies which it takes over from certain contributors to the Superannuation Fund, personnel records and like matters. Further information was forwarded to the Auditor-General up until August 1970. When our inquiry occurred a very considerable amount of programme preparation required completion. It was said that the analysis of procedures would be complex due to the absence of procedure manuals on the administrative aspects of the operations of the Boards.

Exhibit
139/2
and
Q.131

39. As at October 1970 five of some twenty-four internal audit programmes had been developed, and internal audit checks and reviews had been applied with particular reference to cash transaction and special problems. The Audit Observer, Mr. Scott, advised us that as at April 1971 ten of the twenty-four programmes had been prepared, of which five had been acted upon and checks had been made. However, while these five programmes had proved satisfactory in performance they were not current and, in fact, were lagging considerably. He expressed the view that the Auditor-General's Office would appreciate a greater degree of performance so that the accuracy of accounts would be guaranteed with greater certainty. The witness agreed with the views expressed by the Audit Observer.

Exhibit
139/2 and
Qs. 152 and
153

40. We were informed that although the Superannuation Board is a statutory corporation the administrative staff provided for under section 132 of the Superannuation Act is established by the Public Service Board within the structure of the Department of the Treasury. Expenditure for the cost of administration under section 133 of the Superannuation Act is included in the annual estimates for that Department. A similar arrangement applies for the Defence Forces Retirement Benefits Board.

Exhibit 139/2

41. It was stated that a considerable strengthening of the Internal Audit Section was incorporated in a comprehensive re-organisation of the office, based on a three year programme for overtaking arrears, forwarded to the Department of the Treasury in March 1969. This led to the establishment, late in May 1969, of a joint organisation and methods review team of officers of the Public Service Board and the Department of the Treasury. The office of the Superannuation and Defence Forces Retirement Benefits Boards was not represented on the team, but a steering committee was established consisting of a First Assistant Secretary from the Department of the Treasury, a First Assistant Commissioner from the Public Service Board and the Chairman of the Superannuation and Defence Forces Retirement Benefits Boards. In relation to the work of this review team the Public Service Board Observer, Mr. Vanthoff, indicated that the work involved was divided into two stages. The first stage related to the

Exhibit
139/2 and
Qs. 154 and
155

Public Service Board itself rather than to the review team, and concerned the question of introducing a large number of additional staff, many of whom were provided on a temporary basis with the specific aim of overtaking the work load problem in the office of the Superannuation and Defence Forces Retirement Benefits Boards. The second stage involved a more fundamental and deep investigation of the staffing needs of the Superannuation Board. This was the main function of the joint review team. Mr. Vanthoff understood that extensive work had been undertaken and that by April 1971 the task had, in effect, been completed.

42. As indicated in paragraph 35, the President of the Superannuation Board (and Chairman of the Defence Forces Retirement Benefits Board) was advised on 5 August 1970 that the Secretary of the Department of the Treasury had decided to centralise internal audit activities within the Department of the Treasury, and specifically within the organisation of the Establishments and Finance Branch of the Department. It was proposed that these functions would include the allocation of teams to the Superannuation and Defence Forces Retirement Benefits Boards. Exhibit 139/2
and Q.161

43. On 18 August 1972, we were informed by the Department of the Treasury that, on 6 July 1971, proposals relating to internal audit at the office of the Superannuation and Defence Forces Retirement Benefits Boards had been referred to the President/Chairman of the Boards. Agreement had been reached with the President regarding the introduction of internal auditing to the Management Services functions of the office, and internal audit appraisals were subsequently commenced. By 18 August 1972, all of the major management services areas had been reviewed by the Internal Audit Section and further reviews were planned on a cyclical basis. Committee
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44. We were also informed by the Department of the Treasury that before internal auditing could be extended to the remaining areas of the office it had been necessary for certain aspects of the Board's responsibilities to be examined. This examination had been completed and arrangements for a comprehensive internal audit review of all activities of the office of the Superannuation and Defence Forces Retirement Benefits Boards had been settled with the President/Chairman of the Boards. It was stated that full implementation of the internal Committee
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audit programme would proceed accordingly.

45. In paragraph 25 of his Report for 1971-72 the Auditor-General stated that late in 1971 the Department of the Treasury had assumed direct responsibility for the internal audit of the office of the Superannuation and Defence Forces Retirement Benefits Boards but, apart from a special assignment in relation to the 1968-69 Provident Account, examinations by the Treasury Internal Audit Section during 1971-72 were confined to the Management Services area. There had been no comprehensive internal audit of the accounts and records of the two Funds or of the annual financial statements. In consequence of this situation the Auditor-General's Office had corresponded with the Department of the Treasury regarding the need for an effective internal audit of the accounts and financial statements. The Department had stated that whilst it accepted fully its responsibilities for an effective independent internal audit of the office, this had not been fully implemented pending the examination of aspects of the Board's responsibilities. More recently the Department of the Treasury had advised the Auditor-General's Office that the examination had been concluded and that the internal audit programme would be implemented fully.

Chapter 4

Postmaster-General's Department

46. Paragraph 186 of the Auditor-General's Report for 1969-70 contained the following comment:

"An Internal Audit organisation has been functioning within the Department for many years but its role has in the main been confined to an accounts checking function in the accounting and supply areas.

The Department has informed my Office that as a consequence of staff shortages and pending decisions in regard to the future of departmental internal audit it has been necessary, as an interim measure, to reduce the extent of the internal audit coverage. Reports from my officers show that in some States the internal audit position at 30 June 1970 could not be regarded as satisfactory. The Department has indicated its intention to approach the Public Service Board for additional staff to permit a more extensive examination within the present limited area of internal audit coverage.

The size of the Postmaster-General's Department and the complexities of its transactions are such that in all areas affecting revenue, expenditure and stores, effective internal controls, of which internal audit is an integral part, are essential to efficient management and important to my Office in the conduct of the audit of the Department. It is noted from recent departmental advice to my Office that the future role of the internal audit function is receiving active consideration with a view to placing firm proposals before senior departmental management. At the time this Report was prepared advice of developments was awaited".

47. In his Report for 1963-64 the Auditor-General reported, inter alia, that internal audit work in the Postmaster-General's Department was substantially in arrears in all States, but that proposals had been examined by the Public Service Board and approval given to an increase in internal audit staff for the Department. The Committee inquired into this matter in 1964-65 and reported upon it in its Seventieth Report. In that Report the Committee expressed surprise that as internal checks had been an essential part of accounting practice in the Australian Post Office since its inception the problem encountered by the Department had not been brought to a satisfactory conclusion sooner. The Committee noted that it would continue to pursue this matter until a satisfactory conclusion had been reached. In the subsequent Treasury Minute, of 31 December 1965, the Committee was informed that the Postmaster-

P.P. No.70
of 1964-66

P.P. No.160.
of 1964-66

P.P. No.275
of 1964-66

General's Department had advised the Department of the Treasury that during the period covered by the Auditor-General's criticism, approximately two-thirds of the internal audit programme was being executed, that no critical audits, such as cash checks, were being omitted and that the reduction that had occurred in audits related to frequency only. In July 1964, immediately prior to the Auditor-General's Report for 1963-64, the Public Service Board had approved an increase of thirteen positions in the Internal Audit Section. The Postmaster-General's Department had further advised that, despite difficulties experienced in filling the new positions and other factors such as inexperience of staff, the position had improved and continued to improve and that implementation of the internal audit programme was approaching a satisfactory position. The Postmaster-General's Department also informed the Department of the Treasury that its plans to amend the internal audit programme were not a consequence of the programme being faulty or unsatisfactory. The form of the programme was continually under review, especially in those areas where new techniques such as automatic data processing were being implemented. It was noted at that time that review of the Department's internal audit functions had been and would continue to be carried out in consultation with the Auditor-General's Office.

48. In view of the Committee's earlier inquiry and the observations Qs. 201 to 204 contained in the Treasury Minute of 31 December 1965 we examined the witnesses on the claim that internal audit had improved and was continuing to improve in the Department. It was stated that when internal audit was first established in the Department attention was concentrated on checking procedures, particularly of accounts for accuracy, and since that time the Department had improved the quality of audit to carry out more extensive checks to ensure that the quality of the work was satisfactory. Also the Department has extended its procedures to ascertain that the prescribed internal checks which are a function of line management are, in fact, being carried out. It has also been able to extend this aspect in an attempt to find the causes of unsatisfactory work and errors, and to make recommendations for the improvement of performances in these areas. At the same time the Department has not been able to improve the quality of its audit to the extent that it would prefer, having regard to the resources currently available. The quality of the audit has, therefore, not yet reached a completely satisfactory position and is still largely confined to the accounts and supply areas. The Department has a charter

to extend its internal audit activities into the administrative areas of all of its divisions and branches and, when our inquiry occurred in June 1971, was engaged in the revision of its audit programme and the audit manual in order to achieve this objective. It was expected that the audit manual would require about two years to bring to completion. The Department had sought additional positions for this purpose and the approval of the Public Service Board had been given for the appointment of three officers to undertake the work.

