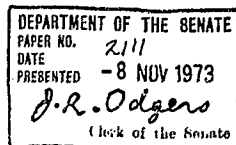


1973

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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

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JOINT COMMITTEE OF PUBLIC ACCOUNTS

---

ONE HUNDRED AND  
FORTY-SIXTH REPORT

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THE REPORT OF THE  
AUDITOR-GENERAL—  
FINANCIAL YEAR 1971-72

JOINT COMMITTEE OF PUBLIC ACCOUNTS

NINTH COMMITTEE

C.J. HURFORD, Esquire, M.P. (Chairman) (1)

SENATOR R.E. McAULIFFE (Chairman) (2)

A.W. JARMAN, Esquire, M.P. (Vice-Chairman)

Senator J.F. FITZGERALD

F.W. COLLARD, Esquire, M.P.

Senator M.G.C. GUILFOYLE

M.J. MacKELLAR, Esquire, M.P.

V.J. MARTIN, Esquire, M.P.

L.J. REYNOLDS, Esquire, M.P.

I.L. ROBINSON, The Hon., M.P. (3)

A.E. ADERMANN, Esquire, M.P. (4)

P.F. MORRIS, Esquire, M.P. (5)

The Senate appointed its members on 8 March 1973  
and the House of Representatives appointed its members on  
1 March 1973.

SECTIONAL COMMITTEES

(Appointed on 31 July 1973, pursuant to  
section 9 of the Public Accounts Committee  
Act 1951-1966)

Sectional Committee A

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

Senator R.E. McAuliffe  
(Chairman)

M.J. MacKellar, Esquire, M.P.  
(Vice-Chairman)

A.E. Adermann, Esquire, M.P.

V.J. Martin, Esquire, M.P.

P.F. Morris, Esquire, M.P.

Sectional Committee B

A.W. Jarman, Esquire, M.P.  
(Chairman)

L.J. Reynolds, Esquire, M.P.  
(Vice-Chairman)

F.J. Collard, Esquire, M.P.

Senator J.F. Fitzgerald

Senator M.G.C. Guilfoyle

- (1) Discharged 29.8.1973
- (2) Elected 30.8.1973
- (3) Discharged 31.5.1973
- (4) Appointed 31.5.1973
- (5) Appointed 29.8.1973

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.

ONE HUNDRED AND FORTY-SIXTH REPORT

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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 1971-72 was presented on 22 August 1972. 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.

P.P. 101  
of 1972

4. On 29 August 1972 the Committee sought written submissions from ten departments in explanation of a number of items on which the Auditor-General had commented in his Report. After a selection of submissions had been made, the Committee examined eight departments or authorities (in respect of the items referred to in Chapters 2 to 8 of this report) at public inquiry.

5. The public inquiry was held at Parliament House, Canberra on:

Tuesday, 26 September 1972  
Tuesday, 10 October 1972  
Tuesday, 17 October 1972

On each day of the public inquiry the Committee sat in two Sectional Committees.

6. The following witnesses were sworn and examined by Sectional Committee A during the public inquiry:

Department of Air

Mr M.J. Madden	-	Assistant Secretary, Finance
Mr J.P. Rice	-	Director of Treasury Accounting
Mr F.C. Sutherland	-	First Assistant Secretary, Finance and Logistics

Department of the Army

Mr J.W. Nunn	-	First Assistant Secretary, Finance and Logistics
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Department of the Navy

Mr F.A. Carse	-	Director of Supply Administration
Mr J.E. Hutton	-	Assistant Director of Stores (Air)
Mr F.F. McNamara	-	Assistant Secretary (Assistant Controller of Supply)

Public Service Board

Mr M.H. Mossop	-	Assistant Commissioner, Management Systems Review Branch
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7. The following witnesses were sworn and examined by Sectional Committee B during the public inquiry:

Department of Civil Aviation

Mr J.T. Kite	-	Finance Officer (Treasury and General Accounting)
Mr N.M. Sparks	-	Acting Accountant, Victoria- Tasmania Region
Mr G.R. Woodward	-	Assistant Director-General, Finance

Department of Supply

Mr G.J. Churcher	-	Manager, Government Aircraft Factories, Fishermen's Bend, Victoria
Mr J.C. Comerford	-	Executive Officer (Finance), Munitions Supply Division
Mr A.G. Johnson	-	Principal Executive Officer, Aircraft, Guided Weapons and Electronics Supply Division
Mr K. McKnown	-	Assistant Secretary, Finance
Mr S.J. Woolkey	-	Assistant Manager, Ordnance Factory, Maribyrnong, Victoria

Department of the Treasury

Mr S.G. Herring - Assistant Secretary, Accounting  
Development Branch

Department of Works

Mr K.J. Rodda - Director of Works, Victoria  
and Tasmania

8. During the public inquiry the Sectional Committees were  
assisted by the following Observers:

Mr C.A. Harrington - Auditor-General's Office  
Mr W.H. Scott  
Mr R.N. McLeod - Public Service Board  
Mr M. Sexton  
Mr G.S. Davidson - Department of the Treasury  
Mr R.J. Gray  
Mr J.I. Maunder

CHAPTER 2  
DEPARTMENT OF AIR  
ACCOUNTING FOR SUPPLIES PURCHASED OVERSEAS

9. The Auditor-General in para. 300 of his Report for 1971-72 P.P. 101  
stated: of 1972

'Payments for equipment and stores purchased overseas by the Department of Air are made through the Offices of the Consul-General, New York and the High Commissioner, London. Documentation evidencing the receipt of the goods in Australia is compared by the Department, generally after payment has been made, with billings submitted by the suppliers and any discrepancies disclosed are required to be investigated.

The increasing volume of overseas purchases, and the attendant difficulties of matching items received with items billed, resulted in a decision in 1968 to control major procurement projects by electronic data processing (E.D.P.). Pending development of the E.D.P. system, the relevant records were stored by computer process, the manual system being allowed to lapse insofar as the projects scheduled for E.D.P. were concerned.

Due to unforeseen delays, the E.D.P. system did not become effective until 1971-72. In March 1972 computer-produced reports disclosed a very substantial number of potential discrepancies between the quantities of stores and equipment items billed to 30 June 1971 and the actual quantities received. It has been estimated that two-thirds of the discrepancies were in respect of purchases made by the Department through the United States Armed Services and in very many instances the discrepancies related to billings in excess of quantities received.

In reply to Audit inquiries, the Department has advised that detailed investigations into the matter are expected to result in a considerable number of claims for credit being made in respect of the excess billings. It is likely that many of the claims will be for large amounts, in some cases very large amounts, but due to the effluxion of time some difficulty could be experienced in obtaining acceptance by the United States Government. It is, however, the Department's intention to seek special concessions for major discrepancies arising from large and complex projects.

Audit expressed concern to the Department regarding the situation and suggested that it was a matter for consideration whether billings involving large excesses should be extracted immediately for investigation and lodgment of claims, where appropriate.

In reply, the Department has advised that, as a first step, one major procurement project would be dealt with as suggested by Audit. In view of the formidable administrative problems in processing the large number of queries, the Department indicated that early results could not be forecast.'



10. The Committee understands that, prior to the advent of computer processing, the Department's basic accounting record, called the Master Provisioning Document, was a consolidated statement of all items under purchase. The Document, which had been commenced in the 1950s when the first major purchases from the United States had been made, was compiled manually by clerical assistants, who transcribed into it item descriptions, stores catalogue numbers, quantities, costs and other details of receipt vouchers from receiving depots and expenditure vouchers from overseas offices. Each item under purchase was written into the Document as a one-line entry.

Exhibit  
146/A4 and  
Qs. A140  
to A142

11. During the 1960s the accounting workload increased progressively, outstripping the staff capacity. In March 1968 the Department obtained approval to increase the establishment of the Billings cell from four clerical assistants to nine. These new positions were not filled, however, until 1970 and in the interim, the Department used staff from other branches to help cope with the workload on an overtime basis. We were informed that the experiment had not been very successful, owing to the inexperience of the staff who were unfamiliar with the complicated nature of the Master Provisioning Document and the source documents, and with stores accounting procedures. The witness representing the Department added that training of the extra staff had been very difficult during overtime.

Exhibit  
146/A4 and  
Qs. A143  
to A145

12. The Committee understands that the accuracy of the Master Provisioning Document could not be relied on. The low pay, lack of motivation, and frequent turnover of the clerical assistant staff contributed to the Department's problem.

Exhibit  
146/A4

13. With the need for a more efficient method of accounting becoming obvious, the Department had decided in June 1968 to effect reconciliation of billings by computer processing. Qualified programming staff commenced feasibility studies, and recommended subsequently that, using the overseas requisition and stores catalogue numbers, details of overseas billings and receipt vouchers should be computer-matched. It appears that the programming staff's recommendation was adopted without question.

Exhibit  
146/A4 and  
Qs. A146  
and A147

14. When the computer report of the first batch of non-matched items was produced in August, 1969, however, it became evident that the matching system was not practicable because it produced too many false discrepancies due to frequent changes in stores catalogue numbers. We understand that an item ordered under one catalogue number could be supplied under a new catalogue number and billed under the old number. In such circumstances a discrepancy shown in the computer report would not be genuine. Exhibit 146/A4 and Qs. A148 and A154
15. The witness could not explain why the programming staff's particular recommendation had been made, but suggested that there could have been a technical programming reason. While he believed that the programming staff would have been briefed by accounting officers involved in the feasibility studies, he said that the programming staff were not conversant with the detailed operations in the particular field of stores accounting. Qs. A149 to A152
16. The Audit Observer, Mr Scott, said that no computer application in his experience had become satisfactorily operative without the prior occurrence of difficulties; and that, with almost all applications, considerable time was required to refine programs or to reprogram. He added that the Department of Air had experienced difficulties with other computer applications. Q. A153
17. After the initial failure, the programming staff examined alternative matching systems. It was decided, in the latter half of 1970, to match line sequence numbers, quoted on all billings and receipt vouchers, which were the only form of item identification not subject to variation. It was explained that a line sequence number consists of eight digits signifying the year, month, day and sequence in which an item was ordered. From early 1971, all computer data input was processed under the new matching system. (We understand that E.D.P. was applied to the F111C, Orion, HS748 and Macchi projects, and has been applied to subsequent projects). Exhibit 146/A4 and Qs. A154
18. The Committee was told that conversion to the new system of data previously input involved a very substantial clerical effort. It had not been found practicable, however, to apply E.D.P. to certain projects, such as the purchase of the Mirage fighters, which were far advanced or in which substantial deliveries had already been made. Exhibit 146/A4 and Q. A155

Collection of data for computer input would have been almost impossible in relation to these projects. Accordingly, limited manual accounting, and the necessary staff, were maintained. At the time of our inquiry in October 1972, manual accounting for some projects (notably the Mirage fighters) was continuing.

19. It appears that, upon the Department's decision to adopt E.D.P., manual accounting in regard to new projects was allowed to lapse. The Department told the Committee that it had no inkling of the serious difficulties subsequently encountered in the programming, resulting in delays to the E.D.P. application's becoming fully effective. In the light of hindsight, however, the Department conceded that it may have been more prudent to have maintained full manual accounting. The Audit Observer, Mr Scott, agreed that, given the Department's previous experience of difficulties with computer applications, the Department could have acted less hastily. He added, however, that he believed the Department to have made an honest judgment at the time.

Exhibit  
146/A4  
and Q.  
A158

20. As against its concession of possible imprudence, the Department stated that, in view of the demonstrated past inefficiency of manual accounting, the benefits to be gained from its continuance would have been of dubious value. We were told that, in addition, existing establishment would have had to be doubled to cope with the workload. In view of the unavoidable span of time before approval of additional positions and also of the problems of staff turnover, the Department considered that its decision to allow the manual system to lapse could be justified on grounds of expediency.

Exhibit  
146/A4

21. At the time of our inquiry in October 1972, some 247,000 items had been recorded by computer, in respect of which some 205,000 matchings (of billings and quantities received) had been made. With some 19,000 of the non-matched items, the quantity billed exceeded the quantity received; while with the remainder (some 23,000 items) the quantity received exceeded the quantity billed. It was pointed out to the Committee that a great advantage of an E.D.P. matching system was that, under it, only non-matching discrepancies need be manually investigated.

Exhibit  
146/A4  
and Qs.  
A155 and  
A159

22. The Department said that there was a very strong presumption that, upon investigation, a large proportion of apparent overbillings would be found to be compensated by apparent underbillings. It was explained that an error in data input (i.e., application of data to the wrong line sequence number) in respect of a particular item creates two non-matching discrepancies. An error can occur, for example, when an operator transcribes details of billings to a flexowriter producing tape in preparation for computer input, or when details of a receipt voucher are transferred from a 'stock' file to a 'bill' file.

Exhibit  
146/A4  
and Q.  
A160

23. At the time of our inquiry in October 1972, the Department had, since receipt of the March 1972 computer output reports, investigated 1,309 apparent overbillings received since 1 July 1971. Of these, 685 cases (arising largely from input errors) had been cleared up by local investigation, 291 cases were sufficiently recent for the relevant receipt vouchers to have probably not been input to the computer, 199 cases were undergoing further local investigation, and 134 cases had been referred to the U.S. Services for investigation. Regarding apparent overbillings received prior to 1 July 1971, 2,388 cases had been investigated. The errors in 1,800 of these cases had been corrected.

Exhibit  
146/A4  
and  
Q. A160

24. The Department informed the Committee that it considered these statistics to demonstrate that the situation was not really as bad as the Auditor-General had suggested in his Report. The Audit Observer, Mr Scott, disagreed, adding that, notwithstanding the Department's resolution of a number of discrepancies (which, after all, was only to be expected), some hundreds of discrepancies remained.

Exhibit  
146/A4  
and  
Q. A163

25. In relation to the Auditor-General's view that, owing to the effluxion of time, difficulties could be experienced by the Department in obtaining acceptance by the U.S. Government of financial adjustment on many items, the Department was inclined to the view that, as the remaining discrepancies were caused by accounting errors made by the U.S. Services, the possible time limitations were not applicable.

Exhibit  
146/A4

26. By way of background, the Committee was told that, under Foreign Military Sales (FMS) legislation, the U.S. Government may disallow foreign governments' claims relating to discrepancies in FMS supplies in cases where claims are not submitted within twelve months of delivery. (The Department believed the Auditor-General to have inferred in his Report that the Department had already been time-barred from submitting claims relating to items billed prior to the end of the 1970-71 financial year.)

Exhibit  
146/A4

27. The Committee understands that the basic contractual document relating to FMS supplies is the U.S. Government Letter of Offer which states, in part:

Exhibit  
146/A4

"PD Form 1599 shall be used in submitting claims to the Government of the United States for non-receipt, coverage, shortage, damage, item deficiency, improper identification or improper documentation and shall be submitted by Purchaser promptly. Claims received after one year from date custody of the items is transferred to Purchaser's authorized representative may be disallowed by the Government of the United States."

28. We were told that, since publication of the Auditor-General's Report, the U.S. Air Force had assured the Department as follows:

Exhibit  
146/A4  
and Qs.  
A164 and  
A165

"We agree to examine discrepancy reports which you believe are of sufficient magnitude to warrant review after the normal time for submission has lapsed. We urge that such reports be made promptly in the future to preclude this problem, and point out that our willingness to examine the old reports does not imply that credit will be granted. Each discrepancy report will be examined and disposed of in accordance with the circumstances pertinent to the report."

In interpreting the words 'of sufficient magnitude', the witness said that \$25 was probably meant as the lower limit for claims, since the U.S. Services do not generally investigate discrepancies of less than \$25. Upon questioning, the witness admitted that the U.S. Air Force's letter was not an assurance that adjustments would be made.

29. The Committee was assured that faults in the physical condition of equipment and stores supplied by the U.S. Services were noted on their receipt in Australia; and DD Forms 1599 were processed immediately.

Exhibit  
146/A4

30. The Audit Observer, Mr Scott, did not know what prompted the Department's view that accounting errors made by the U.S. Services were not subject to the twelve months time limitation. Indeed, he knew of one case in which the discrepant amount was written off because the claim could not be substantiated and the period of twelve months had elapsed. He pointed out also that memory banks in computers have limits; and, regarding discrepancies arising from transactions some years previously, it may not be practicable for the U.S. Services to refer back to their documents to assess what credit should be allowed. He conceded that discrepancies would arise from undercharging, but he was not in a position to know how undercharging and overcharging discrepancies stood in relation to each other.

Qs. A166  
to A168

31. We understand that, in its investigation of discrepancies, the Department had given priority to claims arising from delivery within the previous twelve months. Other claims, however, were being processed with all possible speed. Early results could not be forecast because of the physical problem of investigating 42,000 items. In relation to many of these items there had been multiple delivery and billing transactions.

Exhibit  
146/A4

32. The Department estimated that about 4,200 man-hours would be required to investigate the backlog in discrepancies and implement recovery action. We were told that this effort was equivalent to the full-time employment of five persons for six months; but that, as it could prove impossible to sustain this effort in addition to coping with current work, the clearance of discrepancies by existing staff could require twelve months or more. The witness assured us that all possible action would be taken to ensure that all discrepancies would be resolved within twelve months.

Exhibit  
146/A4  
and  
Q. A171

33. In June 1972 action was initiated to upgrade and strengthen the existing staff establishment of the Billings cell. A detailed proposal, including organisation charts and duty statements, had been presented to an establishments sub-committee within the Department. When satisfied with the merits of the case put forward, this sub-committee would allow the proposal to proceed to the Public Service Board. At the time of our inquiry in mid-October 1972 it was expected that the proposal would be submitted to the Board within a fortnight.

Exhibit  
146/A4  
and Qs.  
A169 and  
A170

34. We understand that, the Mirage fighters project apart, manual accounting projects had, at the time of our inquiry, been all but finalised; and staff were now able to undertake E.D.P. tasks. We were assured that, after approval of the additional establishment positions and appointment of staff to fill them, progressive improvement in the overall situation could be expected.

Exhibit  
146/A4

#### Conclusions

35. The Committee was informed that the increasing volume of equipment and stores purchased from the United States Services had caused difficulties within the Department's Billings cell, particularly with regard to the matching of items received with items billed. This resulted in a decision by the Department to effect reconciliation of overseas billings by electronic data processing.

36. The evidence suggests that the original basis selected for matching by computer was not practicable due to frequent changes to stores catalogue numbers. In view of the past difficulties the Department has had with computer applications, the Committee considers that the Department should not have accepted the basis for matching suggested in the feasibility study without question, or allowed the manual accounting system in regard to new projects to lapse before the computer system had been proven.

37. From the evidence it seems that it took 2 years for the Department to have additional positions created and filled in the Billings cell. This appears to the Committee to be quite an excessive period, having regard to the evidence that during those 2 years inexperienced staff from other sections worked overtime and the Department did not consider this overtime scheme to be successful.

38. The Committee notes that it was expected that a further proposal to upgrade and strengthen the staff establishment of the Billings cell would be submitted to the Public Service Board within a fortnight of the inquiry. The Committee was also assured that, after approval of the additional positions and appointment of staff, progressive improvement in the overall situation could be expected. The Committee wishes to be informed of the current position with regard to staffing and the clearance of discrepancies.

CHAPTER 3  
DEPARTMENT OF CIVIL AVIATION

39. In paragraph 45 of his Report for 1971-72 the Auditor-General P.P. 101 stated: of 1972

" In August 1971 enquiries established that fraudulent salary payments totalling \$8,191.86 had been made during the period July 1970 to February 1971. As at 30 June 1972, \$6,288.60 had been recovered.

In all, 30 irregular payments were initiated by a number of officers within the salaries section in collusion with other participants. Basically, the frauds involved the preparation of false documents to originate payments to fictitious persons or persons not entitled thereto. Various persons, some of whom were also employed by the Department, conspired with the principal offenders in receiving and distributing the proceeds of fraudulent payments.

Proceedings were taken under the Crimes Act against the 18 persons involved (including 7 employed by the Department of Civil Aviation and 5 by other Commonwealth departments) and various penalties were imposed by the Courts. Pursuant to section 62 of the Public Service Act, 5 officers of the Department of Civil Aviation were dismissed from the Service. Two officers of other departments were also dismissed, 2 resigned and the services of a temporary employee were terminated.

The irregularities were facilitated by the failure of departmental officers to observe specified internal controls and checks and 2 accounting officers were subsequently reprimanded. The Department has advised that mitigating circumstances were present in that the officers were working under excessive workload conditions.

The Department has introduced supervisory measures to ensure that appropriate internal checks are carried out and prescribed procedures are followed in the future."



