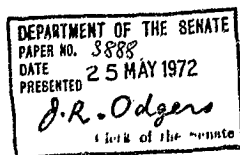


1972



THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

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JOINT COMMITTEE OF PUBLIC ACCOUNTS

---

ONE HUNDRED AND  
THIRTY-SEVENTH REPORT

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THE REPORT OF  
THE AUDITOR-GENERAL  
FINANCIAL YEAR 1970-71

JOINT COMMITTEE OF PUBLIC ACCOUNTS

EIGHTH COMMITTEE

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Senator Dame Ivy WEDGWOOD	(1)	I.L. ROBINSON, Esquire, M.P.	(5)

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

- (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
- (9) 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 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-seventh Report  
The Report of the Auditor-General, 1970-71

Chapter 1

Introduction

The first duty of the Committee as set down in Section 8 of the Public Accounts Committee Act 1951-1966 is:-

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

The second duty of the Committee is:

- (b) to report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them to which the Committee is of the opinion that the attention of the Parliament should be directed;

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

3. In recent years the Reports of the Auditor-General have been tabled in the Parliament during the latter half of August and consistent with this pattern the Report for 1970-71 was presented on 18 August 1971. As in our previous reports we would again pay tribute to the Auditor-General and his staff for the sustained effort they have made over the years to achieve this commendable objective.

4. On 24 August, 1971 the Committee discussed with the Auditor-General several items on which he had commented in his Report. Written statements were obtained from departments and after a selection had been made were duly examined in detail by the Committee.

5. The items which were selected for detailed examination and which are referred to in Chapters 2 to 7 of this Report were made the subject of Public Inquiry at Parliament House, Canberra, on:

26 October, 1971	30 November, 1971
2 November, 1971	22 February, 1972
9 November, 1971	29 February, 1972

6. The following witnesses were sworn and examined by the Committee:

Department of the Army

Brigadier J.D.Honeysett, O.B.E., Deputy Master-General of the Ordnance.	
Mr.J.W.Nunn, I.S.O.	First Assistant Secretary, Finance and Logistics.
Colonel E.S.Swinbourne	Deputy Director of Accommodation and Works and Chief Engineer, Works.

Attorney-General's Department

Mr.J.Monro	Senior Assistant Parliamentary Counsel, Office of the Parliamentary Counsel.
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Department of Civil Aviation

Mr.H.P.Acocks	Chief Engineer, Projects Development.
Mr.B.B.Coombes	Principal Engineer, Airports.
Mr.G.R.Woodward	Assistant Director-General, Finance.

Department of Foreign Affairs

Mr.R.E.Johns	Director, Finance.
Mr.H.Marshall	Acting First Assistant Secretary, Management Services.
Mr.J.P.Walsh	Acting Assistant Secretary, Services.

Department of the Interior

Mr. P. H. Bennett	Director, Management Services, Northern Territory Administration.
Mr. W. J. F. Hull	Clerk, Finance Section, Management Services, Northern Territory Administration.

Postmaster-General's Department

Mr. S. E. Hansen	Deputy Assistant Director-General, Accounting.
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Department of Supply

Mr. E. R. Boardman	Assistant Secretary, Automatic Data Processing.
Mr. J. A. Chalk	Director of Contracts, Victoria.
Mr. A. J. D. McGill	Assistant Secretary, Contracts.
Mr. J. R. C. Pascoe	Director of Munitions Industry Production, Victoria.

Department of Works

Mr. J. J. W. Gray	Assistant Director, Construction, New South Wales.
Mr. W. D. Hamilton	Acting Deputy Assistant Director-General, Finance.
Mr. J. C. King	Senior Assistant Director-General, Engineering.
Mr. R. D. Roxburgh	Assistant Director, Projects, New South Wales.
Mr. F. Wickham	Assistant Director-General, Mechanical Engineering.
Mr. L. C. Wilson	Assistant Chief Mechanical Engineer.

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

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

Chapter 2  
Department of the Army

(a) Loss by Fire - Workshop Building

8. Paragraph 297 of the Auditor-General's Report for 1970-71, contained the following comment:

"A fire at Puckapunyal on 16 December 1970 destroyed a workshop building and a considerable quantity of stores and equipment.

The value of the building, less recovered components, was estimated at \$58,400. The Department has assessed the value of the stores and equipment lost in the fire at \$352,654.

General standards of fire protection recommended by the Commonwealth Fire Board (an advisory body under the administrative control of the Department of Works) for application to stores buildings include the installation of an automatic alarm and wet sprinkler system. Accordingly, my Office asked the Department whether consideration had been given to the installation of an automatic alarm and extinguishing system in the workshops, having regard to the high value of the stores contained therein.

The Department advised that the building was a temporary structure, due for demolition and replacement, and would not normally be regarded as a stores building; the holding of spare parts was secondary, although complementary, to its primary repair function; and in the ordinary course of events, installation of costly fire protection systems would have been uneconomical".

9. In its submission the Department informed us that at approximately 2045 hours on 16 December 1970, fire was discovered in the main Royal Australian Electrical and Mechanical Engineers Workshop building of 21 Construction Squadron, Royal Australian Engineers. The first notice of the fire was given when a non-commissioned officer at the Army fire station saw smoke and sparks blowing away from the building. This was also noticed at about the same time by people who were in the Officer's Mess in an adjacent building. When first seen, the fire had reached considerable proportions and firefighting was restricted to the outside of the building. This building was metal sheeted, completely enclosed and locked thus making it impossible for a fire to be seen unless there were smoke, flames or sparks coming from the building.

Exhibit  
137/5  
Qs. 297-298



10. Although it was stated that little could be done to save the buildings and contents, several vehicles and items of plant were driven or pushed away from the immediate vicinity of the fire. The estimated cost of losses were:-

Exhibit  
137/5

Building	\$	64,000
Stores	\$382,600	
<u>Less Recoveries</u>	109,820	272,780
Equipment		<u>18,400</u>
Total		<u>355,180</u>

11. The figure quoted for the building was its actual replacement cost. A witness stated that as no financial records were kept of the values of stores that are held, the value of the stores lost by the fire was an assessment made by those who were most competent, that is the officers who are responsible for the stores holding. Stores records show quantity only. The main stores which were held in the workshops building were spare parts for use in the repair of engineering equipment and plant undergoing a repair programme.

Qs.299,  
321-324

12. A court of enquiry was convened to investigate and report on the circumstances of the fire. It was appointed by the commander of the Puckapunyal area, Brigadier Miles and comprised Major L.J.Masters, President; Captain R.S.Freebairn, First Member and Captain A.J.Morton, Second Member. It was assembled on 17 December 1970, the day following the fire.

Exhibit  
137/5  
Q.300

13. The court found that a positive cause of the fire could not be established although the most likely origin was an electrical malfunction. There was no evidence to suggest that there had been any other cause of the fire. This finding was based on evidence given by the Chief Fire Officer for the Puckapunyal area and others who appeared before the court of Inquiry.

Exhibit  
137/5  
Q.301

14. The building was equipped with fire extinguishers but was not fitted with any type of automatic fire alarm or automatic sprinkler system. Two fire hydrants which formed part of the full reticulated fire system throughout the Puckapunyal area, were in close proximity and a fire alarm to be sounded in case of fire was situated outside the building.

Exhibit  
137/5  
Qs.330  
332

The Court also found that the fire appliances and water supplies were sufficient,adequate Fire Orders existed at the Squadron and the fire was fought correctly when discovered.

15. The only warning available outside normal duty hours was by means of roving picquets which, in the Puckapunyal area on the night of the fire,comprised 6 officers and 47 other ranks. These included duty officers and warrant officers who had responsibility for security within the area, and personnel on duty at the fire station. Each unit in the Puckapunyal area provides its own picquet. It was stated that the staffing level was not less than normal for the area. The N.C.O. in the 21 Construction Squadron area toured the location each hour and examined the buildings,mainly from a security viewpoint but also taking into account any unusual occurrences.

Exhibit  
137/5 Q.302  
Committee File  
1971/5

16. The building that was destroyed was originally erected in the 1940's at Bandiana. It was dismantled and re-erected at Puckapunyal in 1957-58. It consisted essentially of a steel framework with galvanised iron cladding. Its future was extremely insecure because since 1964-65, when it became a workshop,discussions had been held concerning the relocation of 21 Construction Squadron and the construction of a permanent workshop. The Army New Works Planning List provides that the whole unit should be relocated in new working,storage and administrative accommodation in some 5 to 6 years time.

Exhibit  
137/5

17. The decision to use this building as a workshop was based on a change that occurred in the level of complexity of repair,using the unit's own resources. About 1964-65 the level of repair was increased at 21 Construction Squadron and the responsibility for repair work was transferred from the Royal Australian Engineers to the Royal Australian Mechanical and Electrical Engineers. Accordingly,workshop strength was increased. This required that the building be made available to the workshop to enable its function to be carried out correctly.

Q.304

18. Military Board Instruction 4-9 of 15 June 1972,establishes the current policy for the provision of fixed fire protection in Army properties. This Military Board Instruction has replaced Army Routine

Exhibit  
137/5

Order 91/69 of 23 May 1969, which was the operative authority when the fire occurred. Army Routine Order 91/69 contained the following relevant orders:

Exhibit  
137/5

" a. General Policy

The following principles are to be adopted when considering the measure of fixed fire protection necessary to protect a property.

- (1) Existing buildings are to be examined in the light of current or future use, especially if and when any major remodelling is contemplated.
- (2) Unless special circumstances exist, automatic detection/extinguishing systems are not to be installed in buildings of a temporary nature...
- (3) The fixed fire protection facilities to be installed are to be decided after consultation with the Commonwealth Department of Works.

b. Automatic Extinguishing Systems

Generally, automatic extinguishing systems are to be installed in buildings which are intended to be used for housing stores which do not require special fire protection measures.

c. Non-automatic Systems

- (1) The basic protection for all properties, including married quarters, is to be a reticulated fire main and hydrant and/or hose reel system.
- (2) The number and positions of hydrants and/or hydraulic reels are to be determined by the Commonwealth Department of Works with the agreement of Army".

19. Military Board Instruction 4-9 is basically a revision of Army Routine Order 91/69. The only relevant change is the inclusion of the following explanatory note:

Exhibit  
137/5

"Unless special circumstances exist (e.g., occupied barracks constructed of readily combustible material and with limited means of escape, hospitals, and buildings housing high cost stores and equipment), automatic detection extinguishing systems are not to be installed in -

- (1) Buildings of a temporary nature."

20. Paragraph (2) of "General Policy" in Army Routine Order 91/69 contained a reference to special circumstances which were described in evidence as relating to buildings such as theatres, assembly halls, magazines,

Q.306

explosives store houses, paint spray stores, boiler houses, flammable liquid stores, telecommunication electronic installations, aircraft hangars and associated workshops, all of which were to be protected as determined by the Commonwealth Department of Works with the agreement of the Department of the Army.

21. We were informed that in the normal course of events a workshop of the type destroyed would not represent a special circumstance from the point of view of fire protection and would not be regarded by the Department as having in any way a very high priority. However, when the fire occurred the quantity of spare parts held in the workshops was abnormally high, as it had been built up to approximately three times the normal level to cope with a large repair programme to be carried out over a period of several months. It was also stated that it would not have been possible for these spares to have been placed in any other building at Puckapunyal that would have been convenient for the repair programme because of the necessity to have the spares readily available next to the vehicles under repair to minimise their downtime in the workshop and security risks.

Qs. 307, 308,  
311, 312,  
346

22. Paragraph (3) of "General Policy" of Army Routine Order 91/69 stated that the fixed fire protection facilities to be installed are to be decided after consultation with the Commonwealth Department of Works. In this regard a witness expressed doubt as to whether a particular reference had been made to the Department of Works specifically requesting its advice about the particular building. However, there is a detachment of the Department of Works based at Puckapunyal for carrying out maintenance and other responsibilities in the area. The Department of Works makes inspections of Army buildings on an annual basis to assess their repair and maintenance needs. The witness expressed the view that the Department of Works was aware of the workshop and the type of building involved. In these circumstances the Department of the Army would expect the Department of Works to assure itself regarding the fire protection of those buildings. Also, in a unit such as that responsible for the workshops, qualified engineers form part of the officer strength and therefore there is some capacity to make assessments of the kind required for fire protection.

Qs. 309, 337,  
340

23. In regard to "special circumstances" referred to in Military Board Instruction 4-9, a revision of ARO 91/69, we were informed that the workshop at Puckapunyal would not normally have

Qs. 311, 312

been defined as a building housing high cost stores because the value of the stores concerned would usually have been very much lower than when the fire occurred. It was the intention that the stores would be used during the course of the repair programme and the holdings would have dropped as a consequence to their normal level.

24. The criteria for fireprotection of storehouses is set out in Commonwealth Fire Board Circular No.19 of August 1960. Relevant extracts are:-

Exhibit  
137/5

- "2. The Board recommended that the following principles should apply to all Commonwealth stores buildings, subject to the observations made under paragraph 3 (refers to ammunition storage);
- (c) A wet sprinkler system including external protection should be installed in all such buildings regardless of what stores are held. When rubber or special risk stores are involved the normal number of sprinkler heads should be doubled in such areas.
  - (d) If the Department concerned considers that a wet sprinkler system should not be provided for any reason the matter should be referred to the Commonwealth Fire Board for consideration".

However, when discussing stores buildings which were erected during the 1939-45 war whose "use until the present time was not intended when they were erected - their purpose having been for temporary storage only"(paragraph 4 (a)) the Board stated in Circular No.19 that "it is doubtful whether the Commonwealth should incur the expenditure involved in installing such systems(sprinkler systems) in buildings which are intended to be temporary only". A rider to this statement is contained in paragraph 4 (b)(iii),"in the event of the goods in any of these stores being irreplaceable or of considerable monetary or strategic value, the Department concerned should ask the Department of Works for advice as to the fire protection measures which should be undertaken". The stores lost in the fire were not regarded as being included in any of these categories.

Exhibit  
137/5  
Q.313

25. Also,paragraph 4(b)(iv) of the Commonwealth Fire Board Circular No.19 states that each department responsible for the administration of groups of wartime buildings should have a check made periodically of the fire appliances already installed to ensure that all fire hazards are effectively covered. It was stated that there exists on the establishment at Army Headquarters a Chief Inspector of Army Fire Services who has a programme of visits to Army installations to examine the fire fighting facilities and appliances and the protection provided. When our inquiry

Qs.337,340

occurred in November 1971 no recommendations had been received by the Department of the Army from the Commonwealth Fire Board concerning its buildings following this fire.

26. The Department of the Army stated that when considering whether an automatic sprinkler system, which is specified under Commonwealth Fire Board Circular No.19 paragraph 2 (c), should have been installed account was taken of the fact that the 21 Construction Squadron workshop was erected originally in the 1940's at the Army railway siding at Bandiana. It was dismantled in 1957-58 and re-erected at Puckapunyal as a temporary measure to house a Resources Troop. It became a workshop in 1964-65. In 1965, 21 Construction Squadron was partly relocated in an adjacent area at Puckapunyal and discussions were held with a view to the complete relocation of the unit. These discussions have been held at Army Headquarters and in Headquarters, Southern Command over the years, the particular project having been part of the overall construction programme for at least ten years. Discussions have also been held in general terms with the Commonwealth Department of Works, the project being still some four or five years from commencement depending upon the amounts of money available and other priorities in the time frame. The proposed relocation of the unit in new working, storage and administrative accommodation has been on the current New Works Planning List for at least the last 5 years. Construction has been deferred due to continuing consideration being given to possible relocation of the Puckapunyal-based units, and its relative priority with other urgent requirements within the limit of funds expected to be available for New Works. In speaking of deferment, the witness stated that the project had not reached the stage where, in the normal course of events, it would be constructed.

Exhibit  
137/5  
Qs.314, 315

27. It was stated that the cost of installing a sprinkler system varies from \$70 to \$100 per 100 square feet, depending on circumstances. A thermal detection alarm system costs about \$30 per 100 square feet. The Army has numerous wartime buildings and similar temporary structures in which stores and equipments must be housed, but which do not have fixed fire

Exhibit  
137/5  
Qs.316 to  
318

protection, either Thermal or Sprinkler systems. Most of these buildings are planned for replacement in due course. This of necessity will take many years to achieve.

28. A schedule of wartime and other similar temporary structures in use by the Army was provided on request by the Department. It disclosed that as at 10 January 1972 the Army had 1302 storehouse/workshops buildings which were either of wartime origin or were of similar temporary construction and which would require eventual replacement. The estimated cost of replacement of these buildings by permanent structures was \$104,427,000. Additionally, there were some 4800 buildings of similar type construction which were used for administration, accommodation and housing of facilities. The estimated cost of replacement of these buildings was \$202,778,000.

Exhibit  
137/5  
Qs. 316-  
318  
Committee  
File  
1971/5

29. The total estimated cost of \$307,205,000 for replacement was based on 1971 construction costs and would have little relevance to eventual expenditure because of the escalation of such costs currently being experienced and which may be expected to continue at a greater or lesser rate in future years.

Committee  
File  
1971/5  
Q. 320

30. According to the Department's submission relating to these temporary structures, it is not practicable to provide a current capital value of the 6,100 buildings included in the Schedule because capital and depreciation accounts are not maintained by the Department, and repair and maintenance costs applicable to all Army assets are charged to annual appropriations as they are incurred.

Qs. 319, 320  
Committee  
File  
1971/5

31. The estimated value of stores accommodated in the 1302 storehouse/workshop buildings was \$369 million, comprising \$325 million Ordnance Stores and \$44 million Engineers Stores.

Committee  
File  
1971/5

32. A conservative estimate of the cost of installing fixed fire protection systems in all these temporary buildings was stated to be of the order of \$10 million to \$12 million. Consequently, a balance must be struck between the life of the building, the possible future use of the building as a storehouse, the type of fire protection equipment which would be the most appropriate to the particular building and the limit of funds available to the Army for New Works.

Exhibit  
137/5  
Qs. 318,  
320

33. It was stated that on individual consideration the provision of a fixed fire protection system in the 21 Construction Squadron Workshop

Exhibit  
137/5  
Qs. 325-  
327

building of some 4,800 square feet, would have rated a very low priority, by comparison with the similarly unprotected Ordnance Depot Storehouses at Meeandah, Queensland, which were constructed during the 1939-45 war and which contain some 870,600 square feet of covered storage space; or the 6 Engineer Stores Regiment Storehouses at Penrith, New South Wales, containing some 250,000 square feet of covered storage space which were also built during the 1939-45 war. The main fire protection measures in both these areas are the usual system of reticulated mains and hydrants, the usual fire extinguishers for first-aid firefighting and in certain areas there are thermal alarms. Fixed sprinklers are not fitted. In both of these cases, the systems installed are considered by the Department to be satisfactory because the storehouses at Meeandah are due to be reconstructed in the construction programme and the storehouses at Penrith are due to be replaced.

34. We were informed that there are no installations at Meeandah and Penrith in which exist the same degree of electrical risk as was the case in the workshop at Puckapunyal. In both areas the wiring and switchboards are much more modern and of a higher standard. While these factors do not eliminate the possibility of an electrical fire they provide assurance that a fire of that type is less likely to occur.

Q.328  
Committee  
File  
1971/5

35. The Department of the Army stated that it endeavours to comply with all instructions concerning fire protection issued by competent authorities. New buildings of a permanent nature, including those built at Puckapunyal in recent years and irrespective of floor area or materials used in construction, are examined individually at the planning stage to determine the necessary system of fire protection which will be provided. However, the Army has an extensive 1939-45 wartime legacy of storehouse accommodation lacking fixed fire protection systems which it must use, and in which, because of the limited remaining life of the building, it would be uneconomical to install such protection systems. For example, it is planned to completely reconstruct the Meeandah Stores Depot accommodation in stages commencing in the financial year 1975-76. At \$100 per 100 square feet it would cost \$870,000 to equip the existing storehouse buildings with a sprinkler fire protection system.

Exhibit  
137/5  
Q.331



36. It was stated in evidence that, with the exception of the fire at Puckapunyal and one other fire where the loss was about \$200,000 the losses by fire in the all of the Army establishments throughout Australia during the last eight to ten years have varied from about \$20,000 to \$80,000 a year. It was claimed that generally this has been low when the great number of buildings, the circumstances in which they are placed and the type of construction of many of the older ones, are considered. It was also claimed that, as a matter of general experience, the picquet facilities, the installation of alarm systems such as the press button and other gong type arrangements, combined with the provision of Army Fire Services have kept the losses to a minimum when the size and value of the assets are considered.

Q.333

37. Details of progress made since 1946 to replace buildings of pre-war and wartime construction was provided by the Department. This showed that 54 stores complexes and like buildings had been constructed at a cost of \$7,552,800. It was claimed that although the amount expended for this purpose appeared small in relation to the potential expenditure of more than \$100 million, certain factors have influenced the rate of replacement. It was explained that, in the immediate post-war years the storehouse buildings were relatively new and in good order. They were adequate at that time for their purpose. Also, considerable expenditure has been incurred on repair and maintenance programmes to ensure a maximum economic life for the buildings, and on minor new works projects to upgrade some buildings to a satisfactory standard. Priority has of necessity been given to upgrading personnel and facility accommodation such as barrack blocks, married quarters, hospitals and schools. Considerable demands have been made upon the funds available in order to meet changing circumstances which include the introduction of National Service training and the expansion of the Army.

