

DEPARTMENT OF THE SENATE
PAID
DATE 28 NOV 1974
Folio
J.R.
Clerk of the Senate

JOINT COMMITTEE OF PUBLIC ACCOUNTS

TENTH COMMITTEE

SENATOR R.E. McAULIFFE (Chairman)

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Senator D.J. GRIMES

Senator M.G.C. GUILFOYLE

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

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S.A. LUSHER, Esquire, M.P.

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

P.F. MORRIS, Esquire, M.P.

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

The members from both the House of Representatives and the Senate were appointed on 16 July 1974.

DUTIES OF THE COMMITTEE

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

8. The duties of the Committee are -

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

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

ONE HUNDRED AND FIFTIETH 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 the Parliament 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 enquiries related specifically to matters raised by the Auditor-General in his Reports transmitted 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 1972-73 was presented on 28 August 1973. As in our previous reports we would again pay tribute to the Auditor-General and his staff for the sustained effort they have made over the years to achieve this commendable objective.

4. On 31 August 1973 the Committee sought written submissions from twelve 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 six departments (in respect of the seven items referred to in Chapters 2 to 7 of this report) at public inquiry.

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

Tuesday, 16 October 1973
Tuesday, 23 October 1973
Tuesday, 6 November 1973
Tuesday, 13 November 1973
Tuesday, 20 November 1973
Monday, 26 November 1973
Tuesday, 27 November 1973
Tuesday, 4 December 1973

on Friday, 30 November 1973 the public inquiry was held at Communication House, 199 Williams Street, Melbourne where the Committee inspected the Postmaster-General's Department Common User Data Network Switching Centre.

6. The following witnesses were sworn, or made an affirmation, and were examined by the Committee during the public inquiry:

Department of Aboriginal Affairs

Mr H.M. Ford	-	Acting Assistant Director, Planning and Projects Branch, Northern Territory Division
Mr P.J. Toft	-	Senior Works Supervisor, Northern Territory Division
Mr L.A.J. Malone	-	Assistant Secretary, Management Services and Projects Branch

Department of the Army

Mr J.W. Nunn	-	First Assistant Secretary, Finance and Logistics
Brigadier J.A. Munro	-	Deputy Chief of Logistics, Army Headquarters

Department of Defence

Mr R.W. Beaver	-	Assistant Secretary, Management Services Branch
Mr J.L. Simmonds	-	Senior Executive Officer, Property, Management Services Branch
Mr J.R. Wilson	-	Executive Officer, Building Projects, Management Services Branch

Department of the Northern Territory

Mr W.J. Higgins - Acting Executive Member,
Northern Territory Tender
Board and Acting Officer-in-
Charge of Procurement and
Control

Mr O.J. Cameron - Acting Director of Transport
and Planning

Postmaster General's Department

Mr D.M. Coleman - Acting First Assistant
Director-General,
Telecommunications Division

Mr J.R. Smith - Senior Assistant Director-General,
Finance and Accounting Branch

Mr R.K. McKinnon - Assistant Director-General,
Telegraphs and Data Equipment
Branch

Mr F.R. McNamara - Deputy Assistant Director-General,
Supply Branch

Department of Supply

Mr J.S. Lamey - Director, Stores

Mr K. McKnown - Assistant Secretary,
Finance Branch

Mr A.W. Nelmes - Regional Director for
New South Wales

Department of Works

Mr W.D. Hamilton - Acting Deputy Assistant
Director-General (Finance)
Head Office Melbourne

Mr L.G. Redmond - Director of Works,
Northern Territory Region

Mr P.J. Sullivan - Assistant Director,
Management Services Division,
Northern Territory Region

Mr A.T. Ferrari - Director of Works,
A.C.T. Region

Mr E.B. Tate - Assistant Director,
Management Services Division
A.C.T. Region

7. During the inquiry the Committee was assisted by the following
Observers:

Mr F. Dunne	-	Auditor-General's Office
Mr C.A. Harrington		
Mr S.A. Huntley		
Mr R.G. Parker		
Mr A.K. Bagless		
Mr W.H. Scott		
Mr R.N. McLeod	-	Public Service Board
Mr M.H. Mills		
Mr M.R. Sexton		
Mr G.S. Davidson	-	Treasury
Mr J.I. Maunder		

CHAPTER 2

DEPARTMENT OF ABORIGINAL AFFAIRS

Aboriginal Self-help Housing

8. In paragraph 35 of his Report for 1972-73 the Auditor-General referred to a number of unsatisfactory features of the Aboriginal Self-help Housing Scheme, under which a total of 34 demountable home units had been purchased for Aborigines and delivered to Roper River (also known as Ngukurr), Bamyili and Hooker Creek. The reference included the following comments:

Parl. Paper
159 of 1973

"Inadequate arrangements had apparently been made for delivery and storage of materials and there was a need to repair or replace components because of damage or deterioration through delays in the erection of the units, exposure to the weather and other causes. Increased labour costs of the departmental Mobile Works Force had resulted from the limited participation of Aboriginal trainees in the erection of the units. At 30 June 1973, none of the 34 home units had been completed."

9. On the first day of the Committee's public hearing (16 October 1973) the witnesses from the Department of Aboriginal Affairs were unable, or preferred not, to answer a number of questions in relation to the management of the contracts for the purchase and supply of the demountable home units, as the Department had not had the responsibility; and, in consequence, the Committee required the attendance of representatives from the Department of the Northern Territory on the second day of the public hearing (20 November 1973).

Qs. 36 to
42, 46, 56,
59 to 61,
105, 172,
209, 499
and 678

10. The Department of Aboriginal Affairs, through its Northern Territory Division, inherited overall responsibility for the Self-help Housing Scheme from the Welfare Division of the former Northern Territory Administration (Department of the Interior), but the Northern Territory Administration Supply and

Qs. 6 to 8,
10, 33 to
35 and 500
to 504, and
Committee
File 1973/4

and Tender Board, which became the Stores, Supply and Tender Board of the Department of the Northern Territory, carried full responsibility for all aspects of the contracts. It appears that the Stores Branch of the Northern Territory Administration (later of the Department of the Northern Territory) services this Board, which was comprised of 3 members. The Welfare Division was not represented on the Board.

11. In line with policy announced in 1968-69 by the then Minister-in-Charge of Aboriginal Affairs, the Self-help Housing Scheme was initiated in 1970, under the auspices of the then Minister and Department of the Interior, with the intention that special grants from the Aborigines Benefits Trust Fund, matched by grants from the Aboriginal Advancement Trust Account, would be used for the benefit of Aboriginal housing associations in the Northern Territory to cover the cost of materials for new houses on Aboriginal settlements and of labour of skilled tradesmen to train and assist members of the associations to construct the houses. In 1972-73 the scheme was funded by Parliamentary appropriation, with limited assistance from the Aborigines Benefits Trust Fund.

Q. 8 and
Committee
File 1973/4

12. The scheme arose in part from pressures from Aboriginal communities, particularly at Roper River and Hooker Creek, whose communities directed representations to the Minister and the local Legislative Council Member respectively. The communities apparently indicated their willingness to contribute some voluntary labour. To reduce costs and foster self-help involvement, the Department expected each community as a whole to contribute 20 hours per week voluntary labour, and the Government undertook to pay the normal rate applicable under the training allowance scheme to Aboriginals engaged in the scheme. The Committee was informed that the upper limit of the allowance was considerably less than award wages. Because the scheme was an experiment, no estimate

Exhibit
150/1 and
Qs. 4, 5,
13 to 19,
85, 177,
178, 185,
188, 190
to 192
and 199
to 201

was made of labour costs, which, insofar as Aboriginal labour was involved, were to be charged against the appropriation item for training allowances.

13. The houses to be erected were about 12 squares in area, fully self-contained, and intended to accommodate normal family units. Under the first contract to be let, houses were to be built on timber bearers and joists, and asbestos-clad internally and externally. Under the later contract, houses were to be built on steel channel frames, and metal-clad externally, double-sheeted and fully insulated, with aluminium window frames. Fans were included in the houses and provision made for power and sewer connection. The maximum value permissibly for each house, aside from the Aboriginal wage component, was \$8,500.

Qs. 20 to
23 and
Committee
File 1973/4

14. The selection of which Aboriginal families would live in the houses to be erected was made on the recommendation of the Department's local field officer after consultation with the local Aboriginal Council and community.

Qs. 12 and
189

15. The materials for the houses, in pre-fabricated form, were available commercially from factories in a number of States. The Welfare Division of the Northern Territory Administration proposed purchase of prefabricated units in preference to orthodox construction on the supposition that units could be purchased, delivered, and used to build houses more quickly.

Exhibit
150/1 and
Q. 206

16. The expectation was that, on delivery of units to site, local Aboriginals, under the direction of non-Aboriginal staff carpenters, would assemble the pre-fabricated materials, while tradesmen within the Departmental Mobile Works Force would carry out specialist work such as electrical and plumbing. The Committee was informed that the Mobile Works Force is a skilled, semi-skilled and unskilled labour force conceived and developed by the former Department of the Interior to involve Aboriginals in useful employment. Originally, its main function had been to

Exhibit
150/1
and Qs.
2, 3, 28,
31, 32
and 136

undertake maintenance work at Aboriginal settlements, but later it became a labour force engaged mainly in the erection of houses. A condition of the establishment of the Mobile Works Force was that the Department of Works would certify its competence to carry out any works planned in its programme and also provide assistance, as necessary.

17. The witness from the Department of Aboriginal Affairs told the Committee that the Aboriginals in the Mobile Works Force are quite capable at assembly work and that perhaps 10 per cent would be able to build houses without supervision of their work, except for neatness. As regards local Aboriginal labour the witness said that full supervision was needed and that this could be achieved with one carpenter to 10 labourers. The witness considered that, in its conception of the Self-help Housing Scheme, the Administration had not over-estimated the capabilities of the Aboriginals expected to be involved.

Qs. 28 to
30 and
179 to
183

18. The first moves to proceed to a contract for the purchase and supply of 20 demountable home units at Roper River (10), Banyili (5) and Hooker Creek (5) were made by the Northern Territory Administration's Welfare Division which, on 7 January 1971, requested the Administration's Stores Branch to initiate urgent tender action. Specifications earlier prepared by Welfare Division had been forwarded to the Department of Works, which had drawn up a completely new set which Welfare Division then submitted, without amendment, to the Stores Branch. Despite work arrears in the Stores Branch, a Central Office decision that the project had absolute priority led to the Tender Board's advertisement for tenders on 15 January. Within the period allowed (to 17 February), only 2 tenders were received. These were referred to Welfare Division which made a recommendation, later accepted by the Tender Board on 3 March, that a contract should be entered into with Unison Australia Pty. Ltd.

Exhibit
150/1 and
Qs. 505
to 513,
549 to
555, 605
to 608
and 675

On 21 May Welfare Division received approval to incur a liability of \$215,000, with no expenditure to occur in the financial year 1970-71. On 26 May the Tender Board asked the contractor whether the price still held, as the quotation period had lapsed, and on 31 May was advised that, because the contractor had erred in earlier calculations, the price would be less. Funds for the 20 units were made available on 23 June and Ministerial approval was requested on 2 July. On 26 August the contractor requested a price increase, with which the Tender Board concurred on 1 September. The Tender Board received notice of Ministerial approval on 14 September. (Approval had actually been given on 20 August but the form had not been forwarded to the Tender Board). On 16 September the letter of acceptance and order were sent to the contractor.

19. In relation to the second contract, for 14 houses at Roper River (5), Bamyili (4) and Hooker Creek (5), Welfare Division initiated action On 9 December 1971. The Tender Board called for tenders on 7 January 1972, and received 7. On 23 February 1972, the tenders were referred to Welfare Division, which returned them, with its recommendation, on 14 March. Welfare Division's recommendation was that a second contract should be let with Unison Australia Pty. Ltd., but the Tender Board asked Welfare Division to reconsider, as Unison had not offered all the components offered by another tenderer, O'Neill Industries (Queensland) Pty. Ltd., and because there were obvious errors in statements which supported the recommendation. On 22 March Welfare Division returned the tenders once more, this time with a recommendation in favour of O'Neill. After Ministerial approval was received, the letter of acceptance and order were sent to the contractor on 27 March. The estimated liability for these houses was \$142,000.