• The Scheme

40. The frauds - which occurred in the Department's Victoria-Tasmania Region - related, with one exception of an overtime payment, to special payments for recreation leave, made separately from the fortnightly general pay. In explanation of the payments practice, we were informed that before the Department's salary section prepares payment, written advice should be received from the staff section on an officer's entitlement to a certain sum of fortnightly pay or other payment. Normally two persons are concerned with the preparation of payments within the salary section. One originates the payment from the advice received and a second officer checks it. The Examining Officer, who is officer-in-charge of the Section, then carries out certain checks on the pay sheets to ensure their correct calculation and authority for payment. They are then certified by the Certifying Officer and forwarded to the Sub-Treasury which prepares cheques for the payments. Some of these are forwarded to nominated private addresses, and the others to the Department's Paying Officer who, at the appropriate time, draws cash and pays the employees or their agents.

Exhibit  
146/B1  
and Qs.  
B7 to B9

41. The originators of the frauds were four officers from the Department's salary section. In the course of their work these officers prepared hand-written draft pay sheets and salary history payment cards and forwarded them, together with supporting documents from the staff section, to the Certifying Officer. On the occasion of the frauds, the conspirators were not able to forward supporting documents. They decided, however, to risk processing fraudulent claims through the Certifying Officer and the Examining Officer because of factors known to them which promised success. One factor was that work pressure at any time necessitated that neither of the accounting officers could check every special payment claim. Spot checks were instituted instead. At the busiest periods in the office the Certifying and Examining Officers were even less able to institute effective checks, and it was at these times that the conspirators passed the pay sheets and cards. A related factor was the inexperience of the Examining Officer. Indeed, when the first fraud took place in July 1970, he had occupied his position for only one month. Another

Exhibit  
146/B1  
and Qs.  
B7, B12  
and B47

factor was that the conspirators knew to pass no vouchers to the machinist other than at the commencement of a pay period when she would have had no short-term experience of that period to fall back on. This was when the registers of her machine were clear.

42. The success of the conspiracy depended on the ineffectiveness of the Examining and Certifying Officers. Of approximately 5,000 special payments processed during the period 30 were fraudulent. The Examining Officer detected none of the frauds. In each case he signed the pay sheet original without having checked it against any supporting document from the staff section, and the originals were forwarded in the normal way to the Sub-Treasury. Any later check in the section was not possible because, after the pay sheets and cards had been struck by a machinist, the conspirators had destroyed all copies, retaining only the originals for processing through the Examining Officer. Exhibit  
146/B1  
and Q.  
B9

43. Details of the conspirators' collection of the fraudulent payment are as follows: Exhibit  
146/B1

- 13 cheques were distributed by the Sub-Treasury to nominated private addresses, including 3 to addresses of persons using fictitious names;
- 6 cash payments were made to persons named in the pay sheets;
- 4 cash payments were made to persons using fictitious names;
- 6 cash payments were made to fictitious payees through orders to pay agent (Treasury Form 19); and
- 1 overtime payment was made to a person through his fortnightly general pay.

After collection, the money was divided by the payees with the scheme's 4 originators in the salary section.

4. The Conspirators

44. The 18 persons criminally implicated in the frauds were each tried in the Magistrates' Court, Melbourne, on various charges under the Crimes Act. The charges were proved against each of the offenders, of whom 14 received convictions and 4 entered into good behaviour bonds. Penalties ranged from a maximum fine of \$600 to one of \$20. The 7 offenders from the Department of Civil Aviation were Exhibit  
146/B1  
and Qs.  
B3, B18  
and B19

all suspended from duty as soon as the crimes became known and, subsequently, 5 of them were dismissed from the Commonwealth Service. The other 2 entered into good behaviour bonds after the Court ruled that extenuating circumstances existed, and were reinstated in the Department. Also implicated were 5 officers from other Commonwealth Departments - 2 from the Taxation Office, 2 from the Bureau of Meteorology, and one from the Department of the Army - who collected money illegally from cashiers on their own and the conspirators' behalf in the Department of Civil Aviation's Regional Office. The remaining 6 persons involved were from outside the Commonwealth Service.

45. We were informed that all of the conspirators were young - 7 were aged 18 and the 2 eldest were aged 23. The 4 conspirators within the Department's salary section were a Clerk Class 2/3, an Acting Clerk Class 2/3 and a Clerk Class 1 (Third Division), and a Clerical Assistant (Fourth Division).

Qs. B46  
to B48

46. Regarding the 2 officers reinstated in the Department on account of extenuating circumstances, one was an employee at the Melbourne Airport and the other was a bank officer who later joined the Department. The Airport employee was the sole offender who received payment, for overtime, by way of his normal fortnightly pay. Knowing the money to have been unearned, he queried the matter with his superior officer, who advised him to return it. Accordingly, he contacted the scheme's ring-leader, who was one of the pay clerks, and indicated that he wanted to return the money. The ring-leader told him not to do so, as it could lead to detection of the frauds and discovery of those involved. He did not return the money, but both the Department and the Magistrate took the view that, because he initially reported the mistake to his superior officer, extenuating circumstances existed. Regarding the former bank officer, there was doubt as to the extent of his involvement. Although he cashed a cheque for \$20, it was not clear whether he actually received money. In view of the doubt and the smallness of the amount, the Department did not penalise him.

Qs. B4  
to B6

47. We were informed that most of the conspirators made speedy restitution. The Court ordered 2 men who did not repay in full, to pay \$10 per week to the Department until discharge of their debt. At the time of our inquiry in September 1972, regular repayments were being made, and \$6,533.23 had been repaid, leaving \$1,658.63 to be recovered.

Exhibit  
146/B1

• The Accounting Officers

48. In amplification of the statement in the Auditor-General's Report that the frauds were facilitated by the failure of Departmental officers to observe specified internal controls and checks, the Audit Observer, Mr Harrington, told the Committee that controls are specified in Treasury Regulations, Treasury Directions and Departmental instructions. The Department informed the Committee that the Certifying Officer has a responsibility under section 34 (3) of the Audit Act to certify that accounts are 'correct in every particular'. The Examining Officer, who is Officer-in-Charge of Salaries in the Department, has a responsibility to examine accounts and certify their correctness as to rates of charge, proper authority and faithful performance.

Exhibit  
146/B1  
and Qs.  
B11 and B12

49. The Department admitted that the 2 accounting officers had not followed the specified internal controls and checks. It considered, however, that extreme work stress had contributed to their failure. In explanation of the excessive workload, we were informed that the Department's Victoria/Tasmania Regional Office prepares Head Office as well as Regional salaries, and that, to handle a payroll of 3,500 in mid-1970, the number of salaries staff was exactly what it had been in 1967, when the payroll had been 2,070. Other explanatory factors were the commencement at this time of operations at Tullamarine Airport and the under-estimation by the Regional Office's finance section of the increase in staff numbers. The workload in the salary section was such that it became necessary for overtime to be worked in order to carry out only the normal payroll activity. Eventually, additional staff became necessary. Thereafter, while the trend of increase did not continue, increases elsewhere in the Region countered the decline consequent on the rundown in operations at Essendon Airport, and there was not a decline in numbers overall.

Exhibit  
146/B1  
and Qs.  
B13 to  
B15

50. In further explanation of the accounting officers' failure, the Department pointed out that its pay is difficult to prepare. It was claimed to be amongst the most complex within the Commonwealth Service. This is because the Department's staff is scattered at numerous airports, workshops, depots and offices, with diverse operational requirements; transfers inter- and intra-state are commonplace; about a quarter of the Department's workforce are shift workers and their allowances and penalty payments are manifold and complex. It was said that the Department's staff are under 35 Federal awards and one State award. We were also told that the Department's pay preparation is manual, and that, although the Department and the Department of the Treasury had been discussing for some years a plan to transfer all pay preparation to a computer system, recent discussions indicated that it would be up to 6 years before it would become possible to make the transfer.

Exhibit  
146/B1  
and Qs.  
B17, B35  
to B37, B44  
and B45

51. Another complication facing the accounting officers was the general inexperience of staff within the salary section. One temporary clerk had worked in the section for 10 years, but the other 7 clerks totalled only 4½ years experience between them. The witness pointed out that the staff turnover rate in the Region's finance area generally has been a consistent problem. For example, between September 1967 and September 1972, there was a turnover of 213 employees for 48 positions; between June 1967 and June 1970, the officer-in-charge of the salary section (the Examining Officer) was replaced twice; from September 1967 to July 1970, there was a turnover of 27 salary clerks; and from July 1970 to February 1971, the period of the frauds, there were 11 changes of salary clerks. The witness added that very few of the new entrants into the salary section had previous experience of pay preparation. He said that the supervisor of the section should be a mature, experienced officer; but, at the time, such a person was not available.

Exhibit  
146/B1  
and Qs.  
B20

52. The witness informed the Committee that the problem of inexperience was caused mainly by promotions within the Service. The fact that the Victoria-Tasmania Regional Office is in the same city as the Head Office, which employs some 2,000 staff, exacerbated the

Qs. B21  
and B22

problem. This was because an efficient officer in the Regional Office is likely to be promoted to Head Office. However, the witness said that very occasionally an officer remains in pay preparation work for many years. He cited the example of an officer in Queensland who for some 20 years declined promotion offered him in other areas. In response to a query as to whether the Department experienced similar problems in its other Regional Offices, the witness pointed out that promotions in Melbourne, Sydney and Papua New Guinea are more frequent than in the other Offices.

53. The Department emphasised in general the need for promptness in pay preparation, and strict adherence to time schedules. Not only must fortnightly pay be regular, but staff affected by a new award expect pay adjustments as quickly as possible, and if adjustments are not made quickly, union representations ensue. A particular difficulty for the accounting officers involved in this case was their need to conform to the circumscribing limits imposed by Sub-Treasury timetables. Regarding these limits, the witness said that no criticism was meant of the Sub-Treasury, but a time constraint is necessarily imposed. The Department needs to have its pay sheets with the Sub-Treasury in good time for processing, prior to the distribution of cheques, particularly to staff in outlying areas.

Exhibit  
146/B1  
and Qs.  
B23 and  
B26

54. The critical period in the section was the 12 months before mid-1970. In this period, extra loads were caused by the number of awards and wage adjustments, and by new factors in pay preparation such as deductions for union fees and medical and hospital benefits. To meet dead-lines on some occasions, the accounting officers themselves were obliged to calculate pay, for which approval was necessarily granted. The Certifying Officer, with some 20 years' experience in pay preparation, had done extensive overtime. The Department has difficulty in deciding whether to introduce additional staff into particular areas from other sections of the department to cater for peak work loads for the reason that such staff is generally inexperienced. Quite often it is better we were told, for an officer already within the area to try to perform the

Qs. B24  
to B26  
and  
Committee  
File 1972/5

work rather than to spend his time teaching a newcomer. It was after this critical period that the Department applied to the Public Service Board for additional staff for the salary section.

55. The Committee was informed that it is difficult for any Certifying Officer to make a personal detailed check of each claim so as to be able to certify that it is "correct in every particular". The Audit Observer, Mr Harrington, said that he thought it generally common throughout the Service that a Certifying Officer is not expected to make a detailed check of every payment. He said that usually a Certifying Officer has assisting staff, on whom he must rely. Nevertheless, he added, ordinary prudence would suggest that he take steps to satisfy himself of their reliability.

Exhibit  
146/B1  
and Q.  
B27

56. The Department informed the Committee that it had examined closely the possibility of the involvement of the Certifying Officer and the Examining Officer in the frauds. Later, both officers were investigated thoroughly by the Commonwealth Police and exonerated. The Department agreed, however, that in order to meet the deadlines required, both officers had been compelled in some degree to sacrifice responsibility for expedience. The Department decided that appropriate punishment would be reprimands, and these were administered by the Chief Officer. In explanation, the witness and the Public Service Board Observer, Mr Sexton, said that a reprimand, under section 55 of the Public Service Act, penalises an officer in that it indicates that in some way his duty has not been fulfilled. A notation is made on the officer's personnel card, which may be taken into account in his future career.

Exhibit  
146/B1  
and Q.  
B28

• The Paying Officers

57. The Department believed that its Paying Officers had done almost all that could have been expected of them. They had been given what had seemed to be bona fide vouchers, properly certified as correct by the Certifying Officer and the Examining Officer. Because of sheer numbers, it was most difficult for Paying Officers to identify payees, who worked in 5 different buildings. Furthermore, at the Head Office, where most of the fraudulent cash payments were made, some 1,600 persons were employed, for whom there was only one Paying Officer.

Exhibit  
146/B1

58. Regarding the attempted identification of payees, normal procedure was for the Paying Officer

Exhibit  
146/B1

- (i) to ask a third person, known both to himself and to the payee, to identify the payee; or
- (ii) to request a documentary form of identification, such as a driver's licence, and to match the signature on it with that on the receipt; or
- (iii) on occasions, to make payment after a telephone call had been received from the payee in which he had asked whether his pay was available and had named the time when he would call for it.

In cases where payments were made on presentation of orders to pay agent (Treasury Form 19), it was usual practice for the Paying Officer to pay the agent providing the signature given by the agent in his presence matched that previously affixed to the form.

59. In defence of the Paying Officer, the witness said that, with a presented voucher which seemed in order, and with a person at the window to collect what was authorised in the voucher, he was 'conditioned' to pay without question. It was also said that he would be even less likely to raise a query if a telephone call had preceded the person's arrival, or if the person produced his driver's licence and signed his own name.

Exhibit  
146/B1  
and Qs.  
B19 and  
B31

60. The Committee learnt that there was no procedure whereby the Paying Officer sought to ascertain whether an agent was a Commonwealth employee. Treasury Directions provide that, if an agent is not a Commonwealth employee, payment needs to be approved by the Authorising Officer. The Department admitted the shortcoming. The witness, however, pointed out the ineffectiveness of a simple question, to which a payee could easily respond untruthfully.

Exhibit  
146/B1  
and Qs.  
B31 and  
B32

Improvements

61. The Department informed the Committee that improvements had been introduced as a safeguard against possible future pay defalcations. Revised procedures for pay preparation and identification of payees had been introduced immediately after detection of the first fraud. An officer from the Auditor-General's Office had assisted in the Department's preparation of these procedures. The Audit Observer, Mr Harrington, said that the procedures would require

Exhibit  
146/B1  
and Qs.  
B33 and  
B46



continual review, particularly in regard to the high turnover of staff, and warned that if new staff were not taught the procedures effectively, loss of effective control could ensue. The Department stated its firm belief that the new comprehensive controls, allied with an increased staff in the pay area, would prevent the recurrence of similar frauds.

62. The new procedures which the Department instituted provide that:

Exhibit  
146/B1  
and Q.  
B34

- (i) an extra copy of each special pay sheet is run off, retained by the machinist, and consecutively numbered;
- (ii) when the pay sheet is passed to the Examining Officer, it must be accompanied by the relevant pay variation advice (from the staff section);
- (iii) the Examining Officer must initial all special payments on the special payments card, which summarizes all such payments; and
- (iv) under no circumstances should the Examining Officer process the vouchers without these documents.

The Audit Observer, Mr Harrington, said that the new procedures represent a tightening rather than a radical alteration of the previous system. He said that perhaps the most important amendment is that control copies of all pay sheets, which are used for the fortnightly pay summary, are now retained by the machinist. Also of importance is the insistence that the Certifying Officer and the Examining Officer see the pay variation advices. These advices are the documentary support for the vouchers processed through the Sub-Treasury. The Department informed us that the new procedures mean that, for fraud to be perpetrated now, there would need to be collusion not only between two salary clerks but also between the staff clerk, the machinist and the Examining Officer.

63. The Department assured the Committee that the newly-introduced identification procedures would ensure that all payees would be identified with absolute certainty, irrespective of whether or not they worked in the same building as the Paying Officer. The 'telephone' method of identification had been recognised as unsatisfactory and discontinued.

Exhibit  
146/B1  
and Qs.  
B29, B30  
and B41

64. Improvement had been further achieved by increases in the pay staff and by re-organisation of the system into two separate payrolls - Head Office and Regional - with an officer-in-charge of each. Proposals for the reorganisation had, in fact, been put in train in May 1970, before the occurrence of the first frauds. The two new teams were operational early in 1972, immediately after approval had been received from the Public Service Inspector and the necessary personnel had been recruited.

Exhibit  
146/B1  
and Qs.  
B16 and  
B42

65. We were informed that Departmental officers were a little nervous about the Department's projected move towards pay preparation by computers. With over 10,000 staff widely spread throughout Australia and its Territories and conscious that such staff require regular payment, the Department was anxious not to lose control of its own payment processes. Officers from the Department of the Treasury had assured the Department, however, that as efficient a service would be obtained under computers as at the present time.

Q. B38

66. The Committee understands that computerisation of the Department's payroll preparation is possibly up to six years distant. We were told that the computer in Canberra which the Treasury uses was not able to process the Department's intricate payroll, particularly as regards allowances, penalty pay and awards. However, approval has been given for the calling of tenders for a new computer to be purchased by the Treasury which will allow the development of an integrated payroll system that will meet the requirements of the Department.

Qs. B38,  
B39 and  
B45

67. Information available to the Committee from the Public Service Board shows that there were 3 internal audit positions in the Department's Head Office in December 1970, and another 3 in its Regional Office. The Committee was concerned to know what reports, if any, had been made by the Department's internal auditors prior to, during or subsequent to the frauds, and what action, if any, had been taken consequently. We were informed that practice has been for the Regional Office's internal auditors to report monthly to the Head Office through the Regional Director. A routine report is sent

Q. B43

regarding the internal audit programme, while a specific report is sent covering queries from the Auditor-General's Office. Special appraisal audits are also carried out, and all reports are commented on appropriately, and corrective action stated. We were informed that the internal audit checks made during the period did not detect any of the frauds. Since that time, however, the audit programme has been expanded to include more detailed checks in the salaries area.

#### CONCLUSIONS

68. The evidence shows that the frauds were perpetrated during the period from July 1970 to February 1971 by a number of officers within the salaries section in collusion with other participants. It appears that a significant factor in the frauds was the failure of departmental officers to observe internal controls and checks specified in Treasury Regulations, Treasury Directions and Departmental instructions.

69. The Department pointed out that the irregularities were facilitated by the increased volume of work, and the general inexperience of the staff within the salary section. The Committee believes that the Department has been at fault in failing to ensure that the section was adequately staffed; that effective internal control procedures were in existence and that existing control procedures were being observed.

70. The Committee must express surprise and concern that the internal audit checks carried out during the period of the frauds did not detect any of the irregularities mentioned in the evidence. We note with satisfaction that Departmental procedures and internal checks have since been amended and strengthened.

CHAPTER 4

Defence Services - Procurement in the United States of America

71. Paragraph 281 of the Auditor-General's Report for 1971-72 P.P. 101  
states: of 1972

'Payments made by the Sub-Treasury, New York to the United States Armed Services for equipment and stores supplied to Australian Service departments are regarded as advances until detailed billings are received from the supplying United States Armed Service and are duly examined.

During 1967-68 a review of procedures in the United States of America relating to procurement and accounting arrangements was made by officers of the Public Service Board and the Department of the Treasury. Following consideration by the Board and the Treasury of the report and recommendations of the joint review team, the responsibility for checking billings from the United States Armed Services was transferred from the Sub-Treasury, New York and the Consulate-General, New York to the ordering departments in Australia.

The billings itemise the equipment and stores supplied and the costs thereof, together with any administrative and accessorial charges applicable to the purchase. The administrative charges represent oncost added to the price of equipment and stores for the purpose of recouping the United States Armed Services for management and administrative expenses incurred. Accessorial charges comprise certain expenses, such as packing, handling, crating and freight, which are not included in the price of the items supplied.

Audit test examinations of a selection of billings during 1971 and 1972 disclosed several probable instances of substantial overcharges, approximating \$US900,000 overall, in respect of accessorial charges added to billings for equipment and stores supplied to the Departments of the Navy and Air. My New York Branch referred the cases to the Offices of the respective Australian Service Attaches in Washington and, at the time of preparation of this Report, credit adjustments approaching \$US300,000 in total had been received from the United States Armed Services and the other items questioned by Audit were still under investigation.

As a consequence of the situation revealed by Audit examinations, which also indicated apparent inadequate checking of billings by the Department of the Army, my Office sought advice from the 3 Service departments as to the nature, extent and results of checks made by them of charges on billings since 1968; additionally, the departments were requested to advise as to instructions issued, or proposed to be issued, defining the checks to be made in relation to the billings in order to obviate such overcharges, as there appeared to be a need for more effective checks and certification of billings in future.

In reply, the Department of the Army indicated that it has relied previously on the procedures observed by the responsible United States Armed Service to ensure that accessorial charges are correctly applied to billings. The Department of Air acknowledged that the only checks performed in Australia to date on such charges have related to ocean freight charges.

At the date of preparation of this Report, the Department of the Navy had issued instructions relating to the certification of billings and had undertaken to forward details of procedures followed since 1968. Certain limited checks were in course in the Departments of the Army and Air but, generally, the matter was still under departmental investigation.'