Committee  
File 1971/5  
Qs.335,336

CONCLUSIONS

38. The Committee's inquiry into this matter is the third such inquiry it has made since 1967-68 into major fire disasters involving temporary buildings. The first of these inquiries arose from the Report of the Auditor-General, 1967-68 and related to the fire that occurred at H.M.A.S. Albatross, Nowra on 25 December 1967. In that case valuable imported equipment for use in training of Tracker aircraft crews had been sited beside a wooden and fibro constructed building which was used as a maintenance workshop. In that case the estimated cost to the Commonwealth was about \$1,600,000 for the replacement of a computer trailer, while the replacement of the temporary building with a suitable permanent building was assessed at about \$70,000.

P.P. No. 12  
of 1969

39. The second inquiry referred to arose from the Report of the Auditor-General, 1969-70, and related to the fire that occurred in the Botany compound of the Australian Wool Board on 30 September 1969. In this case, nine buildings were destroyed and others damaged at an estimated loss of \$553,854. The evidence taken in that inquiry showed that almost all of the buildings owned by the Australian Wool Board at that time, including those destroyed in the fire at Botany, were constructed early in World War II to meet wartime needs. Some of the stores were clad with masonite and others with fibro-cement sheeting and most had timber floors. Sprinkler systems had been installed in only 14 of the 269 stores owned by the Board.

P.P. No. 239  
of 1971

40. The evidence taken in the present inquiry indicates that the fire which occurred at Puckapunyal on 16 December, 1970 was probably occasioned by an electrical malfunction. The building concerned, which was in use as a workshop had been built during World War II at Bandiana and comprised essentially steel framework and galvanised iron cladding. The building was not fitted with any type of automatic fire alarm system or automatic sprinkler system. The estimated value of damage was \$355,180.

41. The evidence indicates that Army Routine Order 91/69, which was in operation at the time of the fire prescribed that unless special circumstances exist, automatic detection -extinguishing systems are not to be installed in buildings of a temporary nature. However,

when the fire occurred a high quantity of spare parts was, in fact, housed in the store. As a result of the fire, stores to the value of \$272,780 were destroyed. The Committee believes that when a decision was made to use this building as a workshop it should have been recognised that this would involve also the housing of associated stores and that these could periodically, reach a level of substantial value. We consider that this should have justified the inclusion of the building in the classification of "special circumstance" in accordance with Army Routine Order 91/69 and that accordingly, automatic detection-extinguishing systems should have been installed in the building.

42. The Committee also notes from the evidence that Army Routine Order 91/69 stated that the fixed fire protection facilities to be installed were to be decided after consultation with the Commonwealth Department of Works. The evidence indicates however, that doubts must be entertained as to whether the Department of Works had been consulted regarding the fire protection facilities to be provided for the particular building in question. The Committee believes that the Department of Works should have been consulted on this matter and does not accept as an alternative to consultation on fire protection the fact advanced in evidence, that a detachment of that Department is based at Puckapunyal for the purpose of carrying out maintenance and other responsibilities. Nor does the Committee necessarily accept as an alternative to consultation with the Department of Works the fact that in a unit such as that responsible for the workshops, qualified engineers form part of the officer strength and therefore there is available some capacity to make assessments of the kind required for fire protection.

43. In view of the fires that occurred at Nowra and Botany and to which we have referred earlier and the circumstances disclosed by our present inquiry, the Committee believes that a survey should be made of all temporary war-time and like buildings currently owned by the Commonwealth so that further consideration can be given to the matter of their replacement by permanent structures. The Committee believes that this is of particular importance having regard to the fact that, in accordance with Treasury Directions, the Commonwealth acts as its own insurer, to the greatest extent possible, for all property under its control.

(b) Purchase of Prime Movers and Semi-Trailers

44. Paragraph 299 of the Auditor-General's Report for 1970-71 contained the following comments:-

"Prime Movers. Contracts were arranged by the Department of Supply in 1968 for the supply of 64 prime movers at a cost, as amended, of \$2,382,918. The vehicles were required by the Department of the Army for use in conjunction with 60-ton and 35-ton capacity semi-trailers for transporting tanks and engineer plant (including heavy bulldozers) respectively.

The contracts for the prime movers stipulated, among other things, that 2 prototypes were to be delivered in March 1969; that production of the remaining 62 vehicles was not to begin until completion of satisfactory testing and inspection of the prototypes; and that subject to acceptance of prototypes, progressive delivery of the 62 vehicles was to be effected from May to October 1969.

The 2 prototypes were delivered in June 1969 but Army acceptance trials and determination of modifications required were not completed until June 1970. Meanwhile, contrary to the original contract provisions, the contractor, with the knowledge of both departments, arranged for manufacture in the United Kingdom and shipment from June 1969 onwards of components for the other 62 prime movers for assembly in Australia. The Department of the Army states that its approval for this course of action was influenced by the fact that the prime mover was essentially a commercial production vehicle, Army modifications involved ancillary equipment only and further acceptance delay may have led to contract penalties.

After being assembled in Australia, 60 of the prime movers were delivered by the contractor progressively from November 1970 to June 1971. At 30 June 1971, two prime movers had not been delivered.

Before the contracts for the prime movers were arranged, the Department of the Army chose certain power take-off equipment, which operates the winch and therefore controls the coupling and uncoupling of the semi-trailers, to be mounted at the rear of the gearbox of each prime mover in preference to the marginally cheaper alternative mounting at the front of the gearbox. However, user trials of the prototypes in 1969-70 demonstrated that the front mounted power take-off equipment was necessary for the safe and speedy coupling and uncoupling of the prime mover and 35-ton semi-trailer. Additional funds amounting to \$224,000 were authorised during 1970-71 to meet the then estimated cost of undertaking remedial action and retrofitting the prime movers with the front mounted power take-off equipment. The Department was examining ways and means of implementing the modification programme when this Report was prepared, including

consideration as to the possibility of having the work done in Army workshops.

Payments totalling \$2,265,413 were made in respect of the prime movers in June 1969(\$303,302), in May 1970(\$1,348,437) and during 1970-71 (\$613,674). The expenditure was charged to Division 670, Item 02.

Semi-trailers. A prototype 35-ton semi-trailer designed by the Department of the Army to carry heavy bulldozers and other plant on main roads within State permit limits and in operational areas, was accepted in August 1968 after simulated trials with a different type prime mover. A further 52 semi-trailers were acquired at a total cost, including the prototype of \$726,906. Deliveries of the semi-trailers, which were manufactured in Australia, were made during the period October 1968 to July 1970.

The 35-ton semi-trailers were for use in conjunction with the abovementioned prime movers. The prime movers were required for use with either 35 or 60-ton semi-trailers. Sixty-ton semi-trailers were not constructed as an associated project, as a number were already held by the Army.

User trials revealed that the combination of the prime mover and 35-ton semi-trailer, whilst structurally capable of carrying 35 tons in operational areas, when loaded in excess of 26 tons exceeded State road permit limits in its existing axle configuration.

The Department of the Army recently decided not to effect costly modifications to the semi-trailers but to restrict loads to 26 tons under current road permit limits, and to transport its heavy bulldozers by alternative means in Australia.

The Department of the Army has informed my Office that no further releases for use of the 49 semi-trailers held in storage at an Army depot are contemplated until modification requirements in respect of the prime movers are finalised.

In reply to Audit observations, the Department of the Army has advised that the period initially envisaged for testing and inspection was considered adequate for a basically commercial prime mover; future specifications will include a test schedule; and has acknowledged that insufficient allowance was made for several factors in assessing weights of the prime mover, semi-trailer and heavy bulldozer, as used for the semi-trailer design concept for operation within State road permit limits.

The Department further stated that the manufacture of components for production prime movers prior to acceptance of prototypes and the bulk production of the semi-trailers were considered justified in order to meet an operational requirement in South Vietnam. When this Report was prepared, 2 of the prime movers and one of the semi-trailers had been sent to that operational area.

The Department of Supply informed my Office that neither the Department nor the contractor had anticipated a prolonged period being required for inspection and testing of the prototype prime movers; in these circumstances the contractor had elected to import component items in order to meet the anticipated delivery programme for the 62 production vehicles. The Department stated that, having regard to the production delivery requirements, it had no reason to discourage the contractor's action.

Both departments have advised my Office that, in future, contracts will not be let for production units of equipment until prototypes have been accepted."

45. We were informed that tracked vehicles are required within the Army to provide a high degree of mobility off-highway, in terrain where wheeled vehicles would be unsatisfactory. These vehicles comprise two basic categories-Armoured Fighting Vehicles which include Centurion Tanks and Armoured Personnel Carriers, and Engineer Plant Vehicles such as Bulldozers, Scrapers and Ditchers. There has been a continuing need in the Army to transport these tracked vehicles and other special vehicles on and off the highways to avoid wear and tear both to the vehicles and to the highways. There is also a need to recover broken-down or damaged vehicles from positions off-highway. The transport of such vehicles is achieved by a combination of a prime mover or tractor and a trailer. The trailer may be rear-loading, side-loading, tilt-bed or front-loading with goose-neck and can be a full trailer, a semi-trailer or a semi-trailer with dolly.

Exhibit  
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46. Prior to 1961 the Army's requirement for the transportation of these tracked and other special vehicles was met by a 10 and 15 ton combination of United States origin and an 8 and 25 ton combination of Australian procurement, both combinations providing a similar role for the transport of Armoured Fighting Vehicles or Engineer Plant Vehicles. The movement of loads over 25 tons, such as Centurion Tanks, was achieved on a 60 ton Tank Transporter of Australian design and manufacture. This necessitated the use of two Diamond (T) prime movers in tandem. This was a difficult operation, particularly on the Hume Highway between Puckapunyal and Bandiana and required two separate crews.

Exhibit  
137/9  
Q.465

47. By 1961 the condition of the existing prime movers and trailers with the exception of the 60 ton semi-trailer, had become unsatisfactory due to age, poor reliability and the insufficient holdings of spare parts. Of the prime movers, the Diamond (T) and a Federal

Exhibit  
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Qs. 467-470,  
484

were acquired in 1942 in Australia and an M123D was bought in 1961 in the United States of America as a second hand vehicle of 1957 manufacture.

48. The official Army policy for such vehicles was set down in a Departmental Weapons Equipment Policy Statement during October 1961 and stated in part that:

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"The following basic range (of vehicles) is required:-.....

A range of high mobility load carriers either wheeled or trailered with payloads of 5 tons (Tactical), 15-20 tons (Tactical), and special heavy vehicles as stated in individual military characteristics."

This policy statement also included a comment that:-

"All vehicles should comply with the draft regulations recommended by the Australian Motor Vehicles Standards Committee (A.M.V.S.C.). However, should any requirements of the draft regulations conflict with the operational role of the vehicle, either the requirements of the draft regulations will be met by the addition to the military vehicle of components which can be readily removed for combat conditions, or where this solution is impracticable the operational requirement will take precedence".

49. The Policy Statement was amended in December 1963 to conform with additional equipment being purchased by the Army. This related particularly to heavy engineering equipment which has a tendency to become heavier with technological advances. This stated a requirement for a 25 ton plant transporter, a 60 ton tank transporter. In May 1967 this was amended to a 35 ton plant transporter, a 60 ton tank transporter and a 20 ton semi-cargo trailer. The provision that the operational requirement should take precedence where problems were met in conforming to the draft regulations recommended by the A.M.V.S.C. was retained.

Exhibit  
137/9  
Q.471

50. The Military Characteristics for a new transporter consisting of a prime mover and semi-trailer required it to meet the following criteria:-

- (a) A maximum load capacity of 35 tons.
- (b) To carry a variety of loads including tractors, excavators, road rollers, scrapers and bridging and ferrying gear.
- (c) Front-end loading preferred to rear-end loading due to the necessity to over-design the rear axle. Side-loading excluded because of the danger of damage to the trailer in off-highway areas.
- (d) A two-man crew of the combination to be able to load the trailer in 20 minutes, a figure chosen arbitrarily as being within reasonable limits.
- (e) Reasonable off-road performance.
- (f) Suitable for operation on Australian roads in its laden condition within limits imposed by A.M.V.S.C. regulations with a permit.

Exhibit  
137/9  
Q.472

51. We were informed that at that time the Military Characteristics also stated that, as commercial semi-trailers were available, no local engineering development should be needed to meet the requirement. As a result of an examination of these criteria, the Army Design Establishment, which has the responsibility of providing such advice to the Army, confirmed that there were a number of possible commercial solutions and that this would necessitate the invitation of tenders for the engineer plant transporter.

Exhibit  
137/9

52. Late in 1963, it was also proposed to replace the prime-movers which were required to operate in tandem in conjunction with the 60 ton tank transporter. A Feasibility Study for the prime mover, using draft Military Characteristics, was commenced on 24 December 1963 at the Army Design Establishment. The Approved Military Characteristics were issued in February 1964. Due to pressure of work and other higher priorities, the results of the Feasibility Study were not issued until October 1965. However, the design study report which comprised part of the Feasibility Study was issued on 4 February 1964. This Feasibility Study indicated that, owing to the similarity of requirement for the two prime-movers for the 60 ton and 33 ton combination, it would be in the interests of the Army if the requirement were to be met by a common prime-mover of a commercial type.

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Q.473

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53. Specifications were written and approved by the Army for the prime mover and the 35 ton semi-trailer. Tenders for 10 of the 35 ton semi-trailers closed in February 1967 and proposals were submitted by six experienced Australian manufacturers. The tender which was accepted provided for delivery of the prototype by 17 April 1968 and the first production unit on 17 July 1968. Thereafter one

Exhibit  
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Q.474



unit was to be delivered each five weeks. As the equipment was basically a commercial item, it was considered that there was no need to delay deliveries pending evaluation of the semi-trailer. This was consistent with the policy and normal practice current at the time.

54. In September 1967 a further requirement arose for 28 semi-trailers for which orders were placed on Government Factories at Maribyrnong and Bendigo. In March 1969 a further order for 15 semi-trailers was placed with the Government Factories. As these Factories were unable to undertake manufacture of the whole requirement, the original contractor was requested to supply a further 7 semi-trailers.

Exhibit  
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55. A single specification was written and approved for for the common prime-mover, which was to be known as the General Service Heavy Duty Truck Tractor. Tenders which were received from a number of firms offered some 19 different configurations of engine and transmission. The Army recommended the acquisition of the Scammell "Contractor". This recommendation was based on purchase price, ruggedness, and simplicity in service. The engine assembly in this prime mover was common with that in the 20 ton prime mover/semi-trailer combination which had been introduced recently into service. This was considered as an additional advantage.

Exhibit  
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56. It was stated that the combination of the prime mover as supplied by the contractor and the 60 ton semi-trailer has been completely satisfactory, both in Australia and South Vietnam. This combination was not the subject of comment in the Auditor-General's Report.

Exhibit  
137/9

57. The first order for 10 of the 35 ton semi-trailers placed with the commercial contractor provided for the delivery of one prototype in advance of the main order. This was delivered in June 1968. As required by the specification, this prototype was subject to normal inspection. However, it was stated that, at that time there was already an urgent operational requirement for some of these semi-trailers, together with the prime movers, in South Vietnam. Heavy engineer plant was required in that theatre for construction of airstrips, civic action projects and major roadworks. As the delivery of the Scammell prime mover was not expected to occur prior to March 1969, it was decided in May 1968 that the evaluation of the 35 ton semi-trailer would be completed by using a modified Diamond (T) prime

Exhibit  
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mover as a substitute power unit. Experience gained during this evaluation lead to the decision to use a rear power take-off unit having a higher winch-in/winch-out ratio. A semi-trailer with such a prime mover was despatched to Vietnam and has been operating successfully since that date.

58. When the Feasibility Study was made by the Army Design Establishment, it was expected that, while the semi-trailer that had been selected was capable of accepting a 70,000 lb load some difficulty could be experienced in meeting the various State interpretations of the Australian Motor Vehicles Standards Committee draft regulations. The main problem in this regard related to wheel loadings, particularly those on the front wheels of the prime mover. Exhibit  
137/9  
Qs.478

59. A.M.V.S.C. regulations recommend that permits be issued only when the load is indivisible. The view was expressed in evidence that state authorities would be unlikely to permit the transport of a complete Size 6 Bulldozer, since both the blade and backhoe can be removed and carried separately. The indivisible load in this case (blade and backhoe removed) is some 64,926 lbs. Because of the original under-estimation of the tare weight of the prime-mover and 35 ton semi-trailer by some 55 per cent, the overall weight of the combination when loaded with a stripped Size 6 Bulldozer does not meet the requirements of the States for the issue of a permit. It was stated that the original tare estimates were based upon commercial information. The witness admitted that insufficient thought had been given to the aspect of the weights of such equipment which, in the commercial situation, would work at greater stress levels and have greater risk factors. The Department stated that this problem might have been realised before user trials took place, but as each of the combination vehicles were being made by different companies and at slightly different times, it did not manifest itself until they were used together after the delivery of the Scammell prototype in June 1969. Exhibit  
137/9  
Qs.479,482,  
483

60. We were informed that the shortcoming referred to is confined to the use of the prime mover/35 ton semi-trailer on highways in Australia, but could be overcome by the introduction of dolly equipment to spread the load over additional axles. Alternatively, arrangements could be made to carry the large Bulldozer on an alternative piece of equipment, the 60 ton transporter. Because Exhibit  
137/9  
Qs.480,481,  
485-489

of the cost and time that would have been involved if the first course had been followed the latter was adopted. The implication of this decision is that, of some 20 pieces of major engineering equipment to be transported on the 35 ton transporter combination on highways in Australia, permits cannot be secured for only one such item. The excepted equipment, the Size 6 Bulldozer, can be carried on a larger capacity combination with permit. With the 35 ton trailer and Scammell combination it is the front axle loading of the Scammell Prime Mover which is the restricting factor. This restriction is only about 800 lbs. In view of improvements made to highway standards, State authorities are progressively relaxing their restrictions upon the use of marginally overweight combinations. This margin was given as being about 10 per cent. An example provided was the limit of 11,200 lb for the front axle being allowed to increase to 13,400 with a special permit. Although the Commonwealth could not be sued for overloading, the Army witness assured the Committee that it abides by such regulations.

61. The original contract for the prime mover was drawn up by the Department of Supply with the assistance of the Crown Solicitor's representative located in that Department's Office. The contract was let with British Leyland Motor Corporation in October 1968 for two prototypes to be delivered initially in March 1969, with the qualification that production of the remaining 62 vehicles was not to commence until satisfactory testing and inspection of the vehicle had been completed. Subject to this requirement and acceptance, delivery was to commence in Australia from May 1969. The Department of the Army stated that it was apparent that such a clause was not readily capable of fulfilment for several reasons. First, with the then proposed delivery dates, only two months was allowed for the testing of the vehicle. Secondly, because the vehicle was already in commercial production and was being purchased under a commercial contract as distinct from a development contract, the only testing which would normally be required was an inspection of quality. Even if such a test only had been completed, two months was clearly insufficient time to manufacture the vehicle components in Britain and ship them to Australia for assembly. Thirdly, it was known that parts of the vehicle were of Australian origin but, for assembly of the first off-production unit to be completed within the two months prescribed, it would have been necessary for all of the imported components to have been landed in Australia.

Exhibit  
137/9  
Qs. 494-497  
515

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62. The phrase "production of remaining vehicles" referred to the assembly and final production in Australia rather than the manufacture in Britain of such major assemblies as axle, gearbox and engines.

Exhibit  
137/9  
Q.501

63. After the contract had been let, however, it was considered prudent that proper user and engineering trials should be carried out using the prime mover and the 35 ton trailer, in combination.

Qs.495,496

64. It became evident after the delivery of the two prototype prime movers in June 1969 that the original schedule from May to October 1969 of deliveries on the contract for the remaining 62 prime movers could not be realised. This was in part due to a delay on the part of the contractor and, as previously mentioned, the type of testing eventually undertaken was not envisaged when the contract was drawn up. The circumstances were unusual in that the prime mover and the trailer were being bought at different times from different manufacturers. The witness agreed that under these circumstances it should have been envisaged that testing would have exceeded the two months.

Exhibit  
137/9  
Qs.496-499

65. We were informed that, in the meantime the contractor, on his own initiative, arranged for the manufacture in Britain of the components for the remaining 62 vehicles and shipped them to his works in Australia. At the pre-production conference which was held in January 1969 immediately after the order was placed, the contractor indicated that if he was to meet the contract delivery requirements in regard to the production of the vehicles, it would be necessary for him to obtain from Britain the components that would be incorporated in final production in Australia. It was not contrary to the intention of the contract for the contractor to make these arrangements and in view of the urgency associated with the supply of these vehicles he was not discouraged from his proposed course of action. At a later stage, he proceeded on his own initiative with the final production and accepted the responsibility of the costs involved arising from this activity. Subsequently, it was agreed between the contractor, the Department of Supply, and the Department of the Army that further delay in accepting delivery should be avoided and delivery of the balance

Exhibit  
137/9  
Qs.496 to  
499,501

of the order began in November 1970, one and a half years after the date originally specified in the contract.