49. As the Treasury Minute of 31 December 1965 indicated that the Department would continue the review of its internal audit functions in consultation with the Auditor-General's Office, we sought confirmation from the Audit Observer, Mr. Scott, that this had, in fact, taken place. Mr. Scott indicated that from late 1965 until August 1968 informal discussions only were held between the former Senior Assistant Director-General and the Audit Inspector in charge of the Department's Audit Section in Melbourne. Late in August 1968 the then Senior Assistant Director-General visited the Auditor-General's Office in Canberra and discussed with the Director of Audit certain aspects including difficulties of obtaining staff, the manner of development of the internal audit manual and the plans of the Department in general for the establishment and development of an internal audit technique and its organisation. Between September 1968 and April 1969 several discussions were held and on 21 August 1969 the Chief Internal Auditor discussed the position again with the Director of Audit, mainly in relation to the charter of internal audit which, as at June 1971, it was understood had been finalised. The discussion included the new audit manual, audit plans for the following two years, the nature and methods of reporting and the establishment of responsibility. Between September 1969 and February 1970 further discussions were held and on 6 July 1970 the revised programme of intended performance was forwarded by the Postmaster-General's Department to the Auditor-General's Office. Following the receipt of this programme, the relevant remarks in paragraph 186 were prepared for the Auditor-General's Report for 1969-70. Qs.207 and 208

50. The Audit Observer, Mr. Scott, informed us that subsequent to presentation of the Auditor-General's Report for 1969-70 to the Parliament the Auditor-General's Office received two main advices from the Department. The first of these, dated 26 October 1970, outlined the action the Department had taken to obtain additional staff. The Auditor- Q.206

General's Office was informed that negotiations were proceeding with the Public Service Board for new positions, the occupants of which were to prepare an internal audit manual. At that time the Department was reviewing internal audit practices throughout Australia and overseas in order to formulate a proposal for consideration by its senior management as to the form the development of internal audit should take within the Post Office. Subsequently, the Auditor-General's Office received several verbal reports of progress made in these matters. On 16 April 1971 the Postmaster-General's Department advised the Auditor-General's Office that the staff positions which had been approved by the Public Service Board were being filled and that pending the completion of the internal audit manual, audits in depth would be developed. The memorandum also stated that the State branches of the Department had been requested to prepare revised audit programmes for the period from 1 June 1971 to 31 May 1972 and that all programmes of internal audit should be current by the end of June 1971, with the exception of those in New South Wales and South Australia where some arrears were expected to remain at the end of the financial year 1970-71.

51. We were informed that as a result of a review conducted in 1969 of the operation of the internal audit function, the conclusion was reached that although the size of the staff establishment was, in general, adequate to meet the full audit programme to the standards of examination hitherto required, these standards had not reflected adequately the quality of the work being audited. Pending an overall review of the operation of the internal audit function and identification of staffing needs in relation to the new standards yet to be defined, a decision was made by the Department to improve the quality of audit as far as practicable within its existing staff resources. Accordingly, the audit programmes were revised so that most audits would be performed less frequently. The general pattern provided for the conversion of monthly, quarterly and half-yearly bases to quarterly, half-yearly and annual bases respectively. This change was claimed to be progressive rather than regressive in nature and was said to have permitted the quality of audits to be improved by providing for the examination of transactions in greater depth and for some attention to be given to the appraisal of procedures. The Audit Observer, Mr. Scott, indicated that the Auditor-General's Office had not been consulted by the Department concerning the reduced frequencies of audit. The intention of the Department, however, to lengthen audit frequencies had been discussed between the Department and the Auditor-General's Office in August, 1969.

Exhibit
139/4
and Q.
226

Mr.Scott agreed with the Department's claim that the change in audit frequencies was a progressive and not a retrograde move. His view was based on the concept that the quality of audits is improved if transactions are examined in greater depth and appraisals made of accounting procedures. He stated that the development of the appraisal concept is consistent with developments on the matter throughout the world in both government and private enterprise.

52. It was stated that although the change in frequencies of audits within the Department had permitted greater in-depth treatment it had also shown an immediate need for further improvement in the quality of audits,including the need for greater attention to be given to the appraisal of procedures for the adequacy of controls. For these reasons approaches were made to the Public Service Inspectors in each State except Queensland for additional staff. By October 1970 approval for additional staff had been obtained for the offices in New South Wales and Western Australia. At that stage submissions were under consideration by the Public Service Inspector in South Australia and in Tasmania. In Victoria, arrangements were in hand for proposals to be submitted to the Public Service Inspector at an early date. When our inquiry occurred in June 1971, the positions sought in New South Wales, South Australia, Western Australia and Tasmania had been approved by the Public Service Inspectors and had all been filled. In Victoria, however, the Department suspended action on the approach to the Public Service Inspector because a study of the organisation was in progress which it was felt would be necessary for its future development. The study related to a new concept of audit organisation which the Department desired to discuss with the Public Service Board. Notwithstanding the decision not to approach the Public Service Inspector, the Department was able to maintain its revised programme in Victoria and we were informed that by 30 June 1971 no significant arrears would exist in that State.

Exhibit 139/4
and Q. 229

53. The Department informed us that apart from the question of the adequacy of the staffing establishment to meet the requirements stated above, a difficulty had been encountered in New South Wales due to the inability to find staff to fill vacant positions. For most of 1969-70 the internal audit staff had two vacant positions although in July 1970 one such had been filled and in October 1970 efforts were

Exhibit 139/4
and Q.231

continuing to fill the remaining vacancy. As at June 1971 all positions with the exception of one Clerk Class 4(Third Division) were filled. At that stage thirteen of the fourteen positions on the establishment were occupied.

54. So far as the future development of the internal audit function is concerned, we were informed that all of the actions taken by the Department up until October 1970 related to measures intended primarily to find the resources to undertake more adequate checks of transactions within the ambit of the then existing internal audit programme as revised in regard to frequencies, and to undertake appraisals of procedures for the adequacy of accounting and security type controls. The actions taken until that time had not been directed towards a general improvement of standards as envisaged in the Public Service Board's Circular No.1968/20 of 11 July 1968. That circular envisaged the functions of internal audit being developed to provide a post hoc check for the protection of public funds and assets; the measurement and evaluation of the effectiveness of other controls; and the recommendation of corrective action in respect of any inadequacies in, or departures from, approved policies, procedures and established practices in the revenue, expenditure, stores, personnel and related operations of a department and in financial, accounting and supply activities arising from particular functions of a department.

Exhibit
139/4

55. The Department informed us that a pre-requisite for the raising of standards of internal audit to include appraisal of other controls and review of policy, procedures and practices, is the preparation of an internal audit manual setting out the functions and responsibilities of the activities to be audited, the objectives of the audit and features to be examined as guides to audit staff. By comparison the Department's internal audit practices that existed as at October 1970 were governed by the then existing manual which was largely a statement of checks to be undertaken to verify the accuracy of transactions and compliance with procedures. It was stated that the existing manual was inadequate as a basis for high quality internal auditing. The manual was prepared in 1960 and the only revisions made related to additions included to provide for additions to the audit programme. When our inquiry occurred in June 1971 the Department proposed to issue a completely new internal audit

Exhibit
139/4
and Q.233

manual without any reference to accounting instructions. The approach in the new manual would be directed to setting out management objectives and the appraisal of procedures to ensure the achievement of these objectives.

56. It was stated that in view of the size and complexity of the Department's operations, the development of a new manual would be a lengthy process. To expedite matters an approach was made on 22 August 1969 to the Public Service Board for the creation of five Class 7 (Third Division) positions for a period of approximately twelve to eighteen months at a salary classification which would enable suitably qualified and experienced staff to be obtained. It was proposed that this special staff would draft the section relating to appraisal-type audits in the areas referred to in the Public Service Board Circular No. 1968/20. On 10 February 1970 the Public Service Board approved the creation of one Class 7 (Third Division) and five Class 6 (Third Division) positions. On 12 June 1970 the Department expressed concern to the Public Service Board at this decision and requested the approval of the original proposal. However, on 8 September the Public Service Board affirmed its original decision and on 30 September discussions were held in Canberra with officers of the Board who agreed to review the matter. On 14 October 1970, however, the Public Service Board confirmed its original decision and on 20 October the Department pressed for reconsideration and requested further discussions. These discussions were agreed to by the Board on 4 November but did not take place as the officers concerned were engaged on other unavoidable commitments. The Department made further representations to the Public Service Board on 30 December 1970 and in a subsequent memorandum of 9 February 1971 it reduced its requirement from five positions to three. On 24 February 1971 the Public Service Board offered to consider a proposal for one Class 8 (Third Division) position and two Class 6 (Third Division) positions. On 24 March 1971 the Department submitted an organisation proposal to the Public Service Board for the creation of such temporary positions. Certificates for these were issued by the Board on 20 April 1971. One Class 6 (Third Division) position was filled on 3 May and another on 31 May 1971 after their advertisement as temporary vacancies within the Department. Neither officer selected had any internal

Exhibit.
139/4
Qs. 234 and
235 and
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audit experience. Applications for the Class 8 (Third Division) position were under consideration subsequent to our inquiry in June 1971.

57. In support of its request for the five temporary positions at the Class 7 (Third Division) level the Department had expressed to the Board the view that the heavy programme of work involved in producing an internal audit manual could not be achieved within the existing staff establishment. This manual was intended to cover an extensive range of revenue, expenditure, stores and personnel activities in practically all areas of the Department. It would involve the redefinition of the operation of various areas and the devising of programmes to reflect a substantially improved standard of examination extending beyond formal Audit, Treasury and other legislative requirements. The work involved was said to be demanding and complex in nature and in many cases would require operating procedures to be examined and appraised from an audit viewpoint before the preparation of audit plans. The Department desired to adopt a 'task force' approach which required officers who could perform their duties with minimum guidance and supervision. This was considered to be the most effective means of completing the assignment within a reasonable period of time. The Department had also noted the concern expressed by the Auditor-General regarding the need for raising the standards of internal audit and had informed the Board that the work concerned was a major assignment requiring investigatory and creative effort. In these circumstances the Department concluded that the requirements of the positions were at least equal to other headquarters Class 7 (Third Division) positions responsible for developing procedures. Also the internal audit manuals of other departments had been written by officers of Class 7 (Third Division) classification and higher. Moreover, the Public Service Board circular 1968/20 provided a Class 7 (Third Division) classification for central office positions where the highest function related to the investigation and development of audit procedures in departments where the range of audits is extensive. The Department considered the correct classification of these positions to be important in relation to the motivation and success of their occupants in the activities envisaged.