72. A copy of the report and recommendations of the joint review team appointed by the Public Service Board and the Department of the Treasury (referred to in this Chapter as the Public Service Board/Treasury report) was not made available to the Committee. The Public Service Board, however, made available a paper prepared in its Office called 'Commonwealth Procurement Functions in North America', which summarised the relevant recommendations of the joint review team. A copy of this paper is appended to this Report, at page 93.

Q. A102,  
A107 and  
A108

#### Part 1 - Department of the Navy

##### General procurement procedures

73. Estimating: The Department informed the Committee that a letter of offer from a U.S. Service department makes it clear that, should the final cost of equipment or stores to be procured exceed the amount estimated in the letter, the purchaser is nevertheless liable to the U.S. Government for full reimbursement. On the other hand, if the final cost is under the estimate, the purchaser benefits. The purchaser is not in a position to check the basis of the estimate contained in the letter of offer, but can draw on its experience of other relevant purchases, previous or current, and its own technical expertise.

Exhibit  
146/A1  
and Qs.  
A10 to  
A13, A18  
and A96

74. The Treasury Observer, Mr Gray, said that a final billing for equipment or stores received from a U.S. Service department may vary considerably from the first estimate. He explained that an estimate could be based upon the price applicable for "off-the-shelf" items supplied from U.S. Navy stocks. However, if stocks were no longer held by the U.S. Navy when an order is received from Australia it would be necessary to make special tooling to manufacture the items ordered and the price would be increased considerably. Q. A96

75. A perennial difficulty in estimating faced by the Department is the possibility of currency rates of exchange fluctuations. The difficulty arises because contracts are let in \$US while the Department makes provision of funds in \$A. The Treasury Observer, Mr Gray, said that, after a major exchange rate variation, the Department of the Treasury asks departments to state the effects of the variation; and in a case of a substantial effect, the appropriation is 'frozen'. Qs. A76 to A78, A80 and A81

76. Advance Payments: It was explained to the Committee that payments made in respect of orders placed with U.S. Service departments are regarded as advances until detailed billings are received and examined. In relation to large contracts, the practice is for advances to be paid progressively during the life of a contract. The final billing for equipment and stores procured may be received by the Sub-Treasury in New York a considerable time after delivery. In the case of the U.S. Army, billings are presented promptly, but, with the U.S. Navy, there can be up to two years' delay after receipt of the equipment or stores in Australia, and payment. Exhibit 146/A1 and Qs. A27, A28, A96 and A116

77. The Treasury Observer, Mr Gray, said that only in the last few years had billings been 'fairly well' up-to-date, but, at the time of our inquiry in September 1972, 165 billings (in some instances relating to advances made many years previously) were outstanding from the U.S. Navy. It was stated that six months earlier, some 300 billings had been outstanding. Q. A96

78. Mr Gray also told us that the Department faced the added difficulty that the U.S. Navy's supply of billings tended to 'peak'. Q. A96

To avoid an uneven flow of work, a degree of co-operation between the U.S. Navy and the Department had now been achieved, so that billings could be provided regularly.

79. Checking of billings: The Committee reported in its Seventy-eighth Report of 16 March 1966, in its examination of the Department of the Treasury relating to procurement in the United States by the Defence Services, 'that the adjustment of advances was the responsibility of the Sub-Treasury, New York, but that the verification of invoices and the finalisation of orders, a process which must necessarily precede the adjustments, was the responsibility of the Procurement Section in the office of the Consulate-General'. Following the Committee's report in 1966, inter-departmental discussions in 1967, and the Public Service Board/Treasury joint review, the function of checking of billings was transferred, in 1968, to the Central Offices of the relevant Departments in Australia. The Treasury Observer, Mr Gray, said that, because of the great number of line items in particular billings, severe difficulties in checking in the United States had been experienced.

Exhibit  
146/A1  
and  
Q. A96

80. Mr Gray said that the Sub-Treasury in New York now has instructions that billings are to be sent immediately, without check, to the relevant Departments in Australia. He commented that, whether a billing is sent to Central Office or to the relevant Service Attache in Washington, the difference in time of delivery should be only a matter of days.

Q. A116

81. The Department of the Navy informed us that the transfer of the checking function to its Central Office had added considerably to the workload of the Supply Division. (Checking is performed by the Supply Directorates which previously placed the orders.) However, neither the actual workload nor the number of staff involved had been assessed.

Exhibit  
146/A1  
and  
Q. A74

82. Because of the volume of line items in particular billings, it was decided that selective checks should be applied with the emphasis on more valuable items, e.g. individual receipts valued at \$US25 or less are not required to be certified as the cost of the administrative effort involved in correction would often exceed the amount queried. The witness indicated that billings are checked only to the extent that the Department suspects possible errors, e.g.

Exhibit  
146/A1  
and Qs.  
A16, A17,  
A19 and  
A20

in cases of obvious anomalies or significant variations within billings.<sup>1</sup> If a number of errors are discovered in a billing, the Department's checking is continued. The Committee was told that the principle of selective checking was suggested to the Department in a memorandum from the Treasury.

83. All administrative and accessorial charges, however, are supposed to be checked fully.<sup>2</sup> (Accessorial charges for packaging handling and freight are checked at the Navy supply depot responsible for the certification of delivery of the relevant equipment or stores, but other charges, including accessorial charges for transportation, are checked by the Supply Directorates at Central Office.)

Exhibit  
146/A1  
and Qs.  
A21 to  
A24

84. The witness said that, since, with most of the Department's orders, delivery is free on board at the point of origin, most accessorial charges - other than those for packing, handling and crating - are not applicable. Unless the contrary is clear, the Department assumes that any accessorial charges made for transportation are incorrect.

Q. A47

85. The Department assured the Committee that any incorrect amounts included in billings should be disclosed by Departmental checks undertaken normally. For example, in the case of Iroquois helicopters purchased and supplied between 1963 and 1965 from the U.S. Army, normal Departmental checks, first applied in

Exhibit  
146/A1  
and Qs.  
A4, A5,  
A25 and  
A26

- 
1. In the course of his evidence the witness showed the Committee a billing. In computer printout form, it listed thousands of items. The witness said that the value of each item in the particular billing was listed as less than \$US1,000, with the exception of one case where the amount listed was \$US64,000. This case, as an obvious anomaly, was queried, with the result that an overcharge of \$US63,000 was discovered.
  2. The witness explained that any administrative charge which is made represents a percentage oncost, stated in the terms of the order, fixed for the purpose of reimbursement of the relevant U.S. Service department for costs incurred in its purchase of equipment or stores on the Department's behalf. There are two rates of charge. One is 5 per cent, which was determined by the two Governments, under a co-operative logistics agreement, as a maintenance charge for equipment common to both countries. The other rate, which applies to the purchase of capital equipment, has varied from a uniform 5 per cent to 5 per cent for the first \$US1 million of the order's value, and then 2 per cent; and has settled (since 1 July 1967) at an average of 2 per cent.

Qs. A13,  
A14 and  
A19

Exhibit  
146/A1  
and  
Q. A15



1968, revealed substantial overcharges.<sup>3</sup>

86. We were informed that, in the cases of some orders, however, routine Central Office checks which had been applied had not detected incorrect accessorial charges. In explanation, the witness said that, of the Department's five Supply Directorates which procure equipment overseas (Naval Stores, Victualling, Machinery Spares, Stores (Air) and Armament Stores), one (Armament Stores) had not been checking accessorial charges.

Exhibit  
146/A1  
and Qs.  
A82 to  
A85

87. We were also informed that, because of the pressure of work claimed to be of higher priority (the need to maintain supplies to Navy ships and establishments), some checking work had necessarily been deferred.

Exhibit  
146/A1

88. The Committee understands that written procedures had been laid down in the Department for the information of staff responsible for checking billings. However, the Audit Observer, Mr Scott, said that they were defective in that they were not sufficiently detailed, and not collected in a consolidated form; and that, as a consequence, staff had not been fully informed of their duties.

Exhibit  
146/A1  
and  
Q. A95

• Instances of overcharge

89. Regarding the billings received by the Departments of the Navy and Air which had been examined in the Audit test check, the Committee was informed that the probable total of

Exhibit  
146/A1

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3. Subsequently, five different credits, totalling \$US81,737, were received between May 1969 and August 1971 from the U.S. Army. A further overcharge of \$US55,312 was acknowledged by the U.S. Army in December 1971. Suspecting that further sums were owing, the Department raised a query with the U.S. Army, but, at the time of our inquiry in September 1972, no firm answer had been received. The debt of \$US55,312 was still outstanding.

Exhibit  
146/A1  
and Qs.  
A6 to A9,  
A36 and  
A96, and  
Committee  
File 1972/5

overcharges in respect of the Department of the Navy was \$US872,234.

A breakdown of the total is set out below:

DEPARTMENT OF THE NAVY  
Details of Overcharge and Adjustments

Order	Navy Order No.	Total cost (\$US)	Probable overcharge (\$US)	Credit adjustment received	Credit adjustment sought
				(as at	(\$US) 26/9/72)
10 Skyhawk aircraft, 4083 spare engines and support equipment		16,935,000	809,299	224,019	585,280
Sonobuoys	2353	2,664,504	37,650	34,343	3,307
Analysers	1555	66,822	3,866		3,866
Missile containers	1120	110,099	1,521	1,521	
Armament stores	1434	1,050,000	19,898		19,898
		20,826,425	872,234	259,883	612,351

Source: Department of the Navy

90. Skyhawk aircraft: The Committee was informed that the U.S. Navy billings for the Skyhawk aircraft had been received by the Department of the Navy in Australia in July and August 1971. The Department told us that \$US809,299 had been included in the billings as a percentage accessorial charge for transportation, including transportation of the aircraft for delivery. The Audit Observer, Mr Scott, said that in September and October 1971 the Audit Office in New York had raised a query on the billings with the Naval Attache in Washington, as to whether the aircraft transportation charge was warranted.

Exhibit  
146/A1  
and Qs.  
A32 and  
A51 to  
A53

91. It was explained to the Committee that the aircraft were built by the McDonnell Douglas Company in California for the U.S. Navy, and were subsequently purchased by the Commonwealth. By clear arrangement between both parties, the aircraft were flown (by U.S. Navy pilots) from their base in Pensacola, Florida to North Island in California, from whence HMAS "Sydney" shipped them to Australia. The Audit Observer, Mr Scott, confirmed that the contract was clear that HMAS "Sydney" would transport the aircraft, and that the only transportation charge that should have been made was an amount similar to \$US8,284, which was the estimated cost of the air ferry from Florida to California.<sup>4</sup>

Exhibit  
146/A1  
and Qs.  
A39 to  
A45,  
A48 and  
A49

92. The Committee understands that on 21 August 1971 the U.S. Navy effected the credit adjustment for \$US224,018; and on 12 October 1971 the Naval Attache in Washington wrote to the U.S. Navy seeking the balance of the hoped-for adjustment (\$US585,280). With no reply forthcoming from the U.S. Navy, the Department's Central Office wrote on the morning of the Committee's public inquiry (26 September 1972) to the Naval Attache asking for details of the present position.

Exhibit  
146/A1  
and Qs.  
A33 to A35,  
A37, A38  
and A49,  
and  
Committee  
File  
1972/5

93. During the course of our inquiry, the Department indicated to the Committee that, in its opinion, had Audit not first uncovered the error its own normal Central Office checking procedures would have. An Audit inquiry in May 1972, however, revealed that the original billings had still not been certified by the Department's Central Office.

Exhibit  
146/A1  
and Qs.  
A49, A50,  
A53 and  
A54

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4. The Department was not in a position to know the cause of the error, but suggested that the information constituting input to the computer used by the U.S. Navy had been incorrect. The Department had drawn the error to the attention of the U.S. Navy, which had replied that it applies the same checks to Australian orders as to its own, but that it cannot guarantee the correctness of its billings. The U.S. Navy had invited the Department to draw its attention in future to billings that appear to be in error. The Treasury Observer, Mr Gray, was of the opinion that little could be done by the U.S. Navy management to eliminate errors which may occur in the translation of information into code numbers for data processing, apart from taking steps to improve the quality of the work-force involved.

Qs. A39,  
A46, A48,  
A79 and  
A96.

94. Sonobuoys and analysers: At the time of the Committee's public inquiry, \$US3,307 of the credit adjustment of \$US37,650 which had been sought on the order for sonobuoys, was outstanding. In October 1971, the question of the adjustment had been raised with the Naval Attache in Washington by the Audit Office in New York; and it had been referred to the U.S. Navy. A part credit of \$US34,343 was received by the Department in January and February 1972. In relation to the analysers, the credit adjustment sought was \$US3,866. With the orders for both the sonobuoys and the analysers, the adjustments sought represented transportation and loading charges claimed incorrectly on the orders, which had provided for delivery free on board at the point of origin. We were informed that an explanation similar to that which had been presented in the case of the Skyhawk aircraft applied in the cases of the sonobuoys and analysers.

Exhibit  
146/A1  
and Qs.  
A55 to  
A63

95. Missile containers and armament stores: The credit adjustment (\$US1,521), which was sought for the missile containers, represented a 3 per cent inland transportation charge which the Department claimed to be inapplicable because the order had provided for delivery free on board at the point of origin, and the Commonwealth had paid inland transportation costs separately to the freight forwarder. It was explained to the Committee that the Australian Consul-General in New York, as accounting officer in charge of procurement, had arranged inland transportation from the point of origin and had paid the freight forwarder. His action had been quite separate from the contract with the U.S. Navy, and quite independent of the Department of the Navy. (The Committee understands that the Consul-General has a period contract with the freight forwarder.)

Exhibit  
146/A1  
and Qs.  
A68 to  
A72

96. The matter of the credit adjustment had been referred by the Naval Attache in Washington to the U.S. Navy in October 1971, and credit billing was received in Australia in November 1971.

Qs. A64  
to A67,  
and Comm-  
ittee File  
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97. With regard to the armament stores, the credit adjustment sought (\$US19,898), represented packaging and transportation costs which the Department held to have been claimed incorrectly. In this case, too, the order had provided for delivery free on board at the point of origin. Audit staff had drawn the Naval Attache's attention to the suspected error in January 1972, and the Attache had referred the matter to the U.S. Navy in March 1972.

Exhibit  
146/A1  
and Q. A73

. Proposals for improvement

98. Following the Audit query, the Department had introduced test checks on all billings received from the U.S. Armed Services since 1968 to discover whether any other incorrect charges had been made. We were assured that, if the test check revealed a need, the Department would institute a complete check.

Qs. A82  
and A86  
to A89

99. The Department stated that written procedures for the certification of all billings had been reissued in August 1972 within the Department, with special emphasis on the need to verify accessorial charges. Procedures had been laid down previously, but not in a consolidated form and in the re-issue the extent of the checks required were set out together with an interpretation of the Department of the Treasury's ruling that smaller amounts need not be examined. This consolidation and re-issue had been prompted by a communication received from the Auditor-General's office.

Exhibit  
146/A1  
and Qs.  
A90 to  
A92

100. The Audit Observer, Mr Scott, said that his Office had examined the Department's revised written procedures, finding them satisfactory. Audit would review the procedures' efficacy after their operation for a period.

Q. A94

101. The Treasury Observer, Mr Gray, agreed that the Department's revised procedures were satisfactory; he raised, however, two difficulties likely to frustrate their implementation. The first was the clerical fatigue involved in checking a detailed billing. The second was the delays occasioned by the U.S. Navy.

Q. A96

102. While recognising the delays occasioned by the U.S. Navy, the Audit Observer, Mr Scott, indicated that the Department should endeavour to overcome the delays in checking billings within its own organisation so that the Audit Office would not be raising queries on the billings before the Department had commenced its checks. Mr Scott added that a satisfactory working liaison between the Department's Central Office and the Naval Attache in Washington was necessary. He said that advice of any unusual arrangement associated with an order, or proper interpretation of documents, should be provided promptly.

Qs. A95,  
A97 and  
A98

103. The Committee understands that a review of the staff requirements of the Supply Directorate mainly responsible for the checking deficiency has been carried out. This review followed earlier reviews which had been carried out systematically throughout the Department's Supply Division since March 1968 - one result of which had been approval in June 1969 for extra staff for the Naval Stores Directorate. The Department stated that the results of these reviews had proved inadequate for the disproportionate workload increase which continued. We were told that proposals had been lodged with the Public Service Board on 14 July 1972 and agreed to on 21 September 1972. We were assured that the proposed addition of extra staff would enable future billings to be checked as soon as received.

Exhibit  
146/A1  
Q. 93,  
and  
Committee  
File  
1972/5

#### Part 2 - Department of the Army

104. The Auditor-General's Report did not instance accessorial overcharges in respect of equipment or stores supplied to the Department of the Army; it reported, however, that Audit examinations had indicated 'apparent inadequate checking of billings'.

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of 1972

105. At the public inquiry the witness representing the Department indicated to the Committee that the Department regarded checking of particular charges in billings previously received by it as 'inappropriate'. Relating to this point the Audit

Qs. A114  
and A117

Observer, Mr Scott, said that his Office had discovered only one overpayment of an accessorial charge, of a small amount, on billings received by the Department; but that Audit was concerned, nevertheless, to ensure that the Department's checking procedures were adequate.

• • Interpretation and implementation of the Public Service Board/Treasury report

106. The Committee understands that in February 1968 the Department of the Army informed the Public Service Board that the recommendations of paragraphs 81, 97 and 99 of the Public Service Board/Treasury report (dated January 1968) were acceptable to it. These recommendations dealt (inter alia) with checking of billings. Paragraph 99 stated:

Exhibit  
146/A2

"99. ...

- d. Department in Australia to peruse billing schedule and record particulars in an appropriate financial record to facilitate funds control arrangements within the Department.
- e. Department in Australia to verify stores take up action in respect of items billed.
- f. Department in Australia to direct any queries to its Attache in Washington.
- g. When action complete, Department in Australia to advise Sub-Treasury New York to process a voucher to clear the relevant advance.

..."

107. In April 1968 the Department of the Treasury informed the Department that paragraph 117 (16) of the report had been endorsed. This paragraph stated:

Exhibit  
146/A2

"Sub-Treasury to make any payments due on US service billings by way of advances and forward detailed billing schedules to departments in Australia for perusal, verification of receipt of goods and subsequent advice to Sub-Treasury to process adjusting vouchers."

108. The Department of the Army told the Committee that the report made no mention of any Departmental responsibility for checking accessorial charges. To the contrary, we were told that paragraph 123 of the report and Attachment 10 conveyed the impression that this responsibility rested with Australian offices in the United States. Paragraph 123 stated:

Exhibit  
146/A2

"The review team also gave consideration to the appropriate location of the functions of freight auditing and payment of suppliers' accounts. Freight auditing is principally concerned with processing the freight forwarder's accounts and as the freight forwarder's head office is located in New York, there is advantage by way of easy communication, in continuing to carry out freight auditing in the office of the Consulate-General in New York."

Attachment 10, which dealt with a proposed new civilian organisation in the Procurement Section of the Consulate-General in New York, provided for a supervisory position whose duties related to the operations of the Invoice Examination Sub-section. Included in the duties was examination of freight forwarders' invoices and associated documents.

109. The Department informed us that, in view of its interpretation of the report, and because no detailed information was available to its Central Office in Australia on which useful checks could be based, it considered that its responsibility to perform checks on billings in Australia was limited to verification, in terms of contractual arrangements, of types and quantities of equipment and stores received, and verification that total expenditure, including expenditure for accessorial charges, remained within the original expenditure approval.

Exhibit  
146/A2

110. The Audit Observer, Mr Scott, did not agree with the Department's view. He said that his Office had suggested to the Department that it was possible and practicable for certain checks on accessorial charges to be performed in Australia. To support this view, Mr Scott said that the Department of the Navy had issued instructions in August 1972 providing for specific checks (based on code symbols written on billings) to be performed in Australia.

Q6.  
A109 to  
A111



111. The Treasury Observer, Mr Gray, pointed out to the Committee that placement of officers in the United States to perform checks on billings was contrary to the philosophy of the Public Service Board/Treasury report, which had recommended that as much checking and follow-up action as possible should be done in Australia. The review team had made its recommendation after finding that clerical action with regard to procurement in the United States was inefficient and costly. The Committee understands that, following implementation of the recommendation, substantial savings on staff salaries and other costs had been effected.