66. It was argued that acceptance of delivery of all prime movers from the contractor before complete evaluation of equipment was at variance with the original provisions of the contract, but continued non-acceptance would probably have involved financial penalties for the Commonwealth without a corresponding gain.

Exhibit  
137/9

67. Also the decision to accept delivery before modification to meet all Army requirements fully was made because the vehicles were of proven commercial design; Army modifications affected ancillary equipment only; further delay in accepting the vehicles would probably have involved additional payments to the contractor and the problems experienced in the use of the winch equipment and in ensuring adequate safety when used with the 35 ton semi-trailer were not susceptible to rapid solution.

Exhibit  
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68. It was stated that prime movers of this type require a winch to haul equipments which have no motive power of their own onto the semi-trailer and to couple and uncouple the goose-necked 35 ton semi-trailer. Such winches are supplied with power from a power take-off unit which in turn draws its power from the engine of the prime mover.

Exhibit  
137/9  
Qs. 475-477

69. We were informed that the winch on the earlier Diamond (T) prime mover had a capacity of 45,000 lbs using a steel rope of 3/4" diameter. The limiting factor for a safe pull was the rope. This factor can be increased by a five-part layout of rope and pulleys which requires more rope and a greater capacity for the winch drum. In order to achieve a satisfactory arrangement for the loading of tanks on the semi-trailers, some 450 feet of winch rope was required for the Diamond (T) winch. This took 33 minutes to pay out. To obtain a reasonable loading time, it was considered to be most desirable that the speed of the winch drum be increased by the use of a suitable gear train.

Exhibit  
137/9  
Qs. 502, 503

70. It was stated that the Scammell prime mover was available with two options on the power take-off for the winch. The first option, being a front take-off, provided a facility to winch and drive the vehicle

simultaneously. Only one gear ratio was available for the winch. With the excessive amount of winch rope due to the five-part layout this was insufficient. The second option of a rear power take-off provided two winch-out ratios and four winch-in ratios. When tenders were invited the rear power take-off was chosen as the minimal additional cost which provided a much increased facility. However, at that time it was not realised, and the Department was not advised by the contractor, that the rear power take-off, a normal commercial-type in use by other organisations, could only drive the winch in isolation. Also, the simultaneous movement of the vehicles whilst also driving the winch was not possible.

Exhibit  
137/9  
Qs. 505, 506

71. Although it was originally understood that the Scammell would be fitted with winch capacity similar to that of the Diamond (T) the Department was advised by British Leyland, in about mid 1967, that the winch would have a 50,000 lb capacity and a rope of 7/8" diameter representing greater winch and rope capacity than was available on the Diamond (T). These features were stated to have the advantage of allowing a three-part pull for the loading of heavy equipments without their own motive power onto the 60 ton trailer in lieu of the five-part pull. As a result only 220 feet of winch rope is required. Therefore, a much reduced loading time is possible and the winch can operate at engine speed without the need for increased gear ratios. We were informed that had this information been available originally, the front power take-off would have been acceptable for both the 35 ton and the 60 ton semi-trailers.

Exhibit  
137/9  
Qs. 507, 508

72. It was stated that a recommendation had been made subsequently that the prime mover be fitted with the front power take-off which will allow the vehicle to move forward under its own power simultaneously with the pay-out of the winch rope.

Exhibit  
137/9

73. The evidence showed that a prototype modification to one vehicle incorporating the front power take-off unit has been completed and when our inquiry occurred in February 1972 was under evaluation. This was expected to provide a satisfactory solution and it was estimated that the cost would amount to \$107,893 for parts and between \$11,000 and \$15,000 for labour for the modification of all vehicles. It was proposed that the work would be carried out in Army workshops. The additional amount of \$224,000 authorised during 1970/71 as indicated in the Report of the Auditor-General had not been committed to contract. Modification instructions were

Exhibit  
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Qs. 509, 510,  
516

expected to be finalised in May 1972 but it was not expected that parts would be received until the end of this year. Of the 64 Scammell prime movers held by the Army, 55 were in stock at Bandiana Army Depot and 9 were in service.

74. It was explained that the 35 ton semi-trailer is of the goose-neck variety and is front loaded. The prime mover and semi-trailer must be separated for loading to be effected. The procedure is for the brakes on the trailer to be applied, the prime mover backs, freeing the coupling, and the weight of the neck, on rollers, pushes the prime mover forward. On a level surface this is satisfactory, but in an area where there are obstructions or gradients the weight of the neck is insufficient to move the prime mover which has, as a consequence, to be driven forward as well as paying out rope from the drum. The reverse procedure applies when reconnecting the prime mover to the semi-trailer.

Exhibit  
137/9

75. As already indicated, the rear power take-off did not permit this simultaneous operation and it was therefore necessary to carry out a series of gear manipulations. In such an operation there was a chance that sudden loads would be placed on sheer pins and rope, as well as the power train within the prime mover. A breakage of the rope under tension would be extremely dangerous, particularly to the operator assisting the driver. The opinion was therefore expressed that installation of the front power take-off is essential for safety reasons when the prime mover is used with the 35 ton semi-trailer. In addition, tests showed that under these hazardous conditions, it took 28 minutes to uncouple the semi-trailer by the use of the rear power take-off. With the proposed front power take-off this process takes only 7 minutes.

Exhibit  
137/9

76. Paragraph 299 of the Auditor-General's Report indicated that the Auditor-General's Office had received advice from the Department of the Army that future specifications will include a test schedule. On this point the witness representing the Department of the Army stated that the inclusion of test schedules would depend upon the type of contract arranged. Basically, two contracts exist, production contracts for "off-the-shelf items" and development contracts. In relation to production contracts inspection of quality in accordance with the specification is carried out rather than a test. With the

Q.511

development contract a comprehensive test programme is carried out.

77. Paragraph 299 of the Auditor-General's Report also included the comment that the Department of the Army and the Department of Supply had advised the Auditor-General's Office that, in future, contracts would not be let for production units of equipment until prototypes had been accepted. We questioned the witnesses representing each of these departments on this matter.

78. The witness representing the Department of Supply stated that his Department had advised the Auditor-General that the undertaking which it had given was qualified by the fact that there were a number of circumstances in which it would be impracticable or unwise to arrange separate contracts for prototypes prior to a production contract being arranged. In this regard the Auditor-Observer, Mr.Scott,quoted from a memorandum dated 14 July 1971 from the Regional Director of the Department of Supply,Victoria to the Chief Auditor,Melbourne. A copy of this memorandum was provided for the Committee. The relevant paragraph stated:-

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519  
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"Considerable experience was gained from the ramifications of the particular contract under discussion,perhaps the most important consequence being that,where appropriate, a contract will not be arranged for the production of equipment until prototype requirements are fully tested and inspected."

This statement was amplified in further correspondence dated 16 November 1971 in which the circumstances where it would not be appropriate to arrange separate contracts were outlined.

79. The Audit Observer also quoted from an Army document which sought to establish general guide lines to be followed when arranging future contracts. This quotation stated that:

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"A number of lessons have been learned from the history of this particular contract. Firstly, no future contract should be let for both prototype and production units. Any such contract should be limited to the prototype vehicles in the first instance. Secondly, a specific test programme should be prepared prior to the delivery of prototype items, and the timing and general progress of such tests should be carefully managed and reported on at specific intervals. Thirdly,where alternative versions of particular equipments are available, much more complete investigations should be made into the pros and cons of the respective alternatives before any decision is made, which is not based on direct first hand



experience of the operation of the equipment".

The Auditor-General's Office had accepted these statements without qualification from the two departments.

80. In a memorandum submitted to the Committee subsequent to our inquiry the Department of the Army did not contest the philosophy expressed in relation to the contract for the prime movers. With the benefit of hindsight it agreed that it would have been prudent in this case to have made arrangements for the production and acceptance testing of the prototype vehicle before proceeding to full supply. However, it qualified this view by stating that there is a very wide range of contracts negotiated by the Department of Supply for the Department of the Army and in many circumstances it would neither be appropriate nor in the interest of the Commonwealth to require compliance with an inflexible rule concerning the separation of prototype from general production. The Department also stated that as a consequence the assurance assumed by Audit and expressed in paragraph 299 of the Auditor-General's Report must be qualified to the extent that separate prototype development will be arranged where it is appropriate to do so. It added that this qualification is consistent with that provided by the Department of Supply in response to Audit inquiry.

Q.521

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#### Conclusions

81. Arising from its examination of the evidence the Committee agrees with the findings of the Department of the Army arising from the operation of the contract in question. It is clear that the contract should not have been let for both prototype and production units and, in the first instance, should have been limited to prototype vehicles only. Secondly, a specific test programme should have been prepared prior to the delivery of prototype items and the timing and general progress of such tests should have been managed carefully and reported on at specific intervals. Thirdly, where alternative versions of particular equipments were available, more thorough investigations should have been made into the merits and demerits of the specific alternatives available before decisions were made that were not based on direct experience of the operation of the equipment.

82. While the Committee appreciates that appropriate guidelines designed to overcome these deficiencies have now been developed by the Department of the Army we must express surprise and concern that such guidelines were not developed at an earlier stage, having regard to the nature and extent of the procurement programmes conducted by the Department.

83. In view of the importance of the principles enunciated by the Department of the Army and set out in paragraph 79 of this Report, the Committee believes that these principles should be examined carefully by other departments engaged in procurement activities in relation to their current acquisition arrangements.

Chapter 3

The Department of Foreign Affairs

84. Paragraph 109 of the Auditor-General's Report for 1970-71 contained the following comment:-

"Paragraph 89 of my Report dated 25 August 1970 made reference to non-observance of prescribed internal controls and checking procedures at overseas posts, and to a number of irregularities in accounting which had been reported over the years 1968-69 and 1969-70. The view was expressed that the maintenance of effective internal controls and checks is largely governed by the adequacy of relevant instruction and training received by officers assigned to duty overseas.

Mention was also made that action was being taken by the Department to improve the standard of accounting at overseas posts, including the training of officers posted overseas.

During 1970-71 the Department continued its efforts to effect improvement. In respect of training, my Office was advised that 4 one-week courses, attended by a total of 50 officers, were conducted, whilst a number of officers selected for one year of training as Consular/Administrative Officers recently commenced their programme.

Audit examinations in recent years, essentially on a test basis, have shown unsatisfactory aspects of internal control and check at departmental posts in North America. Numerous discrepancies involving, among other irregularities, substantial overpayments of personnel entitlements and under-recoveries of expenditure have been revealed. In 1970-71 further instances of this nature were again brought to the notice of the Department.

The Department during the year reviewed the controls and checking procedures in operation at each of its overseas posts, including those in North America, and took remedial action as it considered necessary. However, it has been suggested to the Department that a more fundamental and analytical review of an organisational nature may be necessary if the continuing classes of irregularities, which have been

reported over the years, are to be avoided or at least kept within reasonable limits having regard to the wide geographical dispersion of the Department's activities.

In acknowledging the position regarding North American posts the Department commented that the present accounting arrangements for this area do not permit it to exercise the same checks as it does over posts for which paid accounts are returned to Canberra. Moreover, it is unable, with current staff establishments to initiate independent examinations at posts by internal audit."

85. In 1970 the Committee obtained from the Department of Foreign Affairs a submission relating to paragraph 89 of the Auditor-General's Report for 1969-70 but decided at that time not to proceed to inquiry on the matter. The submission so obtained, however, was used by the Committee to assist it with its examination of the Department in connection with paragraph 109 of the Auditor-General's Report for 1970-71.

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86. The Department of External Affairs (now the Department of Foreign Affairs) appeared before this Committee frequently for many years prior to 1967, particularly in connection with its annual inquiries into Expenditure from the Advance to the Treasurer and the Consolidated Revenue Fund. Most of the problems arising in these inquiries related to accounting difficulties and associated matters at and with the overseas posts. During our inquiry relating to Expenditure from the Advance to the Treasurer and the Consolidated Revenue Fund for 1966-67 the evidence showed that the Department was taking positive steps to solve its problems and in our Ninety-third and Ninety-sixth Reports which related to that inquiry, we commended it for the action it had taken.

P.P.No.128  
of 1967  
P.P.No.31  
of 1968

87. In view of the continuing criticisms made by the Auditor-General in relation to the financial administration of the Department's overseas posts we sought specific evidence as to whether the action reported by the Department in 1966-67 had failed to achieve its objectives. The witness confirmed that such a failure had, in fact occurred but stated that for a lengthy period of time the Department

has been distressed by the fact that it has been unable to solve its overseas accounting problems. He added that one fundamental weakness had arisen from the fact that the Department's resources are outstripped by its commitments.

88. It was stated that the Department has been conscious for some time of the need to improve the performance of accounting duties by officers at overseas posts. In recent years it has undergone a rapid expansion of commitments in relation to its resources. In this regard we were reminded that at diplomatic and consular posts except London and Hong Kong the Department is normally responsible for "common services", including accounting, on behalf of all Australia-based staff, a proportion of whom belong, in a number of posts, to other departments. In terms of overseas missions alone the number of posts had increased from 37 in 1960 to 66 in 1970. During the same decade the Department's staff in Australia had increased from 408 to 742 and its overseas staff from 580 to 1990. It was said that the range of Foreign Affairs "support" commitment within the overseas posts has also widened constantly.

Exhibit  
137/2  
Qs. 135-156,  
201

89. It was claimed that during this rapid expansion of overseas missions and commitments it has been difficult to provide trained and experienced personnel for the Department's requirements overseas. It was explained that the Department recruits staff to serve a wide variety of occupations within its service. However, only a small percentage of those recruited have a basic financial-accounting capability. One of the main problems arises when junior officers are appointed to overseas posts. Such officers have a marked responsibility in the financial-accounting field. While still basically untrained however, they may be promoted to other overseas posts or to other Branches of the Department. This has given rise to the problem of obtaining officers of wide and sufficient experience and of basic and competent training to fill responsible positions overseas. It was also said that Heads of Missions, except in Washington and London, are the chief accounting officers at overseas posts. They are required to exercise an overall responsibility for their posts including the accounting of funds and the performance of staff. In many cases the Heads of Missions have a very wide range of occupations and preoccupations and their capability to manage the matters which they desire their subordinates to administer is not extensive. In fact it is very limited. This problem was thought by the witness to signify the presence of a basic management

Exhibit  
137 /2  
Qs. 157, 204

supervision problem, having regard to their responsibilities.

90. We were informed that in the field of staff training the Department relies on training courses and pre-posting instruction. In October 1970 the Department informed us that its Third Division administrative and consular establishment had continued to increase. Included in those increases were eleven training positions against which it was expected that there would be an annual intake to undergo a programme specifically designed to train administrative officers for overseas duty. We were informed in November 1971 that ten of these positions had been filled and that while training was proceeding a percentage of those recruited for training were on notice for posting before the 12 month course had been completed. This had arisen from the pressure of staff movements and positions to be filled. The witness admitted that, in the past, the Department had not been able to plan its postings in a completely rational manner due to the growth of commitments that had occurred.

Exhibit  
137/2  
Q's 159,  
209, 210

Committee  
File 1971/5

91. We were also informed in October 1970 that a series of practical courses in overseas accounting control procedures, to be conducted at quarterly intervals, was in hand. The first course was conducted in August 1970 and was attended by officers as part of their training prior to posting overseas. The course was intended for officers with responsibilities for accounting and administration at overseas posts. At that stage it was proposed to develop two further finance courses. The first of these was to be aimed at the senior administrative officer level and was to be designed to give broad practical training and knowledge to assist senior administrative officers with financial administration. It was expected that the second course would be similar to that designed for senior administrative officers but would be attended by diplomatic recruits. In November 1971 we were informed that a group of junior officers selected for one year's training as Consular-administrative staff has commenced this course of training. Some of the group were said to have completed the course.

Exhibit  
137/2  
Q.160  
Committee  
File  
1971/5

92. So far as pre-posting instruction is concerned it was said that special attention is being paid to ensuring that officers on posting from Canberra, who are due to undertake financial and accounting responsibilities at their new posts are given specific and detailed instruction in the Finance Section both on their responsibilities generally and on any particular difficulties or

shortcomings in performance of the mission they are joining. The expansion of new posts in recent years and the need, for various reasons, to send officers overseas at short notice was said to have hindered the Department from giving this necessary pre-posting instruction the thoroughness it would have wished. We were assured, however, that the Department is examining postings in a constructive manner and is adopting a systematic approach to this problem.

Exhibit  
137 / 5  
Q.165

93. It was stated that, apart from internal audit the Department must rely on general daily management control to check and maintain the standard of its accounting performances in Australia and overseas. The main devices in this regard are the Treasury Directions, the Treasury (Overseas Accounts) Directions, the Department's Accounting Instructions, advice to overseas posts on the results of examinations prescribed by Treasury Direction 34/78 and the Administrative Circular. We were informed that during 1970-71 the Administrative Circular had been used extensively to inform missions overseas of problems, to advise them of the manner in which the problems should be resolved and to instruct or remind officers of Treasury and Departmental instructions. A list of eleven such circulars issued between July 1970 and August 1971 was submitted in evidence.

Exhibit  
137 / 5

94. In October 1970 we were informed that the Department had again reviewed its Overseas Accounting Instructions and it expected that they would be reissued early in 1971. It was explained that this revision gave a large number of examples of situations arising in accounting procedures to facilitate an understanding of the Department's requirements. It also went into considerable detail to explain the Treasury Regulations and Directions. The re-issue then proposed was therefore expected to be a much more comprehensive and instructive document than it had been previously.

Committee  
File  
1971/5

95. During our inquiry in 1971 however, we were informed that the Department was revising its Departmental Accounting Instructions as the fourth volume of a new multi-volume Foreign Affairs Manual of Information and Instructions. Because the Department had set out to cover all matters which could reasonably be expected to require attention at an overseas post, this revision had proved to be a formidable task. It was claimed that an innovation of importance

Exhibit  
137 / 5  
Q.166

has been the inclusion of a model set of one month's accounts for posts working under an Imprest Account and which accounting officers will be able to use as a guide in coping with the problems they experience in the processing of accounting documents. At that stage it was expected that the Manual would be printed and issued before the end of 1971.

96. The Department informed us that its overseas inspectorate was being supplemented and that since January 1970 its inspectors had visited nineteen posts. In addition, one of the Deputy Secretaries had inspected seventeen posts and, as at September 1971 the other Deputy Secretary was engaged in the inspection of eleven posts and the Secretary was expected to inspect twelve posts during October. It was stated that critical, detailed reports are made arising from the inspection of posts. These are examined within the Department and matters arising from them are taken up with the posts concerned. While it was claimed that these inspection reports and subsequent action have improved and sharpened the performance, attention, assiduousness and depth with which the Department examines the problems involved, it was conceded that the Department had not done as much as it should in this regard. It was said that greater inspectorate facilities are required at the financial level and the Department proposed to develop a greater coverage of this type of inspectorate as soon as it had overcome the circumstances of staff ceilings and financial restraints. The Department also had in mind organising subregional financial seminars to cover a group of posts.

Exhibit  
137 / 5  
Q's. 167,  
235-238

97. The Department stated that potentially, one of the most effective means of assisting in the supervision and improvement of its performance in accounting at overseas posts is the examination of vouchers in Australia by officers of the Finance Section and by Internal Audit. The Internal Audit Section was initiated in 1964 with one officer and in 1968 the establishment was increased to five. It became operational early in 1970. Although it was claimed that during 1970-71 the Internal Audit Section assisted the Department's Finance Section in Canberra in a thorough and detailed examination of the accounting documents returned from imprest posts it was conceded that the coverage by Internal Audit has so far been less than the Department would desire. This was said to have arisen from the newness of the task within the Department with its complex overseas operations, the limited staff resources available and the

Exhibit  
137 / 5  
Q's. 169,  
171, 262, 285  
Committee  
File 1971/5



Department's preoccupation with the financial restraints imposed in February 1971 and their effects.

98. It was stated that internal audit of overseas accounts has been inadequate in that the programme provides for the audit of the accounts of sixty-eight overseas posts of which thirty-two process their accounts through overseas Sub-Treasuries. It was said that, currently, the Department's audit examination of the accounts of Sub-Treasury posts is limited to perusal of the authorities quoted for expenditure and to the appropriations to which the expenditure has been charged. This situation was said to arise from the absence of detailed vouchers.

Exhibit  
137/ 5  
Qs.257 -260

99. The Department stated that it recognises fully the need ultimately to be able to apply Internal Audit to overseas missions at the posts themselves. It claimed that although it has been planning to do this, existing resources, particularly of trained personnel, had not permitted implementation. The Department considered that until such time as Internal Audit can take place at overseas posts, the only alternative available is to use Internal Audit to augment the efforts of examining officers of the Finance Section at the Central Office in Canberra by carrying out, from that office, sample checks on selected areas of overseas posts' activities and to investigate specific cases of irregularities that come to notice. The Department claimed, however, that to do this, it is essential that detailed accounting documents prepared at overseas posts should be made available to its Central Office in Canberra.