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58. In commenting on the evident disagreement between the Public Service Board and the Department on the classification of these positions the Public Service Board Observer, Mr. Vanthoff, indicated that the Board is required to judge the appropriate work levels involved. He indicated that the fundamental point of distinction between the approaches of the Department and the Public Service Board on this matter turned on the fact that the Department's proposal had regard to particular individuals and the salaries that would be appropriate for them whereas the Board is required under the Public Service Act to classify positions. In this connection the Board must have regard to the duties and responsibilities that are required to be undertaken irrespective of the particular skills of any likely occupants of the positions. In the present case the Board reached the conclusion that the work levels sought by the Department were higher than appropriate when tested against the broad range of duties at that level in the clerical administrative structure. In reaching its conclusion the Board had the benefit of its knowledge of the requirements of the Class 6 level which it had considered to be appropriate. At the same time the Board respected the rights of the Department to express its views on the matter. Mr. Vanthoff emphasised that while the provisions of the Public Service Act give responsibility to the Board they also require consultation between the Board and the Department concerned. In the present case the Board considers that full regard was given to the recommendations of the Department and it accepts the responsibility for its attitude.

Q. 239

59. The Department stated that subject to the adequate staffing of the temporary positions created, it was expected that internal auditing to current accepted standards would be progressively introduced. As the development of the new manual progresses, a re-assessment will be made of the Department's staffing needs in the internal audit area.

Exhibit
139/4

60. The Department expressed its awareness of the need for an effective internal audit function and, in addition to directing its efforts to improving the standard of audit in the traditional areas referred to in the Public Service Board's definition of the function, is giving consideration to the long term role which

Exhibit
139/4

internal audit should take. Developments in other countries and in other large organisations in Australia, where there is a trend towards the expansion of the internal audit function beyond its traditional areas are being kept under examination by the Department.

61. In elaborating on the internal audit function the witness informed us that the Department has been most concerned to determine the direction in which it would develop in the future. It was claimed that at the highest level in the Department there is a recognition of the need for a positive and forceful internal audit function as a service to management. In approaching this question the Department had to determine how far it should proceed, and had found it necessary to have regard to the other checks, balances and controls operating within the Post Office. It is concerned that action should not be taken which would duplicate existing operations. It also recognises that its operations differ markedly from other sections of the Commonwealth Public Service in that it is appraised by two simple standards of performance internally as well as by the public and the Parliament. These are the standard of service provided for the public, and the Department's performance in financial terms as expressed through its profit and loss account. Q.209

62. The Department is aware that the Institute of Internal Auditors in the United States of America, which has chapters operating in Australia, has recommended a charter and definition for internal audit. For some time the Department has considered seriously whether the Institute's charter should be adopted. During 1970 officers of the Department who were engaged in the investigation of certain aspects of programme budgeting in other countries took the opportunity during their visits to investigate the approach of various major organisations to internal audit. In general it was found that organisations not subject to profit and loss measurement tended to develop detailed management audits. Q.209

63. After considering all of the alternatives, including its own existing checks and controls, the Department had finally decided to adopt the concept of internal audit recommended by the Public Service Board, with the proviso that it should positively develop this concept as far as possible with the accent placed on the appraisal of procedures. When our inquiry occurred in June 1971, the Department was seeking, as Q.209

a matter of policy, to move internal audit away from the concept of a checking function and towards the determination of the adequacy of procedures and controls. It was claimed that there is a need for highly trained and highly skilled people to work in this field.

64. The Department had also considered the lines of control of the internal audit function. When the function was introduced in 1960, at the central office level reports were made to the Senior Assistant Director-General (Finance and Accounting Branch) and at the State level to the Chief Accountant. More recently the Department decided to give independence and also the appearance of independence to the internal audit function. In the State offices reports are now made to the Director and at central office to the First Assistant Director-General, Management Services. The Department introduced and promulgated to its State administrations on 10 May 1971 a detailed charter setting out the style of audit, mode of reporting, lines of responsibility, rules of access to data and related matters. This document is the basis for the Department's future development of its internal audit function.

Q. 209

65. Concerning internal audit staffing in general, the Public Service Board Observer, Mr. Vanthoff, indicated that in the internal audit group within the Commonwealth Public Service as a whole, the Public Service Board, following its exhaustive inquiry into the appropriate working of internal audit in the Commonwealth Service, has provided in excess of one hundred additional positions in the various departments, including the Post Office. The Public Service Board in its circular 1968/20, which introduced a new concept of internal audit, foreshadowed the importance which it attached to the internal audit function in the Service as a whole. On the other hand, with an extensive and sudden growth in staff apart from the general growth of the Service in the clerical and administrative area and in other functions, the Board is not surprised to find that there is, in the short term, intermittent staffing problems. The Board held the view, however, that the staff position in the Postmaster-General's Department and in other departments is improving. The Board considers that in future years the situation will stabilise and it is confident that the importance which it places on internal audit will be recognised.

Q. 253

66. In paragraph 193 of his report for 1970-71, the Auditor-General stated that the Department had informed his Office of the promulgation in May 1971 of a detailed charter which set out the style of audit, mode of reporting and lines of responsibility along which the internal audit, function would operate in the future. The charter accorded in general with the definition of internal audit adopted by the Public Service Board.

67. In paragraph 183 of his Report for 1971-72, the Auditor-General stated that pending the full development of the internal audit function as envisaged by the charter, the Department, as an interim measure, was continuing its existing internal audit programme with some modifications consistent with the intentions stated in the charter. Recent audit reviews had shown that the modified programme was generally current as at 30 June 1972. The Auditor-General also reported that his Office had recently sought advice from the Department concerning progress on the full implementation of the charter, including the issue of further parts of its new manual of internal audit and associated general and sectional plans. In reply, the Department had advised that steady progress was being maintained in the preparation of the manual and associated documentation and that this task was expected to be substantially completed within the next two years.

Chapter 5

Department of Supply

68. Paragraph 297 of the Auditor-General's Report for 1969-70 contained the following comment:-

"Reference was made in my Report dated 18 August 1969 to an unsatisfactory position of internal audit in Victoria and South Australia and to the fact that the Department has attributed the position to its inability to obtain staff to perform the duties.

Following audit reviews in 1969-70 and in response to inquiries by my Office, the Department acknowledged serious arrears in the work programme in Victoria, again attributing the reason to inability to maintain the internal audit section at the approved strength despite frequent advertising of vacancies.

The Department has also indicated that it intends to expand the present internal audit coverage to include audits of certain costing systems and applications but it has been unable to recruit an auditor qualified to undertake these important duties. A submission to the Public Service Board was recently made by the Department for a position for an experienced cost accountant who would specialise in this area.

Internal audit is an important element of internal control, the adequacy and effectiveness of which my Office takes cognisance in planning and conducting audits. The maintenance of the Department's internal audit section at full strength and the adherence to the appropriate work programme is essential for its efficient operation."

69. About 1959, following the issue in the United States of America of a definition of internal audit, the Department of Supply commenced its investigation of a modern internal audit organisation in the belief that it would be an aid to management. Early in 1962 the Department established what it believes to be the first internal audit organisation, based on modern concepts, to be introduced by a Commonwealth Department. At that stage it was not difficult to recruit suitable staff but, due to their capacity and the training and development acquired in performing their duties, a heavy demand for their services developed elsewhere within the Department and a high staff turnover resulted.

Exhibit
139/1
and Q.24

70. In 1966 the Public Service Board established a joint Board/departmental committee to review internal audit functions and duties.

Exhibit
139/1

The Department of Supply was one of the four departments represented on the committee. In 1968 the Public Service Board promulgated its policies regarding the principles of internal auditing and the qualifications, work levels and classifications appropriate for the duties. Most departments required additional staff and higher classifications to bring their organisations into line with the standards of the Public Service Board. This created a further demand for suitable officers. As a consequence, the Department of Supply lost experienced staff. Since that time recruitment of staff by the Department has been affected by the greater demand that was created.

71. We were informed by the Audit Observer, Mr.Scott, that in June 1968 the Auditor-General's Office had conducted a review of the scope of the internal audit programme of the Department of Supply. The Auditor-General's Office wrote to the Department concerning reservations that it held regarding the deferment of costing audits, the non-availability of audit plans for certain items and the planned frequency of certain audits. In this latter regard, the Department had changed the planned frequency of certain audits to provide for them to be carried out at longer intervals than had been the case previously. Audits in the costing field had in some instances not been carried out for a period of up to five years. With regard to the non-availability of audit plans for certain items, the Audit Observer, Mr.Scott, indicated that there were several cases which would normally be covered by internal audit but for which programmes had not been prepared. These included control over departmental tooling and the instrument pool. The Auditor-General's Office had also drawn the attention of the Department to the desirability of preparing plans so that its internal audit would be complete and comprehensive.

Exhibit
139/1 and
Q.3

72. The witness representing the Department of Supply informed us that the Audit query relating to the frequency of audits had not been related to any particular type of audit and that in general the Department considered that the matter of frequency was one of judgment. Some of the Department's audits require the audit team to spend several months in an establishment carrying out large scale comprehensive investigations in great depth. To repeat audits of that nature appeared to the Department to be unnecessary. In cases where it had lengthened the frequency of audits, the Department nevertheless maintained partial

Q.6

audits, sometimes on an annual basis and sometimes at longer intervals. The extension of audit into various departmental areas had been dealt with in a number of ways.

73. The Department of Supply replied to the Auditor-General's Office in March 1969 subsequent to the recommendations of the interdepartmental review committee and following approval that it had obtained for a new staff organisation. In its reply the Department stated that it was of the opinion that serious arrears existed only in Victoria and these were attributable to staffing difficulties. It was apparent to the Department that positions on the new staff organisation would be difficult to fill. The Department added that in determining the frequency of audits for specific activities it had decided on programmes which, in its judgment, were reasonable, having regard to the nature of the activity concerned, the depth of cover applied during full audit, and the time involved in carrying out such an audit. The witness representing the Department stated that when internal audit plans are developed, copies are forwarded to the Auditor-General who is then in a position to assess and appraise them. On occasions the Auditor-General has made suggestions which have been adopted by the Department. The Auditor-General, however, does not direct the Department to develop an approved plan.

Exhibit
139/1
and Qs. 12
to 16

74. The Department's reply of March 1969 to the Auditor-General's Office stated that costing audits had been deferred pending appointment of officers who were qualified to undertake such work. Also the preparation of audit plans at that time was in arrears as it had not been possible to fill the position responsible for this task.