Exhibit
150/1 and
Qs. 513 to
517, 556
to 561 and
Committee
File 1973/4

20. Both contracts provided for delivery from Brisbane factory to the settlements. As it happened, each contractor arranged a sub-contract for cartage by road transport. Crating of the materials was to be in accordance with normal commercial specifications, and inspections at factory, prior to crating, were to be carried out in respect of both contracts, for all components, by the Northern Command Army Inspection Service, which would issue clearance certificates to the Administration's Supply Section. Unison contracted to deliver the units free on truck to site, while O'Neill contracted to deliver free on site. It appears that Unison was supposed to deliver its materials within 8 weeks from its receipt of order (despatched 16 September 1971), and O'Neill within 12 weeks from its receipt of order (despatched 27 March 1972). Unison's delivery commenced in November 1971, continued in December, and then was completed, after the wet season, some 3 months later. O'Neill's delivery was stated by the witness from the Department of the Northern Territory to have been 'pretty well' within the time. Delivery dates were apparently not specified in the contracts, as this, according to the witness, would have been impracticable. No arrangements were specified in either contract for inspections on delivery.

Qs. 47, 57, 58, 106 to 108, 207, 521 to 533, 544, 545, 563, 573 to 575, 577, 578, 582, and 593 to 600

21. In respect of the Unison contract, it appears that initial deliveries were made in November 1971; then, as the wet season commenced, a further 5 semi-trailers were driven into the Territory on advice that the roads to the settlements were open. The wet season, however, was unusual, with heavy rain in December, and on arrival at Katherine the truck drivers asked the local Senior Welfare Officer about road conditions. It was discovered that the road to Roper River was closed and the road to Bamyili waterlogged. On the advice of the Senior Welfare Officer the drivers drove the trucks to Darwin. The Administration's initial attitude was that it was the contractor's responsibility to arrange storage of the materials until such time as it could deliver them to the settlements, but, in the best

Qs. 106 to 114, 119, 120, 131, 605, 611 to 613, 650 and 651

interests of all parties, the Administration decided that the contractor should utilise Departmental facilities. The Administration did not inspect or handle the materials. The Audit Observer, Mr Parker, said that the Administration's decision to make its storage facilities in Darwin available to the contractor for a period was understandable in the circumstances. The Administration undertook to arrange delivery to the settlement of materials held in its store when the roads became passable, with costs to be borne by the contractor. An appropriate deduction was made from the contract price.

22. The Committee was informed that the Tender Board had accepted the 2 contracts aware that one of the contractors, Unison, had offered to deliver the units free on truck to site whereas the other, O'Neill, had offered to deliver free on site. The witness from the Department of the Northern Territory believed the reason for the difference between the offers was that Unison, unlike O'Neill, was an experienced contractor which tendered free on truck because it knew how difficult it could be under Northern Territory conditions, in remote localities, to obtain equipment and labour to unload materials. The Departmental view apparently had been that delivery to site would save expense in that materials would be delivered more quickly, double handling avoided, and clerical work minimised. The Department had not, however, administered any contract with such a provision previously. It had been expected that erection of the houses would have taken place shortly after delivery, and that, in the meanwhile, the materials would have been safe from the elements. O'Neill had stated that the materials were waterproofed and could withstand reasonable rains and adverse conditions. Contrary, however, to the Departmental view, the witness who had been at the time Controller of Supply and Chairman of the Tender Board expressed to the Committee his personal view that the Department should not let contracts for delivery to site in remote localities, in view of the inadequacies there of handling and storage facilities, and lack of experienced labour. The Audit Observer, Mr Parker, commented that no well-established repository stores, such as the Department of Works has, adequately staffed with experienced men, were available at the settlements.

Qs. 530, 534
to 536, 609,
610, 647,
651 and
680.

23. In relation to the Unison contract, in which delivery was free on truck to site, the Tender Board had expected that Welfare Division would have arranged for equipment and experienced men to be made available at the settlements to unload the units. Unison did not, as it happened, advise the Tender Board of delivery dates, but the Board had assumed that Unison would have known when the trucks were due to arrive and would have advised Welfare Division.

Qs. 537-to
541, 544
to 547 and
597

24. The Department of Aboriginal Affairs told the Committee that Unison had failed to advise Welfare Division of the dates and times of delivery of units and, because of this, arrangements could not be made for their safe unloading. The Department stated in its submission that notification of delivery had been specified in the tender. If notification had been given Welfare Division would have arranged for unloading equipment from Katherine to meet the trucks at the settlements. Because no equipment was available and the crates were too heavy to be man-handled, the truck drivers dumped them from truck trays over the side or slid them to the ground by means of pipe or timber slipways. About half of the crates were broken, and half of the broken crates were badly broken.

Exhibit
150/1 and
Qs. 47 to
54, 62 to
69, 86, 87,
and 124 to
126

25. These problems aside, Welfare Division was also unable in the circumstances to make satisfactory arrangements for the storage and safe custody of the materials. In other circumstances the materials would at least have been kept off the ground, and, if appropriate, covered by tarpaulins. As it was, where crates had been broken open, damage occurred from weathering, despite the fact that Unison had originally bound the materials in bituminised waterproof paper. The settlement Superintendents, who were responsible for the materials' safe custody, made protective efforts, e.g. at Roper River chain wire on pickets was placed around the materials to keep out at least children and animals, and, at each of the settlements, smaller materials and fittings were stored to the extent possible; but

Exhibit
150/1 and
Qs. 24, 25,
55, 88 to 104
121 to 123,
127 to 131,
204 and 205

further damage occurred to timber components on account of white ant infestation, and some loss was sustained, allegedly from pilfering by persons unknown. The witness from the Department of Aboriginal Affairs told the Committee that no white ant protection had been specified in the contract; and, in relation to the alleged pilfering, that it was only the smaller materials and fittings which had been at risk, and then only before proper storage, but that it would have been fairly impossible to prevent. The witness conceded that it was difficult to know the circumstances of any pilfering and, indeed, to what extent the losses sustained could possibly have been due to short-packing.

26. In its submission the Department of Aboriginal Affairs stated that the suppliers had failed to meet contract specifications in a number of respects, and that additional costs and labour involvement had been incurred as a result of the deficiencies. Firstly, houses which should have been painted completely were unpainted. Secondly, electrical components stated to be "as specified" were later found not to comply with standards laid down by the electricity authorities, when tender specifications had required electrical wiring to comply with those standards. And, thirdly, contrary to specification requirements no piers had been supplied.

Exhibit
150/1 and
Qs. 26, 43
to 45 and
671

27. The submission did not make clear, however, and neither did the witnesses, whether Unison or O'Neill, both, or a combination of each, was referred to. As regards the failure to paint, the Audit Observer, Mr Parker, said that Unison had presented an invoice in which the deficiency had been set-off, and satisfactory adjustment had been made. The witness from the Department of the Northern Territory informed the Committee that Unison had never wanted to pre-paint the houses internally, as it considered internal painting to be more successful when done on site, and that in its claim for final progress payment it had deleted an amount from the total claim sum in respect

Exhibit
150/1
and Qs.
207, 592
and 671 to
673

of the internal painting not done. As regards the non-supply of piers, the witness from the Department of the Northern Territory said that the contract with Unison had not included provision for them.

28. In relation to the role of the Northern Command Army Inspection Service, the Committee asked questions of the witnesses from the Department of the Northern Territory. The Committee learnt that the Inspection Service, which had been used as an inspecting agent previously, had had responsibility to verify both that the electrical components were suitable for use within the Northern Territory and that the houses were painted. The Inspection Service, which should have known the specifications applicable, had not queried any of the electrical components and in fact had stated that they were of a satisfactory commercial standard. The Administration had been satisfied, on evidence from the Inspection Service and from its own inquiries, that the home units had been manufactured in accordance with specifications.

Qs. 583 to
587, 589
to 591, 645
and 646

29. The witness from the Department of the Northern Territory informed the Committee that Welfare Division, as receiver of the units, had had responsibility to notify the Tender Board of any damages or deficiencies. No communication, however, within a reasonable time, had been received. The witness did not know whether or not Welfare Division had notified Unison directly of any damages. The witness from the Department of Aboriginal Affairs said that Welfare Division had not initiated any action to recover damages, and that his Department was unaware of what action the Tender Board may have taken. The witness from the Department of the Northern Territory said that, by the time that the Tender Board was alerted, only the final progress payment remained to be made. It could not then be assessed what, if any, damage had been caused by Unison's unauthorised delivery of the units off the trucks, or what, if any, components had not been delivered. Officers who inspected the units on behalf of the Tender Board

Qs. 565,
566 and
601 to 604

believed that at least some of the damage had occurred after delivery. No legal opinion as to what action could lie against the contractor had been sought. While the overall extent of the damage could not be known until all the units have been erected, it was not believed to be considerable.

30. The Department of Aboriginal Affairs stated in its submission to the Committee that:

'The supplier denied liability for any damage caused and advised:

"We should point out that our tender is for the supply of the building F.O.T. (free on truck) site, with unloading to be the responsibility of the principal".'

Exhibit
150/1,
Qs. 70 to
82, 207,
564, 576,
579 to 581,
588 and
Committee
File 1973/4

This led the Committee to believe that an attempt had been made to recover an amount from the contractor for the losses or damage to the units and that the contractor had denied liability under the terms of the contract. The Committee tried unsuccessfully during the inquiry to obtain from witnesses specific information regarding the correspondence from the contractor denying liability which was quoted in the submission. The Department has advised the Committee since the inquiry that due to a misinterpretation of correspondence from the Department's Northern Territory Division to its Central Office, the advice from the contractor was quoted out of context in the submission. The extract quoted is from a letter from the contractor written at the time of tendering for the contract and the Committee understands that in fact no actual claim was lodged against either supplier for damage or losses.

31. As regards the units delivered by O'Neill, the witness from the Department of Aboriginal Affairs said that there had been a little damage which, since the units were still under construction, had not yet been fully estimated.

Qs. 567
to 569

32. A major impediment to establishment of contractors' liability for damage was said to have been the lapse of many months between delivery of units and commencement of construction. The witness from the Department of Aboriginal Affairs explained that, on account of the pilfering problem, on account also of the limited storage facilities at the settlements, and in view of the advice received that the units were waterproofed and should not be opened until commencement of construction, Welfare Division had considered it prudent not to open the crates until needed.

Q. 637

33. The witness from the Department of Aboriginal Affairs said that there was now no question of seeking damages from either contractor as both had gone out of business.

Qs. 570 to 572

34. During the course of the public hearing the Committee was interested to know the circumstances surrounding the making of progress payments to each of the contractors. The Department of the Northern Territory subsequently provided an explanatory memorandum. In relation to the Unison contract, it had been set down that, if the contractor provided an irrevocable bank undertaking in favour of the Commonwealth for the total purchase price, the first progress payment could be made on 60 per cent completion of the work. In other words, a progress payment could have been made on completion of the units at factory, prior to delivery. As a bank undertaking could not be obtained from the contractor, however, the Tender Board determined that no progress payment would be made until delivery on site of the materials had been achieved.

Q. 648 and Committee File 1973/4

35. On 24 November 1971 Welfare Division forwarded a list of components which had been delivered to the settlements, and requested that a progress payment be made. It was said that approximately \$160,000 worth of materials had been delivered. At the public hearing the witness from the Department of Aboriginal Affairs stated that the memorandum which had issued from Welfare Division had not been in order and that a Receiving Report, or clear certificate of receipt of goods, could not have been issued

Qs. 648 to 650, 652 and 668, and Committee File 1973/4

legitimately.¹ He said that not one of the crates delivered had contained a packing slip identifying contents and that, even if a crate had not been damaged, Welfare Division could not have known the extent of shortages, if any.