Exhibit  
137/5

100. We were informed in evidence that quarterly reports are submitted by the Internal Audit Section to the Assistant Secretary, Management Services Branch, the First Assistant Secretary, Management Services Division and the Auditor-General. These reports cover the work conducted during the quarter, action required arising from that work and a report on action taken arising from previous reports. The Section also undertakes supplementary activity in relation to specific areas at the overseas posts which are a source of particular concern to the Department. One case in point, on which we sought additional information, related to the use of official vehicles at overseas posts.

Q.169  
Committee  
File  
1971/5

101. The Department informed us subsequent to the Inquiry that it holds the responsibility to provide, maintain and operate sufficient

vehicles at each diplomatic or consular mission to meet, efficiently and economically, the needs for official transport for all staff and for Australian officials visiting the mission on duty. It was stated that because of vastly differing local conditions from country to country it has not been possible to devise instructions which can be applied as hard and fast rules in each post. Although the conditions relating generally to overseas missions seek to provide for special circumstances it has been found prudent to allow a margin of variation to Heads of Missions. In the past, overseas missions have been permitted to keep car running logs and other documents related to official transport in a manner devised locally, but in accordance with the broad principles defined by the Department.

Q.248  
Committee  
File  
1971/5

102. An Internal Audit survey carried out in 1971 and covering 12 posts showed that with the effluxion of time, local conditions have resulted in some undue divergencies between posts and, in some cases, basic controls have become more lax than desirable. The Internal Audit Section found cases of car running logs not recording sufficient data to enable identification of the essential details regarding passengers, complete journeys, waiting time during journeys and at base, mileages and the official or private character of journeys. In some cases there was an undue reliance on drivers and not on passengers to keep the running records. This led to unsatisfactory results. Records at some missions bore evidence that the logs had not been checked thoroughly by means of a periodic comparison of fuel consumption for the vehicle against the recorded mileage run. Some missions failed to record individual journeys, showing only the mileage reading at the beginning and end of each day. Most missions that were examined failed to include the specific reasons for journeys although the official routine nature of journeys could be inferred in the majority of cases. At one mission, car logs were kept by drivers and were related to the drivers' movements and not to any particular car. They thus failed to satisfy the basic requirement of a car running record.

Committee  
File  
1971/5  
Q.169

103. It was stated that arising from the Internal Audit survey a draft of instructions to posts had been prepared. In terms of these instructions a standard car running log will be instituted for use at the missions. This will show the name of the mission, car number, driver, time and meter reading at the commencement of a journey, the passenger(s), the commencement and completion

Committee  
File  
1971/5

points of the journey, the reason for the journey and the passenger's signature.

104. In referring to the general problems connected with overseas accounting, the witness commented on the remarks made by the Auditor-General in his Report. He expressed the view that the breadth of error was rather small in relation to the level of the Department's expenditure in Australia and overseas and the large number of accounts processed annually for payment. It was said that there had been no major defalcations or misappropriations or misuse of funds but there had been a number of relatively minor misdirections of funds or misuse or mishandling of funds. Examples of the errors concerned were overpayment for meal allowances, drivers' overtime overpaid, overpayments in travelling fares, the use of incorrect air travel entitlements, incorrect advances for rent allowances and the illegal sale of petrol coupons. It was stated that an audit survey conducted recently in depth had shown that when the magnitude of overpayments discovered at a particular office was offset by the magnitude of underpayments that occurred there, the net difference amounted to only \$190. It was argued that this is a "fairly marginal" figure. At the same time it was stated that the Department would not seek to minimise the seriousness of any margin of error and will endeavour to reduce the margin.

Qs.239-241

105. We were informed that a statement was issued on 20 December 1970 by the then Minister for Foreign Affairs, the Rt.Hon.W.McMahon, M.P. directed to a fundamental reorganisation of the Department to equip it to cope with the problems of the early 1970s. It was intended that the Department's structure would be altered from four to seven divisions and that an additional position of Deputy Secretary would be created. A post liaison system was also to be introduced which would maintain surveillance on the overseas posts and their performances and maintain advice and instruction. In addition, for the first time, the Management services function was to be made into a full Division with a First Assistant Secretary in Charge assisted by two Assistant Secretaries. Thirdly, it was intended that there should be a consequential restructuring of the Third Division organisation of the Department. When our inquiry occurred in November 1971 the witness stated that although the basic innovations were implemented and the Second Division restructuring had been introduced, the Third Division

Q.153

restructuring had, unfortunately, been delayed due to the economic restraints associated with Government policy and related ceilings placed on staff growth.

106. Subsequent to our inquiry, we were advised by the Department of particular initiatives that it had in hand or which were planned with a view to improving performance in accounting at its overseas posts. It was stated that the completion of the reorganisation of the Department announced by the then Minister for External Affairs on 20 December 1970, will assist in the improvement of accounting aspects of the Department's work. Inspection of the Management Services Division of the Department by the Public Service Board began in late November 1971. Included in the Department's aims is the strengthening of the Finance and Internal Audit sections. Upon completion of the headquarters' restructuring, the Department proposes to pursue its review of establishments at all overseas missions so that they in turn may be suitably restructured and also to enable them to manage efficiently their financial responsibilities in the future. In October 1971 the Department initiated Organisation and Methods studies into the weaknesses of its overseas accounting as revealed in the Auditor-General's Reports. The object of this is to recommend systems and related staffing proposals that may be expected to overcome particular shortcomings. Also the Department has taken note of the Canadian practice of identifying the locally engaged Accountant at Canadian overseas missions as a key officer in the finance structure at a mission and remunerating him suitably. The Department proposes to examine the locally engaged positions at overseas missions with the aim of emulating this Canadian precedent.

Q.207

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File  
1971/5

107. We were also informed that the Department recognises that its internal audit facility can be an effective device in helping to achieve an improved performance in accounting at overseas missions. Proposals dating from November 1970 for the extension of the internal audit to overseas missions were being prepared for submission to the Public Service Board in February 1971 when the ceiling imposed on staff frustrated this initiative. The hearing conducted by the Public Accounts Committee has reinforced the Department's own view that as soon as practicable the operation of this facility must be extended to overseas missions. The Department has been considering the possible establishment of one or more internal audit units at key overseas centres from which it can operate in respect of posts in the region.

Committee  
File  
1971/5

New York and Geneva - both Sub-Treasury posts - have been under consideration. The existing limited staff resources of internal audit together with the 1971 ceiling on staffing have so far forestalled progress with this initiative. The Department of the Treasury has expressed interest in the proposal as one that could contribute to easing problems at Sub-Treasury posts. That Department and the Department of Foreign Affairs both recognise that the permanent posting of officers and their families to overseas posts is an expensive arrangement and a careful cost benefit analysis would need to precede the implementation of any proposal of this nature. A possible modification that can be examined is short-term postings of internal audit officers of 6 to 12 months duration.

108. We were informed that the series of inspections by Departmental officers at various levels and which had been described in evidence were producing useful results in the administrative and finance fields and are to be maintained and widened as far as possible. Additionally, the Department will arrange inspections by the head of its Finance Section into overseas missions. The Department also sees scope for increased use of training programmes as a means of improving the finance and accounting qualifications of officers that it sends to overseas missions to undertake responsibilities in these fields. It also attaches value to the pre-posting briefing given to officers regarding their financial and accounting responsibilities at the particular overseas mission to which they have been posted. This activity will be continued and the Department will seek to ensure that such briefing is not unduly curtailed and that it is related specifically and in detail to the performance of the overseas mission in question.

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File  
1971/5

109. A further initiative which the Department has in mind is the organisation of Sub-Regional Seminars at convenient locations such as New York and Singapore to deal with questions of finance and accounting procedures at overseas posts. These seminars would be associated with the planned visits by the Senior Finance Officers from the Department to which reference has already been made.

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1971/5

110. A further initiative taken by the Department has been the nomination of the Assistant Secretary (Services) to the Seventeenth Summer School of Business Administration which was conducted by the University of Melbourne in January/February 1972. This was said to be the first occasion on which a Foreign Affairs officer had been nominated to this course and was claimed to exemplify the Departmental wish to

Committee  
File  
1971/5

widen the experience and strengthen the training of senior officers with management responsibilities in respect of finance and accounts. The Assistant Secretary (Personnel Branch) has attended the Australian Administrative Staff College Senior Course and the Department has nominated a senior administrative officer for one of the senior courses to be conducted in 1972.

111. In relation to training courses, we were informed that several initiatives are under consideration or implementation for their improvement. In this regard the establishment of the training section is being increased and the new positions filled by more experienced training staff. The standard of teaching and lecturing by officers specialised in particular functions such as finance, property, registry and like matters is being improved gradually as more training programmes are conducted. This standard is also being raised by the increasing use of training aids. Following the increase in numbers recruited in the past two years, an extension of the in-training period for the Foreign Affairs officers is under examination. More extensive training programmes in administrative functions are being developed for Foreign Affairs officers. Various training aids, including closed circuit television, are being considered for introduction in 1972/73 in order to improve the rate of learning procedural functions. Greater attention is being given to the in-section training of junior officers by the development of exercises which must be satisfactorily completed before a senior officer is prepared to state that the officers concerned are adequately trained to work in an overseas post. Expansion of a Mock Post Registry system at present used for registry training in Canberra will include other simulated training in administrative functions performed at missions overseas. It is also proposed that visits should be made by the Principal Training Officer to the overseas posts to assess their requirements and the results achieved from training programmes that have been implemented.

Q.213  
Committee  
File  
1971/5

112. Apart from the accounting problems referred to the Department informed us that special problems exist at those posts whose accounts are processed through an overseas Sub-Treasury. It was stated that the problems of accounting through Sub-Treasuries in relation to the Department of Foreign Affairs responsibilities under Treasury Regulation 132 had been discussed since 1965 when the Department appeared before this Committee in relation to a revision of the then existing Treasury Direction 32/93.

Exhibit  
1971/ 5  
Q.266

113. The Department explained that within the Sub-Treasury area it had always experienced a problem of imposing a check to ensure that the Regulations, the Treasury Directions and the authorities have been implemented properly. The basic problem was said to be the Department's inability to carry out detailed subsequent examinations of accounts and supporting documents as it does in the case of accounts of posts which operate on Imprest Accounts with direct reimbursement from Canberra. The matter came to a head when a defalcation occurred in the accounts of the Embassy in Mexico City in early 1970. This arose when a member of the local staff was given the responsibility for daily banking. He was banking the cheques and misappropriating the cash receipts. This was not detected for several months because the bank account and bank statements at Mexico City had not been reconciled.

Exhibit  
137/2  
Q.266

114. Arising from the Mexico City experience the Department of Foreign Affairs wrote to the Department of the Treasury on 5 March 1970. It also felt obliged to bring the matter directly to the attention of the Auditor-General's Office on 24 June 1971 and again on 13 August of that year. The Department accepted that the initial responsibility for the proper and efficient processing of North American accounts rested with its officers at the individual posts who were acting according to instructions which it had issued and the basic Treasury Directions. It also accepted responsibility for the performance of these officers and agreed that their standard of performance must be improved.

Exhibit  
137/2  
Q.266

115. However, the Department explained to the Auditor-General's Office, that any large organisation with a great range of distant overseas operations must be able to conduct adequate checks on the operations of its officers. This has been a simple matter at posts working on Imprest Accounts because the detailed accounts return to the Department for checking. The case has been different at posts which account through Sub-Treasuries. Because expenditures are advised by these Sub-Treasuries to the Department with very little detail about each of the transactions, the Department's capacity to check the performance of its officers is seriously impaired. The Audit Observer, Mr Parker, agreed that the role of the Department's accounting officers in this area would be impaired to a significant degree.

Exhibit  
137/2  
Qs. 271, 272,  
274

116. We were informed that the Department of Foreign Affairs reached the conclusion that in the absence of this essential facility for a check by its own accounting officers at its Central Office in Canberra, it would need to examine other options open to it. Exhibit 137 /2

117. When the Department received the Auditor-General's Report for 1970-71 the Secretary wrote to the Secretary to the Treasury and outlined the views that had been placed before the Auditor-General's Office. He pointed to the obligation on all concerned to take remedial action and sought the co-operation of the Treasury. He indicated that if accounting checks are required which will satisfy the Auditor-General, then these can only be achieved by and through amendment to the Treasury (Overseas Accounts) Directions. While these Directions had been discussed between the two departments, no conclusion had been reached. He expressed the view, however, that the Auditor-General's Report offered the basis for some positive action to meet the problem arising from the operations of the Sub-Treasury in North America. He stated that two possibilities presented themselves:- Exhibit 137/2

(a) Variation of Treasury (Overseas Accounts)

Directions Clause 4(2) to provide a new definition along the following lines:

"4(2)(j) A reference in Regulation 132

of these Regulations to a Chief Accounting Officer shall be read as a reference to a Director, Overseas Sub-Treasury"

and the Regulation 132 reference in Direction 4(2)(f) be deleted; or Exhibit 137/ 2

(b) Insertion of a provision in Treasury Direction 34/78 for the return to Head Office in Australia of all accounting documents to enable an examination, (as already provided by the Direction in the case of Imprest posts reimbursed from Australia) to be carried out for the posts serviced by Sub-Treasuries. Qs. 274-278

118. The Secretary of the Department expressed a preference for the adoption of the first of these alternatives and proposed consultation with the Secretary to the Treasury on the practicability of taking action along these lines. In regard to the choice of this alternative it was explained that Treasury Regulation 132 is the operative Regulation in relation to the post-examination of expenditure vouchers and receipts



in relation to overseas posts. The Department's purpose was to clarify the position of the Chief Accounting Officer in overseas posts, particularly in the Sub-Treasury area, because in the Treasury (Overseas Accounts) Directions "Chief Officer" under Treasury Regulation 132 was read as the Chief Accounting Officer in relation to Treasury Regulation 132 in an overseas post. This created uncertainty as to who was the Chief Accounting Officer, an issue which had been raised by the Department with the Department of the Treasury when it commenced correspondence on the problem in March 1970. We were informed that on 8 September 1971 the Secretary Department of Foreign Affairs was advised by the Secretary, Department of the Treasury that his Department proposed to amend Treasury Direction 34/78 to achieve safeguards.

Exhibit  
137 / ?  
Q.276

119. In relation to Treasury Direction 34/78 we were informed by the Treasury Observer, Mr Davidson, that the Direction had been drawn up before the Sub-Treasury procedures came into operation. The Department of the Treasury had regarded Treasury Direction 34/4 as giving the Sub-Treasuries the responsibility and power to conduct financial reviews. In relation to Treasury Direction 34/78, the checks to be made before a reimbursement account is paid are part of the action that it would normally be expected would be carried out by a Certifying Officer. The Department of the Treasury had made this clear in an internal direction to the Sub-Treasuries. In these circumstances that Department had not considered it essential that Treasury Direction 34/78 be changed.. Q.267

120. In relation to the more recent developments initiated by the Department of Foreign Affairs the Treasury Observer, Mr Davidson, explained that in seeking an amendment to the Treasury (Overseas Accounts) Direction 4(2), the Department of Foreign Affairs was attempting to arrange a direction that the Sub-Treasuries should bear responsibility. In the Department of Foreign Affairs' proposed amendment of Treasury Direction 34/78 its suggestion was for a return of all accounts and documents to its Head Office in Australia to enable a detailed examination of them to be made. The Department of the Treasury, Q.277 however, did not propose to make an amendment of that nature. Treasury Direction 34/78 dealt originally only with imprest posts that did not work through Sub-Treasuries. The Department was amending this Direction to deal with all imprest posts whether the reimbursement is being made by a Sub-Treasury or being made from the Central Office of the Department

of Foreign Affairs in Canberra. The Direction specifies the checks that should be made prior to reimbursement. The new amendment in the form of Treasury Direction 34/78A provides for a general check which can be made after reimbursement. So far as the Sub-Treasuries are concerned, this general check is required by Treasury Direction 34/4 and has always existed.

121. The Treasury Observer, Mr Davidson, commented that in the Auditor-General's Report the only discrepancies mentioned were "substantial overpayments of personnel entitlements and under-recoveries of expenditure". Most of these errors would not have been revealed by a return of the accounts to Australia. The overpayments of personnel entitlements arise at the posts in the calculations or approvals for making up a form 28. This form accompanies the account for payment and, if it were examined in Australia, it would not, of itself, disclose the presence of an error. The errors occurred at the posts and would not be reflected through the accounts. He added the opinion that much of the difficulty had arisen at the posts and not at the Sub-Treasuries. The Department of the Treasury has directed the Sub-Treasuries to inform the Department of Foreign Affairs of any difficulties which they experience with the overseas posts. Q's.277,288

122. The evidence showed that the amendment to Treasury Direction 34/78 had been approved on 1 November 1971 and conveyed on 23 November to the Department of Foreign Affairs together with an explanation of the nature and purpose of the change made. When our inquiry occurred in November 1971 the amendment had not been issued formally as the Department of the Treasury had other Directions under revision in the same area. It proposed to issue all amendments concurrently. Q's.279-283

123. The Department of Foreign Affairs informed us that it will need to examine the implementation of the revised Treasury Direction 34/78 in practice before its effects can be assessed fully. However, the new proposed Direction 34/78a places the Regulation 132 responsibility very firmly at the point at which the posts are reimbursed, whether by Sub-Treasuries, or by the Department of Foreign Affairs in Canberra or by other posts. Q's.276,287-294

Conclusions

124. The Department of External Affairs (now the Department of Foreign Affairs) appeared before this Committee frequently for many years prior to 1967. During our inquiry relating to Expenditure from the Advance to the Treasurer and the Consolidated Revenue Fund for 1966-67, however, the evidence showed that the Department was taking positive action to solve its problems. We commended the Department for the action it had actually taken at that stage.

125. While we recognise that in recent years the Department has experienced a rapid expansion of commitments in relation to its resources and has implemented a number of initiatives for administrative improvement, we are nevertheless disappointed to find that it has not yet made a more effective impact on the administrative problems confronting it. The evidence shows that major problems still exist in the areas of staff recruitment, training, the inspection of overseas posts, internal audit work in relation to such posts and the re-issue of departmental Overseas Accounting Instructions. The evidence also indicates weaknesses in the system of arranging overseas postings of staff. Doubts must also be entertained as to whether, in some cases, Heads of Missions overseas are able to supervise effectively the administration of their posts, having regard to the range of their responsibilities.

126. In relation to a reorganisation of the Department that was announced in 1970 and in relation to staff availability generally the evidence suggests that the Department has been materially hampered in reaching its objectives as a consequence of changes that occurred in Government Policy early in 1971. While this may well be the case, the facts as they appear to the Committee indicate that the problems confronting the Department predate that change in policy by many years.

127. During the course of our inquiry we sought specific evidence relating to the nature of the Internal Audit Section of the Department and the work it has performed. In this regard we were disturbed by the evidence relating to the use of official vehicles at overseas posts as revealed by a survey conducted by that Section. In relation to this matter we note in particular that, in the past, the Department has taken the view that it is impossible to devise instructions relating to motor vehicles for use at the posts. As a consequence of the Internal Audit Survey, however, such instructions have now been prepared. In view of the evidence tendered the

Committee proposes to associate the Department's submission on Internal Audit with submissions which it has obtained from other departments in connection with its general inquiry into Internal Audit.

128. The Committee is also disturbed by the attitude exhibited in evidence in relation to overpayments and underpayments discovered at one of the overseas posts. It appears that the net difference between the overpayments and underpayments amounted to \$190. This was described in evidence as a "fairly marginal" figure. The Committee does not accept this as a valid approach to the matter of errors.

129. The evidence also shows that for some time negotiations have been in progress between the Department of Foreign Affairs and the Department of the Treasury to assist the former Department to solve its problems in those overseas posts whose accounts are processed by the Sub-Treasuries. The Committee believes that the action taken recently by the Department of the Treasury in amending Treasury Direction 34/78 will provide some assistance to the Department of Foreign Affairs. At the same time we agree with the views expressed by the Treasury Observer, Mr. Davidson, that the real problems in this area have arisen within the overseas posts. It is clear that these problems must be resolved by the Department of Foreign Affairs itself.

130. In view of the nature of the evidence submitted in this case the Committee proposes to maintain a close surveillance on the progress made by the Department towards the solution of its problems.

Chapter 4

Department of the Interior

Northern Territory Services - Expenditure

131. Paragraph 161 of the Auditor-General's Report for 1970-71 contained the following comment:-

"Following an investigation by the Northern Territory Administration into irregularities associated with wages payments at a regional office in the Northern Territory, an officer of the Administration was convicted under the Crimes Act of fraudulent conversion and of making false entries and was sentenced to 18 months imprisonment.

Defalcations totalled \$9,807 of which \$161 has been recovered from moneys due to the defaulter. Action to effect further recoveries was proceeding at the time of the preparation of this Report.

Weaknesses in internal controls and checks were disclosed by the Administration's investigation into the circumstances surrounding the irregularities. Measures to overcome the weaknesses have since been instituted."