Exhibit
139/1

75. On 27 June 1969 the Auditor-General's Office requested the Department of Supply to provide further information regarding the audit arrears in South Australia and action taken on the matter by the Department in that State and in Victoria. The Auditor-General's Office also sought advice as to whether any changes had occurred subsequent to March 1969 in the arrears in Victoria. On 11 July 1969, the Department replied to the Auditor-General's Office and agreed that serious arrears of internal audit continued in the Victoria-Tasmania region. The Section responsible for this area was still operating substantially below strength despite repeated attempts to

Exhibit
139/1 and
Qs. 17 and
18

recruit staff. At that time there were five vacancies in an establishment of twelve. It had been possible to fill only one of the two sub-section leader positions and this had been achieved by promotion from within the Section. The Class 5(Third Division) position provided to cover audits in the commercial cost accounting field had been advertised on two occasions without attracting an application from a qualified accountant. As at 11 July 1969 an approach to the Public Service Board for a higher classification together with a change in the duties of the position was under consideration. Class 4(Third Division) vacancies had been advertised on three occasions and the only selection possible was a Class 2(Third Division) officer from within the Section. When the consequential Class 2(Third Division) vacancy was advertised, none of the applicants was considered to be suitable for audit work. At that time the prospects of building the Section up to full strength did not appear to be favourable.

76. The Department also noted in its reply to the Auditor-General's Office Qs. 17 and 18 that since its previous advice of March 1969 the position in South Australia had been affected by staff losses, and some arrears had accumulated. During this period it had been necessary to replace three field auditors in a complement of six and as at 11 July 1969 a Class 2(Third Division) position was vacant. However, compared with the then current programme for the region, the position was not considered to be a cause for concern. In its reply the Department attached a statement setting out the position in regard to the audits concerned. This statement noted that all items in the current programme had either been covered recently or were programmed for attention in the current quarter. Of the items not in the current programme, one required development at Central Office of an appropriate audit plan. Others had been removed from the current programme pending revision of audit plans following substantial changes that had occurred in procedure, or could not be audited effectively until new written procedures had been developed by the branches functionally responsible.

77. In its reply of 11 July 1969 to the Auditor-General's Office, the Department expressed the view that the position it had outlined indicated that there were arrears in the matter of updating internal audit plans and in developing new plans, and that these had been a long standing cause for concern. However, the Central Office position

Q.19 and
Committee
File
170/10

responsible for this work, which had not been effectively filled for over two years, had become occupied. The occupant, after a period of initial training, had recently commenced the task of overtaking the substantial backlog of work in this area. The Department also admitted that there was no doubt that the position of its internal audit had deteriorated subsequent to its memorandum of March 1969. Despite constant effort to recruit staff within the organisational and classification structure provided by the Public Service Board, it had been impossible to maintain the establishment in Victoria near full strength and in the other two States work had been disrupted by excessive staff turnover. The abnormal level of staff demand which followed the Public Service Board's re-organisation of internal audit throughout the Commonwealth Service had contributed significantly to the instability of the previous year, and the Department of Supply had sustained a severe staff loss.

78. In March 1970 the Auditor-General's Office informed the Department of Supply that recent reviews had disclosed an unsatisfactory position, the most serious being in Victoria. In relation to this, the Audit Observer, Mr. Scott, said that in March 1970 the Chief Auditor, Victoria, reported that as at 28 February the position of the arrears of internal audit had shown a marked deterioration since June 1969 and that only seven of the internal audit positions out of a total staff of twelve were occupied. Also the Chief Auditor for South Australia had reported that important items were apparently not included in the current programme and that the Department had not been able to prepare audit plans for carrying out the internal audit of some of these items. The position in New South Wales had deteriorated.

Exhibit 139/1
and Q. 21

79. On 12 May 1970 the Department of Supply replied to the comments made by the Auditor-General's Office. The arrears were acknowledged and were attributed to the Department's inability to maintain the staff level at its approved strength. Details were given of action in hand or proposed to alleviate the problems. In elaborating on this correspondence, the Audit Observer, Mr. Scott, stated that the Department of Supply had not been able to recruit a qualified auditor at Class 5 (Third Division) level for costing audits and that an approach had recently been made to the Public Service Board for a position, the occupant of which would specialise in the auditing of costing applications and for which some rather

Exhibit
139/1 and
Qs. 21 and 22

special qualifications were required. The Department wished to check the charges made for the use of joint project facilities, project costings at the Weapons Research Establishment, and other matters where cost accounting played an important part in determining the amounts to be recovered. While the Department agreed that the position in Victoria had deteriorated due to its inability to obtain staff it considered that the position in South Australia and New South Wales was not serious and would be brought to a satisfactory basis within a reasonable period of time.

80. In evidence the Department stated that the difficulty in recruiting suitable internal audit staff is part of a wider problem of a shortage of qualified accountants and accountancy students. Following proposals submitted by the Department of Supply the Public Service Board approved a new organisation for the central administration of that Department's internal audit on 7 September 1970. This organisation provides for a full time instead of a part time director and for a senior inspector to undertake costing audits. When our inquiry occurred in April 1971, the Department had been able to recruit a full internal audit staff for its Victorian organisation. However, this had occurred so recently that the filling of the establishment had made no impact on the extent of the arrears which were said to be very serious in that State.

Exhibit 139/1
and Q.59

81. While recruitment in South Australia and New South Wales had not involved the same difficulties as in Victoria, the Department has experienced regular staff turnover in those States. When our inquiry occurred there were three vacancies in a staff establishment for seven positions in South Australia. At the same time there were three audits overdue in that State, involving seventy-seven man-days of effort. On 12 February 1971, there were six audits overdue representing fifty-three man-days of effort in New South Wales.

Exhibit
139/1 and
Q.59

82. Under the new organisation the internal audit function is the responsibility of a separate Branch reporting directly to the Chief Officer. Previously this function had been part only of a Finance Branch directorate. By April 1971 proposals had been made for new organisations for the State internal audit teams. These proposals were designed to equate field audit strength to the operating work load and to the demanding nature of certain audits peculiar to the Department of Supply. Such audits include stores audits, capital assets audits, costing and accounting

Exhibit
139/1 and
Q.74

audits, cafeteria audits and audits in the contracts and disposals area.

83. In order to solve the problem of a general shortage of qualified accounting officers within the Department, the Department on 11 May 1970 appointed a panel of senior officers to conduct surveys and to identify departmental requirements for officers qualified in financial administration and accounting. The panel is also required to establish plans for the development of staff to meet the needs of the Department. The panel consists of the Assistant Secretary (Finance) as Chairman, the Director of Accounting Systems, the Director of Agreements and Costing and the Director of Personnel. The Secretary of the panel is the Assistant Director (Staff Planning Research). The initial task of the panel was to undertake a survey of the organisation of the many establishments and offices within the Department and to identify areas with positions suitable for the training of personnel in accounting. Subsequently a plan was developed whereby officers undertaking part time courses were to be moved to those positions where they would be assisted in their courses, and where senior officers would be able to provide advice and guidance for young officers of the Department. The panel has been encouraged by the fact that in 1971 the number of young officers enrolled for part time courses in accounting was considerably greater than in previous years. It was claimed that the results of the work of the panel will be long-term rather than immediate.

Exhibit
139/1 and
Qs.82 to
84

84. The Department claimed to be acutely conscious of its responsibility to maintain strong and effective internal audit as an aid to management. Through the activities of its officers in the Chapters of the Institute of Internal Auditors it has been active in fostering the principles of internal audit in Australia. With respect to the filling of vacant positions, however, the Department expressed the view that it has found a lack of maturity and relevant experience in officers applying for internal audit vacancies which, despite constant effort, creates difficulties in maintaining staff organisations at full strength. In elaborating on this latter point the witness informed us that young people lack experience in the subject areas which must be audited. An auditor is required to deal with officers at relatively senior levels of management and, in general, these officers are not inclined to take the views of junior staff as seriously as they should.

Exhibit
139/1
and Qs.88
to 91

85. The Department also claimed that the time involved in obtaining staff is lengthy. When appeals are involved, periods in excess of eight months may elapse from the date of receipt of a request to advertise a vacancy to the date on which an appointee commences duty. In relation to the appeal committee system, the Public Service Board Observer, Mr Vanthoff, stated that the Board had been reviewing the situation in the various States and in April 1971 a fourth appeal committee had been established in the State of Victoria. The Public Service Board considers that the Promotions Appeal Committees should be staffed in such a way that within a period of four weeks from the date of closing of appeals, a Committee should be in a position to notify its decision. Mr Vanthoff indicated that this is not an unreasonable period and is the basis on which the Board considers the number of Promotions Appeal Committees that are required in each State.

Exhibit
139/1 and
Q.97

86. In paragraph 305 of his Report for 1970-71, the Auditor-General reported that following a further review conducted during that year, his Office had invited the attention of the Department to arrears in a number of areas, including Victoria, where the position, although somewhat improved, was still serious. The Department had informed the Auditor-General's Office that certain staff proposals designed to strengthen its internal audit establishment had been approved by the Public Service Board and that other proposals were under consideration.

87. In paragraph 301 of his Report for 1971-72, the Auditor-General stated that audit reviews conducted during that year had revealed arrears of internal audit programmes in New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory. In reply to Audit observations, the Department had acknowledged the unsatisfactory position and referred to the problem of recruiting and retaining experienced internal audit staff. The Department had advised the Auditor-General that it had submitted certain staffing proposals to the Public Service Board.

Chapter 6

Conclusions

88. As indicated in Chapter 1 this is the first general report made by the Committee on the subject of internal audit although various facets of the matter have been the subject of specific inquiries conducted in recent years.

89. Internal auditing is now widely recognised as an important, independent, post-operative appraisal function performed within a department as a service to management. It covers the revenue, expenditure, stores, personnel and related operations of a department and also any financial, accounting and supply activities arising from the particular functions of a department. The importance of the relationship between the internal audit function and the functions of the Auditor-General was made clear by the Auditor-General in his Report for 1969-70 when he stated that the extent to which statutory discretion is exercised by his Office to dispense with all or any part of a detailed audit is influenced in each case by the effectiveness of the system of internal control, of which internal audit is an integral part.