36. On receipt of the memorandum from Welfare Division, a clerk in the Stores Branch who believed that under the contract a Receiving Report was required, and who considered that the memorandum did not constitute one, prepared a memorandum in which Welfare Division's request for progress payment was denied. This memorandum was signed by a responsible officer who, when he later realised that under the contract a progress payment could be made on receipt of satisfactory evidence of sufficient delivery, directed that it be withheld. In error, however, the memorandum was sent. At the same time steps were taken to process payment of \$100,000 to the contractor. The responsible officer in Welfare Division, on receipt of the memorandum, believed that payment would not be made. He was not prepared, however, to issue a Receiving Report. Unknown to him, payment was made on 26 November 1971. It appears that the mix-up was not known to the different parties until 20 November 1973, when both parties presented evidence to the Committee at a public hearing.

Qs. 652 to
671, and
Committee
File 1973/4

37. A second and final progress payment to Unison, of \$75,000, was made on 22 December 1971. The basis of this payment was that the balance of the units to complete the contract ex Brisbane had been delivered to the Administration's stores in Darwin. The progress payment took account of the non-fulfilment of the contract condition to deliver to site, and took account also of the non-performance of internal painting of the units.

Qs. 207,
650, 671
and 672,
and
Committee
File 1973/4

1. A Receiving Report is a document on the basis of which an account is processed for payment. It certifies the receipt of goods and identifies their condition. (Q. 132)

38. In relation to the O'Neill contract, the contractor provided a bank undertaking for \$75,000 and a security deposit of \$4,000.² On advice from the Army Inspection Service that the units at factory had been 60 per cent completed, payment of \$75,000 was made to the contractor on 30 June 1972. On 27 September 1972 the Stores Branch requested the Finance Section to make a further progress payment of \$72,114. By this date verbal advice had been received from Welfare Division that materials to a value in excess of \$75,000 had been delivered on site, and the bank undertaking was cleared from the first progress payment to secure the second. The progress payment accorded with the contract provision that 'subject to satisfactory inspection reports, progress payments of up to 90 per cent of the value of the units completed may be allowed...' The Army Inspection Service had forwarded documentation to certify that the remainder of the materials to be delivered under the contract had been inspected, released and despatched from Brisbane.

Qs. 624
to 635, 638
and 641 to
643

39. On 18 October 1972 the Stores Branch requested the Finance Section to make a final progress payment of \$16,345 to the contractor. It was known that all material had been delivered to site, but it was also known that it had not been inspected at site, and that construction of the units would be protracted, possibly over more than 12 months. Whether or not the Finance Section had a clear certificate on which to base a final payment was discussed departmentally at a senior level, and it was decided on all the evidence that there was no justification to

Qs. 619
to 623, 635,
639, 640,
674, 676
and 677,
and
Committee
File 1973/4

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2. Under the Unison contract it was stated that a security deposit 'may be required', but none was requested; and under the O'Neill contract it was stated that a security deposit 'will be required', and \$4,000 was requested, and submitted. The witness from the Department of the Northern Territory did not know the reason for the different conditions but said that the Administration's prior experience of Unison was not a factor. (Qs. 614 to 620)

withhold payment. There was no evidence known to the Tender Board to show that the contractor had failed to fulfill his part of the contract and, as it was not possible to certify that all components had been delivered until such time as all units had been constructed, it was considered unreasonable and a breach of contract to withhold payment. The bank undertaking of \$75,000 was released on 17 October 1972 and, following a prompting by the contractor on 25 October, final payment was made on 26 October. The security deposit of \$4,000 was refunded on 18 November when the contract was considered satisfactorily concluded .

40. The Treasury Observer, Mr Davidson, queried whether section 34(5.) of the Audit Act had been complied with. This section requires certification of 'the correctness of every account in regard to rates of charge and faithful performance of the services charged'. The witness from the Department of the Northern Territory considered that the provision had been complied with, as a memorandum had been received from Welfare Division which listed the crates which had been received at the three settlements. Mr Davidson further referred to Treasury Direction 18/10, which states: '...where the certificate cannot be given from his personal knowledge of the facts, it will be necessary for the person incurring the expense to seek confirmation and/or have checks made by persons whose duties make them competent to advise him, e.g., staff clerks for travelling allowance claims, stores clerks for receipts of stores'. It appears from all the evidence tendered by the Department of Aboriginal Affairs that no adequate inspection of the crates had been carried out. The submission stated that, on commencement of construction, 'it was extremely difficult for a detailed check to be made on the components as, with demountable buildings, there are a large number of components as well as the complexity associated with construction'.

Exhibit
150/1 and
Q. 651

41. The Department of Aboriginal Affairs instanced a number of causes for the delays in construction of the units. The first cause was said to have been the complete lack of Aboriginal co-operation in the voluntary labour aspect of the scheme. The Aboriginals were neither prepared to contribute free time nor satisfied with the training allowances. The witness pointed out that from the time of Welfare Division's first consultations with the Aboriginal communities to the time of delivery of the units was about 18 months, and this time-lapse could have led to some disillusionment. It appears also that there was no relationship between an Aboriginal's contribution of labour and his eligibility for a home unit. Other delays were occasioned by the fact that the first deliveries occurred just prior to the commencement of the wet season, by the fact that some units had to be stored in Darwin until the end of the wet season, and by the fact that replacements had to be secured for components which were missing, deficient, or damaged. In some instances, replacement of components took up to 12 months.

Exhibit
150/1 and
Qs. 85,
133, 174,
183, 184,
186, 187
and 644

42. A major cause of the construction delays was the inability of the Mobile Work Force to provide the assistance which had been expected. Employment ceilings had been imposed on the Work Force in 1971-72, and the number of projects was more than the employees available could handle. To meet commitments, a doubling of employee numbers had been requested, but increases were minimal. The witness referred to the general shortage of skilled labour in the Northern Territory, and said it was difficult for the Government to compete with private industry because it could not offer more than award wages. The recruitment demand of the Work Force had not been satisfied. The witness said that, generally, in the Northern Territory, if the best conditions of employment are not offered only second-rate tradesmen are attracted.

Exhibit
150/1 and
Qs. 137 to
139, 147,
151 and
152

43. It also appears that the resignation rate from the Mobile Work Force was high, and the different work teams were depleted. The cause of the high turnover was said to have been the lack of mobile accommodation and service facilities

Exhibit
150/1 and
Qs. 140 to
146 and
148 to 150

for employees of the Work Force. For about 5 years attempts had been made to obtain caravans but the Department of the Interior, with other priorities, had never included provision for the equipment in its Estimates.

44. Since employees of the Work Force had also been involved in repairs and maintenance in each of the settlements, competent craftsmen had not been available to assist the Aboriginal communities in construction of the units. The inexperience of the Aborigines contributed to the delays in construction.

Exhibit
150/1 and
qs. 135
and 156
to 158

45. At the time of the Committee's inquiry in October 1973, the progress in construction of the units at the settlements was said to be as follows:

Exhibit
150/1 and
qs. 11,
115, 154,
155, 160,
165 and
166

Stage I: Unison Contract

Roper River (Ngukurr)	10 houses	About 20 per cent completed (i.e. foundations)
Bamyili	5 houses	Almost fully completed
Hooker Creek	5 houses	About 90 per cent completed

Stage II: O'Neill Contract

Roper River (Ngukurr)	5 houses	Just commenced
Bamyili	4 houses	About 95 per cent completed
Hooker Creek	5 houses	About 60 per cent completed. Completion expected within 3 months.

Stage III of the scheme, which was to have been more ambitious than either of the first 2 stages, had been cancelled on account of

the problems struck and because of a change in Government policy.³
No units had been ordered in respect of Stage III.

46. During the course of the public hearing the Committee asked the witness from the Department of Aboriginal Affairs to provide details of increased costs under the scheme. Some details extracted from the supplementary submission which was received are as follows:

Qs. 159,
161 to 164,
202 and 203,
and
Committee
File
1973/4

	Cost estimate for supply and delivery	Actual expenditure on supply and delivery	Estimated addi- tional expenditure on labour and materials
	\$	\$	\$
<u>Stage I:</u> <u>Unison Contract</u>			
(20 houses)	215,000	200,825	198,171
<u>Stage II:</u> <u>O'Neill Contract</u>			
(14 houses)	142,000	163,459	126,788

The 2 contracts considered in combination, the estimated additional expenditure on labour was \$127,314, on materials \$27,645, and, on a new contract, \$170,000 for the completion of houses in Roper River by the local housing association. In the case of Roper River the revised cost estimate per unit was some \$3,000 in excess of the cost per unit at Hooker Creek. The reason for the estimated increase was that, in line with current Government policy, the local housing association took over responsibility for replacement of materials and construction. Additional costs were expected because of the involvement of consultants and supervisors and because, instead of the Mobile Work Force, predominantly Aboriginal semi-skilled labour was to be used.

3. Under the new policy, a number of Aboriginal housing associations have been incorporated to completely administer housing programmes in Aboriginal settlements. Finance is provided by way of grants from the Government, and architectural and accounting consultants are employed to assist the associations. There is no voluntary labour aspect to the new scheme, there is no maximum financial limit per house, and the Department of Aboriginal Affairs performs no managerial or administrative role. (Qs. 9, 167 to 171, 175, 176 and 193 to 198, and Committee File 1973/4)

Conclusions

47. The Committee acknowledges the problems and difficulties which beset the Welfare Division of the former Northern Territory Administration in connection with the Aboriginal Self-help Housing Scheme. Particularly significant problems were occasioned by the remoteness of the localities to which the housing materials were delivered, the Northern Territory wet season and the acute shortage of skilled labour. None of the problems, however, in the Committee's view excuses the Welfare Division's role in the administration of the Scheme.

48. In relation to the first contract let, for 20 demountable home units, the absolute priority afforded it by the Stores Branch and the Tender Board was negated by the tardiness of other parties. A timetable in which, after tenders closed on 17 February, Ministerial approval for the commitment of funds was not requested until 2 July and then not notified to the Tender Board until 14 September, is highly suggestive of administrative inefficiency. The contract was not, in fact, able to be sealed for 7 months after tenders closed, and the delivery delays caused by the onset of the wet season can be directly attributed to the earlier administrative delays.

49. In relation to the second contract, for 14 home units, it appears unsatisfactory to the Committee that Welfare Division's initial recommendation of a tenderer to the Tender Board proved unacceptable, and that, after a lapse of time in which it re-examined the various tenders, it was unable to justify its choice. On the face of the evidence Welfare Division's initial deliberations were ill-considered.

50. Welfare Division apparently relied on the first contractor to inform it of the dates when the materials were to be

delivered, in sufficient time to allow it to make arrangements for unloading. Notwithstanding the contractor's non-co-operation, the Committee is surprised that Welfare Division did not make it its business to ascertain the delivery dates, especially when the deliveries overshot the anticipated time schedule.

51. Welfare Division should have notified the Tender Board of any damage to the materials, or deficiencies, as soon as possible after inspection. Very surprisingly, however, clear arrangements for inspection on delivery were neither made in the contracts nor otherwise, and the Committee considers that the Welfare Division was dilatory and ineffectual in making what inspections, and taking what remedial action, it did. The Committee is disturbed that in respect of units delivered to site in mid-1972 the extent of damage had still not been fully estimated in November 1973. The inspection problems in remote localities are acknowledged and will, with other problems, hopefully be fully considered before further delivery to site clauses are written into similar contracts in future. The Committee understands that responsibility for the contracts rested with the Stores Branch and the Tender Board (now under the Department of the Northern Territory).

52. As a result of Welfare Division's tardiness, the Tender Board did not initiate any action to recover damages because of alleged burden of proof difficulties. The difficulties in establishing whether deficiencies were due to shortpacking at the factories or pilfering at the sites are accepted, but the Committee is nevertheless surprised that neither party sought legal advice. Despite the implications of the Department of Aboriginal Affairs' submission, the Committee is unable to conclude positively that the Northern Command Army Inspection Service in Brisbane had inadequately inspected the materials in factory. This is on account of the

Department of Aboriginal Affairs' vagueness on this matter and conflicting evidence from the Department of the Northern Territory.