132. We were informed that misappropriations occurred at the District Office of the Northern Territory Administration, Alice Springs, between 23 December 1969 and 15 September 1970. A further attempt during the pay period ended 29 September 1970 to misappropriate an amount of \$1,214 was frustrated by the detection and arrest of the person responsible. As far as could be certain, following investigation by the Northern Territory Administration's Internal Audit team and the police, no other misappropriations had occurred.

Exhibit  
137/1  
Q.3

133. Comprehensive instructions covering the engagement and payment of wages staff are contained in the Northern Territory Administration's Manual of Administrative Instructions, a copy of which is held by each Section within the Administration. It was stated that had these instructions been observed by the District Office staff it would not have been possible for the misappropriation to have occurred. The instructions concerned are contained in Section 7/F of this Manual which was issued originally in 1961. They cover the detailed procedures to be observed by Paying teams. The instructions were approved by the Treasurer in accordance with Treasury Regulation 107(5) and the paying procedures had been re-issued as an amendment to the Manual in January 1969 and revised again early in 1970. Industrial wages procedures, which deals with the engagement of staff, were

Exhibit  
137/1  
Q's 4,5

revised in 1969 following the introduction of the training allowance scheme for Aborigines in settlements. When our inquiry occurred in October 1971 this particular action on the manual was under review by the Methods Section of the Northern Territory Administration and some circulars had been issued to correct weaknesses in the procedures.

134. The relevant paragraphs from the Manual of Administrative Instructions are:-

- "3. (1) Paying Officer who shall be responsible to the Chief Accounting Officer. He should be an officer over the age of 21 years if practicable and shall not be an officer who has prepared the pay sheets unless those pay sheets have been examined in detail by another officer who shall have evidence before him that the persons named on the pay sheets are employed by the Administration. Exhibit 137/1

His responsibilities include :

- (a) Observance of all related instructions
  - (b) The payment of salaries and wages
  - (c) Security of the cash advance throughout the paying operation from the acceptance of the cheque or cash until the final acquittance of the advance.
- (2) Witnessing Officer Who shall be wherever possible, over the age of 21 years. He shall be responsible for witnessing the payment of salaries and wages made by the Paying Officer from the cash advance and may perform the duties of Escort Officer and shall assist the Paying Officer in checking and enveloping. In this context, see Treasury Direction 20/28. He may also be required to assist the Advance Holder, see paragraph 8.
- (3) Escort Officer Who shall be responsible for the armed protection of the Advance Holder and/or Paying Officer, and with these Officers, for the security of the cash from the point of acceptance until it leaves their custody. The Witnessing Officer may perform these duties.
- (4) Advance Holder (Who is normally the Paying Officer for Darwin and Alice Springs local pays) who shall be responsible for the collection and security of the cash until delivery to the safe hand of the transporting authority.

7. The cheque will be negotiated at the appointed bank and the cash received will be accepted in the presence of the Witnessing and/or Escort Officer on a 'bulk check' basis in accordance with the provisions of Treasury Direction 20/24. The officers carrying out the 'bulk check' will count the broken packets of notes and loose coins, but will accept unbroken packets at their reputed content.

8. From this point, the Advance Holder or the Paying Officer

and witnessing Officer must remain together. If it is necessary for one of the officers to absent himself before the paying operation is complete, the matter shall be reported to their Officer in Charge, who shall arrange appropriate safe custody or transfer of responsibility during this absence.

Exhibit  
137/1

13. Under conditions which should wherever possible ensure that persons not connected with the pay operations are excluded from the area and using the pay sheets as a basis, the Paying Officer will count out the amounts to be paid to the individual payees and hand them to the Witnessing/Checking Officer for checking with the envelope or pay advice slip and enveloping. At the end of the enveloping operation the Paying Officer shall satisfy himself that all moneys have been properly accounted for and envelopes sealed. In the event of an unsatisfied discrepancy, the matter shall be reported to the Officer in Charge. For safe custody overnight the enveloped cash will be kept in a locked safe, or, if necessary, deposited in the local branch of the authorised bank.

14. At distribution stage, payees who are unknown to the Paying and Witnessing Officers shall be identified to them by the Branch Administrative Officer or other senior officer. The Paying Officer shall inform the Witnessing Officer of the name of the payee and shall hand over that envelope and the Witnessing Officer shall sight that envelope being handed to the payee and will mark off the entry on the Pay Sheet. Payees shall be asked to check the contents of the envelope against the pay advice immediately.

15. Uncollected salaries or wages, shall be checked against the unticked items on the pay sheets and listed as unpaid in the space provided on the pay sheets. All pages of the pay sheets shall then be signed by both the Paying Officer and Witnessing Officer and the date of payment shown. The Paying Officer shall then take any outstanding amounts and the pay sheets into safe custody.

16. Payments to persons either before or after the normal pay operations shall be in accordance with Treasury Direction 20/26 and only after their identity has been satisfactorily established. The Payees receipt shall be obtained on the appropriate form: in no circumstances will such individual payments be made without a signature. Payment of individuals not paid at the time of the general payment may be made by the Paying Officer, who shall obtain a receipt on the pay sheet and sign as witness to payment.

17. The Paying Officer, when depositing unpaid moneys for temporary safe custody, shall check off the remaining envelopes when depositing and again when regaining possession. The moneys so deposited must be enclosed in a locked container, the keys of which shall not leave the personal possession of the Paying Officer until his responsibilities are discharged."

135. We were informed that it has not always been possible to ensure that persons not connected with the pay operations are excluded from the pay area as required in section 13 above. This relates to accommodation being available. Some difficulty was experienced in Darwin by the Administration, but in Alice Springs the pay is prepared under the prescribed conditions. Also there have been no unsatisfied discrepancies as referred to in section 13.

Qs.7,10,11

136. The instructions in the M.A.I. were not followed in the following matters:

- (a) The officer preparing the pay sheets should not have been allowed to act as Paying Officer-para. 3 (1) of M.A.I.
- (b) Witnessing Officers did not witness all payments-para.3(2) and 14. M.A.I.
- (c) Pay teams did not always remain together-para.8 of M.A.I.
- (d) Pay was not kept in a locked container, especially during the lunch break and during times when disbursement was not being made-para.13 and 17 of M.A.I.
- (e) Witnessing Officers did not mark off the entries when pays were handed over-para.14 of M.A.I.
- (f) Paying teams failed to check the envelopes left over against unticked entries-para.15 of M.A.I.

Exhibit  
137/1

137. The reason for the officer who prepared the pay sheets being allowed to act also as Paying Officer was referred to by the witness. Contributing factors were said to include temporary shortages of staff and inexperience upon the part of the administrative officer who was in charge of the general operations of the District Office at Alice Springs.

Q.18

138. In relation to (b) and (e) above, the pay procedure approved by the Treasurer provides that a receipt from the payee is not necessary if the pay is prepared by two officers and paid out by them. One officer, the paying officer, hands the envelope to the payee and the witnessing officer witnesses the payment

Qs.8,9,17



and makes a suitable record on the pay sheet. The recipient does not sign a receipt but is asked to check his pay. In regard to the witnessing officer failing to witness all payments it was stated that a number of envelopes were handed to the defaulter by the paying team. The paying team completed the certificate to the effect that they had paid the recipients in their own presence which they could not have done if the defaulter had paid them later. Examination of the particular paysheets covered by the incident of the misappropriations showed that on a number of occasions the names not ticked were not listed at the bottom of the paysheets. The witness informed us that an examination of the paysheets from all centres indicated that this practice existed generally. It seemed that the paying teams at the District Offices were accustomed to making payments away from their offices without recording ticks on the paysheets, and on return to their offices would list the unclaimed payments and tick the remainder.

Qs. 18, 19,  
20, 35

139. Although we were informed that the pay teams had always remained together during the preparation of a pay, we were later advised in evidence that, contrary to the requirement of paragraph 8 of the M.A.I., the pay teams did not always remain together during the actual paying process.

Qs. 6,  
28-32

140. Contrary to paragraphs 13 and 17 of the M.A.I., pay was not kept in a locked container during lunch breaks and during times when disbursement was not being made. The actual procedure adopted was described as the placing of the pay in an unlocked case, which was lodged in a safe under the control of another person. It was said that the safe used at Alice Springs is not of good quality and has a single combination and key. A spare key is kept at the office of the Commonwealth Banking Corporation at Alice Springs. The safe and its contents are the responsibility of the Collector of Public Moneys in Alice Springs and he is not authorised to hand the key to anyone else. A higher quality safe has been ordered. Whenever there is a need to keep cash overnight it is usually lodged at the Alice Springs Police Station in a safe kept there for the use of the District Officer.

Qs. 12, 13,  
25, 26,  
33, 34

141. The failure of paying teams to check the uncollected envelopes against unticked entries is related to the failure of the officers concerned to tick the entries as payments were made. It was said that the paying teams were satisfied that the uncollected pays represented those that had not been paid.

Q. 43

142. We were informed that section 7/F of the M.A.I. had been revised and re-issued as an amendment on 1 August, 1970. This arose from two factors one of which related to the preparation and enveloping of pays and the other to the correct identification of payees not known personally at the time. The latter arose from a case that occurred in Darwin where a paying cashier made payment to the wrong payee, an Aboriginal who had a similar name to that of the correct payee. Also, the section dealing with Treasury Form 19, the order to pay an agent, was strengthened. The witness also informed us that at that stage even the paying team in Darwin was not giving full consideration to the procedures laid down. This resulted in the inclusion of a provision in the instructions that the paying team must sign a certificate to the effect that it had read and understood the procedure. In conjunction with this, the certificate to payment given by the Paying Team at Alice Springs at the time of the misappropriations was incorrect. This Certificate reads:

"We certify that the several persons whose names appear on this Pay Sheet have this day been duly paid in our presence with the exception of those persons whose names and amounts are shown at the side hereof.

Paying Officer  
Witnessing Officer".

143. It was stated that during the period of the misappropriations the officer signing for the Head of Branch as having checked the entries, did not take steps to satisfy himself of their accuracy when the paysheets and time records were prepared. Since that time, an amending instruction has been issued in circular form, and will be incorporated in the manual when the relevant section is reviewed. This concerns the necessity of the officer signing the paysheets on behalf of the Head of the Branch to assure himself of the accuracy of the entries.

144. Although the delegation to approve employment rested solely with the District Officer and the Administrative Officer, it was stated that two sections of the Manual of Administrative Instructions allowed the Personnel Officer, or the Assistant Personnel Officer, acting in Alice Springs as Industrial Officer, to process engagements by the issue of a Notice of Engagement. This was discovered in an examination of the papers relating to the misappropriations and was claimed by the witness to be a matter of interpretation as to the meaning of the word "completed".

Exhibit  
137/1  
Qs. 44, 45

Exhibit  
137/ 1  
Qs. 46-49,  
57-59

Exhibit  
137 / 1  
Q.50

Section 2/N of the Manual states in part:

"The engagement notices in respect of industrial staff will normally be issued by the Industrial Officer after approval of the engagement".

Exhibit  
137/ 1  
Q.50

Section 9/H, paragraph 6 states in part:

"Notice of Engagement shall be completed by Branch Industrial Officer after approval for engagement of an employee has been given by an authorised officer as required by Section 2/N of this Manual".

145. A witness interpreted the definition of Industrial Officer as relating to the officer in the Northern Territory Administration's Staff Section and not the Officer acting as Branch Industrial Officer. Q.50

146. Section 2/N(1) of M.A.I. refers to the appointment, under Section 82(1A) of the Public Service Act, of the Chief Officer as being authorised to engage temporary staff. However the District Officer and the Administrative Officer of the District Office at Alice Springs both hold a delegation from the Permanent Head under Section 25 (5) of the Public Service Act to approve engagement of temporary staff (Section 82). The notice of engagement can be issued by the Industrial Clerk subject to the approval of the engagement by one of these two Officers. It was said that the examination of the papers relating to the misappropriations revealed a weakness in this system. It was quite possible under the procedures existing until recently for the type of fraud that occurred to recur because notices of engagement could be issued without the approval to engage temporary staff. The defaulter had issued or prepared notices of engagement and these had been accepted on the mistaken basis that approval for engagement had been obtained. We were informed that an amendment has been issued to the effect that a responsible officer must append a certificate to the notice of engagement indicating that he has sighted the approval to engage temporary staff. Exhibit  
137/1  
Qs.51,52

147. It was stated that it had been the practice of the delegates at the District Office to record on file the approval for the engagement of staff, for other than Municipal gang staff. The persons carrying out the functions of Branch Industrial Officer or Industrial Officer, acting on this approval, would be authorised to prepare a Notice of Engagement. Because the principal officer concerned was no longer employed by the administration, investigations had been unable to discover why the procedure laid down had not been followed in the case of Municipal gangs. Definite paying Exhibit  
137/ 1  
Q.53

instructions had been issued by the District Officer, reserving for himself the right to sign notices of engagements, the Administrative Officer signing in the case of unavoidable absence.

148. In the cases under review, the defaulter prepared the notice of engagement and where he was not acting in the capacity of Branch Industrial Officer, persuaded others that proper authority existed for the employment of the persons named. Staff were engaged and notices of engagement issued without the employees being sighted by either the delegated authority or by the person issuing the Notice. Although the actual sighting is not a procedural requirement it is the required practice at Darwin. However, it was stated that problems exist in the engagement of staff in remote areas.

Exhibit  
137/1

149. Section 2/B para. 3 of the Manual of Administrative Instructions states, in part -

Exhibit  
137/1

"Except in emergent circumstances officers and employees shall obtain the approval of a delegated officer prior to working overtime."

150. We were informed that this requirement has been rigidly observed in relation to salaried staff but has not been enforced in the industrial area. In practice, because of shortages of industrial staff a discretion exists as a matter of administrative policy for regular overtime to be authorised within the respective Branches of the Administration. This is particularly so where field parties are working in remote localities with communication difficulties and no recreational facilities. Also staff shortages dictate the need for regular overtime.

Exhibit  
137/1  
Qs. 63-68

151. It was stated that in the industrial area it has been accepted that the officer authorising overtime on behalf of the Head of Branch is also approving the payment of overtime. Paragraph 5 of section 2/B of the M.A.I. is relevant in this context and states:

Exhibit  
137/1

"An officer who is authorised to sign the working of overtime shall give such approval only if he is satisfied that:

1. The overtime is necessary and the work cannot reasonably be completed within normal working hours.
2. Funds are available to cover the cost of overtime".

152. We were informed that no attempt was made in the District Office to ensure that the paysheets were properly acquitted. The officer concerned had not received adequate instruction. In this respect, because of staff turnover and the general level of ability and lack of training of the staff concerned, the Finance Branch and the Establishments Branch of the Northern Territory administration had been requested to produce a set of working instructions which would be simpler than the Manual of Administrative Instructions. According to the witness, the Manual is a comprehensive and complex document. It was also stated that the Authorising Officer, of the Finance Branch in Darwin, did not check for acquittances when clearing the wages advances. This was said to be due to understaffing in this area. The authorising officer, together with a staff of 3 is responsible for the payment of all accounts. Some 70,000 were paid in the previous year. However, in Darwin, the administration has a full-time paying team which comprises a paying officer and a witnessing officer engaged about fifty per cent of the time on paying duties. The witnessing officer in Darwin is now engaged for the remainder of his time in checking the paysheets for acquittances and outstanding advances generally. When our inquiry occurred in October 1971 an officer had been transferred from the ledger section to the authorising section within the Finance Branch in Darwin and it was felt that this alteration had overcome the problem of checking for acquittances of paysheets in the Darwin Office.

Exhibit  
137 / 1  
Qs. 87-91,  
105-117

153. In relation to the reasons for a breakdown in procedures to remain undetected for a lengthy period of time, we were informed that the District Officer, had and still has, external duties which keep him out of the office frequently and for long periods. He is therefore unable to exercise detailed supervision. Also the Administrative Officer who had been located at Alice Springs for some time prior to the period of the misappropriations was promoted to Darwin and left Alice Springs on 2 December 1969. The officer who succeeded as Administrative Office was previously District Officer at Tennant Creek. He took up duty at Alice Springs on 16 November 1969 for handover purposes and then returned to Tennant Creek on 21 November 1969 to finalise his affairs and handover the Tennant Creek office. He left Tennant Creek to return to Alice Springs on 23 November 1969.

Exhibit  
137 / 1  
Qs. 92-97  
Committee  
File 1971/5

He transferred to Alice Springs as Administrative Officer, Class 5 (Third Division) and was later promoted to the reclassified position as Class 6 (Third Division). He had had practically no previous financial experience although his duties as District Officer at Tennant Creek would have included the supervision of the collection and receipt of public moneys. The District Officer at Tennant Creek is also involved in the follow-up of accounts for electricity, water and health and the preparation of wage sheets for the municipal gang.

154. His new duties at Alice Springs were varied. They covered the direction and control of the District Office staff, and the task of representing the Administrative, Finance and Local Government and Community Services Branch in the Alice Springs District. He was also required to represent the District Officer during his absences and maintain liaison with other Branches and Departments in Alice Springs. His responsibilities as Branch representative covered staff records, wages, debtors and public utilities, housing and motor vehicle registration. He therefore found it necessary to rely heavily on his subordinates for advice and guidance as to procedures, practices and the delegation of authorities not expressed in the various manuals and duty statements. His supervision would therefore have been inadequate and he would not have been in a position to recognise the warning signs such as the fictitious entries, all of which commenced and finished on the same day, and the level of the amount of overtime paid.

Exhibit  
137/1  
Qs. 129

155. We were informed that the District Office staff depends on itinerants for staffing of lower classified positions of Clerical Assistants and Clerks up to the Class 2/3 (Third Division) level. This was said to be a common problem in the Northern Territory. These itinerants are largely untrained in the jobs for which they are engaged, their principal qualification usually being availability. They rely on other staff for guidance and usually make all the mistakes their tutors made. In addition they would accept the views of an officer who had been at the District Office for a considerable period. It was said that the reading of procedural manuals would have been unlikely, and it was obvious from the evidence of the inquiry into the misappropriations that no action would normally be taken to ensure that these manuals were understood by those involved in their use. Because of the high temporary component of staff, there were numerous absences and resignations resulting in frequent

Exhibit  
137/1  
Qs. 98, 130

changes of positions. It was stated that there were twenty-two commencements and eighteen separations, mainly up to the Clerk 2/3 (Third Division) level during the period December 1969 to October 1970.

156. It was stated that the Internal Audit arrangements suffered from three deficiencies. First, the auditors were required to use the fourth copy of the pay sheets to carry out test checks against basic time records and against personal history cards. This copy is indistinct and difficult to read but is the only copy held in the office in which an audit may be carried out. Secondly, the audit procedure broadly required that the auditor carry out checks to ascertain whether Section 9/H of the M.A.I. was being observed by all parties associated with the engagement and payment of industrial employees. The M.A.I. authorised the Branch Industrial Clerk to issue Notices of Engagement but made no reference to the need for an approval of engagement by a competent authority. The Department recognised in its submission that an audit procedure which only ensures that a Notice of Engagement is issued by a Branch Industrial Officer without the need to check the approval to the engagement is deficient. Thirdly, the requirement for the Auditor to attend a complete pay parade is not clearly set out in the Section of the Procedure dealing with Industrial Wages. This requirement is covered in another section of the Manual dealing with the audit of pay.

Exhibit  
137/1  
Qs. 131, 137

157. In addition, attention was drawn in evidence to the inexperience of the Internal Audit staff. Following the issue of P.S.B. Circular No. 1968/20 relating to the review of Internal Audit Positions, the Internal Audit Cell was expanded and for the first time since June 1967, a permanent appointment was made to the position of officer in charge. The experience of the officer appointed to the position of Inspector, Internal Audit (Clerk Class 7, Third Division) was limited to the establishment of a programme for the audit of taxation assessments. He had no previous experience in large scale internal audit programmes of a department. It was said that this officer has since proved to be an efficient auditor and organiser. The lower level consisted of three Clerks Class 4 (Third Division) and one Class 2/3 (Third Division). Of these, only one officer had had previous audit experience. The Class 4 (Third Division) officer who carried out the audit inspection in April/May 1970 was relatively inexperienced at that stage, but has since developed into a fairly competent auditor. He failed, in this initial period however, to ensure that he had all copies of the paysheets and he accepted the copies given to him as complete. Because of the area

Exhibit  
137/ 1

to be covered, which included all outlying Welfare Settlements in the southern area, it was necessary to lay down a fairly rigid time table.

158. In evidence, the witness stated that approval would be given to curtail a programme in order to adhere to an itinerary. He claimed that the Administration recognises the danger in this practice and the need for a flexible itinerary. The department's submission claimed that an inexperienced auditor might need to restrict his detailed examination of certain items in his programme.

Q.133

159. The Audit Observer, Mr. Scott, stated that the matters checked by an auditor are set out in his programme which is carried out except where, for certain reasons, approval is given for a restriction or curtailment. He added that the requirements for internal audit, apart from the use of the fourth copy of the paysheets, were satisfactory. The reports submitted by the Internal Auditors and reviewed by the Auditor-General's Officers, did not indicate a curtailment of the audit. He also expressed the view that it was unfortunate that the internal auditors curtailed their audit in relation to attendance at pay parades as this procedure is the final check.