Q. A116

112. The Committee learnt that in September 1972, in view of paragraph 281 of the Auditor-General's Report, the Department had asked the Department of the Treasury to clarify the question of responsibility for checking accessorial charges. The Treasury had replied as follows:

Exhibit  
146/A2  
and 68.  
A103,  
A104, A112  
and A113

"The Treasury memorandum of 24 April 1968 advised the Departments of Navy, Army and Air, it had accepted the Mossop-Gray recommendations that the Sub-Treasury, New York would make any payments due on U.S. Service billings by way of advances, and that other action in relation to billings would be taken in New York and Australia as detailed in paragraph 99 of the report. This left the Departments in Australia with residual authorising and certifying responsibilities under the Audit Act and Treasury regulations, and these were modified only to the extent that unit prices on billings were not to be checked on a line for line basis. Responsibilities included that of checking accessorial charges. Your submission to the Public Accounts Committee indicates you have misinterpreted para. 123 of the report as applying to accessorial charges and placing the responsibility for checking in New York. This section of the report relates to an internal checking at the New York Consulate-General of freight accounts paid and charged to the Commonwealth by its freight forwarders.

As discussed at the meeting held in Treasury on 19 September 1972, accessorial charges fall into several categories of costs, namely, packing, handling and casing; inland, ocean and air freights;

and other costs (including administrative charges) which are specified in the U.S. Government's Letters of Offer and Acceptance (DD1513) and are listed in the billings received from the U.S. Service departments. Most accessorial charges are levied as an administrative on-cost, the rates for which are identified in the relevant U.S. Service department's manuals and are capable of being checked in Australia. The attachment to the Department of Navy's memorandum of 13 September 1972 (reference 201/1/43, paragraphs 18 to 23) of which you have a copy, discusses procedures relating to the checking of P.H. and C. charges which highlights that those charges, too, are capable of check in Australia.

Practically all Commonwealth procurement in the U.S.A. is f.o.b. supplier's stores (see paragraphs 43 to 46 of the Mossop-Gray Report). Inland freight, ocean freight and air freight are usually paid by the Commonwealth freight forwarders and the charges are audited in the Consulate-General, New York. The exceptional case, where freight is included with other accessorial charges in a United States Government billing, should act as a signal to Departments to check the charge with the terms of the original contract relating to the supply (or to later amendments) to verify the cost as a Commonwealth liability. This function, we believe, could also be carried out in Australia, followed up by any inquiry that need be made to the Service's Attache in Washington.

Although the responsibility of checking accessorial charges is the responsibility of the Australian Departments, we cannot agree it is necessary to locate civilian staff in Washington for this purpose; indeed, we find the proposal contrary to the purpose of the 1967 joint team review and to the philosophy of the team's report. To assist in the checking of charges in the terms of Mr Mossop's suggestion to the meeting of 19 September 1972, the Department might consider modifying its financial records in Australia to isolate on-costs from the unit costs of supplies as identified in the form DD 1513. This would facilitate the check against the actual billings on their receipt in Australia from the New York Sub-Treasury. It seems that all three Service Departments might adopt a common approach to this problem. We would be glad to join any discussion, if the Department so wishes.

A copy of this memorandum has been sent to the Departments of Navy and Air and to the Public Service Board."

At the public inquiry, the Treasury Observer, Mr Gray, confirmed that, in relation to Army procurements, checking of accessorial charges is a responsibility of the Department of the Army.

. Proposal for civilian staff to be placed in Washington

113. At the public inquiry the Department told the Committee that, in order for it to perform appropriate checking of billings, it was necessary that civilian staff should be located in Washington. The witness representing the Department said that it was inappropriate and difficult for the Department to check individual line items of billings in one place, i.e. at Central Office. He indicated that the numerous code symbols written on billings were best interpreted in the United States, which was where the activities represented by the symbols took place. In particular, questions as to whether accessorial charges were correct depended upon the nature of transactions which took place in the United States. The witness considered it also important that the nature of transactions should be determined at the earliest possible time, i.e. in the United States.

Exhibit  
A146/A2  
and Q.  
A114

114. The Department had not formulated a detailed organisational requirement for civilian staff in Washington, but the witness said that at least one officer would be required. This officer could undertake, in addition, duties related to financial control other than checking of billings. At the time of our inquiry, there was no Departmental officer in Washington performing any work of financial control.

115. The Public Service Board Observer, Mr McLeod, said that the Board had considered that the new procedures which had arisen from the 1968 review would have facilitated the performance of necessary checks in Australia. He noted, however, that the Department intended to submit a proposal to the Board for the placement of extra staff in the United States.

Q. A118

Part 3 - Department of Air

116. The Department informed the Committee that the total of accessorial overcharges for equipment and stores which it procured from the United States Government was \$US33,485. By the time of our inquiry in October 1972, each overcharge had been financially adjusted.

Exhibit  
146/A3

117. There were three cases of overcharge, as follows:

500 lb Bombs: On a consignment of 500 lb bombs, \$US.20,843 was charged incorrectly as ocean freight. The Department informed us that, because commercial shipping for direct freighting of explosives from North America to Australia is always difficult to secure, it often becomes necessary for explosives to be freighted circuitously - by U.S. military vessel to Subic Bay in the Philippine Islands and then by an Australian Navy or Army ship, or R.A.A.F. Hercules aircraft. In this case, the original arrangement had called for delivery by U.S. military vessel, but, at the last moment, the Australian Consul-General in New York was able to secure direct freighting by commercial shipping. Owing to an 'administrative breakdown', however, the Consul-General did not notify the Air Attache in Washington of the new arrangement and 6 per cent was consequently levied as an accessorial charge for ocean freight. The witness representing the Department indicated that the Department did not know the circumstances of the administrative breakdown. The Department did not discover the overcharge until the Auditor-General's Office drew attention to it on 18 June 1970. Representations were made to the U.S. Air Force on 10 August 1970, after which a credit billing was received.

Exhibit  
146/A3  
and Qs.  
A121 to  
A128

20 mm. Ammunition: On a consignment of 20 mm. ammunition, \$US7,920 was charged incorrectly as ocean freight. The Department informed us that the circumstances of the overcharge on the ammunition were similar to those applying in the case of the 500 lb bombs except that the overcharge was detected by the Air Attache in Washington, and a credit billing received, before the Audit Office raised a query. This evidence was contested by the Audit Observer, Mr Scott, who said that an Audit officer in New York had orally drawn the attention of the Air Attache in Washington to the overcharge early in May 1972. On 16 May 1972 the Air Attache raised the matter with the U.S. Air Force. The witness representing the Department, in support of

his contention, quoted from a cable received from the Air Attache. The cable read: "Your 5112743 of 17th July 1972. The freight charge of \$7,920 was detected by this office and a discrepancy report submitted to the United States Air Force seeking credit for that amount. The discrepancy was acknowledged and the credit appeared in the May 1972 billing statement." The witness had no further evidence on this matter, and did not know when the Air Attache detected the overcharge.

Aircraft spares: \$US4,720 was charged incorrectly, as an inland freight charge, on aircraft spares supplied under the co-operative logistics agreement. The incorrect charge was due to an accounting error by the U.S. Navy. The billing was received in July 1970, and the error was discovered by Audit staff and drawn to the attention of the Air Attache in Washington in September 1971. The Air Attache queried the U.S. Navy in October 1971 and a credit billing was received in 1972.

Exhibit  
146/A3  
and J.  
A128

Departmental checks

118. The Committee understands that, prior to the receipt of Audit queries, the Department believed that Australian offices<sup>5</sup> in North America verified the correctness of accessorial charges included in U.S. Government billings. The witness representing the Department said that, since these offices are provided (unofficially) with billings by U.S. Armed Services staff, it had been considered more beneficial to the Department, and appropriate, for them to check the billings.

Exhibit  
146/A3  
and Qs.  
A129 and  
A130

119. The Department found, however, when it made inquiries after the detection of the ocean freight overcharge on the 500 lb bombs, that the checks which it had presumed were made in the

Exhibit  
146/A3  
and Q.  
A129

- 
5. The evidence received by the Committee did not make clear which offices.

United States were deficient. Consequently, the Department decided that it should, in Central Office, check all billings in which percentage oncost for ocean freight had been included. Some 4,000 charges were involved. The witness said that the Department was not sure how it would tackle the task, but that it would have to be done on an ad hoc basis. The Committee was informed that it was not difficult to ascertain from records available at Central Office whether a consignment had been freighted by U.S. military vessel, attracting percentage oncost, or by commercial shipping, with normal freight rates applying.

120. Further action was deemed desirable after the detection of the inland freight overcharge on the aircraft spares which had been supplied. The Department had known that the Air Attache's Office checked billings, but did not know the nature and extent of the checking. The Department now asked the Air Attache for details of checks performed by Australian staff in North America on accessorial charges for administrative services provided within the United States. It became evident that the checking had been limited in scope. It was stated that the Department of Air accounted for 80 per cent of Defence Services purchases in the United States in 1971-72.

Exhibit  
146/A3  
and  
Q. A131

. Proposed improvements

121. We were informed that an increase in staff establishment would be required at Central Office to conduct the checking of billings considered necessary.

Exhibit  
146/A3  
and  
Q. A131

122. In addition, the Department told us that action had been initiated to locate a group of three Australian staff in Washington to oversight all financial aspects of procurement in the United States. At the time of our inquiry in October 1972 a detailed proposal was about to be sent to the Public Service Board. This action had not been connected in the first instance with checking of billings, but had resulted from Department of Defence

Exhibit  
146/A3  
and Qs.  
A131 to  
A134,  
A137 and  
A138

correspondence in July 1972 to the effect that some form of establishment was required in Washington to improve the Department of Air's accuracy in estimating. The Department of Air held that it would be sensible for the proposed additional staff to undertake checking of billings as an additional task. The Department rested its case on the ground that on-the-spot checks would be administratively convenient. We were told that the new staff could, with ease, undertake checks which, owing to the lack of adequate documentation, could not be carried out effectively at Central Office. The witness representing the Department said that a re-arrangement of duties could be expected within the Air Attache's Office in Washington, with relinquishment by the Service officers of many of their tasks of a financial nature.

• Observers' comments

123. The Audit Observer, Mr Scott, commented that his Office considered the efficacy of checks on billings by the Department's Central Office depended to some degree on the co-ordination of the roles of the Air Attache's Office in Washington and the Consulate-General in New York with the role of the Central Office.

Qs. A134  
and A135

124. The Treasury Observer, Mr Gray, said that his Department continued to maintain, despite some of the evidence which the Committee had heard, that billings should be checked in Australia and not overseas. His Department's view was consistent with a recommendation of the Public Service Board/Treasury review team. He understood, however, that checking of billings by the additional staff proposed for Washington would be incidental to their wider duties; and he said that it was a matter for the Board to decide what staff should be provided, and for what purposes.

Q. A135

125. The Public Service Board Observer, Mr McLeod, indicated that the Department's establishment proposal would be considered within the wider framework of its financial activities.

Q. A137

### Conclusions

126. In its examination of this matter the Committee has directed its inquiries to the administrative effectiveness of checking billings received from the U.S. Armed Services for equipment and stores supplied to the Australian Armed Forces.

127. At the time of this Inquiry 165 billings were outstanding from the U.S. Navy, some relating to advances made many years previously. Some aspects of the delays in the receipt of billings from the U.S. Services were examined in our Seventy-eighth and Ninety-eighth Reports relating to the Reports of the Auditor-General for the financial years 1964-65 and 1966-67. We indicated that continuing attention should be devoted to the problem of obtaining billings promptly from the United States authorities.

128. The evidence shows that audit test examinations of a selection of billings during 1971-72 disclosed several instances of substantial overcharges, approximately \$US900,000 overall, in respect of accessorial charges for equipment and stores supplied by the U.S. Armed Services to Australian Service Departments.

### Department of the Navy

129. The evidence shows that in the Department of the Navy detailed comprehensive instructions concerning the checking of billings were not available in a consolidated form and as a consequence staff had not been fully informed of their duties. The Committee is disturbed by the evidence that one of the five supply directorates of the Department of the Navy had not been checking accessorial charges. The Committee was informed that the probable overcharges in respect of the Department of the Navy was \$US872,234.

130. While the Committee appreciates that appropriate detailed comprehensive instructions in a consolidated form for the certification of billings have been issued by the Department of the Navy, we must express surprise and concern that such



instructions were not developed at an earlier stage having regard to the nature and extent of the Department's procurement programme.

Department of the Army

131. The Auditor-General's Report did not instance accessorial overcharges in billings to the Department of the Army but it reported apparent inadequate checking of billings.

132. The Department of the Army disagreed with the 1968 Public Service Board/Treasury Report on a matter of principle as to whether the accessorial charges should be checked in the U.S.A. or in Australia. The report recommends that as much checking and follow-up action should be taken in Australia as possible.

133. The Department informed the Committee that in view of its interpretation of the Report and because no detailed information was available to its Central Office on which useful checks could be based, it considered that its responsibility to perform checks on billings in Australia was limited to verification in terms of contractual arrangements of types and quantities of equipment and stores received, and verification that total expenditure including expenditure for accessorial charges, remained within approved bounds.

134. It is clear from the remarks made by the Observers that, under direction of paragraph 117 of the Public Service Board/Treasury Report, the Department has responsibility for checking accessorial charges in Australia. The Committee agrees with the Audit Observer that it is possible and practical for certain checks on accessorial charges to be carried out in Australia.

Department of Air

135. Audit examinations of the billings received by the Department of Air from the U.S. Armed Services revealed a number of incorrect accessorial charges.

136. The Committee was informed that prior to the receipt of the Audit queries, the Department believed that Australian Offices in North America verified the correctness of accessorial charges. From enquiries made as a result of the Audit queries it became evident that the checking had been limited in scope. The Committee is surprised that the Department was not aware of the nature and extent of the checking of billings carried out by the Air Attache's Office in the U.S.A.

137. The Committee notes that the overcharges had been financially adjusted and that action has been initiated to increase staff at the Department's Central Office to conduct the checking of billings and to locate a group of three Australian staff in Washington to oversight all financial aspects of procurement in the U.S.A.

General

138. The Committee considers it most unsatisfactory that inadequate checking of billings by the Service Departments has persisted for so many years. The Committee notes the various measures that have been proposed to overcome the earlier deficiencies and agrees with the aim that the departments concerned should endeavour to check billings as soon as they are received. The Committee wishes to be informed of the current position of the proposals that were being formulated to increase the number of staff engaged in checking billings and also the state of the checking programme for each Service Department.

CHAPTER 5  
PUBLIC SERVICE BOARD

Incorrect Payments to Officers Leaving the Service

139. In paragraph 315 of his Report for 1971-72 the Auditor-General stated:

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"Reference was made in paragraph 319 of my Report dated 17 August 1971 to the high incidence of error in the calculation of final payments to officers leaving the Service. Mention was also made that the Public Service Board, following Audit representations, had drawn the attention of all departments to the need for accurate processing of personnel entitlements and, additionally, was considering a number of related aspects including organisational structures and training procedures.

Further Audit checks conducted in 1971-72 showed that, whilst there was evidence of improvement in some areas, there was little change in the overall situation. Errors noted during the course of the Audit review have been referred to the respective departments, and the continuing unsatisfactory position has been advised to the Board which has the general responsibility for personnel and related matters.

In reply, the Board has advised of several proposals for improving the standards of personnel work in the Commonwealth Service which are currently receiving attention, including the issue to departments of a Manual of Personnel Procedures which is due to be completed in August 1972."

A summary of the incidence of incorrect payments, in 1970-71 and 1971-72, as provided by the Auditor-General's Office, is provided at Appendix B.

140. In its submission the Public Service Board informed the Committee that incorrect payments had been the matter of correspondence and discussion between the Board's Office and the Auditor-General's Office since April 1971. The Board stated that the errors had been due mainly to departments' incorrect interpretation of prescribed conditions of service. At the public inquiry, the witness representing the Board said that the conditions were clear but needed careful interpretation and application, particularly in relation to more complex areas such as retirement through invalidity. We were assured that the Board had taken measures to effect improvements. These measures are discussed below.

Exhibit  
146/A5  
and Q.  
A176

• Short term measures

141. In Memorandum No. 1971/5 of 10 August 1971 the Board drew departments' attention to the errors and stressed the need for accuracy. Specifically, the circular indicated that some personnel officers were not applying properly the various leave entitlement provisions (such as for pro rata recreation leave and anticipation of sick leave); and it emphasised that, in relation to retirements due to ill health, special care was needed in the nomination of recommended dates of retirement. The witness told us that the relevant provisions were to be found in the Public Service Act and Regulations, the General Orders, arbitral determinations and other source documents.

Exhibit  
146/A5  
and Qs.  
A177 and  
A178

142. In Circular No. 1972/16 of 25 May 1972 the Board drew departments' attention to section 5 paragraph 4A (Overpayments of Salary and Allowances) of the Treasury Directions. The paragraph provides that:

Exhibit  
146/A5  
and  
Committee  
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- (a) where overpayment occurs through miscalculation, machine error, or mistake in the application of the relevant instrument, it is recoverable;
- (b) where overpayment is alleged to have occurred for any other reason, and there is dispute as to whether it is recoverable, the matter shall be referred for advice to the Attorney-General's Department;
- (c) where overpayment is recoverable and has been received in good faith it shall, in the absence of hardship, be recovered, except where the overpayment has continued for a period of over twelve months. In the latter cases only the overpayment for the last twelve months shall be recovered. In the case of hardship, part or all of the amount may be waived.
- (d) where overpayment is recoverable and has not been received in good faith, it shall be recovered in full;
- (e) before an amount over \$2 may be recovered by deduction from salary, the Department and the officer or employee shall seek agreement on the rate of recovery; in the

event of disagreement, the Chief Officer or his nominee shall decide; and

- (f) where recovery is not possible by deduction from salary because of the officer's or employee's separation from the Service, paragraph 5 (Recovery of Debts from refunds of Superannuation or Provident contributions) makes special provision.

In its circular, the Board emphasised sub-paragraph (e) of the Treasury Direction, and stated the terms of a new General Order (14/L/1 - approved on 17 May 1972) which drew attention to the sub-paragraph, and stated that an overpaid officer or employee could agree to repay in a lump sum, either independently of salary payments or by deduction of the full overpayment from the next salary payment.

143. The Committee was informed that the substance of the Treasury Direction was based on recommendations made by Joint Council<sup>6</sup> at its meetings in December 1965 and May 1966. A Treasury Direction was issued in May 1966 which provided for the procedures described in sub-paragraphs (a), (b), (e) and (f) of the present Direction, and in October 1967 the procedures described in sub-paragraphs (c) and (d) of the present Direction were issued.

Exhibit  
146/A5  
Qs. 203 to  
207 and  
Committee  
File 1972/5

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6. Joint Council, which was established by the Public Service Act 1945, comprises a representative of the Public Service Board, six departmental representatives nominated by Permanent Heads as requested by the Board, five representatives of organisations affiliated with the Council of Commonwealth Public Service Organisations, and two representatives of the Amalgamated Postal Workers' Union of Australia. Its functions are to consider such matters of general interest in relation to the Commonwealth Service as are referred to it by the Board, by Permanent Heads or by staff organisations, and to report (and, if desired, recommend) thereon. (Public Service Act 1922-1973 s. 19A and reg. 72B-72K and 72P).

144. Other steps taken by the Board were (on 18 June 1971) to draw the attention of its Inspectors to the Auditor-General's finding and to ask them to ensure correct calculation in future; and to publicise the incidence of errors in its 1972 Annual Report.

Exhibit  
146/A5  
and Qs.  
A177 and  
A179

- Longer term measures

(1) Manual of Personnel Procedures

145. The Board informed the Committee that, in order to achieve a substantial improvement in the standard of personnel work in the Service, action of a longer term was required. One project that has been initiated is the Manual of Personnel Procedures. The Board's 1972 Annual Report (dated 11 September 1972) stated:

Exhibit  
146/A5  
and Qs.  
A180 to  
A183

'The production of a manual of personnel procedures covering the various transactions carried out in a personnel unit.... is now in its final stages after on-the-job testing in three Canberra departments. The Board's intention is to provide departments with copies and to suggest that any adaptation necessary to cover particular local procedures should be incorporated in the manual for their own use. Availability of the manual is expected to produce greater accuracy in handling personnel transactions.'

We were informed that the manual is intended also to help in the training and development of personnel staff. The three departments referred to were the Department of the Army, the Department of National Development and the Taxation Office, each of which received the draft manual in March 1970. Their reactions were favourable, but comments were made that, as the draft was developed from documentation of procedures followed in the Board's own Office, some modification and amplification to facilitate its use in other areas would be needed. After reactions were received, the draft was subject to revision and recheck within the Board's Office. It was hoped that the manual in final form would be available early in 1973. The witness added, however, that the manual would not be intended for immediate use but rather as a model on which departments could, with their particular requirements, base their own manuals.

(ii) Review by the Board's Management Consultancy and Review Division.