53. The Committee is concerned that in one instance Welfare Division supplied the Stores Branch with written evidence of receipt of goods when it could not possibly have known the contents or condition of the contents in the consignment. The Committee also voices concern at the administrative mix-up within the Stores Branch, described in the evidence, which followed.

54. The Committee feels that it must express its dissatisfaction with the quality of the information set out in the Department of Aboriginal Affairs' submission. Firstly, the Committee was led to understand from the submission that only one contract was involved. It was only during later questioning that the Committee discovered that, in fact, two contracts had been let. Secondly, the submission was seriously misleading because of the inclusion of part of a letter from one of the contractors which had been quoted out of context, causing the Committee to believe that an attempt had been made to recover an amount from the contractor for the losses or damage to the units and that the contractor had denied liability under the terms of the contract.

55. The Committee views any inaccuracies in the information presented to it in a very serious light and would draw the Department's attention to Treasury Memorandum 66/385 of 16 October 1970 to all Permanent Heads. This memorandum included the following statement:

"Not only has the Committee the right to expect that witnesses appearing before it are properly briefed but it is in the interests of each department and the service generally that evidence tendered to the Joint Committee of Public Accounts is of the highest quality. Written submissions and explanations should be carefully prepared and thoroughly checked

for adequacy and accuracy of detail and absence of ambiguity; officers who are to appear before the Committee to give evidence should undertake sufficient research and preparation and should be thoroughly briefed to enable them to answer, with authority, any questions which may reasonably be expected on the subject matter of the inquiry."

56. The Committee is concerned, finally, that the Department of Aboriginal Affairs failed to advise it prior to the public hearing of the important role performed in relation to the Scheme by the Stores Branch and the Tender Board. This failure resulted in the non-attendance of representatives from the Department of the Northern Territory on the first day of the Committee's public hearing. This proved inconvenient to all parties.

57. The Committee notes that the Scheme as it existed has been cancelled.

CHAPTER 3

DEPARTMENT OF THE ARMY

(Now Department of Defence (Army Office))

Purchase of Trailer-mounted Refrigerators

58. The following comment was made in Paragraph 306 of the Auditor-General's Report for 1972-73: Parl. Paper
159 of 1973

"Investigations by my Office revealed that none of the 85 trailer mounted refrigerators, delivered to the Department between February 1968 and June 1969, had been cleared for use since December 1970 and this prohibition still existed at the date of preparation of this Report. A summary of the circumstances is set out below.

Contracts were arranged by the Department of Supply during 1967 and 1968 for the supply to the Department of the Army of a total of 85 trailer mounted 150 cubic feet refrigerators at a cost, as amended, of \$656,843. The 85 four-wheeled trailers were designed and built by a sub-contractor to the prime contractor; the cost of the trailers was of the order of \$310,000.

Road tests of the pre-production model of the trailer mounted refrigerator were performed by the Department of the Army during December 1967-January 1968 and the related reports recorded, among other things, that both front wheels of the trailer splayed on brake application causing wheel drag and premature tyre wear. In view of an urgent operational requirement in Vietnam, the design was apparently accepted for production units without further road testing and 57 trailer mounted refrigerators were delivered by September 1968. Six of these were sent to the Australian Force in Vietnam.

Following subsequent road tests, modifications were made to the trailer springs, tow bars and yokes of the trailers already delivered. The remaining 28 units, incorporating the required modifications, were delivered progressively to June 1969.

Following technical investigations of the recurrence of excessive tyre wear during the later road tests, the Department decided that the trailers were unsuitable for towing at any speed in their present design and their further use was prohibited in December 1970 for safety reasons.

In reply to Audit representations on the subject in April 1972, the Department advised in August 1972 that a detailed assessment of the faults in the trailer was under way and, in a further advice in May 1973, indicated that a modification to the trailer had been proposed.

The Department recently advised that the defect is believed to be the result of a design fault and that tests late last year showed a relatively simple modification removed the defect. Meanwhile, the use of the equipment for operational purposes continues to be prohibited until the proposed modification is effected."

• Requirement for Trailer-mounted Refrigerators

59. The Department informed the Committee that in 1965 a requirement arose for the provision of refrigerators for service in Vietnam to transport refrigerated commodities from the Logistic Support Group at Vung Tau to the Task Force base at Nui Dat. At that time the Department envisaged that a requirement would also arise for the use of this type of equipment further afield than Nui Dat and therefore the refrigerators would need to be carried in transport aircraft. The Department confirmed the statement by the Auditor-General that the operational requirement for Vietnam was considered to be an urgent requirement.

Exhibit
150/9
Q. 700

60. The departmental witness explained that a trailer-mounted refrigerator had been in service in the Army for a number of years but it was too large for convenient transport by air, even in the large R.A.A.F. transport aeroplanes. Prior to the Vietnam war, the Army had been considering its refrigeration requirement and had decided that it would be necessary to produce a 150 cubic feet transportable refrigerator. The onset of the Vietnam war made it

Q. 684

apparent that this type of refrigerator would need to be mounted on a trailer so that it would be portable by air and could be moved into the various areas at short notice.

61. To meet the Vietnam requirement together with other Army requirements the Department decided to procure 150 cubic feet refrigerators, mounted on trailers so that they could be moved over roads and by air. As there was no suitable trailer in service that could be used for this purpose, it was necessary to procure a new small light trailer which was capable of being carried in an aircraft with the refrigerator mounted on it.

Exhibit
150/9

62. We were told that when the first procurement demand was forwarded to the Department of Supply in May 1965 there was an Army requirement for 116 units for distribution as follows:

Committee
File
1973/4

Operational Requirement

Divisional Theatre and Project Stores	27
Divisional Reserve	13
Divisional Repair Pool	5
	<hr/>
	45

Support Area Requirement

Australian Support Area Pool	60
Repair Pool	11
	<hr/>
	71
	<hr/>
	116
	<hr/>

63. The Australian Support Area requirement was divided as follows:

Queensland	17
New South Wales	20
Victoria	5
South Australia	15
Western Australia	10
Tasmania	3
Northern Territory	1
	<hr/>
	71
	<hr/>

• Contract

64. The Committee was informed that a procurement demand for 55 transportable refrigerators was forwarded to the Department of Supply in May 1965 and tenders were invited later that month with a closing date of 9 June 1965. However, none of the equipment offered was considered suitable to meet the requirement and on 12 October 1966 tenders were re-invited for 34 trailer-mounted refrigerators to a revised specification with a closing date of 27 October 1966. This date of closure was subsequently extended to 15 December 1966. The departmental witness told the Committee that the specifications for the trailer-mounted refrigerators for which tenders were invited in October 1966 were prepared by the Directorate of Engineer Stores, Army Headquarters. The trailer was designed specifically to carry the 150 cubic feet refrigerator which when empty weighed 2000 lbs and was designed to hold up to 4000 lbs of frozen commodities.

Exhibit
150/9
Committee
File
1973/4
Qs. 687
and 689

65. The Department informed the Committee that nine tenders were received and that following an evaluation of these tenders in consultation with the Department of Supply two of the most experienced and reputable specialist Australian firms in these fields were chosen to produce the refrigerator and trailer, the trailer manufacturer acting as a sub-contractor to the refrigerator manufacturer. From May to September 1967 a series of contracts were arranged by the Department of Supply with the refrigerator manufacturer (J. Goldstein and Coy. Pty. Ltd.) for the supply of 85 trailer-mounted refrigerators at a cost of \$636,843 of which \$310,000 represented the cost of the trailers.

Exhibit
150/9
Committee
File
1973/4

• Testing and Acceptance of Pre-Production Model

66. The Department stated that the specification provided that prior to full-scale production, the contractor would provide a pre-production model for inspection and test to ensure that the item produced complied with the specifications. The testing of the pre-production model took place between December 1967 and

Exhibit
150/9
Committee
File
1973/4
Q. 763

January 1968. The Audit Observer (Mr Parker) informed the Committee that the importance of thoroughly testing the prototype units was emphasised by Army Headquarters to the Directorate concerned prior to the pre-production model tests and the fact that the design was not of a commercial pattern and had never been proven was specifically mentioned.

67. The Departmental witness told the Committee that the inspections and testing of the pre-production model had included an inspection of the equipment to ensure that: Q. 704

- a) All parts and components were present and functioning.
- b) Assembly was complete and correct.
- c) Dimensions and electrical wiring requirements had been complied with.
- d) Safety devices were in order.

68. A series of routine thermal transmittance capacity tests were also performed on the refrigerator and transport and loading tests and a road test carried out on the equipment.

69. The provisions included in the specifications for road testing the pre-production model were to tow the equipment at speeds up to 25 m.p.h. for a distance of 20 miles on paved roads, 10 m.p.h. for 15 miles on second class roads and 5 m.p.h. for 5 miles cross country on rough tracks. The road testing of the pre-production model was carried out with a fully loaded refrigerator. Exhibit 150/9

70. After road tests of the pre-production model, the Army inspectors reported that the trailer-mounted units passed the road tests satisfactorily and were suitable for service. However, the Committee was told that the inspectors made some observations on trailer performance as a result of the test, reporting among other things the fact that both front wheels splayed when the brakes were applied causing wheel drag and premature tyre wear. Exhibit 150/9 Q. 715

Other items noted during the tests which were subsequently corrected were that the brakes and front spring shackles required adjustment, welding on the rear guards was unsatisfactory, the brightness of stop lamps was unsatisfactory and a repositioning of the air hose was considered necessary to avoid damage.

71. When asked how the Army inspectors were able to report that the units had passed the tests satisfactorily and were suitable for service when they had reported the problem of splaying of the front wheels, the witness replied that the inspectors were under the impression that the wheel splaying had been caused by incorrect adjustment of the wheel bearings. It was explained to the Committee that following this diagnosis the problem was fully investigated by the Army Inspection Service and adjustments to the wheel bearings made by the manufacturer.

Q. 716 to
720

72. The Department stated that it was believed that the fault had been corrected by the engineering action taken with the pre-production model. As the Department believed that all faults had been rectified the pre-production model was accepted and production proceeded. Delivery of the units commenced in 1968 and was effected progressively until the last of the 85 was delivered in June 1969.

Exhibit
150/9

73. When asked whether any further tests had been carried out following the adjustments to the front wheel bearings to ensure that the equipment was now performing satisfactorily, the witness from the Department replied that he was not aware of the actual details of any tests performed but he did know that the inspector had reported that the adjustments had corrected the splaying of the wheels. The Department subsequently submitted a statement which confirmed that due to the passage of time and the loss from the Department of personnel involved in the actual testing of the equipment, the Department could not provide explicit information concerning the detailed engineering tests carried out.

Committee
File
1973/4 and
Q. 724

74. In further explanation the Department stated that the trailer has "Ackerman" steering which is recognized technically as being susceptible to "toeing-out" in both completely unladen conditions and under sudden brake application. The characteristics of this trailer, therefore, were such that sudden brake application would cause some "toeing-out". The possible adjustment is limited and a degree of judgement was essential in agreeing with the contractor what should be done to render the equipment acceptable with an inevitable margin between "toe-in" and "toe-out" when running.

Committee
File
1973/4

75. The Department also stated that although not quantified, adjustments were made by the contractor to the trailer and observed by the Army inspectors under local running conditions from a towing vehicle. No record of measurements was made, but the units were judged acceptable on the basis that performance consistent with the known characteristics of the type of trailer, had been achieved. The Department acknowledged that the observations were made under limited running conditions and that the conclusions drawn at the time proved erroneous when the units were eventually subjected to the stresses of field use.

Committee
File
1973/4

76. Several references were made by departmental witnesses to the urgent requirement for the refrigerator units in Vietnam. It was stated that a study of departmental correspondence at the time action to purchase began, revealed that everyone was impressed with the need to get the equipment into service as quickly as possible. The witness agreed that more exhaustive testing of the pre-production model could have disclosed the faults that occurred after the units were put into service. The witness suggested that if it had not been for the urgent operational requirement in Vietnam some of these matters would have been given greater attention.