(a) Public Service Board

90. Information supplied to the Committee in this inquiry shows that in 1966 a joint Public Service Board - departmental committee was established to review the functions and duties of Third Division positions in the Commonwealth Public Service engaged in internal audit work in departments. Arising from the work of that committee, the Board in mid-1968 announced the introduction of a new Internal Audit structure for the Commonwealth Public Service. In introducing the new structure, the Board defined, for departmental guidance, the role of internal audit, and indicated that the placement of internal audit within departmental organisation frameworks, and the degree of management acceptance and support accorded the function, are significant factors in determining the range and effectiveness of the service which management obtains.

91. In connection with staffing, the Board informed us that the expansion of the number of positions, and the higher salary classifications in the internal audit field which resulted from the general review and from subsequent adjustments to internal audit establishments, created a heavy demand for suitable personnel to fill these positions. However, by December 1970 the staff/establishment ratio in the internal audit organisations had reached 88 per cent and the Board felt that, generally, the incidence of vacancies was not sufficiently large to cause concern. The Board also felt that shortages of internal audit staff, where they existed, constituted principally local problems which could, subject to "restraint" policies, be overcome by departmental management.

(b) Superannuation Fund

92. The evidence taken in this inquiry into the Superannuation Board-which included also evidence relating to the Defence Forces Retirement Benefits Board-shows that a position of Internal Auditor was first created in 1965 to service the needs of the new integrated organisation that had been created in 1963. A further internal audit position was created in 1967. It appears from the evidence, however, that between 1967 and 1971 difficulty was experienced in keeping the senior of these positions filled permanently.

93. The evidence shows that the activities of the joint Internal Audit Section for the Superannuation and Defence Forces Retirement Benefits Boards, as envisaged, were to be covered by an internal audit manual subdivided into parts relating to the Superannuation Fund, the Defence Forces Retirement Benefits Fund and the administrative expenditure of both Funds combined. The evidence also shows that in recent years there has been a considerable growth in the number of contributors to and pensioners of both Funds. These developments have given rise to a considerable increase in work volume. As a consequence of this, together with staff movements, the organisation has not had available to it among its senior staff the capacity to examine the internal controls and procedures in operation from the viewpoint of an internal control and internal audit. The Committee regards this as a most unsatisfactory situation.

94. As a corollary to the developments that have occurred in recent years, the preparation of the annual accounts has become a more

complex operation. The evidence shows that the introduction of computers has given rise to the need to change the data introduced into the accounts, and this has required critical appraisal. When our inquiry occurred in April 1971 the stage had been reached when the office could no longer support its annual accounts without prior internal audit. In this regard the Committee finds disturbing the observation made by the Audit Observer, Mr. Scott, to the effect that each year the Auditor-General's Office has found errors or mistakes in the annual financial statements of the Boards requiring that they be returned for correction.

95. While the evidence shows that some progress had been made towards the establishment of internal audit programmes, only five of some twenty-four such programmes had been developed by April 1971. The full development of these programmes is clearly a pre-requisite for the presentation by the Superannuation Board of statements in an acceptable form for Audit examination. In this regard the Committee notes with concern the remarks made by the Auditor-General in paragraph 25 of his Report for 1971-72 that, late in August 1971, Audit had found it necessary to return the amended financial statements for 1968-69 to the Superannuation Board, as errors had been discovered in several areas of the Reserve Units of Pension Account, indicating that a complete re-examination of the subsidiary records was necessary. The Auditor-General further indicated that the adjusted financial statements of the Superannuation Fund for 1968-69 were not expected to be available for submission to Audit until late in August 1972.

96. The Committee believes that the foregoing circumstances reflect an urgent need for improvement in the quality of internal audit within the Superannuation/Defence Forces Retirement Benefits Boards organisation. In making this observation, however, the Committee also notes from the evidence that a proposal developed by the organisation in November 1967 to improve its internal audit arrangements had been set aside in view of the survey being conducted at that time by the Public Service Board into internal

audit following the establishment of the joint Public Service Board-departmental committee in 1966.

97. The Committee notes with satisfaction the action taken recently by the Department of the Treasury to centralise its internal audit activities and, within this arrangement, to allocate internal audit teams to the Superannuation and Defence Forces Retirement Benefits Boards. The most recent information available shows that all of the major management services areas of the Superannuation/Defence Forces Retirement Benefits Boards organisation have been reviewed by the Internal Audit Section, and that further reviews are planned on a cyclical basis. The Committee also notes with satisfaction that certain problems which, in the past, have impeded the effective internal audit of the accounts and financial statements of the Boards have been resolved and, as a result, the internal audit programme will now be implemented fully. In view of the importance of these financial statements the Committee trusts that the full internal audit programme will be implemented without delay.

(c) Postmaster-General's Department

98. In connection with the Postmaster-General's Department the Committee inquired into internal audit in 1964-65 and reported on the matter in its Seventieth Report. In the subsequent Treasury Minute we were informed that, during the period covered by the Auditor-General's observation, approximately two-thirds of the internal audit programme was being executed, that no critical audits, such as cash checks, were being omitted and that the reduction that had occurred in audits related to frequency only.

P.P. No. 160
of 1964-66

P.P. No. 275
of 1964-66

99. The evidence taken in the present inquiry shows that, until October 1970, all of the actions taken by the Department in connection with internal audit related to measures intended primarily to find the resources to undertake more adequate checks of transactions within the ambit of the then existing internal audit programme as revised in regard to frequencies, and to undertake appraisals of procedures for the adequacy of accounting and security-type controls.

100. It appears that a pre-requisite for the raising of standards of internal audit to include appraisal of other controls and review of policy, procedures and practices, is the preparation of a new internal

audit manual, incorporating modern auditing techniques, to replace the manual prepared in 1960. The evidence shows that the Department attempted in 1969 to commence the development of such a manual. However, between August of that year and April 1971 the Department was engaged in protracted negotiations with the Public Service Board regarding the salary classification levels for temporary positions to enable this work to be carried out. The Committee recognises the importance of the Board's role in relation to staffing matters and has examined carefully the observations made by the Board's Observer, Mr. Vanthoff, on the particular matter in question. However, it appears that effective progress in the development of the new manual was impeded until the temporary staffing problem had been resolved.

109. The evidence shows that in May 1971 the Department issued to its State administrations a detailed charter setting out the style of audit, mode of reporting, lines of responsibility, rules of access to data and related matters, as the basis for the future development of its internal audit function. The Report of the Auditor-General for 1971-72 shows that, pending the full development of that function as envisaged by the charter, the Department, as an interim measure, is conducting its existing internal audit programme with some modifications consistent with the intentions stated in the charter.

102. The Committee notes with satisfaction that recent Audit reviews have shown that the modified programme was generally current as at 30 June 1972 and that steady progress is being made in the preparation of the manual and associated documentation. The Committee trusts that this task will, as envisaged in the Report of the Auditor-General for 1971-72, be substantially completed within the next two years.

(d) Department of Supply

103. The evidence shows that in 1962 the Department of Supply established what is believed to be the first internal audit organisation, based on modern concepts, to be introduced by a Commonwealth department. At that stage, the Department experienced no difficulty in recruiting suitable staff for internal audit work. However, after the Public Service Board developed its policies in 1968 regarding the principles of internal auditing and related matters, most departments required additional staff and higher classifications to bring their organisations into line with the standards of the Public Service Board. This created a further demand

for suitable officers and, as a consequence, the Department of Supply lost experienced staff.

104. The evidence shows that although the Department obtained a new staff organisation for internal audit following the recommendations of the interdepartmental review committee, difficulties were experienced in filling the new positions. These staffing problems appear to underlie the difficulties experienced by the Department in overtaking arrears of internal audit work in its Regional Offices and in the development of plans for costing audits and other matters.

105. The Reports of the Auditor-General for 1970-71 and 1971-72 indicate that in each of those years the Department of Supply has submitted staffing proposals to the Public Service Board with a view to strengthening its internal audit establishment. Although the proposals submitted in 1970-71 had evidently been approved, arrears of internal audit programmes were still in evidence in four States and the Australian Capital Territory as at 30 June 1972. While the Committee regards the persistence of these arrears as a serious matter, it appears that the causes of the arrears are generally beyond the control of the Department.

106. The Committee notes that to assist the Department in solving its problem of a general shortage of qualified accounting officers, the Department in May 1970 appointed a panel of senior officers to conduct surveys and to identify departmental requirements for officers qualified in financial administration and accounting. The panel is also required to establish plans for the development of staff to meet the needs of the Department. While the Committee would commend the Department for its initiative in establishing this panel, we feel that this action might have been taken at an earlier stage when the staffing problems connected with internal audit began to emerge.

(e) General

107. During the course of this inquiry the Committee has noted a strong awareness on the part of departmental management regarding the importance of the role of internal audit and the endeavours that have been made to bring their internal audit arrangements into full operational

efficiency, notwithstanding persistent staffing difficulties. It is pleasing to note from the Report of the Auditor-General for 1971-72 that improvement occurred in some departments during that year. At the same time, however, the Committee is disturbed to note in the Auditor-General's Report that some instances had been revealed where internal audit was in arrears, due partly to the employment of internal audit staff on other duties. In this connection we would point out that on previous occasions the Committee has expressed concern at the practice in departments of using officers from the internal audit section on other duties. While we appreciate that this action is sometimes unavoidable and has often provided an opportunity for the officers concerned to widen their experience or to act in higher positions, there are, nevertheless, grave implications if the work of the internal audit section suffers as a consequence. Frequently, the result is to leave the internal audit section under-manned and the internal audit programme unfulfilled.

P.P. No. 115
of 1981

108. In all the circumstances of the evidence and other information examined in this inquiry and the most recent observations made by the Auditor-General, the Committee proposes to maintain a close surveillance on the adequacy of internal audit within departmental administrations and to conduct further inquiries into this matter as the need arises.