Q.134

160. The Department's submission stated that in the present case time had not permitted the auditor to attend the pay parades and this undoubtedly contributed to him failing to ensure that he had all copies of the pay sheets.

Exhibit  
137/1

161. We were informed that the following measures have been taken to guard against a recurrence of the incident:

Exhibit  
137/1  
Q's 135-137

- Instructions have been issued by the District Officer, Alice Springs, setting out in detail the responsibilities for engagement of staff, preparation and checking of Municipal Gang Pay Sheets, signing of Pay Sheets as O.I.C. and for Branch Head, responsibilities and persons appointed as Paying or Witnessing Officers.
- Pay run reports submitted by Paying Teams including an acknowledgement that instructions have been read and are understood.
- Acquittance of paysheets are checked by the District Officer or the Administrative Officer prior to their despatch to Darwin and are checked again by an officer in the Finance Section. This officer also reports on all cases where a person signing as O.I.C. acts as Paying Officer.
- All Notices of Engagement are now signed by the



District Officer and he also signs his paysheets as Head of Branch. In his absence this action is carried out by the Administrative Officer.

- Payment of overtime to the Municipal Gang is approved by the District Officer.
- Internal Audit staff use the original pay sheets which are checked back to basic time records made out at the foreman level.
- Payment of wages are made only at pay parades where each claimant is identified by his foreman. Attendance at these parades is part of the Internal Audit programme for Alice Springs audits.
- Periodical visits are now made to the District Office by a senior officer of the Finance Section to inspect records and discuss problems. All unsatisfactory aspects from the case have been examined and discussed together with matters arising from Internal Audit and Commonwealth Audit inspections, and other aspects revealed from inspection of paysheets, vouchers and other records in Darwin. Matters which arise in Darwin and which may have implications in the District Office are also discussed.

162. When the misappropriations were discovered, the Northern Territory Police interviewed an officer who admitted responsibility for them. As a result of this and other interviews the Police were satisfied that no other person was criminally involved. Of the ten persons involved, one was dismissed under section 62 of the Public Service and convicted under the Crimes Act for fraudulent conversion and making false entries. He was sentenced to eighteen months imprisonment. Six others received reprimands and three resigned before action was taken.

Exhibit  
137/1  
Committee  
File  
1971/5

163. It was stated that the total original deficiency was \$9,807. This was reduced by setting off payments totalling \$162 due to the defaulter. It was also expected that a refund of the defaulter's superannuation contributions amounting to \$447 would be paid to the Department of the Interior. Also, as a consequence of the Supreme Court of the Northern Territory issuing a judgement for the Commonwealth in the sum of \$9,807 plus \$30 costs, the Crown Law Officer was instructed to institute bankruptcy proceedings against the defaulter. In the circumstances it appeared to the Department of the Interior that some of the deficiency would be recovered but that there would be a substantial irrecoverable loss to the Commonwealth.

Exhibit  
137/1  
Committee  
File  
1971/5

Conclusions

164. In its examination of this matter the Committee has directed its inquiry to the administrative effectiveness of the relevant areas of financial administration at the Alice Springs District Office rather than to the details of the methods adopted in the defalcations concerned.

165. The evidence shows that comprehensive instructions concerning the engagement and payment of wages staff are contained in the Northern Territory Administration's Manual of Administrative Instructions. The evidence also shows that the defalcations arose from the fact that these instructions were not observed. In particular, the officer preparing the pay sheets should not have been allowed to act as Paying Officer; witnessing officers did not witness all payments; pay teams did not always remain together; pay was not left in a locked container, especially during the lunch break and when disbursements were not being made; witnessing officers did not mark off the entries when pays were handed over to payees and paying teams failed to check the envelopes left over against unticked entries. The evidence also shows that temporary shortages of staff and inexperience on the part of the administrative officer-in-charge of the general operations of the District Office at Alice Springs contributed to this laxity in administrative operations.

166. Although the Manual of Administrative Instructions was issued in 1961, the evidence indicates that the need to make amendments to the Manual had arisen as recently as August 1970, particularly in relation to pay matters. Also, it appears that there is an ambiguity of meaning between Sections 2/H and 9/H of the Manual and this contributed materially to the defalcations that occurred.

167. The Committee is disturbed to find that the internal audit arrangements suffered from deficiencies. The auditors were required to use an indistinct copy of the pay sheets to carry out test checks against basic time records and personal history cards. Secondly, the audit procedure broadly required that the auditor carry out checks to ascertain whether Section 9/H of the Manual of Administrative Instructions was being observed.

While the Manual authorises the Branch Industrial Officer to issue Notices of Engagement it makes no reference to the need for approval of engagement by a competent authority. We agree with the Department that an audit procedure which only ensures that a Notice of Engagement has been issued but does not prescribe the need to check the approval to the engagement, is deficient. Thirdly, it appears that the requirement for the auditor to attend a complete pay parade is not set out clearly in the Section of the Manual dealing with Industrial Wages but is covered in another section dealing with the audit of pay.

168. In the circumstances outlined above it appears to the Committee that there is a strong need for the Manual of Administrative Instructions to be examined critically and defects rectified.

169. The Committee was also disturbed to learn that one of the reasons for the breakdown in procedures remaining undetected for a lengthy period of time relates to the fact that the District Officer at Alice Springs has external duties which keep him absent from the District Office frequently and for lengthy periods and that as a consequence he is unable to exercise detailed supervision. This situation, compounded by the problems of recruiting and holding trained staff in the lower classified positions in the Territory can only lead to a poor quality of administration.

170. Allied to this matter it is also disturbing to note from the evidence of the inquiry that was made into the defalcations that no action is normally taken to ensure that administrative manuals are understood by those involved in their use. The Committee believes that this and other forms of staff training are of very great importance in any area of administration. Indeed, the need for adequate staff training would appear to be increased in circumstances where the quality of the staff available is less than would be desired. We trust that, notwithstanding the problems associated with staffing at the Alice Springs District Office, appropriate action will be taken to improve the overall level of staff training at that office.

171. Finally, we note with satisfaction that appropriate action has been taken to guard against a recurrence of the defalcations. The Committee trusts that the action taken will be successful and that it will not have occasion to inquire into a similar matter in the future.

Chapter 5

Postmaster-General's Department

172. Paragraph 196 of the Auditor-General's Report for 1970-71 contained the following comment:-

"Mention has been made in my Reports for the past 3 years of the non-provision for departmental verification of the information in the monthly returns furnished in accordance with Broadcasting and Television Regulation 13 by persons letting out broadcast and television receivers on hire, and, in the absence of an effective system of verification, Commonwealth revenue from hirers' licences cannot be considered to be adequately protected.

Procedures formulated by the Department during 1968-69 and 1969-70 to provide for an effective check of revenue from this source require amendment to the Broadcasting and Television Regulations before they can be implemented.

Mention was made in my 1969-70 Report that action was in course with a view to amendment of the Regulations. According to recent advice from the Department, the matter was with the Parliamentary Counsel for drafting of the necessary Statutory Rule".

173. The Audit Observer, Mr. Lawrence, stated that the Auditor-General's Office first made representations to the Postmaster-General's Department concerning the problems relating to hirers' licences on 13 August 1963 and the matter was first reported in the Auditor-General's Report for 1967-68.

Q.174

174. Section 126(a) of the Broadcasting and Television Act covers the licensing of broadcast and television receivers let out on hire. This section was inserted into the Act in 1960, amended in 1961 and came into effect on 3 July of that year.

Exhibit  
137/3  
Q.175

175. Sub-section 3 of that Section requires any person who carries on a business that consists in whole or in part of letting out broadcast or television receivers on hire to hold an appropriate current hirer's licence or licences in respect of the radio or television receivers to be let out on hire and to ensure that the receivers are marked in the manner prescribed in Regulation 14, i.e. the licence is to be enclosed in an envelope and the envelope tied or fastened securely to the back or inside the back of the receiver.

Exhibit  
137/3  
Qs.176 to 178

176. Regulation 13 of the Act, introduced in July 1962 vide Statutory Rule 81 and not subsequently amended, provides that the holder of a hirer's licence applying in respect of more than one receiver shall furnish returns within a period of seven days after the end of each month, giving particulars of receivers let out on hire during that month. Licence fees are assessed from the particulars shown in these returns.

Exhibit  
137/3  
Qs. 181, 182  
Committee  
File  
1971/5

177. We were informed that in the absence of legal authority for Departmental Officers to inspect the records of hirers there is no means of establishing whether monthly returns which they furnish contain a full disclosure of all receivers on hire. It was stated that when hirers' licences were first introduced consideration was given to the question of whether legislation should provide for the inspection of records kept by the hirers. It was decided, however, not to include provision for such physical checks in the Regulations at that stage, but to rely on the requirement set out in Sub-paragraph (2) of Regulation 13, which provides for each monthly return submitted by a hirer to be accompanied by a declaration that statements made in that return are true and correct. The Department indicated that the Auditor-General also holds the view that this absence of any Departmental check of hirers' records is a weakness in the system of collection of revenue from this source.

Exhibit  
1971/5  
Committee  
File 1971/5  
Q.183

178. In 1968, the Postmaster-General's Department sought advice from the Attorney-General's Department as to whether there would be any legal obstacle to amendment of the Broadcasting and Television Act to enable Departmental officers to examine the books of hirers. The latter Department advised that Regulation 13 of the Act could be amended for this purpose, but if very stringent measures were required, an amendment of the Act would probably be necessary. Ministerial agreement was obtained for amendment of the Regulations in July 1968 and the matter was referred to the Parliamentary Counsel on 25 July 1968, for the preparation of a draft Statutory Rule.

Exhibit  
137/3

Q.185

179. The Parliamentary Counsel's witness explained that three types of difficulties arose in the approach to this matter. First, there exists the need to examine the records of hirers to determine their accuracy. Secondly, there is the requirement not to impose such restrictions and efforts on the hirers that

Q.184

are carrying on this business that will cause such protests that it will be considered that the machinery provisions are so onerous that they will be disallowed. Also there is a difficulty arising from the great variety of hirers which would require a regulation to take account of the commercial procedures of each kind.

180. We were informed that these problems and others were raised in a memorandum from the Parliamentary Counsel on 15 May 1969 to the Postmaster-General's Department. The Parliamentary Counsel advised the Postmaster-General's Department that problems would be encountered in drafting legislation which involved the inspection of the books of hirers. Such legislation would involve, among other things, the definition of the books or documents relating to the hiring of receivers; the different kinds of hirers; the way they carry on their businesses, the kind and location of records they keep; how they are kept and what changes would be necessary if adequate records were to be kept that could be inspected at a particular time and, even more particularly, the place where these records would need to be kept. Unless this was specified in the Regulations, the law could be circumvented by moving the records from place to place. Hence inspectors would be unable to find any records to inspect. The witness representing the Parliamentary Counsel's Office expressed the view that a close examination would be involved of the various kinds of hirers that were engaged in this work before a scheme could be evolved that was likely to be effective in law and not likely to impose such onerous conditions on the hirers that Parliament would reach the view that the conditions were out of keeping with the intention to be achieved.

Exhibit  
137/3  
Qs. 186, 184

181. In explaining the delay between July 1968 and May 1969 in submitting its advice, the witness representing the Parliamentary Counsel's Office stated that, at that time, the office formed part of the Attorney-General's Department. However, he also stated that it was not unusual, unless matters were extremely urgent, for at least six months to elapse before any work was undertaken on them by the Office of the Parliamentary Counsel. The Memorandum furnished to the Postmaster-General's Department on 15 May 1969 had been preceded by discussions held between officers of the Parliamentary Counsel and the Postmaster-

Q. 186

General's Department or the Broadcasting Control Board.

182. In his Memorandum of 15 May 1969 the Parliamentary Counsel suggested an alternative means of checking the validity of the monthly returns. This involved hirers entering into a written agreement in respect of each hiring of a receiver and inspection of these hiring agreements by officers of the Postmaster-General's Department at a place to be specified upon reasonable notice. It was proposed that a copy of the agreement would be held by the hiree for check by Licence Inspectors as required.

Exhibit  
137/3

183. The proposal made by the Parliamentary Counsel was acceptable in principle to the Postmaster's General's Department, but that Department found it necessary to discuss operational aspects of the proposal with a number of hirers to ensure that the proposed regulatory requirements of the agreement could be met with minimum cost and effort to the Commonwealth and hirers.

Exhibit  
137/3

184. Some eight or ten hirers in Melbourne, who were representative of such organisations throughout the Commonwealth, were visited by officers of the Department for the purpose of determining the types of agreement that they had entered into for the hiring of receivers. Based on the information received from the survey in Melbourne, the Department advised the Parliamentary Counsel on 1 April 1970 of the requirements for the proposed regulations and the drafting of the Statutory Rule.

Exhibit  
137/3  
Qs. 188-190

185. We were informed that since April 1970, the Postmaster-General's Department has followed the matter up regularly with the Parliamentary Counsel both verbally and in writing. The Parliamentary Counsel had advised the Department that certain technical difficulties in drafting the rule and pressure of other work, particularly in relation to Bills, and the shortage of staff, had delayed the completion of the task.

Exhibit  
137/3  
Qs. 191-194

186. In commenting on these difficulties the witness representing the Parliamentary Counsel stated that his office had two vacant positions of Principal Legal Officer. The positions, which are classified at the top of the third division, represent experienced draftsmen. Also,

Qs. 196, 197

vacancies exist for six legal officers in the Counsel's Canberra Office and two in the Darwin Office. He added that for a number of years the Parliamentary Counsel has not been successful in recruiting and retaining suitable officers. Even when such an officer is obtained, his inexperience adds to the overall problem.

187. It was stated by the witness representing the Postmaster-General's Department that revenue prior to the increase in licence fees that occurred on 1 October 1971 amounted to about \$3,500,000 for television hirers' licences and a little less than \$50,000 for broadcast hirer's licences. Of the 10,526 prosecutions in 1970-71 in relation to the licencing of television receivers only 6 related to television hirers.

Exhibit  
1971/5  
Qs. 179,  
187

Committee  
File  
1971/5

188. The Audit Observer, Mr. Lawrence stated that, as indicated in successive Reports of the Auditor-General, the basic consideration in regard to hirers licenses has been the absence of an effective system of verification of Commonwealth Revenue from such licences that Commonwealth revenue cannot be considered to be adequately protected. He added that a satisfactory solution to the position should be found at an early date.

Q.195

#### Conclusions

189. The evidence shows that since 1960, when Section 126(a) was added to the Broadcasting and Television Act there has not been an effective system of verification of Commonwealth Revenue arising from the licensing of broadcast and television receivers let out on hire. The Committee agrees with the views expressed by the Audit Observer, Mr Lawrence, that, in such circumstances, Commonwealth Revenue from that source cannot be regarded as adequately protected.

190. The Committee is disturbed to find that, although the Auditor-General raised the matter with the Department as early as 1963, this unsatisfactory state of affairs operated until as recently as 1968 before the Postmaster-General's Department sought advice from the Parliamentary Counsel with a view to resolving the problem. The Committee believes that this problem should have been foreseen when the relevant amendment was made to the Broadcasting and Television Act in 1960 and that, in any case, appropriate action on the matter should not have been deferred until 1968.



191. While it is clear from the evidence that the Office of the Parliamentary Counsel and the Department are moving towards a solution of the problem, it is disturbing to note that, evidently for staffing reasons, delays have occurred in relation to this matter within the Office of the Parliamentary Counsel. Prior to the creation of that Office, the Committee took evidence on the staffing problem confronting the Parliamentary Draftsman when it inquired into Financial Regulations concerning the Departments of the Navy, Army and Air. It appears from our present inquiry that the creation of the Office of Parliamentary Counsel has not so far solved the staffing problems in the legislative drafting area.

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of 1968

192. In view of the importance that the Committee attaches to the adequate protection of Commonwealth Revenue we trust that an early effective solution will be found to the problem confronting the Postmaster-General's Department in relation to broadcasting and television hirers' licences and in this regard we will continue to examine with interest the relevant paragraphs of future reports of the Auditor-General.

Chapter 6

Department of Supply

193. Paragraph 315 of the Auditor-General's Report for 1970-71 contained the following comment:-

"The introduction of automatic data processing, involving in many instances paper tape or punched card input and the use of continuous stationery for visible output, has produced a marked increase in the volume of waste paper.

Apart from the destruction of classified material by pulping or shredding, the arisings of clean waste paper from Commonwealth computer installations are of sufficient magnitude as to justify disposal, whenever economic and practicable, by sale under arranged contracts.

An Audit review was conducted in selected Commonwealth departments and authorities into current practices for the disposal of A.D.P. waste paper. The review disclosed that only a small proportion of the waste paper was being sold and there was lack of uniformity in the treatment of those sales.

In view of the potential source of additional revenue which exists on a continuing basis, the matter was referred to the Department of the Treasury and the Department of Supply (Commonwealth Contract Board). As an initial step the Department of the Treasury recently requested all departments in Canberra to advise the Department of Supply relevant details of their waste paper and, where applicable, of the arrangements for sale."

194. The Audit Observer, Mr. Lawrence, informed us that the audit review referred to in the comment above was undertaken in March 1970. The departments and authorities concerned had advised the Auditor-General's Office that there were two broad categories of classified and unclassified waste material and that the main methods used in disposal were by burning or dumping. Classified material was destroyed under supervision by burning or pulping followed by dumping. Unclassified material was disposed of in several ways. The Department of the Interior removed some such material from Commonwealth Offices in the Australian Capital Territory for subsequent burning at dumps; some was removed by cleaning contractors and, in some states, by Commonwealth

Qs.524,525,  
526

Archives for disposal; some was burnt and some was sold. In some cases ADP waste paper was included in general wastage but in other cases it was separated. The price received for waste paper depended on its categories. Cards from ADP operations, for example, were sold quite profitably.

195. The Department of Supply informed us that on 8 April 1970 the Auditor-General's Office had sought brief particulars of its contracts for disposal of waste paper; information relating to difficulties encountered in negotiating sales and statistics on its ADP paper purchases and related disposals. On 30 April 1970 the Department replied, indicating that, at the request of various departments a period contract had been arranged with Australian Paper Manufacturers for the purchase and removal of waste paper from Commonwealth departments generally, in Victoria. However, no contract for the sale of waste paper had operated in New South Wales since June 1968 when Australian Paper Manufacturers declined to renew its contract. A witness expressed the view that Australian Paper Manufacturers had decided that it was no longer economic for it to collect the paper, particularly in the Sydney Metropolitan Area where handling costs and transport charges were high in relation to the value of waste paper. The Department of Supply believed that APM was the only organisation able to undertake a satisfactory service. The then existing contract, covering the Department of Supply arisings only, provided for the Commonwealth to pay the contractor \$1 per bale for each bale removed. We were informed that two departments in New South Wales had been able to arrange for the sale of computer cards at approximately \$30 per ton.

Exhibit  
137/10  
Qs. 527-530

196. In South Australia the most recent relevant contract was arranged by the Department of Supply in January 1970 for the sale, following public invitation of tenders, of 4 tons of waste paper including ADP cards at \$8.17 per ton. This was declared by the Weapons Research Establishment at Salisbury. The contract was not of the continuing type and no further contracts had been placed when our inquiry occurred in February 1972. In Queensland a current period contract was administered by the Department of Supply for the purchase and removal of waste paper from Commonwealth Departments, a special rate being payable for ADP cards. In Western Australia and Tasmania no contracts existed and no arisings had been declared to the Department of Supply. However, the advice from Western Australia referred only to ADP waste paper, there being in existence

Exhibit  
137/10  
Qs. 531, 538,  
543

at that time a period contract for waste paper generally.

197. On 30 April 1970 the Department of Supply expressed the view that all Departments should declare their estimated arisings of waste paper and that period contracts similar to that operating for Victoria should be arranged in other States to avoid a fragmented situation and to enable a single authority responsible for disposal of waste paper to obtain the best financial terms.

Exhibit  
137/10  
Q.539

198. On 26 May 1971 the Auditor-General's Office advised the Department of the Treasury that the audit review relating to the disposal of ADP waste paper had demonstrated clearly that a potential source of additional revenue existed on a continuing basis. A copy of the memorandum was minuted to the Department of Supply which then instituted a survey of the position in each State as at June 1971. This revealed that in Victoria a period contract was operating for the purchase and removal of waste papers for Commonwealth Departments with a special rate payable for computer cards. In New South Wales the Department of Supply arisings were being disposed of by a contractor at a cost of \$1 per bale to the Commonwealth. In Queensland and Western Australia current period contracts were operating for the purchase and removal of waste paper for Commonwealth Departments and in South Australia no further contracts for the purchase and removal of waste paper had been arranged by the Department of Supply. However, at that stage, the Commonwealth Stores, Supply and Tender Board was in course of arranging a contract for all Commonwealth Departments in that State. In April 1972 we were informed by the Department of the Treasury that the Board had abandoned its proposal to arrange a contract for the disposal service as such a service was regarded as the responsibility of the Department of Supply. However, that Department has taken action to arrange a suitable contract for the purchase and removal of waste paper from all Commonwealth Departments in the Adelaide area. No contracts had been arranged in Tasmania.