146. In November 1971 the Board authorised - as another initiative to improve the standard of personnel work - a review by its Management Consultancy and Review Division of the personnel and finance areas of the management services function. At the time of our inquiry in October 1972, the review had not commenced, because of limitations on staff resources, but in the previous few months work had proceeded on an examination of the standard personnel record function as a separate area of study in the general review. By way of a trial, preliminary work had commenced in selected departments, and it was hoped to extend this work soon. Regarding the limited staff resources available for the review, the witness pointed out that it was difficult, if not impossible, for the Board to assess the sufficiency of staff within departments, or the significance of delays occasioned by limited staff resources. He explained that responsibility for efficient performance lay with departmental management, and that the Board undertook only advisory management services. We were informed that advisory management services units were also established in the departments themselves.

Exhibit  
146/A5  
and Qs.  
A184 to  
A189

147. The witness said that the examination of the standard personnel record function would involve scrutiny of source authorities. This included most especially the Public Service Act and Regulations, the General Orders, and arbitral determinations. This was to ensure that matters affecting an officer's entitlement which emanate from the source authorities were accurately compiled in a continuous personnel record. As such a record follows a person throughout his Commonwealth Service career, we were told that it is important to ensure that it is comprehensive and meets all its intended purposes, and that it is maintained uniformly.

Q. A190

(iii) Code of Personnel Administration.

148. We understand that, as part of the Board's objective to improve documentation of personnel administration, another project under examination is the development of a code. The initial stage involves a close examination of all existing documentation (legislation and related instruments, determinations governing Commonwealth Service employment, and various documents containing principles, rules, standards and instructions of employment and conditions of service) with 2 objectives: to identify the difficulties and dissemination and maintenance of information in many different source documents and to commence the development of a system to integrate documentation and provide an improved reference guide. The examination commenced early in 1972.

Exhibit  
146/A5  
and Q.  
A191

(iv) Mandata

149. Also under examination - by the Board and an international computing systems consultant - was a proposal for a centralised computer-based system for personnel and establishment records - referred to in the Board's 1972 Annual Report as 'Mandata'. We were informed that the proposal would offer in the long term the prospect of eliminating many of the errors currently encountered in processing personnel transactions. In April 1972 the Board sought the views of Permanent Heads, and of staff associations, in relation to Mandata, and as a result of replies received, dialogue had developed between the Board's Office and departments. It was clear that implementation of the project would prove to be a complex operation, involving the solution of major problems. The expected time of commencement of operation was 1975, after which implementation would be built up progressively over 3 or 4 years.

Exhibit  
146/A5  
and Qs.  
A192 to  
A195

150. The Audit Observer, Mr Scott, stated that his Office considered that, whilst it was premature to make final judgment, Mandata was satisfactory in outline. He agreed that in the long term the system should eliminate errors in personnel work and that, in particular, all or nearly all errors of incorrect payments to officers leaving the Service should be eliminated. The only errors liable to recur under Mandata would be in relation to unusual conditions of service.

Q. A196



(v) Instructions relating to invalidity retirement procedures.

151. We were informed that the Board's instructions relating to invalidity retirement procedures had been revised and re-written, and in October 1972 new draft procedures were issued to the Public Service Inspectors. Revised instructions and General Orders would be made available to departments as soon as possible. It was hoped that new instructions would make procedures clearer to departments, and eliminate errors. We were informed that amendment was also to be made to Form P.S.B. 14A, which is used by a department to collate information on a forthcoming invalidity retirement and its related conditions. The amendment would ensure a more precise indication by responsible officers that details had been checked and were correct.

Exhibit  
146/A5  
and Qs.  
A197 to  
A202

. General Audit Observations

152. The Audit Observer, Mr Scott, stated his view that, in the long term, Board action should eliminate most causes of incorrect payments. He added, however, that Audit checks in both 1970-71 and 1971-72 showed that the situation was not so satisfactory in the short term. To emphasise his point, Mr Scott said that, while some departments had, other departments had not made retrospective checks, and Audit checks covered only a proportion of cases of officers' separation from the Service. He believed that the Public Service Board, within its limits of responsibility, to have probably taken the appropriate action, although perhaps a little delayed. In any case, responsibility for ensuring the correctness of payments lay with the departments. He understood that the Board was seeking discussions with the Department of the Treasury concerning appropriate retrospective check action to be taken by departments in the future.

Q.209

153. Mr Scott observed that it was one matter for instructions to be issued which were satisfactory so far as their intent was concerned, and another matter for instructions to be applied in practice. He said that the Board and departments shared the view which he held that many errors in payments to officers on their

Qs. 209,  
213 and  
214

separation from the Service were occasioned by the inexperience of the staff processing the payments. Amongst the factors contributing to such inexperience, he pointed to a fast promotion rate in recent years, and staff shortages.

154. By way of seeking a short-term, practical remedy to the problem of incorrect payments, the Observer recommended examination of the possibility of instituting internal or independent checks. He added that, if it proved necessary, second checks should be instituted. In response to a query from the Committee, he said that internal auditors could possibly perform the task, but that such performance would be inconsistent with the recognition that internal auditors should not be involved with work of an in-line nature. He suggested that it would be inappropriate to involve internal auditors in checking the payments.

Qs. 209  
to 211

155. Regarding a Committee query as to how far back departments should take retrospective checks, the Observer said that, while it was not a decision for the Audit Office to make, the errors had been noticed only in the last couple of years and that, before then, departmental procedures had seemed to Audit to be reasonably satisfactory.

Q.212

#### CONCLUSIONS

156. The Committee cannot but feel, in view of the Auditor-General's remarks on the incidence in three successive financial years of incorrect payments to officers leaving the Service, that the efforts of the Public Service Board to effect improvements have not been fully supported. The Committee believes that the Board could not have done much more than it has done, - not only in this area but also in other areas of personnel administration. The Board has issued circulars to departments, drawn its Public Service Inspectors' attention to the problem, publicised the problem in its 1972 Annual Report, and revised its instructions relating to invalidity retirement procedures; and has also initiated a Manual of Personnel Procedures, a review of the personnel and finance areas of the management services function, a Code of Personnel Administration, and centralised personnel and establishment records ('Mandata'). The Committee commends the Board for its actions

and initiatives, and trusts that, at least in the long term, improvements will ensue.

157. The Committee is concerned that the performance of departments in this area of personnel administration has, generally, been less than satisfactory; and is further disturbed that some departments - despite pressures from the Auditor-General's Office and the Board - had not, at the time of the inquiry, made retrospective checks. In this connection the Committee notes that Treasury Circular 1973/15 was issued on 13 September 1973 directing departments to check all separation payments made to officers since 1 January 1973. The Committee would like to be informed if checks are to be made of separation payments made to officers who left the Service prior to 1 January 1973 and if not, the reasons why it was decided not to do so.

CHAPTER 6

Department of Supply

Munitions and Aircraft Production Undertakings

158. In his Report for 1971-72 the Auditor-General referred in paragraph 303 (Department of Supply - Munitions and Aircraft Production Undertakings), inter alia, to maintenance of production capacity at Government factories and to over-expenditure by the Government Aircraft Factories.

P.P. 101  
of 1972

Maintenance of production capacity at Government factories

159. The Auditor-General reported that \$7,414,530 in 1971-72 (\$4,162,721 in 1970-71) had been expended on maintenance of production capacity at Government factories. This sum comprised \$6,956,792 (\$3,726,618) charged to Division 722 as reserve capacity maintenance in departmental production undertakings, \$287,468 (\$271,701) for re-arrangement of capital facilities and \$170,270 (\$164,402) for miscellaneous costs. (See Appendices C and D)

P.P. 101  
of 1972

160. New appropriations were made in 1971-72 under Division 722 for reserve capacity maintenance - \$164,000 to the Clothing Factory, Coburg and \$20,449 to the Central Drawing Office, Maribyrnong. The Auditor-General stated:

P.P. 101  
of 1972

"In 1970-71 and previous years the Clothing Factory and the Central Drawing Office operated on the basis that charges for work performed recovered all costs incurred.

In response to inquiries by my Office the Department recently advised that the Central Drawing Office no longer has a viable work load following the transfer of much of its work and staff to the Defence Printing Establishment; also that the arrangements which applied to other establishments in similar circumstances were applicable in calculating the amount chargeable to the appropriation in 1971-72 as reserve capacity maintenance in relation to the Central Drawing Office.

The Department stated that productivity at the Clothing Factory had been adversely affected by the transfer from South Melbourne to new premises at Coburg and by the Victorian electricity strike and the factory could not be considered a viable organisation for most of 1971-72. In these circumstances, payments to the Factory from the appropriation had been approved for

losses due to lowered efficiency, \$108,000, and to the electricity strike, \$56,000. The reimbursement for the loss from the electricity strike was identical with the accounting action in other factories affected by the strike."

161. The Department explained that the need for the appropriation for reserve capacity maintenance arises from a policy decision requiring that facilities at Government munitions factories should be maintained at a level appropriate to war-time emergency conditions. The corollary of this policy is the under-utilisation of facilities in peace-time. Were it not for annual appropriation to the Department - under item 722-01 (Reserve Capacity Maintenance) - representing the difference between a notional 'normal' overhead and actual overhead, clients of the factories would need, in peace-time, to pay unreasonable prices to cover overhead costs.

Exhibit  
146/B4

162. The Department's practice is to cost customer orders at the manhour rates which would apply if the factories were fully employed on a single shift basis, and to off-set the excess costs by the appropriation. As a result, lower production output results in higher charges to the appropriation because the amount of overhead absorbed in the work performed is reduced.

Exhibit  
146/B4

163. In explanation of the increase from \$3,726,618 in 1970-71 to \$6,956,792 in 1971-72 in net expenditure charged to the appropriation, the Department stated that in general:

Exhibit  
146/B4  
and Qs.  
B118 and  
B119

- (i) Production was reduced, mainly due to a cut-back in Service orders. Measured by hours of direct labour charged to orders, the reduction was from 8,257,000 in 1970-71 to 6,587,000 in 1971-72. During 1971-72 over-time was restricted, and the work force in the munitions and aircraft factories was reduced from 9,937 in May 1971 to 9,388 in May 1972, by wastage and limited retrenchment;

- (ii) Retrospective adjustments granted to wages employees as a 'flow-on' from the Metal Trades Case came too late in the financial year to effect recoveries against orders. The award, handed down in May 1972, was retrospective to February 1972 and the Department decided not to re-cost past production but to recover the increase from the reserve capacity maintenance appropriation. At the public inquiry, the witness representing the Department, in defence of the decision not to re-cost, said that, at the end of a factory's costing period of 4 - 5 weeks, labour and material costs are allocated to orders by a complex procedure and to carry out a re-costing of wages from the effective date of the award would entail a myriad of transactions.

• Central Drawing Office

164. Before 1971-72, costs incurred by the Central Drawing Office were recovered by charges for work done, and the Office broke even each year. After the transfer in January 1972 of the Office's Printing and Reproduction Sections to the Defence Printing Establishment,<sup>7</sup> however, subsidisation of the Office's operations from the reserve capacity maintenance appropriation became necessary. The amount drawn from the appropriation was \$20,449, which represented the portion of fixed overhead costs not recovered by charges for work done.

Exhibit  
146/B4

165. With the Office's retention of the Drafting and Photography Section and the Plan Printing and Microfilming

Exhibit  
146/B4  
and  
Q. B122

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7. In August 1968 the Secretary to the Department of Defence appointed an interdepartmental committee to study the practicability of amalgamating various printing establishments amongst the Defence group of departments. A decision in favour of amalgamation was taken in June 1969.

Q. B120

Section,<sup>8</sup> much of the fixed overhead costs existing prior to the transfer continued. We were informed that the Office had foreseen the continuance of these costs. To recover these costs, the drafting rate was increased but, by the standards of the industry, the new rate was exorbitant and the Office was unable to attract orders.<sup>9</sup> Approval was then sought, and obtained, of competent authority to decrease the rate to between \$7 and \$7.50 per hour. This revised rate, which was assessed to be the 'normal' rate at which all costs would be recovered given a 'reasonable' level of operation was some \$4 below 'full establishment cost'. For the remainder of the financial year, the Office attracted orders at the new rate.<sup>10</sup>

166. The Office was not expected to draw on the reserve capacity maintenance appropriation in financial years after 1972-73. Q. B124

. Clothing Factory<sup>11</sup>

167. The Clothing Factory is not normally subsidised from the reserve capacity maintenance appropriation because in other years it has operated so that all costs were recovered in the charges made. The Committee was informed that the Factory has

Exhibit  
146/B4  
and  
Q. B125

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8. The management of the Central Drawing Office had required retention of limited staff to oversight standards, practices and procedures of drawing offices to provide training, and to represent the Defence group of departments on standardisation sub-committees on drawing practices, microfilming and photography. Q. B121
9. Two Departments which placed orders in private enterprise were Civil Aviation and Foreign Affairs. Q. B123
10. The Departments of Civil Aviation and Foreign Affairs placed orders at the new rate. Q. B123
11. The Auditor-General drew attention to the Clothing Factory in respect of (i) maintenance of production capacity, and (ii) the need for urgent remedial action in relation to serious delays in payment of the Factory's creditors' accounts; losses of cash discounts; and inadequacies in the financial control and follow-up of debtors' accounts. At the inquiry, the Committee questioned the Department on both references; the latter reference will be reported in a subsequent Report of the Committee.

a record of sound operation, established over some 60 years, from its premises in South Melbourne. However, because of out-dated facilities and crowded, hazardous working conditions the Factory closed its South Melbourne premises and transferred to new premises in Coburg in January 1971.

168. While financial provision had been made to cover the actual move to Coburg, no provision had been made to cover the associated loss in productivity. Although subsequent calculation assessed that 42,000 hours, valued at \$108,000, had been lost, the witness representing the Department said that a loss had not been expected.

Exhibit  
146/B4  
and  
Qs. B126

169. We were told that the reasons for the loss in productivity were many, but that the significant factors were wage increases, introduction of industrial engineering practices, delay in the revision of the price list, and loss of trained staff. These factors are discussed below.

Exhibit  
146/B4  
and  
Qs. B126  
to B133

Wage increases:

Wages increased as a 'flow-on' from the Metal Trades Case and as a result of a Clothing Trade Award.

Introduction of Industrial Engineering practices:

Industrial engineering practices, which were introduced at about the time of the move to Coburg, were intended to establish better working standards, but union opposition, in the form of stop-work meetings, planned go-slows and strikes, resulted in poorer work performance.

Delay in revision of the price list:

The witness said that revision of the price list was warranted by award increases, but the Factory did not revise the list immediately. One factor in the



delay was the heavy workload involved in the move to Coburg. There was also the consideration put forward by the Services and accepted by the Factory management, that prices should be as competitive as possible.

Loss of trained staff:

Trained staff were lost when a number of experienced operators declined to travel to the Factory's new location. The witness said that the work force had decreased as soon as it became known in September 1970 that the Factory was to move to Coburg. Also, during the four months before the move, the decrease in the work force had been very marked, necessitating the working of considerable overtime. As a result of the loss of staff, as well as for other reasons, the production efficiency of the Shirt, Trouser and Industrial Sections at South Melbourne prior to the move was assessed as 20 per cent greater than at Coburg for several months after the move.

170. Moving to overcome the downturn in productivity at the Factory, the Department established several special-purpose teams. The main team was set up in November 1971, by the Controller of the Munitions Supply Division, with a broad charter to examine all aspects of the Factory's operation. The Assistant Manager of the Ordnance Factory, Maribyrnong, was appointed leader of this team. He maintained a liaison with other teams which were established with specific aims to develop new management accounting systems, to examine new supply and store-keeping procedures, and to introduce new engineering standards. The latter teams were set up by the Department's Assistant Secretary, Finance, Assistant Secretary, Stores and Transport, and Assistant Secretary, Technical Services, respectively. At the

Exhibit  
146/B4  
and  
Q. B134

time of our inquiry in October 1972, the development of new management accounting systems had been almost completed, and new supply and store-keeping procedures were being introduced.

171. Amongst the improvements that were made was the introduction of greatly improved control data systems, which were expected to increase efficiency by reflecting labour performance as a guide to management. We were informed that the Factory management now has appropriate control data at its disposal to quickly counter any adverse labour trends. Also, in recognition that it should avoid future delays in price list revision, the Department decided to implement a more detailed computer-oriented costing system which will enable garments to be re-priced much more quickly.

Exhibit  
146/B4  
and  
Q. B131

172. The witness representing the Department said that, had it not been for the Factory's move to Coburg, these improvements could not have occurred, as the facilities at South Melbourne would have been inappropriate. Also, following recruitment and training of new staff, operator efficiency rose markedly.

Exhibit  
146/B4  
and  
Q. B135

173. Apart from losses due to lowered efficiency, assessed at \$108,000, there was a further loss, for which \$56,000 was recovered from the reserve capacity maintenance appropriation, arising from the Victorian State Electricity Commission strike of February 1972.

Exhibit  
146/B4  
and  
Q. B136

Over-expenditure by the Government Aircraft Factories

174. In relation to over-expenditure by the Government Aircraft Factories, the Auditor-General stated:

P.F. 101  
of 1972  
and Q.  
B141

"Following examination of procedures being followed for the costing and financial control of expenditure on work by the Government Aircraft Factories, Audit invited the Department's attention in November 1971 to a number of unsatisfactory features, including over-expenditure on orders placed with the Factories by departments and other bodies. Six orders were instanced where expenditure of \$1,976,557 had been incurred against funds of \$1,615,524 recorded by the Factories as available for the purpose. The Department's advice was sought of action proposed to avoid repetition of the unsatisfactory position.

The Department recently advised that action had been taken to seek additional funds for the 6 orders instanced; also that it had set up a working party to solve the short-term problems and, more importantly, to devise procedures for the maintenance of sound financial management in the future. The Department expected final recommendations of the working party at an early date.

As at 30 June 1972 substantial over-expenditure was shown in departmental records against funds available for the purpose on a considerable number of orders."

Commenting on the Auditor-General's statement, the Audit Observer, Mr Harrington, said that the over-expenditure situation was considered serious because of its extent. He added that the six orders instanced in the Auditor-General's Report were not the only orders on which there was over-expenditure.

• Preparation of cost estimates

175. The Department explained that, with the type of order involved in this instance, actual production costs are charged to the Service clients. Under the procedure for costing, a client is provided, on request, with a cost estimate to permit necessary funds to be made available before an order is placed. In order to provide such an estimate, the Factories' Sales Order Section examines previous performance data and information provided by the Management Services Section (labour hours) and the Supply Section (material prices). All data collected is referred to the Finance Section for costing. After

Exhibit  
146/B4  
and Q.  
B142

conversion of the data to monetary values, appropriate on-cost charges are added, and the final estimate is returned to the Sales Order Section. Estimates under \$25,000 are generally passed to the client directly, with a quotation at full man hour rates. Sometimes, however, the estimate is passed to the client via Central Office of the Department of Supply. This would occur when approval is sought to quote at less than full man hour rates.

176. In cases where a client's requirement is urgent, the client issues a provisionally funded order, including an estimate of man hours and cost, with the intention that the Factories should commence production before their detailed estimate is prepared. Q. B142

• Progress reviewing of estimates

177. Cost reporting and production control procedures, based on punch card data processing, provide for progress reviews at the Factories of manufacturing performance against orders in order to estimate whether or not orders will be completed within available funds. Under the procedures, cost information is collected for each particular order as the order progresses through the Factories. The information is collected on documents called 'travellers' which are sent to the various cost centres involved in the manufacturing processes. At these centres the man hours worked and materials used is written in. The 'travellers' are then returned to the Finance Section for processing and printing of accumulated cost tabulations by computer. Exhibit 146/B4 and Qs. B143 and B145

178. The witness representing the Department told the Committee that, when client funds are 70 per cent expended on an order, an investigation tabulation is printed and the cost centre is informed. The cost centre considers how much work needs to be done to complete the order and determines whether sufficient funds are available. Q. B143

179. In a situation where an order becomes overspent (due to lack of corrective action) an overspend tabulation is printed in order to prompt urgent attention. These tabulations had not been used before the 1971-72 financial year. Qs. B143 and B144

• Breakdown in procedures

180. We were informed that there was a breakdown in the Factories' progress review procedures. The causes of the breakdown are discussed in the following paragraphs. Exhibit 146/B4
181. Work stress at the Factories was such that the staff of the Sales Order Section had been unable to devote sufficient time to reviewing progress. Underlining the extent of work stress, the witness said that, as at the date of public inquiry (17 October 1972), 1,025 customer orders, representing a value of some \$27,000,000, were being processed by the Factories. In production, these orders required the issue of about 13,000 factory work orders, all of them subject to progress review procedures. The problem was exacerbated by the introduction of more commercial off-set work. Rather than reviewing estimates, the staff had spent considerable time preparing bids for overseas off-set contracts. This allocation of time reflected a policy decision. Exhibit 146/B4 and Q. B146
182. Another cause of the breakdown was the incidence of escalation in labour and materials costs. The Committee was informed that the Factories base their estimates on current costs. The witness said that, with many cost increases in recent years, particularly in 1972, the Factories had not been able to maintain estimates in tune with the increases. Exhibit 146/B4 and Q. B147
183. The Committee was also informed that several orders were overrun in that costs were incurred on tasks not covered in job estimates. This was due to poor estimating, technical difficulties encountered in production, or variation of an order midstream. Exhibit 146/B4 and Q. B147
184. Explaining the poor estimating, the witness said that, with a multitude of different orders to handle, it was inevitable that some tasks would be assessed incorrectly or overlooked, particularly with major orders. Poor estimating could result from the lack of prior experience of a particular kind of order, or because efficiency proved less than had been anticipated. It was stated that the Factories prepare estimates based on the best possible prior experience, and that Q. B147

estimates allow for learning time, especially at the commencement of an order. If the amount of learning time assessed is insufficient then expenditure may exceed the estimate.