For and on behalf of the Committee,

David N. Reid
DAVID N. REID
Secretary
Joint Committee of Public Accounts
Parliament House
Canberra, A.C.T.
12 September 1972

B.W. Graham
B.W. GRAHAM
Chairman

[Signature]

INDEX TO SUBMISSIONS

Submission No.	Title
-	Submission by the Office of the Public Service Board.
1	Submission by the Department of Supply.
2	Submission by the Office of the Superannuation and Defence Forces Retirement Benefits Board.
3	Submission by the Department of the Treasury.
4	Submission by the Postmaster-General's Department.



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67/6694

P.S.B. Circular No. 1968/20

11th July, 1968.

ALL DEPARTMENTS

REVIEW OF INTERNAL AUDIT POSITIONS

PART A - INTRODUCTION

As Departments will be aware from earlier correspondence, a Joint Committee was established by the Board to review the functions and duties of Internal Audit positions in Commonwealth Departments. The Joint Committee was required to make recommendations to the Public Service Board on:

- (a) whether any change in the present number or composition of work levels was necessary;
- (b) the criteria which distinguished each recommended level of work; and
- (c) whether qualifications should be prescribed for each recommended level of work and, if so, the specific qualifications considered appropriate.

2. After consideration of the Report and departmental views, the Board has now taken decisions on the work level structure for the internal audit function and other relevant matters.

PART B - FUNCTION OF INTERNAL AUDIT

3. A necessary basis to a consideration of the proper staffing structure for the function is a definition and description of the role of internal audit. For this purpose, the Board has adopted the following definition of the internal audit function:

internal auditing is an independent, post-operative, appraisal function performed within a department as a service to management. It covers the revenue, expenditure, stores, personnel and related operations of a department and also any financial, accounting and supply activities arising from particular functions of a department.

4. It is important that there be understanding and general acceptance throughout the Service of the traditional meaning and objectives of internal audit, as extended by the foregoing definition.

5. Whilst internal audit is only a part of the machinery for internal managerial control, it is an important control in that it functions by:

- (1) providing a post hoc check for the protection of public funds and assets; and
- (2) measuring and evaluating the effectiveness of other controls.

In its advisory role, it furnishes analyses, appraisals, recommendations and pertinent comments on accounting and financial controls from an objective viewpoint inside the Department but independent of line control. Indeed, the advisory function of internal audit distinguishes it from in-line or operating functions or checks.

6. The placement of internal audit within the organisation framework of a Department and the degree of management acceptance and support accorded the function are significant factors in determining the range and effectiveness of the service which management obtains. The decision as to placement of the internal audit function will be individual in respect of each Department but clearly it is undesirable that the function be responsible to an officer in direct control of operations which are to be the subject of internal audit review and appraisal.

7. The check of legal and accounting aspects of financial transactions is an operative responsibility and should be embodied in the in-line functions of the finance and accounts administration of a Department. Whilst the Internal Auditor does, of course, concern himself with the detailed checking of transactions, he does this keeping in mind that he must advise on whether or not the system and practices being followed are appropriate and effective.

8. Generally, the nature and degree of checks carried out by internal audit for the purpose of preparing evaluations will depend upon the efficiency of the in-line system and whether irregularities revealed suggest extension of the normal programme. If effective systems and methods are instituted, faulty accounts or transactions should be detected at an early stage and generally without the necessity for detailed check by internal audit. To enable internal audit staff to perform their role objectively, it is desirable that they should not develop and install procedures which they would be expected to review and appraise. However, as a result of their appraisal and review of existing procedures, they will be able to draw attention to instances where established procedures are deficient. Further, they may be called upon to suggest control features which should be built into new procedures to ensure soundness from the viewpoint of protection of the funds and assets of the Department.

9. The internal audit function is "post-operative" in the sense that it follows after management objectives have been determined and appropriate executive decisions taken. Further, it excludes the in-line checks which are essential for the proper finalisation of transactions. However, internal audit examination would not necessarily await completion of all operational activities required to implement management decisions. Indeed, to place such a strict limitation on internal audit would, in many circumstances, circumvent the prime objective of the function.

10. As an integral part of management controls, internal audit must be in a position to examine the effectiveness with which decisions are brought into operation, in some cases progressively or over a long term. It is most important that departmental management receive independent and progressive advice in appropriate cases, thus providing assurances that its decisions are being properly applied or, alternately, require further executive direction for adequate control. Activities involving major capital commitments spread over several years such as construction or supply contracts are examples where internal audit would maintain progressive investigations rather than await the finalisation of the total commitments. Further, it would be appropriate for internal audit to conduct cash counts in making a continuing appraisal of internal control over collections of public moneys and cash holdings.

11. It is important that the internal audit process be completed by the preparation and presentation to management of regular reports embracing findings, observations, conclusions and recommendations. The reports should be made to management at a level high enough to assure their adequate consideration. Reports should not be processed through or to an officer whose work might be the subject of criticism by internal audit: to do so could inhibit internal audit and perhaps be detrimental to the independence of the function.

12. The principles outlined above regarding the internal audit function are embodied in a "Statement of the Function of Internal Audit Staff" at Attachment 'A'. That Statement is a practical supplement to the definition of internal auditing.

13. The exercise of internal audit functions in Commonwealth Departments does not in any way relieve the Auditor-General of his responsibilities and obligations under the Audit Act but an efficient internal audit organisation facilitates his work. In view of his statutory responsibilities and particularly of his independence, the Auditor-General, of course, reserves the right to evaluate the internal audit organisation of each Department individually, on the basis of the whole pattern of the internal controls and checks and the conditions under which the Department is operating. In this connection, the Auditor-General in his report to Parliament for the year 1963-64 made the following observation:

"In assessing the quality of internal control, due regard was given to the role and scope of internal audit organisation, the efficacy of which is an important consideration when determining the extent of detailed auditing to be performed by the Audit Office."

14. The Board has consulted with the Auditor-General on the clarification of the function of internal audit as a necessary step in reaching a firm conceptual basis for its establishment decisions for the field of work. The Auditor-General has advised of his acceptance of the basic principles outlined above for the conduct of internal audit in Departments.

PART C - QUALIFICATIONS, WORK LEVELS AND CLASSIFICATIONQualifications

15. After consideration of all aspects of the matter, including the views of Departments, and having noted the changing pattern of accountancy education, the Board has decided not to prescribe accountancy qualifications for any positions in the internal audit structure. In so deciding, the Board notes and endorses the view that, as a general principle, some training in accounting is desirable at the lower levels of the internal audit structure and completion of appropriate formal training in accountancy is desirable at the directing and supervisory levels.

Work Levels

16. The Board has decided that internal audit work can, with the exception of a few positions referred to below, be encompassed by five standard work levels. Position Classification Standards for those five work levels are set out in Attachment 'A'.

17. Positions which it did not prove practicable to embrace by the standard definition because of the variety of organisational arrangements, mixed functions and other special features comprise:

- (1) Officers-in-Charge of departmental internal audit functions;
- (2) a very limited number of other subordinate positions, e.g. positions referred to in paragraph 21.

Designations

18. The Board has approved the following designations for the five work levels:

<u>Work Level</u>	<u>Designation</u>
1	Clerk (Internal Audit)
2	Internal Auditor, Grade 1
3	Internal Auditor, Grade 2
4	Senior Internal Auditor, Grade 1
5	Senior Internal Auditor, Grade 2

Classification

19. The Board has approved the following classifications within the clerical/administrative scales of salary for the five standard work levels:

<u>Work Level</u>	<u>Classification</u>
1	Class 2
2	Class 4
3	Class 5
4	Class 6
5	Class 7

20. Positions referred to in paragraph 17 which are not covered by the standard work level structure will be classified individually having regard to their particular functions and responsibilities. The classifications

accorded these positions will, in some instances, correspond with those attaching to the standard work levels.

PART D - AUDITING OF A.D.P. SYSTEMS

21. The Joint Committee referred to the difficulty of foreseeing with any degree of certainty the long term implications in the internal auditing field of the continuing expansion of computer based systems. Accordingly, the Committee did not attempt to anticipate the possible effects of A.D.P. but pointed to the need for appropriate positions to cater for staff engaged in advising on policies, methods and programming techniques in relation to the internal audit of A.D.P. systems. Subsequent examinations have referred to a need for positions for operational auditing of computer based systems.

22. Because of the requirement for knowledge of A.D.P. systems and techniques intrinsic to the duties of both types of positions referred to in paragraph 21, the Board has decided that these positions will be treated separately from the general group of internal audit staff and decisions concerning placement and classification will be individually considered.

PART E - REVIEWS OF DEPARTMENTAL INTERNAL AUDIT ESTABLISHMENTS

23. In the light of all the foregoing, the Board considered it desirable to provide an opportunity for Departments to reappraise their internal audit functions, to develop new programmes and to review their organisations. The Board was aware that, because of the varying functional scope and financial activities as between Departments, it was not possible to prescribe a set pattern of internal audit organisation which would be suitable for every Department. It was realised that each Department's organisation requirements, in terms of staff numbers and levels, needed to be assessed individually in the light of the functions of the Department and of the nature and scope of the internal audit programme considered necessary.

24. Accordingly, the Board set up Joint Inspection Teams to prepare recommendations in terms of number of positions and organisation structure for each Department. The reports of these Joint Inspection Teams are now being considered by the Board and decisions will be taken on the individual establishments for departmental internal audit functions.

25. Advice to each Department on these matters will be issued shortly.

26. The List and Index of Operative Circulars, etc. should be amended as follows:

List - Add under 1968 - "Circular No. 1968/20 - Review of Internal Audit Positions".

Index - Insert the following - "Internal Audit Positions - Review of - Circular No. 1968/20".

- "Review of Internal Audit Positions - Circular No. 1968/20".


A. H. MILLAR
Secretary

STATEMENT OF THE FUNCTION OF INTERNAL AUDIT STAFF
AND WORK LEVEL STANDARDS

Statement of the Function of Internal Audit Staff

Within a department, internal audit staff assist in, perform and are responsible for, audits of: revenue, expenditure, stores, personnel and related operations. The audits may cover financial, accounting and supply activities specific to the department. Internal audit staff operate independently of line control and report to a sufficiently high level of management to ensure that their observations are dealt with in an effective and impartial manner.