Exhibit  
137/ 10  
Qs.524,542,  
545,  
Committee  
File  
1971/5

199. On 28 July 1971 the Department of the Treasury issued a Circular Memorandum requesting all Commonwealth Departments in Canberra to advise the Department of Supply of the quality and quantity of waste paper available for disposal and, where applicable, of the arrangements made for sale. When our inquiry occurred in February, 1972 the information

Exhibit  
137/10  
Qs.545,546  
Committee  
File  
1971/5

was being received and collated by the Department of Supply. We were informed that in a memorandum of 6 September 1971 the Department of the Interior advised the Department of Supply that it proposed to invite tenders for the collection and removal of waste paper in the A.C.T. This matter was discussed by both departments and the Department of the Treasury did not offer any objection to the proposal.

200. The Department of Supply informed us that ADP waste paper is only a small proportion of the total waste paper arising for disposal and some Departments do not segregate ADP waste from other waste paper. It expressed the view that as it is possible in some States to arrange contracts for the disposal of waste paper with special rates payable for computer cards, computer waste should be segregated if it is an economic proposition to do so in particular circumstances. It claimed that advantages would arise if all waste paper available for disposal from Commonwealth Departments could be declared to a single disposals authority in each State or Territory. Under such an arrangement the bulk quantity would be more attractive to tenderers. The observers representing the Department of the Treasury and the Auditor-General's Office agreed generally with this view. However, the Treasury Observer, Mr. Davidson qualified his agreement to the extent that collection should be confined to appropriate areas. He foresaw that problems could arise if collection areas were as large as State areas.

Exhibit  
137 / 10  
Q.547

201. We were informed that while the Department of Supply is responsible for disposing of surplus or unserviceable Commonwealth property including buildings, war material, goods and things, it is not in a position to take disposal action until such items have been declared surplus by a competent authority for disposal. In the particular instance of waste paper, and apart from its own surplus waste paper arisings, the Department takes action to arrange disposal contracts only when other Departments have declared to the Department of Supply that they have waste paper which requires disposal.

Exhibit  
137 / 10

202. In relation to the A.C.T. area and the special action required by the Treasury Circular we were informed that it was the intention of the Department of Supply to collate the information received and take appropriate disposal action. However, as the Department of the Interior had proposed that it should invite public tenders for the removal of all waste paper from Commonwealth-owned or occupied buildings, Schools and Commonwealth leased buildings in the A.C.T., the Department of Supply expressed the view that the matter needed further consideration

Exhibit  
137/10

and direction by the Department of the Treasury.

203. The Audit Observer, Mr. Lawrence, commenting on the evidence that had been submitted, stated that the Auditor-General's Office believes there is a potential source of additional revenue to be derived from the disposal of waste paper. He also expressed the view that the Auditor-General's survey, although not complete in its coverage, was adequate to form this opinion and indicated that there were varying methods of disposal available. Differences in disposal contract prices would be determined by the particular classes of paper concerned. He indicated that it would be desirable for the situation to be examined on a service wide basis. He felt that such a review could be undertaken by the Department of Supply generally and perhaps the Department of Interior in Canberra, although he emphasised that an administrative decision would be required. This would probably arise from the interdepartmental examination of the problem.

Qs. 548-550

#### Conclusions

204. The evidence relating to this matter confirms the views expressed by the Auditor-General that only a small proportion of waste paper arising from Automatic Data Processing has been sold and there has been a lack of uniformity in the treatment of such sales. Indeed, the evidence shows that in one case, waste paper in general was being disposed of at a cost of \$1 per bale to the Commonwealth.

205. The Committee would commend the Auditor-General on his initiative in conducting a review into this matter in 1970.

206. The evidence suggests that waste paper arising from Automatic Data Processing operations is only a small proportion of the total waste paper arising for disposal and some departments have not made a practice of segregating such material from other waste paper. It appears, however, that such waste is able to command comparatively attractive prices and we therefore believe that consideration should be given in appropriate cases to its segregation for disposal purposes.

207. When our inquiry occurred in February 1972 action arising from the Auditor-General's survey and subsequent developments had been initiated by the Department of the Treasury to bring the disposal of all waste paper under effective administrative control. We would commend the Department for this action and will expect to be informed, in due course, of the outcome.

-80-  
Chapter 7

Department of Works

(a) Recoverable Administrative Charges

208. Paragraph 283 of the Auditor-General's Report 1970-71 contained the following comment:-

"Departments and undertakings of a trading nature, ~~authorities~~ not fully financed by Parliamentary appropriations and other governments are charged an administrative oncost at various rates in respect of work carried out on their behalf by the Department of Works. The amounts so recovered are credited to Revenue. The \$1,040,906 increase in recoverable administrative charges during 1970-71 was mainly because of additional work performed on behalf of other governments and the Postmaster-General's Department.

" Following an examination of oncost rates my office, in April 1970, sought advice from the Department of the Treasury of action taken or proposed to review the rate charged to certain of the above-mentioned bodies with a view to recovery of amounts more closely related to actual costs incurred by the Department of Works.

In reply, Treasury advised that it had referred the matter to the Department of Works suggesting that the oncost rate be reviewed with the object of determining a reasonable and realistic fee. At the date of preparation of this Report, action by the departments concerned was still in course."

209. We were informed that prior to 1 July 1963, all clients of the Department of Works were required to pay a fee for work carried out for them by the Department. However, following consideration of the Committee's 55th Report and consultation between the Department of the Treasury and the Department of Works, it was resolved to limit the charging of a fee to works and services carried out for Departments of a business or trading nature and other Departments or Organisations that are not financed by Parliamentary appropriation.

Exhibit  
137/6

210. The organisations which are currently charged a fee by the Department of Works and total receipts from each organisation for the financial years 1969-70 and 1970-71 are:-



	<u>1969-70</u> <u>\$'000</u>	<u>1970-71</u> <u>\$'000</u>	
(i) Papua-New Guinea Administration	2,332	2,325	
(ii) Papua-New Guinea-Authorities and Commissions	195	208	
(iii) Reserve and Commonwealth Banks	437	662	Exhibit 137/6
(iv) United States and United Kingdom Governments, including Weapons Research Establishment	634	913	
(v) Government undertakings in the Northern Territory-electricity supply, water and sewerage services	247	275	
(vi) Postmaster-General's Department	2,036	2,536	
(vii) Other Authorities whose operations are financed from outside the Budget:			
(a) at 6 percent	99	97	
(b) at special rates	<u>46</u>	<u>51</u>	
	<u>6,026</u>	<u>7,067</u>	

211. Works and services undertaken for the Postmaster-General's Department and some Other Authorities whose operations are financed from outside the Budget are subject to a flat rate fee of 6 percent applied to expenditure on construction. Special rates operate for clients listed under (i) to (v) and (vii)(b) above. Exhibit  
137/6

212. It was stated that the practice of the Department of Works in charging clients for its services existed as early as 1923, but the origin of the fee of 6 percent is obscure. In 1949-50 the Department of the Treasury directed that a proportion of the Department of Works' administrative costs, in particular a proportion of the salaries and expenses of the technical staff, should be charged to appropriations for the projects concerned in an endeavour to reduce the Parliamentary Appropriation for the Administrative Vote of the Department of Works. This was considered desirable in view of the substantial increase in the administrative vote arising from the considerable expansion of the works programme at the time. The amount of the reduction was arbitrarily determined as 6 percent of works expenditure. However, the Department of Works stated that 6 percent was a rate that applied from 1949 until June 1963 for work undertaken for all Commonwealth Departments and the Department of the Treasury approved that rate to apply to work carried out for the Postmaster-General's Department and other Authorities not financed from the Budget, except for the organisations where special rates were operating as at 1 July 1963. Exhibit  
137/6  
Qs. 354,  
356-358

213. It was stated that, during 1970, and consequent on a suggestion made by the Auditor-General's Office, Treasury raised with the Department of Works the question of the need to review the general rate of 6 per cent, the objective being to determine a "reasonable and realistic fee". The Department of the Treasury suggested that any such review should encompass not only the Department of Works' actual operating costs but also the fees that other organisations charged for similar works and services. We were informed that private architectural consultants fees, for example, are set by the Royal Australian Institute of Architects as a basis for negotiation. The basic fee for a normal project is 6 percent together with full reimbursement of fees paid by the private consultant to other sub-consultants such as structural and mechanical engineers. Aspects and problems associated with the review were the subject of discussions between representatives of the two Departments following the receipt of a Treasury Memorandum dated 14 September 1970. Formal advice was supplied by the Department of Works to the Department of the Treasury on 5 July 1971.

Exhibit  
137/6  
Qs.360,377

214. We were informed that to make any reasonable assessment of the fee which should be charged to a particular Department or Authority it was first necessary to identify the elements of departmental costs which relate to the particular service being provided. These services, which are different and diverse, include preliminary studies; project planning and control; design development; execution of construction and supervision; maintenance and operation and advice to other Departments, the Government and other organisations. This advice relates to matters such as general information on costs used in the initial consideration of a particular project, information necessary to develop a meaningful brief for a project, the practicability of a scheme and the condition of the building industry as known to the Department of Works. Advice is also tendered to industry by involvement in organisations such as the National Public Works Conference, the National Association of, Australian State Road Authorities, the Association of Consulting Engineers, the Standards Association of Australia, the Royal Australian Institute of Architects, the Australian Institute of Quantity Surveyors and others. The Department of Works is associated with these organisations in an advisory or consultative capacity.

Exhibit  
137/6  
Q.361  
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File  
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215. It was stated that "preliminary studies" include the siting of major facilities, the economics of alternative solutions for developmental proposals, feasibility studies and investigations

related to proposed major development works. "Project planning and control" involves consideration of the resources required for all phases of a project, the optimum time and most efficient method of design development and construction of a project, examination of design and construction resources and costs, and the penalty in cost of alternative time targets for completion of construction. "Design development" covers the consideration of alternatives in the early stages, with later development of a project through to the sketch-plan stage, to working drawings and detailed specifications. "Execution of construction and supervision" relates to the control of quality, time and cost of works and the organisation of work in construction using both contract and departmental day labour resources. "Maintenance and operation" refers to the repair and upkeep of Government assets of all kinds throughout the Commonwealth using both contract and day labour resources and involving in many cases the operation of facilities such as water supply, power supply, sewerage, boiler installation, airconditioning equipment and the operational activities within major buildings.

Exhibit  
137/6

216. It was stated that a fee which it would be "reasonable and realistic" to charge individual clients depends upon the nature and extent of the service provided. It will be affected to a significant degree by the size and complexity of the work undertaken. We were informed that the Department's knowledge in this respect has been gained by negotiation of fees with consultants who carry out work on its behalf. A witness representing the Department of Works referred to a particular agreement between the Commonwealth and the Royal Australian Institute of Architects which was based on a memorandum of understanding settled originally between the Public Works Department of New South Wales and the Institute. In this agreement there are analyses of the fee scales to permit additions or subtractions to be made for services which are additional to or are deleted from particular commissions. It was said that this allows the fee to be adjusted according to the services rendered.

Exhibit  
137/6  
Qs. 363-365

217. We were informed that since mid 1969, the Department of Works has been developing systems to assess the relationship between costs of providing the different types of services and corresponding output. The main objective of these studies is to establish the cost of particular activities of the Department where productivity or efficiency might be capable of improvement and to supply information for management control purposes. From the operation of these systems

Exhibit  
137/6  
Q. 366

it will be possible to determine the cost of the substantially different services which the Department provides and establish a basis for the determination of a "reasonable and realistic" fee to be charged to the appropriate Departments or Organisations. It was stated that although considerable progress has been achieved in the development of these systems the Department had not yet been able to determine fees that would be as reliable as is desired. A witness explained that the process concerned an alteration to the methods of working to promote better efficiency generally in the Department's operations rather than merely dealing with fee scales or costs of operations.

218. While the Department has been developing systems for measuring and assigning costs to the main elements of the services provided to clients, it has also commenced a pilot re-organisation in the methods of undertaking work. This followed considerable investigation into appropriate methods of organisation of the technical resources used by the Department. The pilot re-organisation changed the organisational pattern **basically** by introducing a project management concept by which responsibility for a total project is placed in the hands of a single person-a project manager. This re-organisation embraced initially about 25 personnel and when our inquiry occurred in February 1972 had been built up to about 90 technical staff in the New South Wales Branch of the Department.

Exhibit  
137/6  
Q.366

219. The witness referred to additional services which are provided by the department over and above the type of work performed by consultants. The Department's difficulty in the past has been to isolate such activities for the purposes of costing. The pilot project management group, however, provides information daily, each member recording the elements of the project on which he worked on that particular day. This is noted as a code reference which refers to processes such as sketch plans, working drawings, specifications and many other categories. This information is analysed by computer and reports are compiled which provide information on staff usage in terms of skills applied to particular categories of work and the amounts of time actually spent on a project in its various elements. This information is much more detailed than was available previously. The objectives are to provide an improved service to clients and to increase the efficiency in planning, design, co-ordination and control in the construction of the larger capital works in the short-term and to an even greater degree in the long-term by increasing the challenge

Exhibit  
137/6  
Qs. 368, 369

and opportunity for the professional staff of the Department.

220. Prior to the pilot re-organisation, the method of performing work was by separate groups. The witness illustrated this by referring to the New South Wales office of the Department where work was carried out in three divisions -Design, Construction and Management Services-each of which operated under an Assistant-Director. The link between design and construction in the authoritative sense was at State Director of Works level. Work flowed from design to construction and was managed separately. This caused problems in communication and co-ordination. It also tended to limit the experience of the Department's officers who worked in either design or construction activities. This situation has been changed in the new pattern of organisation. Teams, comprising officers with most of the skills needed for a project or a number of projects which have been assigned to a team, have been set up within a fourth division in the New South Wales Office. This division is a multi-discipline design and construction group. Its resources are shared between teams and divisions. The processes of planning, design and construction supervision of projects is carried out within this Division. The construction staff becomes involved in a project during its design phase and the designers have an involvement through construction. The Project Manager is the link and he is held primarily responsible for the planning, co-ordination, control and successful conclusion of a project to meet a sponsor's requirement.

Exhibit  
137/6

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Committee  
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221. Work under this re-organisation commenced in January 1971 and the Department claimed that some time must elapse before the Department can fully evaluate its effect and make a reasoned assessment of the improvement in the services of the Department to clients and the improvement in efficiency and in the cost of operation. In February 1972, the Department had only completed one comprehensive project under the pilot scheme. A witness explained that before conclusive results can be obtained with regard to operating costs it would be necessary to undertake a fairly wide range of projects from inception through to completion of the construction phase. The proposal to widen the use of the concept was under discussion with the Public Service Board and included matters of organisation and the provision of some staff for the expanded division in New South Wales. The witness also expressed the hope that the new division's organisation pattern would be clearly

Exhibit  
137/6  
Qs. 366,  
371-373,  
375

established and that the essential staff required would be provided by May 1972 to enable it to operate on a continuing basis. The witness believed that the pilot project, once proven beyond doubt to be successful will set the pattern for the changeover of the remaining technical divisions to that style of operation or derivations of it. However, the witness claimed, that he was not competent to discuss the expansion of the concept into the remainder of the Department.

222. The Department of Works stated that in view of the time it requires to develop its systems of evaluating performance and to consider the results flowing from the re-organised structure it suggested to the Department of the Treasury in July 1971 that it would be premature to endeavour to assess what change, if any, should be made in the fee for charging works services to the particular Departments and/or organisations who are required to pay for such services.

Exhibit  
137/6

223. We were informed that all of the matters mentioned were discussed between representatives of the Department of the Treasury and the Department of Works as recently as during the week prior to our public inquiry in February 1972. It is proposed that as soon as practicable the details of the actions introduced by the Department of Works to improve efficiency and measure performance will be the subject of detailed examination and discussion with Treasury officials for the purpose of establishing a scale of fees that would be appropriate to charge for the services that the Department of Works renders to the Post Office and other organisations whose operations are financed outside the Budget. As stated above, the Department of Works expressed a preference that any adjustment in the 6 percent rate that certain of its clients were charged should be deferred until the Department reaches a position to measure precisely the cost of their operations. During the discussions the Department of the Treasury suggested that, pending finality in the completion of those procedures for the measurement of costs, the Department of Works should apply some other rate or basis of rates in the interim period. When our inquiry occurred in February 1972, the Department of Works had lodged working papers on consultant fee scales with the Department of the Treasury. It had stated that the objective would be to discuss with clients currently being charged 6 percent, any adjusted rate that may be determined in consultation with the Department of the Treasury, with a view to introducing a changed rate from 1 July 1972. It was believed that this date would be the most appropriate from the view point of budgets and cash flow of the clients concerned.

Exhibit  
137/6  
Q.376

Conclusions

224. It appears from the evidence that the practice of the Department of Works in charging clients for its services existed as early as 1923, although the origin of the 6 percent administrative oncost that is presently charged, is obscure.

225. It also appears that during 1970 the Department of the Treasury raised with the Department of Works the need to review the general rate of 6 percent with a view to determining a reasonable and realistic fee.

226. The evidence shows that while some progress has been made in this matter the determination of a revised fee is presently complicated particularly by a reorganisation of methods that is in train within the Department of Works. It is clear that if the Department's new project management concept proves successful and is implemented fully by the Department, its operation will affect materially the level of administrative oncost that would be reasonable and realistic both from the viewpoint of the Department and the clients concerned.

227. When our inquiry occurred in February 1972 discussions on this and related matters had been held between the Department of the Treasury and the Department of Works and these discussions were expected to continue. The Committee desires to be informed, in due course, of the results of these discussions.

(b) Construction of Incinerator.

228. Paragraph 286 of the Auditor-General's Report 1970-71 contained the following comment:

"The smaller capital works at the airport included a project for the construction of an incinerator building and two incinerator units for which contracts amounting to \$186,393 were let in April 1967. Variations subsequently approved to the contracts totalled \$42,336, and included \$33,418 for additional costs involved in relocating the installation following representations made by Local Government Authorities after construction had commenced. Approval was also given for additional expenditure amounting to \$41,629 to cover modifications to the installation after tests disclosed that the moisture content of the garbage to be treated was higher than that specified in the contract. The capacity and the performance of the units following their modification were substantially less than that originally specified and additional operating costs will be incurred in the future by multi-shift work, to meet increasing quantities of garbage and to cover the reduced capacity of the burner cells.

The Department of Civil Aviation has indicated that the knowledge gained from the construction of the incinerator will be, and already has been, of assistance in the construction of similar type installations.

Total expenditure on the construction of the installation to 30 June 1971, including expenditure on minor works, was \$293,992."

229. We were informed that the purpose of the incinerator is to destroy all quarantine garbage at Sydney (Kingsford Smith) Airport in accordance with the requirement of the Department of Health that all cabin wastes from international aircraft including food, liquids, bottles and cans be incinerated as a guard against the spread of any infection. Wastes from aircraft of domestic airlines, food wastes from flight meal preparation kitchens and general airport refuse are also incinerated. All material to be incinerated is collected in large, specially designed, covered bins and transported to the incinerator.

Exhibit  
137/7  
Q.408

230. It was stated that two electric hoists are used to lift the large garbage bins from ground level to the charging floor level where



they are drained before being tipped through chutes into the furnaces. The bins are then cleaned, first on a cold water washer, and then by steam jet before re-use. With the approval of the Department of Health and the Sydney Metropolitan Water, Sewerage and Drainage Board, all liquid wastes are discharged into the sewer without treatment. Concerning this method of disposal the witness representing the Department of Works explained that sewage in Sydney is normally disposed of out to sea and that dilution was probably considered sufficient. He added that this was not an inconsistent approach in that ships may dispose of quarantinable garbage by dumping at sea, notwithstanding statutes that relate to solid and liquid wastes. A letter received by the Department of Works on 26 May 1969 from the Department of Health stated, in part:

Exhibit  
137/7  
Qs. 381, 382,  
409-411

"The Department of Health agreed to the separation of liquid taken from overseas aircraft provided the separation takes place at the incinerator and that the effluent is disposed of in sewers draining into the sea".

231. The incinerator is housed in an industrial-type building with a small adjacent amenities building. It consists of two separate units each containing a primary and secondary chamber. The primary chamber, or furnace, is for the purpose of destroying the main content of the garbage and the secondary chamber is for eliminating smoke from the gases given off from the garbage in the primary chamber.

Exhibit  
137/7

232. Each primary chamber is preheated by oil burners until a temperature of about 1600°F. is reached. When wet garbage is dropped into the chamber, moisture is evaporated and oil burners automatically maintain the temperature in the chamber. As the moisture content is lowered the combustible material in the garbage is destroyed by burning and residual ash is later removed through small doors to one side of each unit. Smoke and gases from the primary chamber pass into the secondary chamber where oil burners continue the destruction of combustible materials. Following this stage the smoke passes through a water scrubber, which arrests fly ash and cools the gases before discharge to protect the flue and stack linings from excessively high temperatures. This process also ensures that the smoke emitted by the stack is not in excess of the level permitted by the Clean Air Act.