185. The Committee was informed that the technical difficulties encountered in production encompassed not only unexpected plant breakdown or process malfunctioning but also the unforeseen need to expend funds on additional items or equipment, or to undertake further processing. Q. B147

186. Variation to the technical work content of an order, already commenced, in response to a Service client's request, was represented to the Committee as a special kind of problem. On the occasions when variation had occurred, it had not always been possible to amend the funds provision quickly. The witness pointed out that some past orders, including some of those drawn to the Factories' attention by the Auditor-General's Office, had been undertaken on the mistaken understanding that they represented firm and fixed technical requirements. Q. B147

187. An example of an order in which variation caused a large overspend was an order placed by the Department of Air for an Alison engine test stand. In July 1968 the order was initially funded at \$98,000. As work proceeded it became clear that the order was not a clearly enunciated requirement but represented a developmental task. Engineering design requirements increased considerably. Extra funds were made available as adjustments were made during the processing of the order, but the overspend problem was not rectified. By October 1972, the order had been funded to the value of \$148,600, which was expected to be the final cost of completion. Q. B149

188. The witness told the Committee that, regardless of whether programme changes resulted from technical problems or from clients' requests, it appeared sensible to the Factories - in the context that work stoppage increases eventual overall costs and delays delivery dates - to continue with processing, incorporating changes, and to adjust cost estimates as quickly as practicable. Exhibit 146/B4 and Q. B147

189. Another cause of the breakdown in progress reviewing was claimed to be the division of responsibility between the Sales Order Section and the Costing and General Accounting Sections. The Sales Order Section, which is responsible for the preparation of estimates, comes under the Planning Manager's control and the others come under the control of the Assistant Manager, Administration. We were told that this separation, which had been operating for some years, had not facilitated the proper comparison of progress costs against funds provided on individual orders. In explanation, the witness informed us that the Planning Manager is an engineer who is concerned essentially with factory performance in an industrial engineering sense to ensure that tasks are performed within cost limits and is not as aware of the requirements of the Treasury Regulations as the Assistant Manager, Administration. It was said that although liaison between the two managers has been close in the past, the Assistant Manager, Administration, has not been able to insist, for instance, that re-estimating should be given first priority.

Exhibit  
146/B4  
and Q.  
B148

• Remedial steps

190. It was stated that at the time of our inquiry in October 1972 the working party (referred to in the Auditor-General's Report) investigating over-expenditure at the Factories had not been able to examine the Factories' procedures in detail. It had, however, decided to recommend in its report that this should be done. We were informed that the working party had been set up immediately Audit drew the overspend problem to the attention of the Department. This working party included a Principal Executive Officer from Central Office, the Factories' Assistant Manager, Administration, and the Planning Manager.

Qs. B144  
and B150

191. Previewing the working party's findings, the witness representing the Department said that punch card data processing was not considered as effective as some other forms of processing for quick response and provision of necessary in-depth information. He added that the Department had under notice the possibility of future introduction of a more sophisticated computer system. The witness was able to state, nevertheless, that the Department believed its procedures to be 'probably as good as, if not better than, most that are currently operated in our counterparts - that is the Commonwealth Aircraft Corporation or Hawker de Havilland'.

Qs. B144  
and B145

192. One preliminary recommendation which had been made, however, was that the Sales Order Section should in future come under the control of the Assistant Manager, Administration. At the time of our inquiry in October 1972 it was expected that an organisation proposal, generated by the Factories, would be sent within the next month to the Department's Regional Office for presentation to the Public Service Inspector. This proposal reflected, the Committee presumes, the view taken by the working party that the capacity of the Sales Order Section had been completely overstretched. The witness suggested that, with the new structure, the overspend problems would in future be diminished considerably.

Exhibit  
146/B4,  
Qs. B146,  
B148,  
B150 and  
B153

193. Another improvement, which was effected as early as November 1971, was the Costing Section's provision to the Principal Executive Officer in Central Office of a comprehensive breakdown of component costs involved in each overspent order. This breakdown took the form of cost tabulations and overspend print-outs from what the Department called its computer's 'debtors' master tabulation'.

Exhibit  
146/B4  
and Q.  
B151

194. We learnt also that the Costing Section had set up a special cell in mid 1972 to itemise the cost elements in each order and pinpoint the areas requiring remedial action. This cell passed information to the Sales Order Section, which ascertained the technical reasons for the increased costs and submitted re-estimates to the clients for approval and provision of additional funds. With regard to the large overspends causing concern, however, we understand that, after preparation of re-estimates, requests for additional funds for the relevant orders were progressed by senior officers from the Department's Central Office.

Exhibit  
146/B4  
and Q.  
B152

• Future accounting arrangements

195. In the course of our inquiry into the Department of Supply, we learnt that the Treasurer had set up an inter-departmental

Exhibit  
146/B4  
and Qs.  
B154 to  
B158



working party to report to the Treasurer and the Ministers for Defence and Supply on accounting arrangements for munitions and aircraft production undertakings. We understand that the working party had met regularly, had worked in some depth and, at the time of our inquiry in October 1972, was expected to report very soon. The witness told us that the reserve capacity maintenance concept was under review, as was the form of accounts, operating statements and balance sheets. The question of whether accounts should be formally declared under section 41(D) of the Audit Act as accounts prescribed by the Treasurer and auditable by the Auditor-General, and other questions concerned with interest on capital, depreciation and like matters, were also under notice. We understand that the working party's report was expected to be a valuable contribution in the area of public enterprise accounting.

### Conclusions

#### Maintenance of production capacity at Government factories

196. The Committee was concerned to learn in the Auditor-General's Report that, in the Department's view, the Central Drawing Office did not have a viable work load after the transfer of much of its work and staff to the Defence Printing Establishment. The Office, which had previously been able to recover costs by charges for work done, required subsidisation. The alternative, which was to raise charges, was tried and found to be self-defeating. The Committee questions whether sufficient attention was given to the future work-load of the Central Drawing Office when the decision was made to amalgamate the defence printing establishments. The Committee also questions whether the time lapse between the establishment of the interdepartmental committee in August 1968 and the transfer in January 1972 was necessary.

197. From the evidence tendered, it would seem to the Committee that it was, prima facie, inappropriate for the source of subsidy to the Central Drawing Office to be an appropriation for reserve capacity maintenance. The Committee was told that such an appropriation was justified on the ground that facilities at Government munitions factories should be maintained at a level appropriate to war-time emergency conditions. In view of the transfer of much of the work of the Central Drawing Office to the Defence Printing Establishment, the Committee queries whether the work that remained bore a close relation to defence requirements.

198. The Committee appreciates the dilemma in which the management of the Central Drawing Office found itself after the transfer of functions, but is nevertheless critical. The Office should have foreseen that, by increasing the drafting rate to an uncompetitive level, orders would be lost, and the purpose of the increase defeated. On the other hand, if the Office had not known that the increased rate would prove to be uncompetitive, the Committee believes that it should have been more aware of the market reality.

199. The Committee notes from the Auditor-General's Report for 1972-73, that the Central Drawing Office ceased to operate as a separate undertaking from 1 July 1973.

200. With regard to the Clothing Factory, the Committee finds it difficult to understand why financial provision had not been made to cover the loss in productivity arising from the Factory's relocation from South Melbourne to Coburg. The omission is even harder to understand in view of the fact that provision had been made to cover the actual relocation costs. The Committee does not consider that the Department should have been expected to have previously assessed with any degree of accuracy the loss of trained staff, nor the extent of union opposition to changes in engineering practices, but the Committee does find it remarkable that no loss in productivity had been anticipated at all.

201. The Committee accepts that, in view of the Clothing Factory's need to maintain market competitiveness, there was a case for the postponement of revision of the price list. It seems, however, that part of the reason for the postponement was the heavy workload involved in the relocation of the Factory. The Committee notes the Department's decision to implement a more detailed, computer-oriented costing system, enabling garments to be re-priced much more quickly.

202. It is clear from the evidence tendered that the introduction of industrial engineering practices at the Clothing Factory created, in the short term, more problems than it solved. The Committee trusts that, in the longer term, the introduction will prove to have been worthwhile.

203. The Committee commends the Department for its strong efforts to improve efficiency at the Clothing Factory.

#### Over-expenditure by the Government Aircraft Factories

204. The Committee is concerned that work stress at the Factories had been such that the staff of the Sales Order Section had been unable to devote sufficient time to progress reviewing of manufacturing performance against orders. The evidence suggests that, in view of the volume of work needed to be done in the Section, additional staff were required to undertake progress reviews. The Committee takes the view that, not only should progress reviews be undertaken in respect of all work orders, but that the Factories' management should do all in its power to enhance their quality.

205. The Committee cannot accept that initial poor estimating explains over-expenditure on orders to any great extent. With provision for progress reviews such as the Department described, initial poor estimating should be corrected before over-expenditure looms as a reality. On printout of an investigation tabulation, after 70 per cent of available funds have been expended, a more accurate re-estimate can be made. In extraordinary cases, when cost-increasing factors arise after re-estimating, over-expenditure should be avoidable. Alertness on the part of the Sales Order Section to these factors, and quick action, should ensure downward adjustment of work programmes, re-allocation of funds provisions, or special arrangements for supplementary funds.

206. In making its criticism, the Committee is mindful of difficulties faced by the Factories' management - namely, work pressure on some staff, inexperience or inefficiency of some staff, lack of experience of particular kinds of orders, the policy decision to concentrate on off-set contracts, high and frequent rises in labour and materials costs, technical problems encountered in production, and late variation of order requirements. The Committee regards each of these factors as significant, but does not believe any, or all of them together, provides an excuse for over-expenditure. In saying this, the Committee recognises that each of these factors may be beyond the management's control.

207. The Committee is particularly disturbed that some past orders have been commenced on the mistaken understanding that they represented firm and fixed technical requirements. The Committee is neither anxious nor in a position to attribute blame, but trusts that, in the future, orders are not commenced until both client departments and the Factories are certain about what is required. It would appear that closer liaison between client departments and the Factories is needed as well as better enunciated orders. From an estimating point of view it is clearly a wholly unsatisfactory state of affairs when the Factories staff does not know that a particular order represents work of an experimental or developmental nature.

208. The Committee notes the various remedial steps taken by the Department following the representations by the Auditor-General's Office, and is satisfied that each of them will contribute to the eradication of the over-expenditure problem. It wishes to be informed of the results of the review of procedures undertaken by the working party referred to in the Auditor-General's Report, and also of what follows from the findings of the working party set up to report to the Treasurer and the Ministers for Defence and Supply on accounting arrangements for munitions and aircraft production undertakings.

CHAPTER 7  
DEPARTMENT OF THE TREASURY  
WORKS SERVICES TRUST ACCOUNT

209. In paragraph 278 of his Report for 1971-72 the Auditor-General reported that his Office had queried the Department of the Treasury regarding the Department of Works' retention of substantial credits in the Works Services Trust Account to cover long-term liabilities accruing for employees' furlough, and the use of these credits and other credits in the plant hire section of the Account to fund other authorised operations of the Account.

P.P. 101  
of 1972

210. The purposes of the Account, as defined under section 62A of the Audit Act by the delegate of the Treasurer, are:

Exhibit  
146/B3  
and Q.  
B103

"For expenditure and recoveries relating to -

- (a) buildings, plant, equipment, tools, stores, trading activities, workshops, transport, advances and the payment of wages, allowances and the like pending costing;
- (b) holiday pay, sick pay, furlough, wet weather pay, training and apprenticeship costs and other indirect costs associated with the employment of day labour and indigenous labour; and
- (c) construction and maintenance of temporary camps; in connection with works and services within the Commonwealth and outside the Commonwealth."

211. The Works Services Trust Account was opened on 1 July 1971. An amount of \$11,047,122, appropriated in 1971-72, was credited to the Account to provide a working capital advance of \$3,200,000 and to cover the purchase of assets of the Works Suspense Trust Account. This Account was closed (in accordance with section 62A(4) of the Audit Act) because the defined purposes did not fully meet the Department of Works' operational requirements and the unrequired balance of the Trust Account was credited to Revenue.

P.P. 101  
of 1972

212. The Audit query to the Treasury, dated 8 May 1972, sought to clarify, in view of the Committee's Thirty-fourth Report and the related Treasury Minute whether the Treasury concurred with the procedures followed by the Department of Works regarding the Account. The Audit Observer, Mr Harrington, said that his Office queried whether the retention in the Account of substantial credits

Exhibit  
146/B3,  
Q.- B104  
and B106,  
P.Ps. 69  
of 1957-  
58 and 51  
of 1969

and the utilisation of the credits in the Account's ordinary operation, accorded with the views put by the Committee and the Treasury. These credits were for long-term furlough liabilities and were built up by means of on-cost charges for work performed for departments. On 3 July 1972, the Treasury advised the Auditor-General's Office that it had studied the point raised but, before considering any change in policy, it would check closely the practices followed by departmental business undertakings working through other trust accounts.

213. In its submission, the Treasury informed us that, in regard to these undertakings, there are at least four different methods of providing for and meeting furlough liabilities:

Exhibit  
146/B3  
and Q.  
B107

- (a) an annual provision, with funds retained in the trust account until the liabilities mature;
- (b) payments directly from the trust account on the occurrence of the liabilities, no prior provision having been made;
- (c) provision equal to the estimated liabilities for the forthcoming year, with funds retained in the trust account if the liabilities do not mature, and
- (d) provision equal to the estimated liabilities for the forthcoming two years, with funds retained in the trust account if the liabilities do not mature.

The Treasury had established this from oral inquiries made after 8 May 1972. It appears that the different methods arose by historical accident, and that no general principles have been laid down.

214. The Treasury adduced several reasons why provision for furlough liabilities should be retained in the Works Services Trust Account:

Exhibit  
146/B3

- (a) the provision is authorised by the Account's defined purposes;
- (b) it is debatable whether the entire provision can be stated unequivocally to represent long-term furlough liabilities (e.g. once an employee has served 10 years, the furlough liability to him is current for it is payable immediately he decides to retire); and
- (c) the Department of Works needs to provide in some way for furlough liabilities, and the transactions need to be passed through the Account.

215. The Audit Observer, Mr Harrington, agreed that even if provision was not made in the Account for furlough liabilities, the Department would still need to pass transactions through the Account, and provision would still need to be made. He conceded that in the circumstances of Works Services, it is necessary that the costs represented by furlough should be apportioned amongst all projects, and not charged solely to the project on which an employee happens to be engaged at the time he takes furlough. Provision is made for furlough liabilities, therefore, in on-cost charges in respect of every project. He said that this practice was not in issue. He also recognised that it was important that the Department should be certain that funds would be available to meet liabilities as they occurred. He reiterated, however, that his Office's concern was directed only to the retention in the Account of substantial credits to meet furlough liabilities, and their use to fund other operations such as the purchase of stores.

Qs. B108  
and B109

216. The Committee understands that the normal practice within the Australian Public Service is that when an eligible officer claims furlough, the payments made to him are provided for in an annual appropriation. There is thus no question of prior assessment of furlough, or of accumulation of annual liabilities. However, a business undertaking such as Works Services which operates through a trust account, estimates and accrues all of its costs and makes provision for furlough liabilities.

Q. B110

217. The Treasury distinguished between two types of business undertakings operating through trust accounts. Works Services, for instance, is an undertaking using a trust account primarily to apportion its costs amongst departments. It is a cost recovery operation. For example, the Department of Works seeks to recover costs proportional to its purchase and use of equipment on particular projects. There are other undertakings, such as the Mugga Quarries operated by the Department of Works, which are profit-oriented trading operations. In view of the distinction between the two types of undertakings, the witness said that there could be a case for the Works Services Trust Account and other accounts of its type to follow the normal departmental practice. Specifically, with reference to the

Exhibit  
146/B3  
and Q.  
B110



Account, it was explained that the building up of substantial reserves to meet furlough liabilities would be restricted by the repayment of the annual provisions to Revenue and the appropriation of the required sums when the liabilities mature. The Treasury believed that this practice could be less appropriate to the other type of undertaking which are profit oriented.

218. The Treasury took the view that the questions raised by Audit had implications that extended beyond the Works Services Trust Account which made it necessary to broaden the scope of the examination so that logical and uniform procedures could operate. Accordingly, on 4 September 1972 the Treasury requested certain information of the Departments of Works and the then Department of Interior regarding furlough. The request included the following questions:

Exhibit  
146/B3  
and Qs.  
B112 and  
B113

- is provision made in trust accounts for long-term liabilities other than furlough?
- how is furlough (or other) provision calculated?
- how frequently is the adequacy of a provision reviewed?
- how is a review carried out?

Comment was also invited on the proposal that, in respect of cost recovery-type trust accounts, it could be desirable for there to be no provision for furlough liabilities at all. Instead, a component for the liabilities could be included in the on-cost and recovered in service or product charges, and recoveries could be paid to Revenue annually. The liabilities could then be met at the required times from departmental appropriation.

219. The Treasury pointed out to the Committee that a corollary to the annual payment of recoveries to Revenue would be the unavailability of the funds for working capital. The Account could well need, in such an event, appropriation of additional working capital advances.

Exhibit  
146/B3  
and Qs.  
B114

220. The Audit Observer, Mr Harrington, expressed appreciation of the method of dealing with furlough liabilities outlined in paragraph 10 of the Treasury submission i.e., no provision to be maintained at all, recoveries for furlough to be paid to Revenue and furlough payments to be met from appropriations. He added that his

Qs. B111  
and B115

Office regarded a trust account as a simple cash account, not to be used for the accumulation of moneys. From the evidence tendered by the Treasury he believed that it was established that the true working capital of the Works Services Trust Account was much greater than the amount shown in the Treasurer's Finance Statement (\$3,200,000).

221. At the time of our inquiry in October 1972 the then Department of the Interior had not responded to the Treasury memorandum and the Department of Works had indicated that the questions raised were under examination. We understand that it could be some time before examination of the questions is completed within the Department of the Treasury.

#### Conclusions

222. The Auditor-General's Office had no precise criticism to make in relation to the Works Services Trust Account. Its concern appears to have been to draw the Department of the Treasury's attention to what it considered to be a dubious, but not irregular, practice. This practice has been the Department of Works' retention of substantial credits in the Account to cover long-term liabilities accruing for employees' furlough, and the use of these credits and other credits in the plant hire section of the Account, to fund other authorised operations of the Account. The Committee understands that the legality of the practice queried was not in issue.

223. The method by which the substantial credits in question were collected was also not in issue. The Audit Observer, Mr Harrington, recognised the legitimacy of on-cost charging of departments in respect of particular projects as a method by which provision could be made for furlough liabilities.

224. In its submission the Department of the Treasury informed the Committee that - "in regard to undertakings operating through trust accounts it has been established that at least four different methods of providing for and paying furlough exist". The Treasury had established this from oral inquiries made after 8 May 1972. It appears that the

different methods arose by historical accident, and that no general principles were laid down. The Committee believes that the Treasury should have known precisely how many methods there were and the details of each method as a normal result of the Treasury surveillance of trust accounts and their operation. It is also of some concern to the Committee that no general principles had been laid down nor apparently any consideration given to the necessity to do so.

225. The Committee commends the Treasury for the promptness with which it reacted to the approach by the Auditor-General's Office and its action in instituting a review and appraisal of the practices followed by departmental business undertakings operating through trust accounts. The Committee assumes from the Auditor-General's Report for 1972-73 that a major part of the review has been completed and that apparently the Treasury concurred in the procedures being followed by the Department of Works for building up credits to cover liabilities for furlough provided the credits built up in the Account are not excessive. While the Committee appreciates that keeping these provisions at a reasonable level would remove most of the objections to the present practice, the Committee believes that the method outlined by the Treasury during the inquiry (paragraph 220) offered a better means of ensuring that substantial credits would not accumulate. The Committee, therefore, wishes to be fully informed of the results of the review and the reasons why the present method is preferred over the alternative outlined during the inquiry.