Qs. 698,
700, 747
and 754

77. The Department assured the Committee that procedures, both within the Department and the Department of Supply do provide that in a developmental type of contract pre-production models must meet the specifications before approval is given for production to proceed. The witness stated that unfortunately, in this particular instance, after having been tested and accepted as being suitable for production, the equipment was subsequently proved to be unsatisfactory. Q. 749

. Other Modifications

78. The Committee was told in evidence that in addition to the faults discovered during the initial testing of the pre-production model further faults were discovered after the trailer was placed into service. These faults were in the trailer springs and the towbars and yokes and modifications to correct the faults were either introduced during production for those trailers still being manufactured or fitted to those already delivered. The problems have not recurred. Exhibit 150/9

79. It was explained to the Committee by the departmental witness that the problem relating to the trailer springs arose because the testing had been carried out with a fully laden refrigerator over rough country and the heavy springs fitted to suit such optimum conditions operated perfectly. Subsequent early service use showed the need to fit lighter suspension springs to prevent vibration damage under light load conditions when the refrigerator was empty. The problem with the tow bars and yokes also did not show up until the equipment was in service when it was observed during tests that damage could occur to the trailer when reversing and modifications to the tow bars and yokes were designed to prevent this damage. These modifications have been made to all of the trailers. Exhibit 150/9 Qs. 707 and 745

. Recurrence of Tyre Wear

80. As reported by the Auditor-General, 57 trailer-mounted refrigerators were delivered by September 1968. Six of these were sent to Vietnam in May 1968, which the Department said met the Parl. Paper 159 of 1973 Exhibit 150/9 Qs. 727 and 758

Vietnam requirement. In April 1970 the Department received a report from Vietnam that splaying of the front wheels of the trailer occurred when the brakes were applied. By this time it had been established that in Vietnam there was no operational requirement to move refrigerated cargo by air as the operational situation allowed it to be moved by road or cargo carrying vehicles. However, because of the wheel-splaying problem, towing of the trailers was forbidden as a precaution against accidents.

• Corrective Action

81. The Department pointed out that there was no urgency in April 1970 to design a modification for the trailer because the operational need for air movement of refrigerators envisaged for Vietnam had not in fact arisen. We were told that in 1972, Army engineers conducted preliminary investigations of the wheel splaying fault and suggested a modification to correct it. This proposal was then submitted for detailed engineering study and it was verified that the modification, which consisted of the fitting of 2 torsion bars, allowed the trailer to be towed, safely, at speeds up to the maximum permissible. Final agreement on the design of the modification took place about August 1973. At the time of the inquiry, November 1973, only one trailer had been modified. It was explained that the Department had not proceeded to take corrective action on the trailers earlier because other requirements for engineering investigation work were considered to have a higher priority.

Exhibit
150/9
Qs. 731,
734, 735
and 783

82. The Committee was informed, that the total cost of the modifications for the 85 trailers is estimated to be between \$25,000 and \$30,000 and that detailed instructions were being prepared which will enable the work to be carried out during the 1973-74 financial year. The Department assured the Committee that there was a continuing demand for the trailer-mounted refrigerators that would justify the expenditure to modify all units.

Exhibit
150/9
Q. 736

83. The Department said, in conclusion, that it is now apparent that whilst all concerned did in fact believe that the fault in the pre-production model had been corrected, the splaying fault still existed under heavy braking stresses. However, the means of fully correcting the fault are available and action will now proceed to modify the trailers. When modified, they will be fully capable of performing the tasks for which they were procured.

Exhibit
150/9

Conclusions

84. In the original departmental submission and during the public hearing several references were made to an urgent operational requirement for refrigerator units in Vietnam. This urgency was given as a reason why the tests on the equipment were not as exhaustive as they might otherwise have been. The evidence shows that only six out of a total production of 85 units were required for Vietnam. It appears to the Committee that in the submission and during the inquiry the Department placed too much emphasis on this urgent operational requirement which was only a small percentage of the total production.

85. The Committee also finds it difficult to understand why, if there was an urgent operational requirement, it took the Department from May 1965 until May 1968 to obtain the equipment for Vietnam, even allowing for the fact that the units had been specially designed to meet Army requirements and were not of a commercial pattern.

86. The Committee feels that it must also comment on the poor quality of the test carried out on the equipment by the Army Inspection Service. The Committee was told by the Audit Observer (Mr Parker) that the importance of thoroughly testing the prototype units had been emphasised by Army Headquarters to the Directorate concerned prior to the testing of the pre-production model. This

served to strengthen the Committee's belief that the original inspection and testing of the pre-production model should have been thorough enough to discover the faults in the trailer springs, tow-bars and yokes which were found after the units had been placed into service. The Committee notes that the evidence did not make it clear whether these particular modifications were made at additional cost to the Department or were fitted by the manufacturer as part of the contract price.

87. The Committee also believes that the tests carried out on the equipment by the Army Inspection Service after the manufacturer had adjusted the wheel bearings to correct the wheel splaying fault were of a poor standard. It is the Committee's view that after the adjustment to the wheel bearings had been made the trailer should have been subjected to further exhaustive road tests at least as stringent as the initial tests which discovered the fault. It seems inconceivable to the Committee that having discovered the fault, the Department of the Army did not make sure that the wheel bearing adjustments had eradicated the fault before passing the prototype as satisfactory thereby authorising the production of 85 units.

88. With regard to the Department's statement that there was a continuing demand for the trailer-mounted refrigerators that would justify the expenditure to modify all units, the Committee makes the observation that the demand could not have been very urgent as at the time of the inquiry (November 1973) only one trailer had been modified. In this connection the Committee notes from the Auditor-General's Report for 1973-74 that by the end of that financial year only 3 units had been modified and issued for operational use.

89. Finally, the Committee would again emphasise the importance of the principle enunciated in its One Hundred and thirty-seventh

Report, that in contracts with a developmental content that require the production of a prototype unit, the prototype should be subjected to exhaustive testing to prove that the unit is fully capable of performing the tasks for which the units are being procured before authority is given for the rest of the production to proceed.

CHAPTER 4
DEPARTMENT OF DEFENCE
Cleaning Contract

90. The following comment was made in Paragraph 296 of the Auditor-General's Report for 1972-73:

"Expenditure charged to Division 600-2, Item 04 during 1972-73 included approximately \$447,000 for the cleaning of office buildings, etc., occupied by the Departments of Defence, Navy, Army and Air in Canberra. The above amount included approximately \$424,000 for cleaning of the Russell Hill offices and other accommodation under a contract arranged by the Department of Defence in 1967.

Parl. Paper
159 of 1973

Audit examinations of the related accounts and records have disclosed a number of unsatisfactory features including the authorisation of payments to the contractor, in respect of wage increases and additional areas to be cleaned, at rates higher than provided for under the contract; non-performance of certain exterior window cleaning as required under the contract due to the lack of safety features, but without adjustment to the contract rates; and the apparent inadequate records maintained by the Department of actual areas to be cleaned under the provisions of the contract.

These matters were the subject of correspondence with the Department of Defence during the year. Concern was expressed by my Office that, notwithstanding previous Audit representations, payments were still being made substantially in excess of amounts payable under the provisions of the contract.

The Department recently advised that an extensive investigation into the performance of the contract since its inception had commenced."

91. The Department informed the Committee that tenders for the cleaning of offices occupied by the Defence Departments in Canberra were called by the then Department of the Interior on behalf of the Department of Defence on 2 September 1967. The previous contract was terminated on 31 October 1967 at the contractor's request and the new contract was to come into operation with effect from 1 November 1967.

Exhibit
150/10 and
Q. 807 and
Committee
File 1973/4

92. The Committee was told that ten tenders were received - eight contractors tendered a price for cleaning the area nominated in the invitation to tender and two contractors tendered a price for a lesser area. One of the latter tenders was subsequently withdrawn. Committee File 1973/4
93. The contract was awarded to Crothall and Co. (N.S.W.) Pty. Ltd., the third lowest tenderer. The lowest price tendered was considered to be unrealistic and was rejected on the grounds that the tender price was too low to achieve the desired standard. The second lowest tender submitted was rejected because the firm had an unsatisfactory cleaning record with the then Department of the Interior and the Department of Defence. In addition, the price tendered was considered to be unrealistic. Committee File 1973/4
94. The Department stated that Crothall and Co. was selected because the company's operations were world-wide and, at that time, the company held several large contracts in Sydney and Melbourne. The Company was able to satisfy the Department that its intended labour force under its proposals would enable the required standard of cleaning to be attained and maintained. It was also considered that the company's experience and technical knowledge would enable it to provide a satisfactory service. Committee File 1973/4
95. The Committee was told that the contract, in its original form, covered the cleaning of 583,000 square feet of office and general accommodation, mainly in the Russell complex, for an amount of \$158,492 per annum. The terms of the contract were drafted in consultation with the Department of the Interior, which at that time was the Department expert in the field of contract cleaning. Exhibit 150/10 and Qs. 802 and 808
96. The Department said that since the contract began there have been 34 significant changes to the scope of the contract brought about by the addition or deletion of areas to be cleaned Exhibit 150/10 and Qs. 802 and Committee File 1973/4

or by award variations. The Department stated that at the time of the inquiry (November 1973) the contract provided for the cleaning of 939,594 square feet for an amount of \$542,855 per annum (see Appendix A). The areas now being cleaned comprise all of the Russell complex buildings and space in 5 leased buildings, accommodating 4,500 members of the Defence Forces and the Public Service. The witness said that to clean these areas the contractor's labour force would average 17 full-time employees and 145 part-time employees who each work 20 hours per week.

97. The Department stated that as far back as 1969 the Auditor-General's Office had in the course of its audit found certain irregularities and deficiencies relating to the cleaning contract and these had been pursued and dealt with by the Department. We were told that there was a further report by the Auditor-General's Office in March 1972 which again referred to problems relating to the cleaning contract. This was followed by the correspondence mentioned in the Auditor-General's Report for 1972-73, which led to the Department conducting an extensive investigation into the performance of the contract since its inception.

Exhibit
150/10 and
Q. 827

98. The Committee was informed that the investigation disclosed that there had been a lack of control in the administration of the contract which, the witness believed, had been caused by using inexperienced and inadequate staff. The witness said that during the early years of the contract, the staff provided to control the administration of the contract consisted of a Barracks Officer with some supervision being exercised by a Clerk (Class 7). He added that this latter

Exhibit
150/10 and
Qs. 802, 880
and 884

position had 6 occupants over a period of 21 months. He also said that to assume that the officer holding the office of Barracks Officer, which is a Fourth Division position, and equated to clerical assistant grades, could effectively supervise not only the physical performance of the requirements under the contract but also the accounting aspects of the contract, with only some part-time supervision from a more senior but inexperienced officer, would not have been a good administrative approach to controlling the contract.

99. The Committee learnt that some improvement in the staff situation took place in April 1971, when an experienced senior officer was able to devote some time to the problems associated with the contract, and by May 1972 comprehensive control procedures were in operation. The re-organisation of the Management Services Branch which took place in late 1972-early 1973 recognised the magnitude of the task of administering the cleaning contract and a Clerk (Class 7) position and 50% of a Clerk (Class 5) position were provided for the local administration of property and cleaning. The former position was staffed in June 1973 and the latter in August 1973.

Qs. 802,
814 and 884

100. The Committee asked the Department to provide the pertinent dates on which action occurred to correct deficiencies in the establishment of the Management Services Branch in the property management area (of which the administration of the office cleaning contract formed part). The dates shown relate only to the senior positions.

Q. 895 and
Committee
File 1973/4

	<u>1970-71 Changes</u>	<u>1972-73 Changes</u>
Branch decisions on changes needed	March and April 1970	September and October 1972
Permanent Head's approval to proceed	Late April 1970	11 October 1972
Request for Public Service Board approval	29 May 1970	16 November 1972* 14 December 1972* 20 December 1972* 21 December 1972*
Public Service Board's decision	29 August 1970	26 March 1973
Public Service Board's recommendation to the Governor-General	17 September 1970	4 May 1973
Governor-General's approval in Council	22 October 1970	17 May 1973
Property Management positions advertised	3 September 1970 (Class 9) 10 December 1970 (Class 8)	29 March 1973 (Class 11) 3 May 1973 (Class 7)
Arrival of officer to commence duty	1 April 1971 (Class 9) 10 June 1971 (Class 8)	6 September 1973 (Class 11) 8 October 1973 (Class 7)

* A major re-organisation involving progressive submissions.