Exhibit  
137/7

233. We were informed that the garbage handled by the incinerator comprises wet garbage from aircraft galleys and airport kitchens and drier garbage from all other airport sources. In addition to the variable moisture content of these types of garbage, there are wide differences in the readiness which they will burn. For example, office papers burn easily compared with food wastes. The average moisture content of the mixed garbage from the airport was estimated to be 30 per cent, based on a judgment reached over a considerable period of time. This moisture content was consistent with the known moisture content of municipal garbage. In the light of the information available when design was commenced, this figure was considered reasonable. However, a figure of 35 per cent was used for design purposes.

Exhibit  
137/7  
Q.383

234. It was stated that several sites for the incinerator were investigated by the Department of Civil Aviation prior to it supplying its brief to the Department of Works on 2 September 1965. This brief described the approximate location of the "initial" site. This site was confirmed by letter dated 11 January 1966 from the Department of Civil Aviation to the Department of Works and documentation for the project was commenced. All other sites that had been considered were unacceptable because of envisaged or immediately proposed development.

Exhibit  
137/7  
Q.384  
Committee  
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235. Following inspections made and discussions held between officers of both Departments, it was agreed that a less costly location for the building could be found about 300 feet to the north west of the initial site. This new site which the Department of Civil Aviation confirmed in writing on 8 February, 1966 was the site on which the Contractor commenced building.

Committee  
File  
1971/5

236. During the documentation period, the Department of Works held verbal discussions with the New South Wales State Planning Authority and agreement was reached regarding the site. Documentation was completed and the acceptance of a tender in the amount of \$89,158 was notified on 14 April 1967 to Messrs. Davis and Davies Pty.Ltd., the successful tenderer. The formal contract document was signed by this Contractor on 17 May 1967.

Exhibit  
137/7  
Q.388  
Committee  
File  
1971/5

237. It was stated that the exact date on which the Contractor

actually commenced work on the site cannot be ascertained. A search of the records did not disclose the date and the officer then in charge has since left the Department of Works. The contractual requirement was that work should be started not later than fourteen days after the signing the contract. The most likely time which could be inferred from the information available was that work started on or immediately after 17 May 1967.

Committee  
File  
1971/5

- \* 238. On 30 May 1967, the Department of Civil Aviation advised the Department of Works that construction work was to cease and requested that estimates be supplied for the complex to be erected on a different site. However, in a Memorandum dated 8 March 1972 to the Committee, the Assistant Director(Construction, New South Wales ) Department of Works, indicated that on 29 May 1967 the Contractor was informed verbally to cease work on the site, This verbal advice was confirmed in writing on 30 May 1967.

Exhibit  
137/7  
Committee  
File  
1971/5

239. The summary of events leading to this situation was given in evidence. On 6 April 1967 the Department of Civil Aviation advised the Department of Works that arising from ministerial representation initiated by the Botany Council, the State Planning Authority had been requested that the incinerator be built elsewhere on the airport. The Botany Council had taken the view that the incinerator should be relocated on some other part of the airport, at least 500 feet from a major road. The State Planning Authority supported the Botany Council in its request. The principal objections were that incineration of waste, an activity which is generally accepted as having an unpleasant effect on living conditions, should not be carried out immediately adjacent to a public road and that the size of the proposed building was such that the visual impact on motorists using the adjacent road would be too great. In view of the sensitive atmosphere in neighbouring Councils concerning Sydney Airport, the Department of Civil Aviation considered it prudent to relocate the facility as requested through the State Planning Authority.

Exhibit  
137/7

Qs.378,  
389-399

240. On 17 April 1967 the Department of Civil Aviation was advised that plans had been submitted by the Department of Works to the State Planning Authority and the State Public Health Department and had been shown to the Botany Council engineers. On 26 April, 1967

Exhibit  
137/7  
Qs.379,  
394-396,

the plans were submitted to the Botary Council by the Department of Works. At the request of the State Planning Authority on-site meetings were convened on 25 and 26 May 1967 by the Department of Civil Aviation with the State Planning Authority, the Botary Council and the Department of Works at which the choice of an alternative site was discussed. The Department of Civil Aviation agreed to relocate the building on a new site behind a service station fronting Joyce Drive. On 30 May 1967, the Department of Civil Aviation confirmed the choice of the new site with the Botary Council and also instructed the Department of Works to cease work until the matter was clarified.

241. In reply to questioning regarding the delay from April 1967 in reaching a decision to defer work on the incinerator, the Witness representing the Department of Civil Aviation claimed that when the objection was first raised it was not decided immediately to oblige. He added that there were certain considerations to be taken into account and as soon as it became obvious that the Department of Civil Aviation would agree to the representations the Department of Works was asked to cease the work. He also added that it had appeared that the Department of Civil Aviation would proceed with the original site. A witness representing the Department of Works stated that his department was aware of the discussions at that time. The Department of Works was requested to provide estimates for costs involved in the relocation of the incinerator. These were provided on 15 June 1967.

Qs.400-402

242. On 27 July 1967, the Department of Civil Aviation confirmed that the new site had received approval. It also advised the Department of Works that the State Planning Authority and Botary Council had been informed. Documentation for the new site commenced immediately. The difference in site conditions between the old and the new locations necessitated a partial redesign of the incinerator complex. The increase in cost resulting from the re-design was \$26,440, attributable entirely to construction costs at the new site. An amount of \$6,978 was paid to the contractor in connection with work on the earlier site. This work included excavations, some work on foundations and also some acquired material delivered on site. These two items together made up the \$33,418 mentioned in the Auditor-General's Report as "additional costs due to relocation".

Exhibit  
137/7  
Qs. 386, 387  
403, 404

243. When the initial capacity tests were run in June 1968, it was

found that the incinerator units would not burn the airport garbage at the specified rate. It was found that the garbage had an average moisture content of more than 70 per cent and not 30 per cent as specified. It was claimed that prior to the introduction of this system, garbage was handled by a contractor. Also, garbage of this nature is unpredictable as to content, depending upon factors beyond the control of the airport authorities. It was stated that past experience in dealing with garbage was insufficient prior to the writing of the brief for the incinerator. In order that the incinerators could be tested for compliance with the contract specification a mixture of garbage from the Waverley and Woollehra Councils was made to obtain test garbage of the specified moisture content. A test firing was carried out with this mixture and was judged by the Department of Works to be satisfactory. The contract was financially completed.

Exhibit  
137/7  
Qs. 420-424

244. Methods of modifying the units to be capable of burning the wetter garbage were discussed with the incinerator contractor. The incinerator contract covered both design and construction and, in accordance with normal practice as the contract did not contain any special conditions, the designs of the furnaces were the commercial property of the contractor. Since successful alterations could not be designed without a full knowledge of the original design factors, negotiations for alterations with parties other than the designers were not appropriate. The discussions revealed that the incinerators could be modified. It was agreed following an engineering judgment based on improved knowledge of the garbage and other physical constraints that when tested the incinerator must be capable of burning not less than 14,000 lbs of quarantinable garbage as collected, the actual moisture content being tested only if the agreed figure was not reached. As a result of negotiations an offer was made by the Contractor to the Department of Works for modifications, with a guarantee that each cell would burn not less than 14,000 lbs of quarantinable airport garbage as collected, with an average moisture content of 70 per cent, in a 6 hour period of burning. The estimated cost of these modifications was \$41,629. The capacity proposed in those modifications was substantially less than the 20,160 lbs per 8 hour day per cell originally specified. The figure of 14,000 lbs was the best that could be guaranteed and was accepted by both the Department of Works and the Department of Civil Aviation. In later tests which followed the modifications the required capacity was demonstrated by the contractor and the Department of Works

Exhibit  
137/7  
Qs. 425, 426

accepted the installation. It was pointed out in evidence that the capacity of an incinerator is commonly quoted for an 8 hour day with a 6 hour burn. In a shift of 8 hours, some time is required for preheating the furnace before charging can commence. Also the last charge of the shift needs to be reduced to ash and char for removal.

245. As a result of experience gained in June 1968 when the first capacity tests were made of the incinerator, it was decided to enlarge the building opening in the South wall and to provide two garbage bin hoists in place of one unit to improve handling capacity on the charging floor, particularly with two furnaces in simultaneous operation. These modifications cost \$5,829 which included \$4,360 for the hoists and \$1,199 for the opening in the wall. Minor modifications to improve the operation of the ancillary equipment for garbage bin washing cost an additional \$779.

Exhibit  
137/7

246. The number of the special garbage bins which were required when the incinerator went into service was not known when the contract was let. The Department of Civil Aviation agreed to a nominal number of bins to be provided as part of the contract pending the outcome of its investigation into the most appropriate collection system for garbage at the airport. This investigation was proceeding simultaneously with the construction of the incinerator. It was explained that a new concept in garbage collection had to be developed and vehicles had to be designed to handle the large containers. In addition, negotiations had to be conducted with the users of the system to be implemented at the garbage generation areas. These negotiations took 18 months to two years to complete. The result of the investigation was the provision of an additional 60 bins at a cost of \$13,323.

Exhibit  
137/7  
Qs. 416-  
420

247. The Sydney Metropolitan Water, Sewerage and Drainage Board, when approached for a water supply to the incinerator complex, was unable to supply water for the purposes of cleaning and cooling of the flue gas. This was not related to the siting of the incinerator. Local bores, pumps and reticulation cost of \$13,841.

Exhibit  
137/7  
Qs. 378, 379

248. Personnel of the Department of Civil Aviation commenced the operation of the incinerator on 1 March 1971 under the instruction of the incinerator contractor's representatives. This continued until 12 March 1971 after which the Department of Civil Aviation personnel took charge of operations. The incinerator was taken over by the Department of Civil Aviation from the Department of Works on 15 June 1971.

Exhibit  
137/7

249. It was stated that the reduced capacity of the incinerator, due to the modifications needed to enable the wetter garbage to be burnt, requires longer operation to burn the garbage and the amount of garbage is increasing more rapidly than had been indicated by the forecasts made by the Department of Civil Aviation in September 1965. These forecasts had been based upon the premise that the rate of growth of passenger traffic and the rate of growth of garbage generation had been parallel. However, growth predictions in both areas fell short of actual growth in later years. The original planning envisaged additional shift work beyond 8 hours per day to meet increasing garbage quantities and experience since the incinerator has been commissioned indicates that it is already necessary to exceed 8 hours per day of operation. When our inquiry was conducted in February 1972 we were informed that the incinerator was being operated on one shift of 8 hours per day, seven days per week. A witness representing the Department of Civil Aviation claimed that for a number of reasons including the problem of staff ceilings, it was not possible to increase the span of shifts or to adopt a second shift. He stated that although plans for the future were not firm, the matter was under definite consideration, some of the options available related to increasing the incinerator capacity by adding further units, or the use of another approved incinerator such as a new municipal incinerator that may be built in the area.

Exhibit  
137/7  
Qs. 427-432

250. It was stated that the Department of Health has always maintained the requirement that all incoming garbage from Overseas aircraft be destroyed by incineration. In the view of that Department there is a possibility of cross-contamination from the cleaning of utensils from such aircraft in the kitchen area. Consequently the Department of Health requires the destruction of all kitchen generated garbage and all garbage removed from aircraft. It was claimed by the witness representing the Department of Civil Aviation that the Department of Health would prefer that every piece of garbage on the airport be destroyed. When our inquiry occurred the Department of Civil Aviation was destroying only the garbage from aircraft and a small proportion of refuse from the international kitchens. The remainder was being moved to local tips. Prior to the use of the new incinerator, garbage was destroyed in half-a-dozen large "backyard" type incinerators, each of an approximate capacity of 4 cubic ft. The garbage was tipped on the ground, shovelled into the incinerators by hand and burnt with the aid of firewood and kerosene.

Q.429

251. It was stated that 9 men operate the incinerator for one shift, 7 days per week but an additional 7 to 9 men would be required for each additional shift. It was said that the garbage being disposed of outside the perimeter would be sufficient for at least two additional shifts. It was also said that a great deal of this additional garbage is not of interest to the Department of Health as it is not quarantinable. This type of garbage can be tipped quite satisfactorily at much less cost than incineration.

Qs. 440-441

252. The Auditor-General stated in his Report that the Department of Civil Aviation had indicated that the knowledge gained from this particular project will be and already has been of assistance in the construction of similar type installations. It was stated in evidence that the incinerator at the Sydney Airport was the first of its kind in Australia and the knowledge gained has been applied to a successful incinerator project at the new Melbourne Airport. The same considerations, supplemented by further knowledge obtained at Sydney, are being applied in a proposal to erect an airport incinerator at Perth. Overseas practices had been examined and the Department of Works was unable to find operations of the same nature and scale or devices appropriate to the Australian situation. It was pointed out that Australia and New Zealand are the only two countries in which certain endemic animal diseases are not found. The Department of Health is the authority charged with quarantine control and Animal quarantine is designed to safeguard Australian primary industries. It was said that the incinerators had been built for these reasons.

Qs. 435-436

#### Conclusions

253. While the circumstances of this case are most unfortunate the evidence indicates that many of the causes of difficulty that were experienced were beyond the control of the Department of Works and its client the Department of Civil Aviation.

254. Although there was evidently some initial uncertainty about the selection of the site for the incinerator, a site was chosen firstly after consultation with the New South Wales State Planning Authority. The need to change this site, which involved some re-design of the incinerator, arose from a request made by the State Planning Authority



following representations initiated by the Botany Council. The cost of this relocation amounted to \$33,418. Secondly, the Sydney Metropolitan Water, Sewerage and Drainage Board was unable to supply water for the incinerator complex when it was requested to do so. This involved the need to install bores, pumps and reticulation at a cost of \$13,841. Thirdly, although practices overseas were examined, the Department of Works was unable to discover operations of the same nature and scale or devices appropriate to the Australian situation. In these circumstances it is clear that the Department was unable to obtain the benefit of satisfactory overseas experience for its guidance during the design stage of the project.

255. Nevertheless there are certain features of the evidence to which attention should be invited. We were informed that the average moisture content of the mixed garbage from the airport had been estimated initially to be 30 percent, based on a judgment reached over a considerable period of time. However, when the initial capacity tests were run it was discovered that the garbage had an estimated moisture content of 70 percent. Although in this regard it was argued that garbage of the type concerned is unpredictable as to content and dependent upon circumstances beyond the control of the airport authorities, it was admitted that past experience in dealing with garbage was insufficient prior to the writing of the brief for the incinerator. On the basis of this admission the Committee believes that a more thorough analysis of the garbage should have been made before the incinerator designs were developed. The cost of conversion required to overcome the problems associated with this matter amounted to \$41,629.

256. The Committee notes from the Report of the Auditor-General that the Department of Civil Aviation has gained knowledge from this particular project which will be and already has been of assistance in the construction of similar-type installations. The evidence shows that an incinerator has been constructed successfully at the Tullamarine Airport in Melbourne and a similar facility is proposed for the Perth airport.

(c) Precautions against Fire damage in Computer Installations

257. Paragraph 315 of the Auditor-General's Report for 1970-71 contained the following comment:-

"An Audit review of fire protection measures in Commonwealth computer installations disclosed instances of inadequate instructions covering use of fire fighting equipment, and inadequate procedures relating to the protection of magnetic files (tapes and disks) and the regeneration of master records in the event of the main tape and disk files being destroyed.

In view of the nature and value of the equipment, Audit suggested to the Department of the Treasury that consideration be given to the formulation of special procedures relating to the protection of this particular category of Commonwealth assets. The suggestion was supported by evidence that the General Services Administration of the United States of America had taken similar action several years ago.

Treasury referred the matter to appropriate departments for consideration. A recent advice from Treasury indicates that the Department of Works is drafting a manual covering the design of housing, services, fire protection, etc., for computer installations and has sought the recommendations of the Commonwealth Fire Board prior to finalising the section on fire protection.

The matter of adequate procedures covering the regeneration of master records is still under review."

258. The Audit Observer, Mr. Parker, informed us that the Audit review referred to was undertaken throughout the Audit branches in the mainland States in 1969 and it was discovered, during a comparison of the overall results, that at least one instance had occurred in each of the five states where either the promulgation of written instructions as to the methods of using fire fighting equipment in and around the A.D.P. installations was unsatisfactory or the standing arrangements for protection of master magnetic tapes and similar records required early and positive action to minimise the possibility of loss of these records.

Q.447

259. He advised us that during the review conducted in 1969, the Auditor-General's Office, through its New York Branch, had made inquiries of the United States Government Authorities concerned and ascertained that the Federal Fire Council of the United States of America had published a Report entitled "Fire Protection for Essential Electronic Equipment." The use of the recommended practices referred

Q.449  
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to in that report was prescribed, with certain limited modifications, by the General Services Administration of the United States of America on 17 August 1962. A copy of the publication was provided for the Committee's information.

260. In a memorandum dated 3 June 1969 the Auditor-General's Office advised the Department of the Treasury of the results of the review and suggested that consideration should be given to the formulation of special procedures relating to the protection of this category of asset. Q.448

261. On 27 June 1969 the matter of fire protection in A.D.P. areas was referred by the Department of the Treasury to the Department of the Interior as the main landlord department responsible for fire protection in Commonwealth buildings. Towards the end of 1970 the Department of the Interior replied and the Department of the Treasury then referred the matter to the Department of Works in May 1971. Q.451

262. On 1 July 1971 the Department of the Treasury forwarded to the Auditor-General's Office a copy of a communication which it had received from the Department of Works and which indicated that a manual covering the design of housing services, fire protection and other related matters for computer installations was being prepared. The Department of Works had sought the recommendations of the Commonwealth Fire Board prior to finalising the section dealing with fire protection. Qs. 452, 454, 455

263. It was stated that the Commonwealth Fire Board advised the the Department of Works that, at its 179th Meeting held on 14 and 15 April 1971, it made a number of recommendations for the fire protection of computer installations. The Board also advised that it intended to issue the recommendations, supplemented with additional information, as a Fire Board Circular. This action was in accordance with a suggestion made by the Auditor-General's Office and supported by the Department of the Treasury. In the meantime, the Commonwealth Fire Board issued a circular memorandum, dated 17 September 1971 advising departments of recommendations it had made for fire protection in computer installations. When our inquiry occurred in February 1972 the Fire Board intended to issue these recommendations, with editorial amendments and additional information, in the form of a Fire Board Circular. In preparing this information the Fire Board consulted Exhibit 137/8 Committee File 1971/5 Q.453, 459

computer suppliers and users and also investigated overseas practices.

264. We were informed that the recommendations made by the Commonwealth Fire Board had been received by the Department of Works. At the time of our inquiry, action was in hand to prepare current guide lines for its own staff covering its functional responsibilities for the planning, design and construction of accommodation for computer installations. The guide lines also refer to the maintenance and operation of related fire protection equipment. These guide lines, in the form of a manual are also expected to deal with matters upon which the Fire Board has made recommendations and a number of instructions that have been issued periodically.

Qs. 454-457

265. The Audit Observer, Mr. Parker, stated that following the initial reviews carried out by his office the departments and authorities involved have implemented appropriate remedial measures.

Q. 458

266. On 4 April 1972 the Department of the Treasury advised us that the safeguarding of computer records and installations is the responsibility of the Chief Officer of each department. The following Direction has been approved for issue to departments and will be included in section 10 of the Treasury Directions:

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"29 The Chief Officer of a department responsible for maintaining computer files should ensure that adequate provision exists whereby computer magnetic programme tapes, data tapes and other essential records are protected from damage by fire or otherwise and, where appropriate, copies are retained in safe or remote storage to enable master records to be regenerated when files in use have been destroyed or damaged. Adequate records of transfers to and from remote storage shall be maintained. Attention is drawn to the Commonwealth Fire Boards's recommendations concerning fire protection for computer installations".

267. The Department of the Treasury also stated that it has developed procedures to cover all operational Treasury A.D.P. systems. Relevant instructions were issued on 13 December 1971 to all Sub-Treasuries operating computer systems to institute the new procedures without delay. Copies of the new procedures were forwarded to the Auditor-General's Office on 5 January 1972.

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Conclusions

268. As in the case of waste paper arising from Automatic Data Processing operations and referred to in Chapter 6 of this Report, the Committee would commend the Auditor-General on his initiative in conducting a review during 1969 of fire protection measures in Commonwealth computer installations.

269. In view of the expensive nature of Automatic Data Processing installations, their substantial growth in recent years and the fact that, to the greatest extent possible the Commonwealth acts as its own insurer for all property under its control, the Committee is disturbed by the weaknesses revealed by the Auditor-General's review. It appears that at least one instance had been discovered in each of the mainland States where either the promulgation of written instructions as to the methods of using firefighting equipment in and around Automatic Data Processing installations was unsatisfactory or the standing arrangements for the protection of master magnetic tapes and similar records required early, positive action. The Committee regards deficiencies of this nature in administrative arrangements in a serious light.

270. When our inquiry occurred in February 1972 action was in hand in the Department of the Treasury, the Department of Works and the Commonwealth Fire Board with a view to rectifying the weaknesses disclosed by the Auditor-General's review. The Committee expects that those concerned will act promptly to bring this matter to a satisfactory conclusion.

For and on behalf of the Committee,



David N. Reid  
Secretary,  
Joint Committee of Public Accounts,  
Parliament House,  
Canberra.



B.W. Graham  
Chairman.



18 May, 1972