CHAPTER 8  
DEPARTMENT OF WORKS

Melbourne (Tullamarine) Airport - Claim against Private Consultant

226. In paragraph 278 of his Report for 1971-72, the Auditor-General stated:

P.F. 101  
of 1972

"During the year an amount of \$125,000 was accepted by the Department in full settlement of a claim for \$197,908 against a private consultant in relation to the cost of rectification of alleged deficiencies in the design for the structural frame for the terminal building at the airport. The \$125,000 was credited to Revenue - Miscellaneous."

227. By way of background, the Committee was informed that, following a feasibility study, it had been decided that the frame for the terminal building would be constructed of pre-cast concrete, some of it pre-stressed. It had also been decided that the building would be completed by 2 separate main contracts, viz:

Exhibit  
146/B2  
and  
Q. B51

- (i) erection of the structural frame, and
- (ii) provision of windows, internal walls, ceiling, fittings, mechanical and electrical services, and completion of the building generally.

This method of construction had been adopted primarily to save time, since the documentation for the completion contract could proceed simultaneously with the erection of the structural frame.

228. At the public inquiry, the Departmental witness explained that the terminal building, while not high, would have been considered a large building when designed in 1964. He said that above the ground floor, the building has a very large column grid, measuring 40 feet by 50 feet, and added that a grid of 24 feet by 24 feet is considered large by current standards. It was also a client requirement that the building be designed in a form capable of expansion in each direction.

Q. B51

229. In view of the magnitude and specialised nature of the work associated with the structural frame, the Department decided to engage consulting engineers to design the structure, to prepare tender documents for the frame contract and to supervise construction. A firm was engaged on 13 August 1965.

Exhibit  
146/B2

230. The witness explained that the Department's policy for the engagement of consultants has been to select a firm with demonstrated expertise in the particular type of work. Where numbers of firms are known to have performed work of a similar nature, the Department makes a selection after investigation of its own records. Where it is not able to rely on its own experience, it makes inquiries of other major users of consultants, or of consultants' associations.

Exhibit  
146/B2  
and  
Q. B52

231. At the inquiry, the Committee canvassed with the witness the general question of advertisement for consultants. The Committee postulated that in response to advertisement a wide range of consultants within the community would be free to put forward submissions indicating their experience. In this way justice should not only be done but should be seen to be done, and the Department could protect itself against any charge of favouritism in its selection of consultants. The witness pointed out that selection of consultants is not undertaken through advertisement. The Treasury Observer, Mr Davidson, agreed that professional engineers - like professional accountants - are not the type of group that one asks to tender for a job, although he said that possibly invitations could be sent to firms to express interest. As an alternative, Mr Davidson suggested that, in a case where a particular type of work is proposed, a consultants' association could submit a panel of names. He added that professional members themselves could submit names following advice, or possibly advertisement, from their association.

Qs. B61  
and B63  
to B65

232. In further discussion of the same question the witness said that, in the Department's normal selection of consultants, there would clearly be a large number of capable consultant firms not considered. He added that, if a firm was selected with which the

Qs. B61  
and B62

Department had no previous experience, then the Department could become involved in considerable duplication in checking. Where the Department has confidence in a firm, this is avoided. He said that, so far as he was aware, his Department had not received any complaints from the professions regarding its selection of consultants.

233. The Committee was told that the Department had not previously used the firm of consultants which it engaged for the terminal building project. The firm, which was Australian, specialised in pre-cast concrete and had been used by the Victorian Housing Commission in the construction of pre-cast concrete flats and in the development of partly pre-stressed concrete high-rise flats. The witness was not aware that the firm had built up relationships with experienced overseas consultants although the principal of the firm had studied overseas for a number of years immediately prior to the war. The principal had then been located in London for 4 or 5 years after the war at which time he had again investigated pre-cast concrete as a form of construction. He was, certainly in Victoria, regarded as an expert in the field. The witness preferred not to name the firm, and the Committee did not require him to do so.

Qs. B56  
to B60

234. Following the invitation of tenders for the construction of the frame, the tender submitted by the lowest tenderer - an amount of \$3,059,057 - was accepted on 26 October 1966.

Exhibit  
146/B2

235. In October 1967, cracks developed in horizontal components of the frame, known as 'eyebrows'. These 'eyebrows', 40 feet long and in some cases 4 feet deep, were constructed of pre-cast, pre-stressed concrete of horizontal channel section. Cast integrally across the open ends of a channel - i.e. at both ends of an 'eyebrow' - and at intervals along an 'eyebrow's' length, were return pieces called 'diaphragms'. These 'eyebrows' were fixed to the exterior of the building at each floor level and at roof level, by means of steel bracket supports fitted into recesses in the end 'diaphragms', and by bolts through the columns. It was in the 'diaphragms' that the cracks developed. We were informed that the purposes of the 'eyebrows'

Exhibit  
146/B2  
and Qs.  
B53 and  
B67

were to provide an architectural feature, to serve as sunshades and to serve as platforms for window-cleaning equipment.

236. Investigations of the cracks by the consultants disclosed several design defects. Firstly, the end 'diaphragms' were insufficiently strong to support the 'eyebrows' without cracking. Later, the 'diaphragms' for 'eyebrows' cast subsequently were additionally reinforced, and new supporting straps of steel were provided to carry the excess weight. Secondly, the steel bracket supports were too weak. Later, the abovementioned new supporting straps were used to reduce the load on the brackets, and the brackets themselves were subsequently manufactured to a stronger design. Thirdly, the weight of the 'eyebrows', attached to the outside face of the columns, produced an eccentric load, or torsional effect, which resulted in an outward deflection of the columns from the vertical. This deflection could occur because there was no direct connection of columns on opposite sides of the building, i.e. the frame was not integrally structured. The witness told the Committee that the frame design had originally provided for steel trusses to bind the columns across the top, but at a late stage, when it was decided to make further use of reinforced concrete, the provision was dropped. The effect of the decision was to increase the estimate for the cost of the frame contract by some \$186,000, but to reduce the estimate for the total cost of the building by some \$40,000. In the amended design, however, the consultants omitted to bind the columns to the beams. The witness presumed this to have been an oversight. Later, welded steel bars were used to connect opposite sides of the building at roof level. Further deflection of columns was thus prevented.

Exhibit  
146/B2  
and Qs.  
B53 to B55,  
B67 and  
B69

237. Following a request by the consultants, the erection of 10 'eyebrows' and the manufacture of another 10, were stopped on 27 October 1967.

Exhibit  
146/B2

238. In discussions with the Department, and also in a letter, the consultants admitted defects in the frame design, and a need for remedial action. The firm co-operated in the development of proposals for rectification of the defects and repairs by the framework contractor. In a letter to the consultants, the Department

Exhibit  
146/B2  
and Qs.  
B71, B74  
to B76  
and B82

stated that it held them responsible for the defects, and expected to recover from the resultant costs incurred. The consultants insisted that in their view the costs need not be serious, and made no commitment to pay. A figure of \$50,153 was mentioned, however, as an amount that the consultants could be prepared to meet.

239. In August 1970, with the advice of the Deputy Crown Solicitor, the Department made a formal claim against the consultants for \$197,908. The Department believed that this figure was the highest which could be argued with any degree of conviction, and also allowed room for negotiation. The witness informed the Committee that a number of estimates had been made for the extra costs involved in the structural corrections. Although the consultants' estimate was low at \$50,153 and the estimate of the Department's quantity surveyor, reached after discussion with the consultants, was some \$89,000; the Department finally decided to serve a claim on the consultants for \$197,908.

Exhibit  
146/B2 and  
Qs. B68,  
B82 and  
B89

240. Of this figure, some \$85,000 represented amounts actually paid, and identifiable by the contractor. This included an amount to cover improved brackets for 'eyebrows' yet to be cast and temporary brackets for 'eyebrows' already erected (\$33,536); and an amount to cover modifications to the points where 'eyebrows' meet in the corners of the structure and 'eyebrow' supports at roof level (\$52,277). A further estimate of \$120,000 represented additional 'diaphragm' reinforcement for 'eyebrows' yet to be cast; support straps for 'eyebrows' already made or erected; and ties for the columns at roof level. A further amount of about \$12,000 was estimated for expansion joints and various minor work necessitated by the corrections. The total arrived at was \$218,473.

Qs. B69  
and B95

241. This figure included \$20,565 which represented work which was to have been included in the original contract price, the ties across the roof. Subtraction of \$20,565 from the total of \$218,473 previously arrived at, produced the final amount of the claim, \$197,908.

Q. B69



242. We were informed that the various estimates for the structural corrections were determined partly by the Department itself and partly by its quantity surveyor. Estimates varied considerably, however, according to whether the Department, the quantity surveyor or the consultants made them. Costs of some \$33,000 and \$52,000 were incurred on improvements to brackets and corner modifications respectively, but in both instances the quantity surveyor's and the consultants' estimates had been considerably less. Regarding the Department's estimate of \$120,000 for 'diaphragm' reinforcements, support straps and ties for the columns at roof level, the quantity surveyor's corresponding estimate was some \$58,000 and the consultants' estimate was some \$43,000. Regarding the figure of \$20,565 which represented the ties across the roof which were to have been covered by the original contract price, the witness's impression was that the consultants' corresponding estimate was probably more of the order of \$14,000. The witness told the Committee that the final decision about the amount to be claimed was made by Departmental officers, after considerable discussion with the Deputy Crown Solicitor.

Exhibit  
146/B2  
and Qs.  
B70, B73,  
B89 to  
B94 and  
B96

243. Concerning comparison of estimates and corresponding actual costs which later accrued, the witness did not cite figures, but stated that the contractor had claimed excessive amounts, over which the Department had no control. It was with some experience of the contractor's claims that the Department had decided to estimate generously, at \$120,000, for 'diaphragm' reinforcements, support straps and ties across the roof.

Qs. B83,  
B84, B97  
and B98

244. We were informed that liability for the whole or any part of the sum demanded (\$197,908) was denied by the solicitors acting for the consultants' insurance company. Consequently, the Department directed efforts through the Deputy Crown Solicitor to negotiate a settlement. At a conference on 16 September 1971, attended by legal and other representatives of the Commonwealth, the consultants and the insurance company, payment of an amount of \$100,000 was offered in full settlement. The witness did not know the basis on which the consultants' insurers arrived at this figure.

Exhibit  
146/B2  
and Qs.  
B74 and  
B77

245. After the Department had considered the offer with the Deputy Crown Solicitor, it was rejected. The witness believed the basic reasons for the rejection of the offer to be that it was not considered prudent to accept the first offer, that the Department believed it could attain a similar figure in Court, and that it was felt that the consultants' insurers could be prepared to offer more. At the same time, however, it was clear from the tenor of the negotiations that a settlement close to the figure which had been claimed, would not be realised. This was the opinion of the Department's representative as well as the opinion of the Deputy Crown Solicitor's representatives present at the discussions.

Exhibit  
146/B2  
and Q. B78

246. We were informed that, after further consideration, the Department decided that a claim for \$197,908 would be difficult to sustain in any proceedings. It was decided, therefore, to instruct the Deputy Crown Solicitor to make a counter offer to settle at \$150,000. The witness explained that the Department was prepared to retreat from its original figure for the reasons that it considered that the insurers would not pay it; that in arbitration or court proceedings \$100,000 could be considered a not unreasonable settlement; and that it was felt that a settlement should be endeavoured. Following the Department's instructions, there were conferences between the respective solicitors which resulted in an offer of payment of \$125,000 in full settlement of the claim. It was indicated that the insurers' United Kingdom principals were not prepared to negotiate a higher figure.

Exhibit  
146/2  
and Qs.  
B79 and  
B80

247. We were informed that the Department considered that, having regard to all the circumstances, the offer was reasonable. The Deputy Crown Solicitor later advised the Department as follows:

Exhibit  
146/B2  
and Q. B81

"It would seem that this is an appropriate figure for settlement of the action. It has been apparent throughout the discussions and negotiations in relation to this claim that the problems of proof which face the Commonwealth are of considerable magnitude and it might well be that if put to strict proof the damages provable could be less than \$100,000."

The witness was unable to elaborate on the reasons why the Deputy Crown Solicitor reached his conclusion. In the event, the Deputy Crown Solicitor recommended that Department of the Treasury approval

be sought for settlement of the claim at a figure of \$125,000. After consideration, Treasury advised that it had no objection to acceptance of the settlement offer and it was therefore accepted.

248. The witness explained that the contract conditions had provided that where, in a case of variation, the Department and the contractor could not agree on a common price, the sole recourse was to engage another contractor. It was clear that in relation to the terminal building this action was impractical; and that the longer the negotiations, the longer the project would be delayed and costs would become greater. Currently, in a case of disagreement, the conditions of contract provide for the Department to direct the contractor to carry out the work, while the argument about costs continues. The witness told the Committee that, had the Department taken the consultants to court, it could have been argued - to the consultants' advantage - that the Department had overpaid the contractor.

Q. B94  
and  
Committee  
File  
1972/5

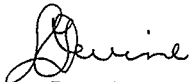
#### CONCLUSIONS

249. The Committee believes that the Department probably erred in the process of its selection of a private consultant firm to assist with the construction programme at Melbourne (Tullamarine) Airport. It was not made clear during the inquiry that sufficient effort had been made before the selection to ensure that the firm proposed was adequately equipped for the work in hand. Nor was it made clear that other consultant firms had been considered for the work. It was quite apparent, however, that the selected firm made some costly blunders. In criticising the Department's selection, however, the Committee recognises the benefit available to it of hindsight.

250. During the inquiry, considerable time was spent canvassing possible methods for the selection of consultants. The Committee was neither fully satisfied with the method of selection used in the particular instance nor with the generally prevailing methods described. If, indeed, it is inappropriate to advertise for consultants and seek tenders, then the Committee believes that alternatives along the lines suggested by the Treasury Observer, Mr Davidson, should be explored.

251. In addition, the Committee is concerned that the Department may have overpaid the contractor, and that this possibility could have acted to the advantage of the consultant firm in any court proceedings in judgment of the claim. The Committee was disturbed to hear from the Departmental witness that the contractor had claimed excessive amounts for modification costs, over which the Department had no control. Finally, the Committee expresses concern at the whole sequence of events relating to this contract and considers that every effort should be made to prevent a recurrence.

For and on behalf of the Committee,



T. Devine  
Secretary  
Joint Committee of Public Accounts  
Parliament House  
CANBERRA

18 October 1973



R.E. McAuliffe  
Chairman

COMMONWEALTH PROCUREMENT FUNCTIONS IN NORTH AMERICA

BACKGROUND

1. For some time prior to 1967 the Public Service Board had been concerned about the appropriateness and effectiveness of the organisation and control of the Commonwealth's procurement activities in North America, particularly in view of large increases in the number and value of transactions and the growth in staff over recent years. As a result, the Board decided that a review should be made of the organisation and procedures relating to Commonwealth procurement in North America, with the object of exploring means for possible improvements in effectiveness, efficiency and economy.

2. It was decided that the review would be carried out by a two-man (Public Service Board/Treasury) team. It was also decided that the team should, while in America, consult with local representatives of the Services and the Department of External Affairs on any changes considered desirable and to incorporate in its report comments on the views expressed by the local representatives.

3. The review was undertaken with the following terms of reference:-

- (a) Carry out a detailed investigation of the current organisation, systems and procedures relating to purchases of supplies made by the Commonwealth in the U.S.A.,
  - to assess the efficacy of existing arrangements, and
  - to identify and develop any changes considered desirable for improving the effectiveness and efficiency of the purchasing processes and associated activities.
- (b) As part of the investigation, examine and take into account procedures followed by departments in Australia prior to submitting requests for purchasing action in U.S.A. and subsequent to completion of such action.
- (c) Report on the results of the investigation with recommendations for any changes in organisation and procedures considered desirable and comments on the consequences of making such changes.

RECOMMENDATIONS

4. In relation to functional/procedural arrangements, the review team recommended that:-

- (1) Ascertaining sources of supply and terms of sale for commercial purchases on behalf of the Departments of Navy and Army to be undertaken by the staffs of the Naval and Army Attaches in Washington as was then done by the staff of the Air Attache.
- (2) A defence procurement contract board to be established in Washington, comprised of the senior supply officer from each of the three Service Attaches' staffs and the occupant of the new position of Administrative Counsellor at the Embassy as chairman, all purchases from U.S. Government agencies and any commercial purchase which did not exceed \$A1,000 to be excluded from the purview of the board and approved by the senior supply officer of the Service concerned.
- (3) The New York contract board to continue to operate in respect of non-defence procurement, all purchases from U.S. Government agencies and any commercial purchase which did not exceed \$A1,000 to be excluded from the purview of the board and approved by the Officer-in-Charge of the Procurement Section.
- (4) CG orders for requirements of the Departments of Navy and Army to be prepared by the Naval and Army Attaches' staffs in Washington as in the case of Department of Air orders.
- (5) CG orders for requirements of all three Service departments to be duplicated and distributed by the Service Attaches' staffs in Washington using a centralised duplicating machine located in the office of the Air Attache.
- (6) Indent records to be maintained in the office of each Service Attache to ensure that indents are fully actioned and orders issued are kept within the limit of funds provided.
- (7) Recording of export declarations in the Licensing Section in Washington to be discontinued and the records of freight forwarder to be relied upon to ensure exports are kept within licence provisions; the freight forwarder to initiate action for additional licence where existing licence absorbed or time-expired; the Administrative Counsellor to review work of Licensing Section to eliminate any unnecessary processes.
- (8) Arrangements to be made with the U.S. services for packages to be routed to the correct freight forwarding addresses.
- (9) Arrangements to be made with U.S. services for copies of release notes which until then had been sent to the Procurement Section (or Attaches' offices) to be forwarded to the office of the freight forwarder at the port to which goods are despatched from the supply source.

- (10) Checking of commercial suppliers' invoices as to quantities and prices in accordance with the purchase order to be transferred from the Procurement Section to the Sub-Treasury.
- (11) Any arrangements which could be made with U.S. Services to facilitate control of purchases within funds provisions, as a result of Department of Navy's special enquiries, to be made general in application, as far as possible.
- (12) Checking of U.S. service billings by the Procurement Section as to prices and quantities to be discontinued, such billings to be passed to the Sub-Treasury in the first instance.
- (13) Procurement Section to discontinue recording shipment information on Shipping Cards, the freight forwarder's records to be relied on to provide such information when necessary; production and maintenance of Shipping Cards to be discontinued.
- (14) An experienced employee of Procurement Section, New York, to be stationed in the New York office of the freight forwarder to act as liaison officer, providing information in response to enquiries regarding shipments, following up on prompt shipment of goods after receipt by freight forwarder and overseeing standards of documentation of shipments; any need to locate a second liaison officer in the freight forwarder's office at San Francisco to be considered in the light of experience and suitable action taken, if necessary.
- (15) Sub-Treasury to introduce new form of Financial Record to control commitments, advances and expenditure on U.S. service orders on the basis of MAS case numbers and not by CG orders.
- (16) Sub-Treasury to make any payments due on U.S. service billings by way of advances and forward detailed billing schedules to departments in Australia for perusal, verification of receipt of goods and subsequent advice to Sub-Treasury to process adjusting vouchers.
- (17) Purchasing sections (in New York and Washington) to be responsible for progressing suppliers' deliveries using a simple system of associating suppliers' invoices and copies of orders to ascertain when follow up action needs to be taken with any supplier.
- (18) To provide for re-allocation of Chief Accounting Officer responsibilities as between New York and Washington, the review team recommended that action be taken to have the Administrative Counsellor, Australian Embassy, Washington, appointed as Chief Accounting Officer with duties covering defence procurement in North America and duties of Chief Accounting Officer, New York suitably altered.

5. While the review team envisaged that the Procurement Section, New York would continue to control freight forwarding arrangements for all supplies purchased in North America, it noted that the great bulk of shipments related to defence supplies. The review team therefore considered that, in settling the details of freight forwarding arrangements, the Consulate-General should seek and take account of the views of the Service procurement units in Washington. The review team recommended that action be taken accordingly and that the defence procurement contract board in Washington be used as the medium through which the combined views of the Service procurement units could be expressed.

6. Certain organisational changes were required to give effect to the review team's recommendations covering revised functional/procedural arrangements for the Commonwealth's procurement activities in North America. The team made the following recommendations:-

- (a) All then existing positions (44) on the establishment of the Procurement Section, New York (see Attachment A) be cancelled and a new establishment of 14 positions as shown in the organisation chart at Attachment B be approved; the precise nature of duties to be undertaken by each position to be determined later in the light of experience in operating the new arrangements.