Internal audit staff ascertain whether the legislation applicable to, or administered by, the department is correctly applied; whether departmental procedures and instructions are adequate and effective and are being observed. They evaluate the adequacy and application of internal checks and internal controls and, where necessary, recommend corrective action in respect of any inadequacies in, or departures from, approved policies, procedures, controls and established practices.

Internal audit staff serve management by providing independent information and advice based on the internal audit of departmental operations.

WORK LEVEL 1 - Clerk (Internal Audit)

DEFINITION

Assists internal audit staff at Work Levels 2 and 3. Under supervision and with detailed guidance, performs minor audits.

CHARACTERISTICS OF LEVEL

This level is the initial recruitment and training level of the internal audit structure. An officer at this level should have had some previous Service experience, preferably in the personnel, accounting or stores fields. As he acquires experience, an officer at this level may be required to perform minor audits without immediate supervision.

GENERAL FEATURES OF DUTIES

At this level are positions the duties of which may include:

- assist internal audit staff at Work Levels 2 and 3 in the conduct of audits; and
- perform minor audits in accordance with a manual of audit procedure, e.g.

Petty Cash

Postage Advances, Franking Machines

Furniture Inventories

Accountable Forms

Saleable Publications

Destruction of Forms and Records

Libraries - Accession Register

WORK LEVEL 2 - Internal Auditor, Grade 1

DEFINITION

Under general direction of internal audit staff of higher work level and with limited guidance, performs audits of revenue, expenditure, stores, personnel and related operations and of financial, accounting and supply activities which may be specific to a department.

CHARACTERISTICS OF LEVEL

Work at this level includes all items in an audit programme except those for which appropriate training in accountancy is desirable. An officer at this level should have a good working knowledge of the legislation and procedures applicable to audit operations. He should possess the personal qualities for operating in an audit environment such as tact, imagination and self-reliance and the ability to exercise independent judgment. At this level may be required to work away from home station.

GENERAL FEATURES OF DUTIES

At this level are positions the duties of which may include:

- Examine departmental procedures and practices and carry out sufficient check on departmental records to enable an opinion to be formed on -
 - (a) the legality of transactions;
 - (b) the accuracy of the records;
 - (c) compliance with procedures and instructions;
 - (d) adequacy of the procedures;
 - (e) acceptability of the practices; and
 - (f) the effectiveness of internal check and internal control;
- Discuss matters arising from audits with management of area audited;
- Prepare reports and draft observations and correspondence arising from audits; and
- Direct and supervise assigned supporting staff.

WORK LEVEL 3 - Internal Auditor, Grade 2

This work level comprises the following three functional types of positions:

- . Higher Operational Level.
- . Lower Level of Sub-section or Team Leader.
- . Officer-in-Charge of Small Section with Limited Range of Subject Matter Audited.

WORK LEVEL 3 - Higher Operational Level

DEFINITION

Under general direction of an internal auditor of higher work level and with limited guidance, is substantially engaged in the performance of audits for which appropriate training in accountancy is desirable

CHARACTERISTICS OF LEVEL

Work at this level requires the officer to discuss effectively with line management deficiencies revealed by audit and to prepare reports and observations.

An officer at this level should possess considerable knowledge of audit techniques, maturity of judgment and capacity to supervise subordinate staff.

GENERAL FEATURES OF DUTIES

At this level are positions the duties of which may include:

- conduct audits of commercial and cost accounting systems;
- conduct audits of income tax assessments raised in relation to partnerships, trusts and companies.

WORK LEVEL 3 - Lower Level of Sub-section or Team Leader

DEFINITION

Within an internal audit section in a State Office, supervises and directs the work of a sub-section performing a major sub-division of the internal audit programme or leads a team engaged in country or interstate audits.

CHARACTERISTICS OF LEVEL

Work at this level requires the officer to discuss effectively with line management deficiencies revealed by audits and prepare and edit reports and observations. He should possess a considerable knowledge of audit techniques, maturity of judgment and capacity to direct and supervise the work of subordinate staff. He may be required to conduct and participate in more difficult audits.

Where the internal audit coverage includes subject matter for the audit of which appropriate training in accountancy is desirable, he may be required personally to perform such audits.

GENERAL FEATURES OF DUTIES

At this level are positions the duties of which may include:

- direct and supervise subordinate staff engaged on internal audit;
- conduct or participate in more difficult audits;
- assist in the development of new audits;
- approve extension of the prescribed audit coverage where circumstances warrant a more intensive or extensive check;
- recommend changes in audit manual;
- examine and edit draft reports, queries and correspondence prepared by subordinate staff;
- prepare special reports on audits;
- conduct exit interviews with local management on completion of an audit and discuss matters arising from the audit;
- discuss more important matters with higher levels of line management;
- conduct special investigations of an audit nature;
- plan and participate in the training and development of subordinate staff;
- prepare internal audit questionnaires or check lists simplifying the procedures prescribed in the audit manual;
- programme the work of a unit; and
- advise line management on audit requirements.

WORK LEVEL 3 - Officer-in-Charge of Small Sections With Limited
Range of Subject Matter Audited

DEFINITION

Within prescribed limits and general Central Office directives, responsible for audits in a small internal audit section in a State Office, or has sole operational responsibility in a State Office, where the range of subject matter audited is limited and principally consists of the common departmental activities associated with revenue, expenditure, stores and personnel.

CHARACTERISTICS OF LEVEL

Work at this level requires the officer to discuss effectively with line management deficiencies revealed by audits, and prepare and edit reports and observations. He should possess a considerable knowledge of audit techniques, maturity of judgment and capacity to direct and supervise the work of subordinate staff. He may be required to conduct and participate in more difficult audits.

GENERAL FEATURES OF DUTIES

At this level are positions the duties of which may include:

- accept responsibility for all prescribed audits in a State;
- report periodically on audit activities and major issues to line management and to the directing level of internal audit at Central Office;
- liaise with Central Office internal audit;
- participate in the selection of subordinate staff for appointment to lower Work Levels;
- direct and supervise subordinate staff engaged on internal audit;
- conduct or participate in more difficult audits;
- assist in the development of new audits;
- approve extension of the prescribed audit coverage where circumstances warrant a more intensive or extensive check;
- recommend changes in audit manual;
- examine and edit draft reports, queries and correspondence prepared by subordinate staff;
- prepare special reports on audits;
- conduct exit interviews with local management on completion of an audit and discuss matters arising from the audit;
- discuss more important matters with higher levels of line management;
- conduct special investigations of an audit nature;

- plan and participate in the training and development of subordinate staff;
- prepare internal audit questionnaires or check lists amplifying the procedures prescribed in the audit manual;
- programme the work of a unit; and
- advise line management on audit requirements.

WORK LEVEL 4 - Senior Internal Auditor, Grade 1

This work level comprises the following four functional types of positions:

- Higher Level of Sub-Section Leader.
- Officer-in-Charge of Large Section with Limited Range of Subject Matter Audited.
- Officer-in-Charge of Small Section with Extensive Range of Subject Matter Audited;
- Lower Level of Second-in-Charge of Departmental Operations.

WORK LEVEL 4 - Higher Level of Sub-section Leader

DEFINITION

Within a large internal audit section in a State Office, supervises and directs the work of a sub-section performing a number of major sub-divisions of an extensive internal audit programme.

CHARACTERISTICS AND DISTINGUISHING FEATURES

Work at this level requires an extensive knowledge of relevant departmental legislation, policies and procedures, capacity to establish effective liaison with senior staff, and ability to write and edit reports relating to internal audit operations.

Functional requirements, including operational and supervisory activities, are similar in nature to those specified for Work Level 3 - Lower Level Sub-section or Team Leader. Positions at this level, however, can be distinguished from such Work Level 3 positions in terms of higher degree of responsibility arising from direction of a large scale audit programme and coverage of a greater range and complexity of subject matter which may include subject matter for the audit of which appropriate training in accountancy is desirable.

WORK LEVEL 4 - Officer-in-Charge of Large Section with Limited
Range of Subject Matter Audited

DEFINITION

Within prescribed limits and general Central Office directives, is responsible for all audits in a large internal audit section in a State Office where the range of subject matter audited is limited and principally consists of common departmental activities associated with revenue, expenditure, stores and personnel.

CHARACTERISTICS AND DISTINGUISHING FEATURES

Work at this level requires good knowledge of relevant departmental legislation, policies and procedures, capacity to establish effective liaison with senior staff and ability to write and edit reports and instructions relating to internal audit operations.

Functional requirements, including operational and supervisory activities, are similar in nature to those specified for Work Level 3 - Officer-in-Charge of Small Section with Limited Range of Subject Matter Audited. Positions at this level, however, can be distinguished from such Work Level 3 positions in terms of the higher degree of responsibility arising from the management and direction of a larger scale audit programme and staff.

WORK LEVEL 4 - Officer-in-Charge of Small Section with
Extensive Range of Subject Matter Audited

DEFINITION

Within prescribed limits and general Central Office directives, responsible for all audits in a small internal audit section in a State Office where the range of subject matter audited is wide and includes substantial coverage of activities specific to a department's particular functional responsibilities.

CHARACTERISTICS AND DISTINGUISHING FEATURES

Work at this level requires an extensive knowledge of relevant departmental legislation policies and procedures, capacity to establish effective liaison with senior staff and ability to write and edit reports and instructions relating to internal audit operations.

Functional requirements, including operational and supervisory activities, are similar in nature to those specified for Work Level 3 - Officer-in-Charge of Small Section with Limited Range of Subject Matter audited. Positions at this level, however, can be distinguished from such Work Level 3 positions in terms of the higher degree of responsibility arising from the management and direction of a programme with greater range and complexity of subject matter audited and which may include subject matter for the audit of which appropriate training in accountancy is desirable.

WORK LEVEL 4 - Lower Level of Second-in-Charge of
Departmental Operations

DEFINITION

As second-in-charge of a Central Office internal audit organisation in a department where the range of audits performed is limited and confined mainly to common departmental activities, assists the officer who has the functional responsibility for internal audit in the formulation of policy and the management of operations.