101. We were told that the investigation showed that underpayments and overpayments of amounts to the Contractor had occurred for a number of reasons. These included incorrect calculations of increases in labour costs payable under the contract because of wage variations; charges continued in error by the Contractor for areas deleted from the contract; charges not made for areas added and for rubbish removal; night cleaning rates charged for areas which were to be cleaned in the daytime; amounts not deducted for window areas not cleaned and because of a misunderstanding between the Contractor and the Department with regard to the actual area being cleaned in one building.

Exhibit
150/10 and
Q. 815 and
Committee
File 1973/4

102. Brief details of the overpayments and underpayments discovered in the course of the investigation are:

Exhibit
150/10
and Q. 815,
869 to 871,
874 and
Committee
File 1973/4

OVERPAYMENTS

(a) Joint Services Staff College, Woden

Overpayment due to the charge by the Contractor being based on cleaning at night whereas the Department had requested day time cleaning from a certain date.

Overpayment \$2,768.43

(b) Kingston Annex (E.D.P.)

This property ceased to be occupied by the Department from 12 April 1969 but the Contractor continued to charge for cleaning.

Overpayment \$5,510.00

Committee
File 1973/4

(c) Russell Building 14 (Basement)

The overpayment on this building was in respect of the basement and took place over two periods. The first period was from 8 December 1970 to 4 September 1972 and the overpayment occurred because part of the basement not being cleaned was included in the charge by

Committee
File 1973/4

the Contractor. The second overpayment dated from 5 September 1972 and was due to a charge being made by the Contractor for cleaning part of the basement which the Department believed was an additional area but which was, in fact, part of the total basement area already included in charges.

<u>Overpayment</u>	8.12.70 to 4.9.72	<u>\$4,907.28</u>
	5.9.72 to 29.10.73	<u>\$2,924.82</u>

(d) 1970 Arbitrator's Award

Overpayment due to a wrong assessment by the Department of the weekly amount due to the Contractor as a result of this Award.

Committee
File 1973/4

<u>Overpayment</u>	<u>\$11,922.76</u>
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(e) Window Cleaning

It was explained to the Committee that early in 1972 the Department drew the Contractor's attention to the fact that he was not cleaning the whole of the window areas in the buildings in the Russell complex although full payment for window cleaning was being made. The Contractor replied that he was unable to clean all external window areas because of safety standard requirements. Following a meeting between the Contractor and representatives from the Building Section of the then Department of the Interior on 23 June 1972, the buildings were inspected and the Technical Inspector from the Buildings Section informed the Contractor that he had been contravening the A.C.T. Scaffolding and Lifts Regulations. He also directed that, due to the fact that there were no provisions on the buildings for the use of safety gear to clean windows, all such cleaning or similar work was to be discontinued.

Exhibit
150/10 and
Qs. 855,
865 and
Committee
File 1973/4

The Committee was told in evidence that only one building in the complex is provided with the required safety provisions in its structure. All other buildings either do not have the safety provisions, or were designed so that the windows could be cleaned from the inside. We were told that it had become a fairly hazardous operation to open the windows on the latter type of building and the Department has been advised that the appropriate safety provisions should be incorporated in all of these buildings.

Q. 874

In a supplementary submission the Committee was told that the Department wrote to the National Capital Development Commission on 20 February 1973 on this question, pointing out that the Chief Inspector, Scaffolding and Lifts, Department of the Capital Territory, had recommended that either window cleaners safety belt anchors or guard rails be installed. A physical inspection of the window areas within the Russell complex was made on 27 November 1973 by a representative of the Department of Works. We were informed on 23 May 1974 that the problem areas were noted during the inspection and that the Department was awaiting further advice.

Committee
File 1973/4

Regarding the overpayment for window cleaning not done, the Department said that the Contractor claimed that the charge made for this cleaning was more than offset by the fact that the Company had for years carted quantities of rubbish from the buildings to the tip in excess of the quantity provided for in the contract and for which the Company had not been paid. Although the Department accepted this explanation, it considered that the two matters should be treated separately and made

Exhibit
150/10 and
Committee
File 1973/4

separate calculations for the overpayment for window cleaning and the underpayment for rubbish removal by methods which were agreed to by the Contractor. The question of rubbish removal is dealt with under a separate heading in the underpayments section of this paragraph.

Overpayment for window cleaning \$6,870.96

UNDERPAYMENTS

(a) Lyell Street Fyshwick

Committee
File 1973/4

The cleaning of an area at the above location commenced on 3 December 1971 but the charge for this service was not added to the cleaning account.

Underpayment \$2,984.47

(b) 1971 National Wage Case

Committee
File 1973/4

The underpayment was due to a wrong calculation originally by the Department of the weekly amount to be added to the Contractor's cleaning account as a result of the 1971 National Wage Case.

Underpayment \$11,315.27

(c) 1972 Arbitrator's Award

Committee
File 1973/4

The Department had correctly assessed the additional amount per week which should have been paid to the Contractor as a result of this Award but paid the lesser weekly amount which had been calculated by the Contractor and which proved to be incorrect, resulting in an underpayment.

Underpayment \$14,645.90

(d) Rubbish Removal

Committee
File 1973/4

Special conditions of the cleaning contract provide that the contractor shall move all burnable waste paper to the destruction area (within the Russell complex) and remove all non-burnable rubbish from the complex. It was the Contractor's understanding that the Russell incinerator was originally intended to accept all waste paper from the complex but it has, in fact, been used for the destruction of classified waste only.

In May, 1969 the Contractor stated that his original contract price included provision for the removal of approximately 50 bags of waste to the rubbish tip per day. (The number of bags removed by the Contractor reached 150 bags per day during March 1969, 180 bags per day during May 1969 and rose to 240 bags per day in August 1970). Although the Department held the view that there was no legal liability to pay the Contractor for the performance of the additional rubbish removal it was considered reasonable that he should receive payment for the service.

Committee
File 1973/4

Accordingly, it was arranged that the Contractor would submit to the Department a cost proposal taking into account the assessed value of the rubbish collection task for which he had received no payment. The Contractor's cost proposal was examined within the Department and was found to be reasonable and acceptable. After allowing for the fact that the Contractor accepted the removal of 50 bags per day as his responsibility under the contract, the additional charges payable to the Contractor for rubbish removal for the period 30 May 1968 to 29 October 1973 were assessed by the Department at \$19,876.

Committee
File 1973/4

Underpayment

\$19,876.00

103. A summary of the overpayments and underpayments, which at the time of the Committee inquiry had resulted in an amount of \$13,917.39 being due to the Contractor, is set out below:

Committee File
1973/4

A. <u>OVERPAYMENTS</u>	\$
(a) Kingston Annex	5,510.00
(b) Joint Services Staff College	2,768.43
(c) Russell 14 - Basement -	
8.12.70 - 4.9.72	4,907.28
5.9.72 - 29.10.73	2,924.82
(d) 1970 Arbitrator's Award	11,922.76
(e) Window Cleaning	6,870.96
TOTAL	<u>\$34,904.25</u>
B. <u>UNDERPAYMENTS</u>	\$
(a) Ivyell Street, Fyshwick	2,984.47
(b) 1971 National Wage Case	11,315.27
(c) 1972 Arbitrator's Award	14,645.90
(d) Rubbish removal	19,876.00
	<u>\$48,821.64</u>

104. In addition to the overpayments and underpayments already finalised there are two other items that were still under investigation by the Department at the time of the inquiry. These were:

Committee
File 1973/4

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4. The Audit Observer (Mr Parker) mentioned that he had some reservations about the amount calculated for window cleaning and the 1971 National Wage Case and urged the Department to recheck them.

(a) 1968 National Wage Case

It appears to the Department that the amount of the increase per week due to the Contractor may have been incorrectly assessed as the percentage increase was applied by the Contractor to his standard weekly wage figure instead of the figure of actual labour costs.

(b) 1969 National Wage Case

The Contractor applied the percentage increase to his then weekly account which contained components such as material costs and profit margin in addition to labour costs, so the amount he had been claiming was incorrect. This increase was erroneously approved by the Department resulting in an overpayment to the Contractor which, at the time of the inquiry, had still to be assessed.

105. The Department also mentioned that the investigation had confirmed that there were instances where the Contractor had quoted for cleaning additional areas at what appear to be excessive rates and these quotes were accepted by the Department without verification as to whether the quoted rates exceeded the current average rate per square foot as required under the contract. The witness explained that as these additional areas were brought into the contract, the Contractor was asked by the departmental staff administering the contract to quote a price for each additional area. These prices were quoted as an amount for the total additional area and were never related particularly to a rate per square foot or to the rate at that time applicable to the rest of the contract.

Committee
File 1973/4
and Q. 835

106. We were told by the Department that the Contractor has taken the view that his quoted prices were based on his assessment of his costs to execute the additional tasks, that they are not excessive, and that the quotes as accepted and paid by the Department should stand.

Committee
File 1973/4

107. The Department has discussed this matter orally with the Assistant Crown Solicitor in the Defence Department and his first reaction was that if the Department accepted a quotation under a contract, even if the figure accepted was in excess of that allowed by a clause in the contract, then that would constitute a valid contract between the Department and the Contractor. However, he said that he wanted to be briefed on the question so that he can give proper consideration to it. The Committee was told at the time of the inquiry that the Department proposed to place the matter formally before the Assistant Crown Solicitor to obtain an opinion.

Qs. 802 and
835

108. The Department stated that it had decided to suspend any cash adjustments with the Contractor resulting from its investigation until such time as the question of the additional areas added to the contract at what appears to be excessive rates is thoroughly investigated and resolved.

Committee
File 1973/4
and Qs. 821
and 822

109. In view of the number of deficiencies in the control of the cleaning contract reported by the Auditor-General and confirmed by the detailed investigation, the Department was asked for information on the verification techniques employed on payments to the Contractor under the contract. The witness said that originally the verification process was limited to a check of adjustments by the Barracks Officer, who made the calculations and determined what the appropriate increase should be. It was then referred to a Clerk (Class 7) for checking before being passed to the Accounts Section for payment. The

Exhibit
150/10 and
Qs. 818,
829 and 851

witness pointed out that he had already referred to the staff responsible for the administration of the contract during this early period as being inadequate and inexperienced. The witness told the Committee that there was progressive improvement in the verification procedures from about April 1971 until a financial directive was issued within the Department on 1 May 1972 which set out the procedure to be adopted for the certification of satisfactory work performance of contract cleaning in the Defence Group of Offices in Canberra. An additional safeguard has also been provided by the inclusion of the checking of cleaning contracts in the Department's internal audit programme.

110. The Department was asked to explain why it took such a long time to develop the procedures set out in the departmental directive of 1 May 1972 in view of the fact that deficiencies in the control of the cleaning contract were first raised by the Auditor-General in 1969. The witness explained that although a senior officer in the Management Services Branch was concerned that he had insufficient staff to carry out the Branch's tasks, including the administration of the cleaning contract, it wasn't until April 1971 that he was able to obtain the services of an experienced senior officer to effect some improvement in the situation. However, this officer was unable to devote all his attention to the problems associated with the cleaning contract because of his other responsibilities and he really didn't get started on the task of improving control over the contract until towards the end of 1971.

Qs. 827 and
837 to 841

111. In further explanation the witness stated that he wished to stress that at the time the procedures for control of the cleaning contract were being developed four Departments were involved, the Departments of the Navy, Army and Air, with the Department of Defence

Qs. 839 and
840

acting as co-ordinator. He said that it took some time to get the procedures properly documented and agreed between the Departments, also to have monitors for every essential area identified and appointed. He stated that there were progressive improvements in the control procedures during that time and the departmental directive was the culmination of all those progressive efforts.