The new establishment recommended for the Procurement Section, New York involved a reduction of 30 positions as compared with the then existing establishment of 36 positions by comparison with the establishment of 50 positions as proposed by the Consulate-General, New York. These reductions were offset in part by the increase of seven positions required in the offices of the Service Attaches in Washington.

Scope for effecting these large-scale staffing economies, at the same time raising efficiency in the performance of procurement functions in North America, derived from the various functional/procedural revisions of the four main areas of activity involved in defence procurement, i.e. the Service departments in Australia, the Services procurement units in Washington, the Procurement Section in New York and the Commonwealth's freight forwarding contractor, so as to eliminate duplicated and other non-essential operations and to obviate avoidable delays in fulfilling procurement requests.

Practically all the expansion of Commonwealth procurement activities in North America in recent years had related to purchases of defence supplies. By reason of the specialised technical nature of most items involved, the urgency of many requirements, the need to consider alternative items etc., the supply staffs of the Service Attaches in Washington had become so deeply involved in defence purchasing that the Procurement Section in New York was no longer able to make a worthwhile contribution in that area of work.



- (b) Two new locally engaged staff positions of Clerk, Class 3 and one of Clerk, Class 2 be provided in the Air Attache's office, Washington.
- (c) One new locally engaged staff position of Clerk, Class 4 and one of Clerk/Typist, Class 3 be provided in the Naval Attache's office, Washington.
- (d) One new locally engaged staff position of Clerk, Class 4 and one of Clerk/Typist, Class 3 be provided in the Army Attache's office, Washington.

7. The review team did not make any specific proposal for revision of the establishment of the Licencing Section, Washington but recommended that the Administrative Counsellor at the Embassy makes a special review of the workload and methods of this Section in the light of matters raised in the report and suggest any establishment changes considered appropriate.

8. In anticipation of acceptance of the system revisions proposed in its report, the review team recommended that representatives of the Department of External Affairs confer with officers of the Public Service Board to establish, and inform the Consul-General of the conditions to be applied and procedures to be followed in respect of employees who became surplus to establishment as a result of adoption of the new system.

9. The review team also recommended that after the new systems had been introduced and some experience had been gained in their operation, a follow-up review should be made of procedures, forms, records etc., used under the new arrangements in New York and Washington, to further simplify procedures if possible and to prepare job descriptions and procedural guides based on the simplified methods as aids to staff training and supervision. This follow-up action was achieved by a further visit of a Board's officer to assist with implementation of the new arrangements and further detailed work by the Deputy Consul-General in New York.

#### Implementation of Recommendations

The recommendations of the review team were accepted by the Board, the Treasury and other interested departments and substantially implemented by 1970. Natural wastage enabled staff to be run down to the recommended level without the need for retrenchments. Meanwhile procedures and job descriptions, etc., have been kept under continuous consideration by the Deputy Consul-General, New York.

Public Service Board,  
CANBERRA A.C.T.

1 November, 1972

ORGANISATION AT TIME OF JOINT PUBLIC SERVICE BOARD/TREASURY REVIEW SEPTEMBER/NOVEMBER 1967			
Designation	L.E. (U.S.) Class	Salary Scale	No.
		\$US	
Clerk	13	2872-15905	1
Clerk	10	8821-11013	1
Clerk	9	7696-10045	1
Clerk	7	6451- 8338	5
Clerk	6	5957- 7649	1
Clerk	5	5331- 6915	3
Clerk	4	4776- 6216	10
Clerk	3	4269- 5565	8
Clerk	2	3925- 5122	2
Clerk	1	3638- 4707	-
Stenographer	2/4	3925- 6216	5
Typist	2/3	3925- 5565	6
Clerk/Typist	2/3	4269- 5565	1
<p>ATTACHMENT A</p> <p>1 2 A3 A27 A6 A9 A8 A7 A5 A12 A13 A15 A16 A17 A18 A19 A20 A21 A22 A23 A24 A25 A26 A27 A28 A29 A30 A31 A32 A33 A34 A35 A36 A37 A38 A39 A40 A41 A42 A43 A44 A45 A46 A47 A48 A49 A50 A51 A52 A53 A54 A55 A56 A57 A58 A59 A60 A61 A62 A63 A64 A65 A66 A67 A68 A69 A70 A71 A72 A73 A74 A75 A76 A77 A78 A79 A80 A81 A82 A83 A84 A85 A86 A87 A88 A89 A90 A91 A92 A93 A94 A95 A96 A97 A98 A99 A100</p>			
<p>Executive D.C. Sub-Section A</p> <p>Freight Auditing</p> <p>Shipping</p> <p>Invoyces and Billings</p> <p>D.C. Sub-Section B</p> <p>Air</p> <p>Other b</p> <p>Publicist-Press</p> <p>Regis-</p>			
<p>SUB-SECTION</p>			
<p>AUSTRALIAN CONSULATE GENERAL - PROCUREMENT SECTION - NEW YORK</p>			



AUDITOR GENERAL'S OFFICE  
SEPARATION OF OFFICERS FROM THE SERVICE  
LIST OF ERRORS FOUND BY AUDIT TEST CHECKS DURING 1970-71

AUSTRALIAN CAPITAL TERRITORY

Department	Separations resulting in overpayments		Separations resulting in underpayments	
	No.	Amounts \$	No.	Amounts \$
Air	1	138.15	1	308.50
Navy	3	483.36 124.83 109.75	-	
Army	1	168.56	1	4.36
Defence	1	482.84	2	167.72 * 117.62
Treasury	-		1	6.00
Customs and Excise	2	525.68 34.30	-	
Health	1	6.63	-	
Social Services	1	7.02		
Foreign Affairs	1	337.10	1	79.71
Interior	2	98.03 206.01	-	
Supply	-		1	115.92
TOTALS	13	2722.26	7	799.83

\* Underpayment later reduced to \$72.70

AUDITOR-GENERAL'S OFFICE

SEPARATION OF OFFICERS FROM THE SERVICE.

LIST OF ERRORS FOUND BY AUDIT TEST CHECKS DURING 1970-71

VICTORIA

A	DEPARTMENT	Separations resulting in overpayments		Separations resulting in underpayments	
		No.	Amounts \$	No.	Amounts \$
	Air	2	120.38 143.83	1	not assessed
	Civil Aviation	-		1	112.08
	Interior (Electoral)	-		1	117.41
	Labour and National Serv.	4	46.70 17.21 60.19 40.90	-	
	Navy	2	157.78 41.63	-	
	P.M.G.	-		1	52.18
	Primary Industry	1	not assessed	-	
	Repatriation	1	59.81	2	62.18 214.75
	Supply	4	80.98 174.01 39.97 216.08	-	
	Taxation (Treasury)	1	314.25	-	
	TOTALS	15	1513.72	6	558.60

AUDITOR GENERAL'S OFFICE

SEPARATION OF OFFICERS FROM THE SERVICE

LIST OF ERRORS FOUND BY AUDIT TEST CHECKS DURING 1970-71

NEW SOUTH WALES

Department	Separations resulting in overpayments		Separations resulting in underpayments	
	No.	Amounts	No.	Amounts
		\$		\$
Social Services	-		1	1097.26
Army	1	93.42	-	
Customs and Excise	1	82.31	-	
Air	-		1	154.94
Supply	1	26.14	-	
Treasury	1	62.42		
TOTALS	4	264.29	2	1252.20

AUDITOR-GENERAL'S OFFICE  
SEPARATION OF OFFICERS FROM THE SERVICE

LIST OF ERRORS FOUND BY AUDIT TEST CHECKS DURING 1970-71

QUEENSLAND

DEPARTMENT	Separation Resulting in overpayments		Separations resulting in underpayments	
	No.	Amounts \$	No.	Amounts \$
Army	-		1	18.25
Attorney General	1	17.10	-	
Civil Aviation	1	12.41	2	71.60 62.66
Education and Science	-		2	13.66 27.89
Health	1	37.68	-	
Interior (Meteorology)	-		1	25.55
Interior	-		1	52.35
Labour and National Serv.	-		1	140.38
Social Services	1	67.24	-	
Supply	-		1	17.64
Taxation (Treasury)	1	79.14	-	
Census and Stats. (Treasury)	-		1	12.09
TOTALS	5	213.57	10	442.07

AUDITOR-GENERAL'S OFFICE

SEPARATION OF OFFICERS FROM THE SERVICE

LIST OF ERRORS FOUND BY AUDIT TEST CHECKS DURING 1970-71

SOUTH AUSTRALIA

DEPARTMENT	Separations resulting in overpayments		Separations resulting in underpayments	
	No.	Amounts \$	No.	Amounts \$
Army	2	41.46 60.41	2	278.23 1.34
Labour and National Service	5	127.18 147.22 205.34 106.42 98.80	1	89.64
Repatriation	2	301.06 209.45	2	34.06 5.28
Supply	1	26.12	3	164.82 244.76 1.81
P.M.G.	2	16.31 0.78	3	43.49 35.96 51.76
TOTALS	12	1340.55	11	951.15



AUDITOR-GENERAL'S OFFICE  
SEPARATION OF OFFICERS FROM THE SERVICE  
LIST OF ERRORS FOUND BY AUDIT TEST CHECKS DURING 1970-71

WESTERN AUSTRALIA

DEPARTMENT	Separations resulting in overpayments		Separations resulting in underpayments	
	No.	Amounts \$	No.	Amounts \$
Attorney General	1	21.00	-	
Civil Aviation	3	148.26 129.13 140.99	-	
Health	1	33.28	2	60.06 14.50
Shipping and Transport	1	142.73*	1	64.95
Interior (Meteorology)	-		1	26.86
P.M.G.	2	25.01 57.33	2	24.04 38.40
Immigration	1	6.00	-	
Repatriation	-		1	79.12
TOTALS	9	703.73	7	307.93

\* Later re-assessed as an underpayment of \$17.16

AUDITOR GENERAL'S OFFICE

SEPARATION OF OFFICERS FROM THE SERVICE

LIST OF ERRORS FOUND BY AUDIT TEST CHECKS DURING 1970-71

TASMANIA.

Department	Separations resulting in overpayments		Separations resulting in underpayments	
	No.	Amounts \$	No.	Amounts \$
P.M.G.	5	17.52 18.12 77.00 47.21 7.42	5	41.09 847.73 44.81 7.25 11.90
TOTALS	5	167.27	5	952.78

SEPARATIONS FROM THE SERVICE  
SUMMARY OF OVERPAYMENTS AND UNDERPAYMENTS  
FOUND BY AUDIT TEST CHECKS DURING 1970-71

STATE ETC.	Overpayments		Underpayments	
	No.	Amount	No.	Amount
		\$		\$
A.C.T.	13	2722.26	7	799.83
N.S.W.	4	264.29	2	1252.20
VIC.	15*	1513.72	6*	558.60
QLD.	5	213.57	10	442.07
S.A.	12	1340.55	11	951.15
W.A.	9	703.73	7	307.93
TAS.	5	167.27	5	952.78
TOTAL	63	6925.39	48	5264.56

\* Includes one case not quantified as to amount

SEPARATION FROM THE SERVICE  
SUMMARY OF OVERPAYMENTS AND UNDERPAYMENTS  
FOUND BY AUDIT TEST CHECKS DURING 1971-72

STATE ETC.	Overpayments		Underpayments	
	No.	Amount \$	No.	Amount \$
A.C.T.	16	1206.15	17	824.72
N.S.W.	8	791.12	4	496.09
VIC.	19	3278.32	10*	1398.27
QUD.	8	765.80	13	516.70
S.A.	4	155.28	7	828.55
W.A.	4	620.44	4	965.72
TAS.	8	1413.02	9	567.27
TAS. (Exempt Employees)	1	23.51	5	948.55
TOTAL	68	8253.64	69	6545.87

\* Includes 3 cases not quantified as to amount

DEPARTMENT OF SUPPLY

ROLE OF GOVERNMENT FACTORIES

1. EXPLOSIVES FACTORY, MARIBYRNONG

The role of E.F.M. is a more complex one than other factories in the explosive group as it is used as a service factory to carry out design and development work for the whole group in addition to its war capability. The major functions are -

Exhibit  
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- (i) To undertake the manufacture of propellants, explosives, chemicals, paints and allied material, to fill and assemble a specific range of explosive stores where it is inappropriate to allocate the work to Munitions Filling Factory, St. Marys.
- (ii) To develop and design rocket motors, manufacture propellant charges and moulded components.
- (iii) To undertake investigational and developmental work in the field of chemicals, explosives and explosive munitions.
- (iv) To design, develop and install chemical plant for the group of explosives factories.

2. MULWALA EXPLOSIVES FACTORY

M.E.F. has the capacity to manufacture/process acids, nitrocellulose and a variety of propellants for guns, small arms. ammunition and casting powders for rocket motors. Much of the process lines are designed for high volume war production, employing small teams of process operators.

3. ALBION EXPLOSIVES FACTORY

A.E.F. has the installed capacity to manufacture the high explosives used in the filling of bombs, shell, warheads, mines etc. In addition it can also manufacture certain types of solvent, semi-solvent and solventless propellants for gun and rocket ammunition and some basic chemicals for the production of propellants (e.g. dinitrotoluene). It is also the only government factory with an automatic Biazzi nitroglycerine plant for propellant manufacture.

The factory is organised into three major production sections, namely Acid, Propellant and High Explosives with supporting auxiliary sections - e.g. maintenance, laboratory, etc. The production processes are of a chemical nature requiring in most cases continuous shift production and each shift requires a minimum full production quota of "direct" labour to operate the processes.

4. AMMUNITION FACTORY, FOOTSCRAY

A.F.F. has the installed capacity and know-how to manufacture the following ammunition items -

- (i) Small arms ammunition;
- (ii) Cartridge cases for gun ammunition;
- (iii) Primers;
- (iv) Percussion fuzes;
- (v) Mechanical time fuzes;
- (vi) Electronic fuzes;
- (vii) Small calibre cases and projectiles (e.g. 30 m.m.)

The exacting technical requirements of the above items and the different processes required to manufacture them necessitates the maintenance of continuous production of the basic items to ensure that skills are not dissipated.

5. SMALL ARMS FACTORY, LITHGOW

S.A.F. is a specialized decentralised metal working factory specifically established to produce small arms weapons, but more recently also engaged in manufacture of small calibre shell, 81 mm. mortar bomb bodies, fuze and other ammunition and armament componentry. Rifle production is carried out on installed production lines requiring skilled toolsetters and semi-skilled operators to run the machines. In addition, facilities exist for production of other suitable items on a batch production basis on the installed forging, machining, heat treatment and metal finishing plant.

6. ORDNANCE FACTORY, MARIBYRNONG

O.F.M. is a highly specialized metal working and fabricating establishment. Functionally, the factory is organized into separate production sectors as follows -

- (i) High volume production of shell and bombs;
- (ii) Production of guns, ordnance, rocket launchers, trailers and other equipment of a military nature involving similar engineering disciplines;
- (iii) Ammunition box production.

7. ORDNANCE FACTORY, BENDIGO

O.F.B. has installed capacity for the manufacture and reconditioning of naval gun mountings, naval gear boxes, gun barrels and ammunition links. It is a decentralised heavy ordnance manufacturing centre and has a capability to carry out a wide variety of relatively heavy machining and plate fabricating work.

8. MUNITIONS FILLING FACTORY, ST. MARYS

The major role of the M.F.F. is -

- (a) To fill and assemble the Service requirements for explosive munitions in peace and war in the following categories -
  - (i) Bombs, warheads, shell, etc. in which filling comprises a major explosives load.
  - (ii) Fuzes, detonators, caps and pyrotechnics which are required in large quantities, and for which mass production techniques are applicable.
  - (iii) Assemble ammunition and explosives munitions incorporating the above two components.

The production lines for the filling operations consist mainly of large process plants which require a significant team size. Some of the lines can be operated using different ammunition types as the processes are similar for the filling of high explosives stores, e.g. minimum team size can economically produce about 600 shell per shift of different calibres or types.

In the case of detonators, caps, etc. the processes are normally automatic high volume lines which again require minimum team sizes. Very short production runs satisfy the Services peacetime requirements and, as a result, are not conducive to economic production.

9. COMMONWEALTH GOVERNMENT ENGINE WORKS, PORT MELBOURNE

The principal functions of the Works cover -

- The maintenance, assembly, testing and/or installation of large marine diesel engines using either locally-manufactured or imported components;
- The manufacture of spare parts;
- The servicing and repair of merchant and R.A.N. diesel engines and auxiliary equipment.

10. COMMONWEALTH CLOTHING FACTORY, COBURG

The principal functions are -

- To provide a manufacturing centre available to the Services for the development of new items of clothing or related stores;
- To prepare scaled samples and patterns for Service clothing and related stores;
- To manufacture, as required, uniforms and clothing for the Services, P.M.G. and other Commonwealth Departments;
- To provide assistance to contractors for Commonwealth uniforms and clothing by provision of patterns, parts lists and technical advice.

11. CENTRAL DRAWING OFFICE, MARIBYRNONG

The responsibilities of this establishment are -

- Oversight of drawing office standards, practices, procedures and the training and qualification of draftsmen;
- Provision of facilities and expert technical advice for drafting and photography.



12. DEFENCE PRINTING ESTABLISHMENT, BRUNSWICK

This establishment provides a general printing service to the Defence group of Departments.

13. GOVERNMENT AIRCRAFT FACTORIES, VICTORIA

The prime function of G.A.F. is to provide for the design, manufacture, assembly and servicing of aircraft and guided weapons for the Australian Armed Forces.

This factory also accepts work from non Defence Departments, overseas defence and non defence organisations, and Australian Industry.

14. NORTHFIELD MACHINE SHOP, SOUTH AUSTRALIA

The prime function of Northfield Machine Shop is to act as a quick response jobbing shop for RAAF repair and maintenance requirements.

15. GUIDED WEAPONS ELECTRONICS SUPPORT FACILITY, N.S.W.

The prime function of the facility is to provide for the maintenance, repair, modification, calibration and/or testing of electronic equipment and guided weapons for the Australian Armed Forces.

DEPARTMENT OF SUPPLY

EXPLANATORY NOTES ON RESERVE CAPACITY MAINTENANCE

1. Concept of Reserve Capacity Maintenance

A factory manager is provided with capital facilities and he spends money on labour, materials and expenses to produce goods which he sells to his customers. In principle, he is required to completely recoup the money he spends on production but is not required to recover any payment for the capital facilities used.

Exhibit  
146/B4

However, the nature of the factories is such that, in most cases the capital facilities provided greatly exceed that needed to satisfy production orders in peace time. This arises from facilities required to maintain modern production capability and rapid utilisation in emergency conditions. Facilities generally are considerably under-utilised, they may be specially set up to produce a particular military store and the peace time orders received are sufficient to employ the plant on a part time basis only.

Government factories, constitute the base for developing and proving new production, they undertake work not economically or technically suitable for industry; they are required to observe rigid quality controls; they provide a base for expansion in war.

Because of the need to maintain a reserve of production capability factory overheads are higher than they would be if the facilities were tailored to match the workload. If customers were charged with the totality of overheads in periods of low work load prices would be unreasonable.

The situation has been recognised by the Treasury and approval given to charge our customers with "normal" overhead only, the difference between this and actual overhead is provided from annual appropriation under Item 722-01 Reserve Capacity Maintenance. Profit and Losses and non-operating income and expenditure is also charged to the appropriation.

## 2. Factory Accounting

Each Departmental production factory is provided with working capital which is held in a Trust Account for the particular factory. This is used to pay for labour, materials and expenses and is recouped by sales of manufactured products and by claims on the Treasury Appropriation for Reserve Capacity Maintenance.

Factory trust accounts must be accounted for precisely and should always remain intact at the amount of working capital issued; any surplus earned is payable to Consolidated Revenue. From time to time as necessary the working capital can be increased by appropriation or can be reduced by repaying the unrequired balance to Revenue. Working capital is represented by various current assets, and current liabilities, e.g. stores stock, debtors, creditors, work-in-progress. Factory capital assets (e.g. plant and machinery buildings and works) are not provided from the trust account but are procured from annual appropriations.

In addition to the Factory's trust account, factories, claiming direct on Departments of Army, Navy and Air are provided with Trust Fund credit from the Munitions Production Trust Account. These credits are reviewed monthly and are allocated in accordance with each Factory's requirement for the particular month. These credits enable Factory and sub-contract expenditure to be reimbursed promptly and when cash receipts are received from the Service customers, the Munitions Production Trust Account is credited with the proceeds. This provides Factory Trust Account liquidity and precludes the need for Factories to seek larger working capital advances.

## 3. Future Accounting Arrangements

The Treasurer has set up an inter-departmental working party to report on accounting arrangements for the undertakings, including Reserve Capacity and a report will be submitted to the Treasurer, and the Ministers for Defence and Supply.