CHARACTERISTICS OF LEVEL

Work at this level requires good knowledge of relevant departmental legislation, policies and procedures, proven ability as an auditor, the capacity to establish effective liaison with senior staff and the ability to write reports, instructions and procedures relating to internal audit operations.

GENERAL FEATURES OF DUTIES

At this level are positions the duties of which may include:

- undertake necessary investigations prior to the extension of internal audit coverage;
- develop procedures for the extension of audit to new areas;
- modify and revise existing audit procedures;
- inspect State internal audit sections;
- ensure that the programmed series of audits are adequately performed;
- act as adviser to line management on audit matters;
- review and appraise the soundness and adequacy of new departmental procedures in areas subject to internal audit; and
- recommend action to be taken by Central Office internal audit section on matters arising from audits reported by State sections.

WORK LEVEL 5 - Senior Internal Auditor, Grade 2

This work level comprises the following two functional types of positions:

- Officer-in-Charge of Large Section with Extensive Range of Subject Matter Audited.
- Higher Level of Second-in-Charge of Departmental Operations.

WORK LEVEL 5 - Officer-in-Charge of Large Section with
Extensive Range of Subject Matter Audited

DEFINITION

Within prescribed limits and general Central Office directives, is responsible for all audits in a large internal audit section in a State Office where the range of subject matter audited extends beyond common departmental activities to include a wide range of activities specific to a department's particular functional responsibilities.

CHARACTERISTICS AND DISTINGUISHING FEATURES

Work at this level requires an extensive knowledge of relevant departmental legislation and policies, combined with capacity to accept responsibility for supervision and direction of large scale and complex audit activities.

Functional requirements, including operational and supervisory responsibilities, are similar in nature to those specified for Work Level 4 - Officer-in-Charge of Small Section with Extensive Range of Subject Matter Audited. Positions at this level, however, can be distinguished from such Work Level 4 positions in that they carry a higher degree of responsibility arising from the supervision and direction of a larger scale audit programme and staff covering an extensive range of subject matter which may include subject matter for the audit of which appropriate training in accountancy is desirable.

WORK LEVEL 5 - Higher Level of Second-in-Charge of
Departmental Operations

DEFINITION

As second-in-charge of a Central Office internal audit organisation in a department where the range of audits performed is extensive and includes activities specific to a department's particular functions, assists the officer responsible for the internal audit function in the formulation of policy and management of operations.

CHARACTERISTICS AND DISTINGUISHING FEATURES

Work at this level requires an extensive knowledge of relevant departmental legislation and policies combined with capacity to accept responsibility for aspects of management and co-ordination of large scale and complex audit activities.

Functional requirements, including inspectorial responsibilities, are similar in nature to those specified for Work Level 4 - Lower Level of Second-in-Charge of Departmental Operations. Positions at this level, however, can be distinguished from such Work Level 4 positions in that they carry a higher degree of responsibility arising from their participation in the management and co-ordination of a large scale audit programme which covers an extensive range of subject matter which may include subject matter for the audit of which appropriate training in accountancy is desirable.

INTERNAL AUDIT ESTABLISHMENT

ATTACHMENT 'B'

DEPARTMENT	SALARY CLASSIFICATION	C.O.		N.S.W.		VIC.		QID.		S.A.		W.A.		TAS.		OTHER		TOTAL		
		P	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C	
<u>AIR</u>	8	1*																1	1	
	7	1																1	1	
	6	1	2															3	4	
	5	1	2	1	1	1	1	1	1	1								2	1	
	4	2	1	4	2	3	2	2	2	2	1	1						1	4	
	2/3	2	1	5	2	3	2	2	2	2								(Overseas)	13	
	2/3	2	1	5	2	3	2	2	2	2								4	5	
	1	7	7	7	7	6	6	3	3	3	NIL	NIL	1	1	NIL	NIL	1	24	25	
	Total	10	1	2*	1	1	1	1	1	1									1	1
	<u>ARMY</u>	9	1																1	5
8		2*	2*	1	1	1	1	1	1	1	1	1	1	1	1	1	1	2	3	
7		1	4*	1	3	1	3	1	3	1	2	1	2	1	1	1	1	7	14	
6		2	1	8	1	6	2	3	3	1	2	1	2	1	1	1	1	23	23	
5		3	2	10	28	12	21	8	18	1	7	1	3	2	1	3	1	36	84	
4		3	1	22	7	20	6	13	4	7	2	2	1	1	1	1	1	68	23	
2/3		1	3	3	3	2	2	1	1	1	1	1	1	1	1	1	1	9	9	
1		10	11	38	47	37	37	25	29	10	12	8	8	8	4	3	5	132	153	
Total		7	1	1	1	1	1	1	1	1								1	7	
<u>ATTORNEY-GENERAL'S</u>		5	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	3
	4	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	6	
	2/3	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	6	
	1	1	3	1	2	1	2	1	1	1	1	1	1	1	1	1	1	7	11	
	Total	8	1	1*	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	6
<u>CIVIL AVIATION</u>	7	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	6	
	6	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	6	
	5	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	3	7	
	4	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	3	7	
	2/3	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	4	3	
<u>Total</u>	2	3	2	3	2	3	2	3	1	2	1	2	1	2	1	2	1	2	11	
	Total	2	3	2	3	2	3	2	3	1	2	1	2	1	2	1	2	1	18	

P - positions existing prior to review
 C - current positions as at 1.12.70
 * - includes one position concerned with A.D.P. audits

DEPARTMENT	SALARY CLASSIFICATION	C.O.		N.S.W.		VIC.		Q.D.		S.A.		W.A.		T.M.S.		OTHER		TOTAL	
		P	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C
<u>CUSTOMS & EXCISE</u>	9	1																1	1
	8																		2
	7	1		1	1	1	1	1	1									1	2
	6	1																1	4
	5			2	2	2	1	1	1									1	3
	4			1	1	1	1	1	1									1	5
	2/3																		
	Total	1	2	1	4	1	4	1	3	1	3	1	3	1	1	1	Nil Nil	7	20
<u>DEFENCE</u>	5	Nil	1															Nil	1
	7	1																	1
	6	1																	1
	5	1																	2
	4	1															1	1	1
	2/3	1																	1
	Total	Nil	5															Nil	6
<u>EXTERNAL TERRITORIES</u>	5	1																	1
	4																		
	Total	1	1																1
<u>FOREIGN AFFAIRS</u>	8	1																	1
	6	1																	1
	5	1																	1
	4	1	2																2
	2/3	1																	1
	Total	2	5																
<u>HEALTH</u>	8	1																	1
	6																		1
	5	1		1	1	1	1	1	1	1	1	1	1	1	1				9
	4																		2 (1 in AGP)
	2/3	1	1	1	1	2	1	1	2	1	1	1	1	1	1				5
	1																		2
Total	1	3	1	2	3	2	3	2	3	1	1	1	1	1	1	4	7	14	20

DEPARTMENT	SALARY CLASSIFICATION	C.O.		N.S.W.		VIC.		QLD.		S.A.		W.A.		TAS.		OTHER		TOTAL	
		P	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C
<u>NAVY</u>	9	1																	1
	8	2*	1*	1	1	1	1												2
	7	1		1	1	1	1												2
	6	2*	1*	2	2	1	3												3
	5			7	17	2	7												3
	4	1	1	12	7	5	3												9
	2/3	1		5															18
																			11
																			25
																			8
	Total	7	6	27	32	12	15											46	
	6	1																1	
	5	1		1														2	
	4	1		1														1	
	2/3																		
	Total	Nil	2	1	1	Nil	1											1	
	9	1																	1
	8	1*		1															1
	7	2		1		1													1
	6	4		1	1	1	1												1
	5	1		1	3	1	2												3
	4	1		4	7	3	4												5
	2/3			3	2	2	1												14
	1			1		1													22
	Total	2	9	10	13	8	8	6	6	5	6	4	5	3	4	Nil	Nil	38	
	9	1																	51
	8	1*		1															1
	7	1		1		1	1												1
	6	1		1	1	1	1												3
	5			2	6	2	5												3
	4			5	3	2	2												4
	2/3			4		2													5
	1					2													21
	Total	1	3	12	12	10	10	6	6	4	4	4	4	2	2			39	
																			41

PRIMARY INDUSTRY

P.M.G.

REPARATION

DEPARTMENT	SALARY CLASSIFICATION	C.O.		N.S.W.		VIC.		QLD.		S.A.		W.A.		TAS.		OTHER		TOTAL			
		P	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C	P	C		
<u>TREASURY</u>	9	1																	1		
	7	1																	1		
	6	1+																	2		
	5	1+																	1		
	4	1+																	1		
	2/3	2																	2		
	Total		3	9															3	9	
	+ located in Superannuation Board																				
	++ located in Government Printing Office																				
	<u>STATISTICIANS BRANCH</u>	4	1	1																1	1
9		1																	1		
8		1																	1		
7		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
6			1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
5			2	2	3	2	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
4			2	5	3	5	2	2	2	2	2	2	2	2	2	2	2	2	2	2	
2/3			3	4	3	4	3	4	2	3	1	1	1	1	1	1	1	1	1	1	
1			3	4	2	2	1	1	1	1	1	1	1	1	1	1	1	1	1	1	
Total			1	2	11	13	12	13	7	8	5	5	5	5	3	4			44	50	
+ located in Superannuation Board																					
++ located in Government Printing Office																					
<u>WORKS</u>	9	(ACT)	1	(OO)															1		
	7		1																4		
	6	1+		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	4	4	
	5		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	4	4	
	4	1+	3	1	3	1	3	1	2	1	2	1	1	1	1	1	1	1	3	5	
	2/3	2+	1	2	1	2	1	1	1	1	2	1	1	1	1	1	1	1	2	20	
	1	1+		1	1	1	1	1	1	1	1	1	1	1	1	1	1	1	12	8	
	Total		5+	7	5	6	5	6	3	4	5	4	2	3	6	6	5	6	35	42	
	+ Branch Office positions located in A.C.F.																				
																			TOTAL		55

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