112. The Committee was interested to know whether the Department was satisfied that the financial directive now gives complete control over the administration of the contract and whether the directive had operated effectively since its introduction on 1 May 1972. We were informed by departmental witnesses that although errors had occurred since the introduction of the directive these were due to a failure by departmental staff to comply with the procedures rather than the directive itself being ineffective. We were told that very close supervision is required to ensure proper implementation of the procedures and that just prior to the Committee's hearing it had been necessary to re-issue the instructions again because of staff changes in the Management Services Branch.

Q. 851

113. The Audit Observer (Mr Parker) said, at the Committee's hearing, that at that stage (November 1973) the Auditor-General's Office had some reservations regarding the effectiveness of the new procedures although it was recognised that there had been some real effort put into their formulation. He said that the reservations were based on the fact that since the Auditor-General's Report was tabled in the Parliament there had been 4 instances of substantial overpayments in another area which involved the use of the new procedures.

Qs. 852 and
890

114. The departmental witness said that the Department believes that this particular contract is now as well controlled as it can be. The Department considers that it now has better control because it is no longer co-ordinating the efforts of four Departments and it now has a reasonable number of staff engaged on the administration of the contract.

Q. 884

115. The Department advised the Committee that it had served notice on the Contractor under a clause in the contract which allows either party to terminate on 4 months' notice, that it wished to terminate the contract. The departmental witness stressed that the action taken to terminate was not prompted in any way by dissatisfaction with the Contractor, as his performance under the contract had been satisfactory and he had shown a very commendable degree of co-operation in his dealings with the Department.

Q. 886

116. The Department expects that the existing contract will be replaced by a new contract which will be negotiated on behalf of the Department by the Department of Services and Property. The new contract, unlike the contract negotiated with Crothall and Co., will be for a specific period and will include a more precise formula for adding new areas to the contract and a formula for wage adjustments.

Q. 886

117. The Committee was told that the Department intends to establish a cleaning contract "cell" staffed by experienced personnel who would have the sole responsibility for checking on performance, investigating complaints and performing a liaison function between the Contractors and departmental management.

Exhibit
150/10 and
Q. 887

118. The Department informed the Committee that it was confident that the remedial action already taken or proposed

Exhibit
150/10

would eliminate the difficulties associated with the current contract and permit satisfactory administration of cleaning contracts in the future.

Conclusions

119. It was stated in evidence that as far back as 1969 the Auditor-General's Office had reported finding certain irregularities and deficiencies relating to the cleaning contract. A further report from the Auditor-General's Office was made in March 1972 relating to problems connected with the cleaning contract which was followed by the correspondence with the Department mentioned in the Auditor-General's Report for 1972-73.

120. This correspondence apparently caused the Department to conduct an extensive investigation into the performance of the contract since its inception which disclosed that there had been a lack of control in the administration of the contract and that there had been a number of underpayments and overpayments of amounts to the Contractor.

121. The reason advanced by the Department for the lack of control in the administration of the contract was the use of inexperienced and inadequate staff, particularly in the early years of the contract. While the Committee agrees that this appears to be the case, the Committee considers that the Department was at fault in not taking the necessary administrative action in those early years to ensure that the section responsible for the administration of the contract was adequately staffed and that effective control procedures were in existence and were being observed. It has occurred to the Committee that had the Department conducted an investigation into the performance and administrative control of the contract when the matter was first raised by the Auditor-General in 1969, many of the problems that

occurred later could have been avoided.

122. After full consideration of the evidence the Committee feels that it took an inordinately long time for the Department to develop the procedures which were set out in the financial directive issued on 1 May 1972, especially as deficiencies in the control of the cleaning contract had been reported to the Department as far back as 1969.

123. Another matter which the Committee considers unsatisfactory is the delay in finalising the question of the provision of safety gear for window cleaning in the buildings in the Russell complex. The evidence shows that it was early in 1972 when the Department first drew the Contractor's attention to the fact that he was not cleaning the whole of the window areas in the buildings and the subject of safety requirements was raised. The buildings were inspected by the appropriate safety authorities in June 1972 but it was not until February 1973 that the Department wrote to the National Capital Development Commission on this question and November 1973 before the buildings were inspected by the Department of Works. The Committee was informed on 23 May 1974 that the Department was awaiting further advice. The Committee cannot but feel that the Department has been dilatory in this matter and should have pressed for an early solution to the problem.

124. In relation to the underpayments and overpayments, the Committee notes that at the time of the inquiry a net amount of \$13,917.39 was due to the contractor with other items still under investigation. The Committee wishes to draw the Department's attention to the reservations held by the Audit Observer (Mr Parker) about the amount calculated for window cleaning and the 1971 National Wage Case and trusts that these items were discussed

with the Auditor-General's Office before the calculations were finalised.

125. The Committee notes that the Department had served notice on the Contractor that it wished to terminate the contract and that it was expected that it would be replaced by a new contract which would be for a specific period and would include a more precise formula for adding new areas to the contract and a formula for wage adjustments. The Committee also notes that the Department intends to establish a cleaning contract "cell" staffed by experienced personnel who would have the sole responsibility for checking on performance, investigating complaints and performing a liaison function between contractors and departmental management. The Committee wishes to be informed of the progress made in these matters and trusts that the remedial action already taken or proposed by the Department will provide satisfactory administrative control of cleaning contracts in future.

CHAPTER 5

POSTMASTER-GENERAL'S DEPARTMENT

Common User Data Network

126. In paragraph 173 of the Auditor-General's Report for 1972-73 reference was made to a Common User Data Network (C.U.D.N.) which the Postmaster-General's Department was in the process of installing. The Report stated:

Parl.
Paper 159
of 1973

"The computer based message switching and data network, intended to be operated as a commercial service to the Department's customers, involves the establishment of switching centres, initially in the 5 mainland capital cities.

The main contract, valued at approximately \$4,900,000, was let in September 1970 for the supply, delivery and installation of the network together with allied services. Under the contract the Brisbane centre was scheduled to commence operating in November 1971 and the 4 remaining centres at intervals up to January 1973.

Technical difficulties were encountered and the schedule of commencing dates under the contract was not achieved. There has also been some increase in the expenditure to be met under the contract.

When this Report was prepared, none of the centres had been completely installed. The Brisbane centre was operating in an interim mode and serving 2 Commonwealth users. The current value of the contract was \$5,105,152, while the final cost of the project including staff training, development staff and accommodation conversion costs was estimated to be approximately \$11,700,000.

According to departmental records, expenditure against the contract amounted to \$2,987,767 to 30 June 1973".

Planning for C.U.D.N.

127. The Department informed the Committee that the Common User Data Network was planned to provide users with a share in a network with extensive data communications facilities and load carrying capability while operating as if they had their own private networks. It was explained to the Committee that data transmission can take

Exhibit
150/5 and
Q. 397

place over private (leased) lines equipped with suitable equipment, over the telex system, over the switched telephone network equipped with suitable equipment and eventually over the C.U.D.N. network. The various choices available to customers are to some extent complementary to each other and some customers make use of each choice available to them for economic reasons or for reasons such as widespread geographical penetration (e.g. with the switched telephone system). All of the options available to customers are grouped together and collectively called data communication facilities.

128. It was further explained that it is the aim of telegraph and data networks to avoid unrecognised, irretrievable loss of message or data. The degree to which the network design guards against this risk is a measure of its "security". In a shared or common user system there must also be safeguards against the unauthorised flow of message or data traffic between customers. The C.U.D.N. concept provided for each customer organisation to have security for its message or data streams and non-intrusion from other users.

Exhibit
150/5 and
Qs. 406
and
Committee
File
1973/4

129. The Department also stated that there had been heavy development of single user systems over leased Post Office datel circuits, and using datel connections over the switched telephone and telex networks. It was explained that a single user system was a system or network with switching plant, connecting circuits and terminals provided solely for the purposes of one organisation. It was also explained that the telephone circuits provided by the Post Office for the transmission of speech between population centres cannot pass data signals without adding additional converting equipment at each end. When this equipment is added, the circuit is then known as a datel circuit. The converting equipment is known as the "modem" (modulator-demodulator).

Exhibit
150/5 and
Qs. 397
and 406

130. The Department planned that the C.U.D.N. should have the flexibility to meet the increasing variety of needs expected from organisations using computers and to include the capacity to handle telegraph-like messages of the type already in use within airlines and other organisations using full-time leased networks. Other typical uses of the new service would be the transfer of data between branch offices or outstations and centralised computers or between one computer installation and another.

Exhibit
150/5

131. Studies undertaken by the Post Office in the period 1967-1969 showed that a single network could carry both message and data traffic and that facilities could be more economically provided by a single common network in which each customer's network could be derived in such a way that it is effectively his own private network. In this way a much more flexible system would be available and costly common control equipment is shared between a number of customers.

Exhibit
150/5 and
Qs. 428
and 429

132. It was mentioned in the departmental submission that, at the time the Department was making the assessments mentioned in the previous paragraph the Public Service Board was trying to induce the Department to provide a facility which would meet the needs of government on-line A.D.P. systems. The submission went on to say that the Board had indicated that, if the Department was unwilling to provide such a facility the Board would initiate the establishment of a consortium of government departments to operate a network, similar to the General Services Administration network that exists in the United States.

Exhibit
150/5

133. The departmental witness said that the General Services Administration network in the United States was one of a number of networks examined by Post Office engineers as part of the

Qs. 437 to
439 and 483

studies undertaken for C.U.D.N. He said that the network was particularly interesting because it had been built around an earlier version of the same processor used in C.U.D.N. However, it was pointed out that the G.S.A. network was not the model for the Australian C.U.D.N., which was an individual design, with an individual specification for Australian needs.

134. The Public Service Board Observer (Mr Sexton) pointed out to the Committee that the Public Service Board and the Interdepartmental Committee on Automatic Data Processing⁵ have responsibilities in relation to the co-ordination and rationalisation of the development of A.D.P. within the Australian Public Service. The Board's Office, through its chairmanship and provision of a working service for the Interdepartmental Committee and its direct responsibilities under the Public Service Act, is involved in every aspect of A.D.P. within the Service. This involvement includes participation in the development of standards, common systems and schemes for facilitating data exchange, as well as the investigation and use of new A.D.P. techniques.

Q. 1056
and P.S.B.
Annual
Report
1973

135. Mr Sexton told the Committee that the Board's broad objective in relation to data transmission is to optimise efficiency within the Service and to do this it was critically important that information flow into and, after processing, flow out from departments as easily, quickly, accurately, securely and economically as possible. He also said that the use of computers for processing over the last 10 years had made these goals achievable in the face of a greatly increasing need for information processing.

Q. 1056

5. Information regarding the establishment of the Interdepartmental Committee on A.D.P. is shown in Chapter 5 of the Committee's Eighty-fifth Report.

136. Mr Sexton added that in the future it will be necessary to establish computer networks to achieve further economies and the greater speed of response required to meet community demands. The development of viable and sophisticated data transmission systems was of particular importance in Australian Government administration to permit the interchange of data between departments and to overcome difficulties and delays arising from the long distances between centres of governmental activity. The Committee was also told that the Board considered that by developing C.U.D.N. the Australian Post Office is providing the necessary stimulus to the use of data transmission in Australia.

Q. 1056

137. The Committee was told that the Board, in exercising its general co-ordinating and advisory role on the use of A.D.P., had, as far back as 1964, seen the need for switching and transmission facilities for the Departments of Health, Civil Aviation and the Bureau of Meteorology and was particularly aware of the desirability of establishing facilities for the Department of Civil Aviation with a minimum of delay. It was these needs which prompted the Board to attempt to induce the Post Office to provide the necessary facilities. The Board had also considered various alternative schemes, including the possible establishment of a consortium of government departments to operate a network. The Committee was also informed that the consortium initially would have comprised the Department of Civil Aviation, the Department of Health and the Bureau of Meteorology, with the Board acting as co-ordinator. It was recognised by the Board as far back as 1968 that the three members of the consortium would be the fore-runners of a number of others with switching requirements. We were told that the proposal for a consortium was initiated by the Board to avoid duplication of effort and to provide the means ultimately for information to be readily exchanged between departments, between other Government organisations and the private sector.

Qs. 432
to 434 and
1054

138. The Public Service Board Observer (Mr Sexton) told the Committee that neither the Board nor the Interdepartmental Committee on A.D.P. was closely involved in the technical aspects of the feasibility study leading to the decision to implement C.U.D.N., although the Board's officers were involved in discussions on facilities required in the system, including privacy procedures. He also stated that neither the Board nor the Interdepartmental Committee on A.D.P. was involved in the writing of the specification, the evaluation of tenders or the letting of the contract to UNIVAC.

Q. 1056

139. The Committee was informed that the Department was in a situation where early action was required by it to meet the growing demand for the provision of new switched data facilities. The Department explained that the assembly of line terminating equipment, computers (processors) and the associated storage equipment is known as a switching centre and that the total set of functions which a data switching network can perform is known as "switched data facilities".

Exhibit
150/5 and
Q. 409

140. By way of background, the Department stated that there were a number of examples where a common user service had been introduced overseas, in general on a single industry basis and not by the general telecommunications administration. In Europe, the lack of initiative by administrations resulted in the airlines establishing a consortium (S.I.T.A.) to carry their message and reservation traffic and the network now had worldwide connections. In the U.S.A. and the United Kingdom, computer-based switching centres had been provided for a common message and data switching service and in the U.S.A. Western Union were establishing a common user message network "INFOCOM", for message and data traffic.

Exhibit
150/5

141. The Committee was concerned to know whether the Department had been able to predict the growth in demand for data communication services and was told that in common with most overseas countries the Australian Post Office had found it particularly difficult to predict reliably the growth in demand for such services. Nevertheless, it was pointed out that Australia moved into the area of the provision of data communication facilities at about the same time as the U.S.A. the United Kingdom and Germany.

Qs. 439 and
440

142. When questioned on the extent of its research organisation the witness explained that in its research laboratories approximately 300 to 350 engineers are working on a number of different projects of which 20 to 25 are engaged on the development of computer techniques generally for communications. The greater proportion of the latter group would be working on computer applications in switching for telephony, rather than for data and telegraphs, but it was pointed out that both switching techniques have a certain amount in common.

Q. 442

143. We were told that working directly on C.U.D.N. on the engineering side have been two groups, one in the Department's Planning and Research Division and the other in the Engineering Works Division. Development of the specification for C.U.D.N. was done by those two groups, which occupied the time of six or seven engineers over a period of about two years. This entailed mainly the development of the network concept, the facilities required for customers, a development of standard signalling procedures between centres, the development of line signalling procedures between terminals and the centres and looking totally at the A.D.P. system, of which communications is only a part, in association with the Public Service Board and users.

Qs. 442 and
443

144. The witness informed the Committee that hardware studies were also done with the object of developing sufficient knowledge to be able to choose between competing offers from expert groups

Qs. 406 to
408 and 444
to 446

in the manufacturing companies. Hardware is the electronic equipment itself such as computers, magnetic tape, magnetic tape drives and card punchers. Software is a term covering the rules written in to a computer and may be expressed in writing on paper, in punch cards or in a number of different forms.

145. Regarding the amount of contact between the Department's research organisation and similar organisations overseas, the Committee was informed that Post Office engineers and operational staff have been involved quite heavily over a number of years with international bodies such as the Consultative Committee on International Telephony and Telegraphy and the International Standards Organisation and have made quite substantial contributions to those bodies, particularly with regard to the use of computers in switching. The Committee was also informed that the work of the Consultative Committee on International Telephony and Telegraphy was divided into a number of study groups and study group 7 is entirely devoted to the development of a specialised data network for public use throughout the world. The Australian Post Office has taken an active part in the development of study group 7.

Qs. 448
and 451

146. The Committee was interested to know how the services offered by the Australian Post Office with regard to the provision of data transmission facilities compared with similar organisations in other countries. The witness indicated that the Australian Post Office had 11,000 telex terminals in operation which compared favourably with other advanced countries based on the number of terminals per 100,000 population. As regards datel circuits operating over leased telephone lines or the switched telephone network, the witness said that the Post Office had approximately 2500 data modem terminals in service at the time of the inquiry (November 1973) and expected to have 5000 by the end of the year. The witness thought that Australia would rank third in the usage of data transmission behind the United States and the United Kingdom.

Q. 449

. Common User Data Network

147. The Department described for the Committee a typical common user data network centre. Such a centre is comprised of two central processors, (control computers), which are duplicated to ensure reliability. One of the processors is always on-line and the second is always in stand-by mode preparing to take over if there is a fault or failure in the on-line machine. Incoming information is prepared in the form required for handling by the processors by the telegraph multiplexer (TM), which terminates low-speed telegraph and data lines and a communications controller (C.T.M.C.) for medium speed lines, which can handle information at speeds up to the capability of a voice circuit. Each processor has a console to allow particular commands to be given to that processor. Both processors may be accessed by a smaller processor for loading operations, loading of programmes and some other special functions. Each processor has a short access time memory or core memory but for longer term memory it has larger disc memories. Each processor is connected to a disc control and through the disc control to duplicated discs which are the random access memories. Each also has access via tape control units to magnetic tape units for long time memory. A diagram showing a typical C.U.D.N. Centre configuration is reproduced in this Report as Appendix B.

Exhibit
150/7 and
Q. 470

148. In Appendix C is shown the actual configuration which is being implemented in the common user data network in Australia with centres of the type shown in Appendix B being located at Brisbane, Sydney, Melbourne, Adelaide and Perth. Connected to those centres are a number of low speed lines belonging to three customers initially, the Department of Health, the Bureau of Meteorology and Trans-Australia Airlines. As well, some of the centres have associated with them customer computers which are connected to the centre's switching computers over circuits known as link circuits. The Melbourne centre also has interconnections with the Australian Post Office Telex network and with the Australian Post Office public telegram system known as TRESS. A considerable amount of

Exhibit
150/7 and
Q. 470

traffic for the Bureau of Meteorology flows on the TRESS system and T.A.A. gets considerable traffic from TELEX connections in various parts of Australia. Although these connections are physically only provided in Melbourne they can be used from any centre in Australia.

• Tender and Contract

149. The approval of the then Postmaster-General was sought and obtained in mid-1969 to issue a purchasing schedule C5750 for the supply and delivery of C.U.D.N. together with allied services. The amount authorised was \$5.5 million with further unspecified amounts to be provided to handle growth. The purchasing schedule was the document against which tenders were submitted and accepted and it described in detail the set of facilities required. The required "in-service" dates were stated in the schedule and tenderers were asked to indicate how closely they could meet or by how much they would fail to meet those dates. The witness said that the preparation of the technical specifications (which covered some hundreds of pages of the schedule) took over twelve months of inter-working between groups in the Department's Planning Division, Telecommunications Division and Engineering Works Division and also involved lengthy discussions with the Department of Health, the Bureau of Meteorology, T.A.A. and the Public Service Board.

Exhibit
150/5 and
Qs. 463, 464,
489 and
Committee
File 1973/4

150. The Committee was told that the type of purchasing schedule issued required a single contractor to have responsibility for the design and installation of the network. It was described as a "turn-key" type of contract, i.e., the contractor was asked to supply the equipment, to carry out the programming design, to install the equipment and to hand over to the Post Office at the end of the contract a completely working system. Tenderers were permitted to offer a variety of network configurations, i.e., networks which operate in different ways. An example of this given to the Committee was a network which could have a highly

Exhibit
150/5 and
Qs. 465 and
466

centralised network with all of the hardware located in one centre and all terminals brought to that centre over transmission paths. This type of network might reduce the cost of switching plant but would increase the cost to the Post Office of transmission facilities and would have lower reliability. The tender schedule sought pricing details for switching centres, software, test equipment, spares, training, maintenance, documentation and a laboratory model.

151. The departmental witness informed the Committee that it is very difficult on a large project like C.U.D.N., which has a high content of development work, to have companies and customers fully commit themselves to the total design, which would occupy many man-years of effort, without having a firm contractual basis to start with. For that reason a number of detail design matters were left for resolution after the contract had been placed by a letter of intent with the particular contractor. Q. 494

152. The Department informed the Committee that tenders were received from ten major companies. In a supplementary submission the Committee was informed that the tenders were assessed by a Working Party comprising the following officers who submitted their technical report to the Departmental Tender Board: Committee File 1973/4

Mr K.J. Simpson,
Acting Assistant Director-General (Telephone Switching)
Planning and Research Division

Mr R. McKinnon,
Sectional Engineer,
Engineering Works Division

Mr N.R. Crane,
Acting Sectional Engineer,
Planning and Research Division

Mr A.W. Thies,
Principal Programmer,
A.D.P. Branch

153. A preliminary evaluation was made of all tenders, which included tendered prices, facilities offered, delivery offered and resources of the tendering company. As a result of this evaluation, the Working Party decided that four of the ten tenders could be eliminated. The reasons given for eliminating the four tenders at that stage were either that the costs of the systems offered were too high or that the resources of the companies were inadequate for a task of the magnitude of C.U.D.N.

Committee
File 1973/4

154. A more detailed evaluation of the remaining six tenders was then made. The tender prices ranged from \$4,000,000 to \$6,000,000 (approximately) and all largely met the facility requirements. Discussions were arranged with each of the six tenderers to clarify certain points, particularly in respect of long term costs as the system expanded. The assessment of the tenders took two months and the Working Party unanimously recommended the acceptance of the tender submitted by the UNIVAC Division of Sperry Rand Australia Ltd., which was the second lowest.

Committee
File
1973/4

155. A departmental evaluation of the other five remaining tenders in ascending order of price is as follows:

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File
1973/4

- (a) The lowest tender originally did not meet the C.U.D.N. requirements and after discussion with the contractor major changes in the proposal were made. These changes still left many unresolved areas in which it was clear that the tender did not meet the schedule. The early design stage of the final offer made it impossible to assess fully the likely costs, but it was clear that these would rise very considerably. Further, the contractor was unable to meet the time-table requirement for C.U.D.N. by a large margin.

- (b) The third lowest tender offered a system which could have been used for C.U.D.N. but compared with UNIVAC (the second lowest) it had a higher initial price and more expensive expansion costs. In addition, techniques offered for the minor centres were not satisfactory under partial break-down conditions and suitable re-design would further have increased the price.

- (c) The next highest tender was based on a modular construction with the aim of simplifying expansion and growth and because of this it was given particular attention by the Working Party. However, discussions with the tenderer disclosed that the module was too big for the C.U.D.N. minor centres and too small for the major centres. The network configuration offered was unsuitable to meet the requirements and, if modified to meet needs, the price would have been increased by \$1m. Furthermore, subsequent expansion would have been extremely expensive.

- (d) The second highest tender offered a system which could be suitable for C.U.D.N. but in the form offered had serious traffic limitations for the initial load. Re-design to cover this problem would have added up to \$1m. to the cost. In addition, it was established that expansion costs were well above those offered by UNIVAC.

- (e) The highest tender offered a system which met all facility requirements with a few minor exclusions. Following discussions with the Company, additional price information was provided to cover the inclusion of these minor facilities and the tendered price was adjusted accordingly.

156. In view of the recommendation of the Working Party, the Departmental Tender Board recommended to the Director-General of Posts and Telegraphs that the tender of UNIVAC be accepted for the supply of the C.U.D.N. system at a price of \$4.43m. This included the basic price of \$4.17m. plus \$265,000 for spares. A Letter of Intent dated 15 January 1970 was sent to the Company advising of the Department's intention to accept the Company's tender, subject to agreement being reached regarding a detailed facilities specification.

Committee
File 1973/4

157. The reasons given to the Committee for the selection of UNIVAC as the successful tenderer were that the UNIVAC tender was significantly cheaper than all but one tender which was eliminated on other grounds; the cost of maintenance and expansion was cheaper; the delivery offered was better; the company had equipment already developed in service in other parts of the world and had better experience in this field at that particular time.

Q. 478

158. It was explained to the Committee that whilst the purchasing schedule indicated the general requirements which would have to be met, it was prepared with the knowledge that tenderers would offer a variety of techniques to provide, in different ways, the specified facilities. As a result, the offered technique to be used had to be fully identified against the basic system offered by a detailed system specification. It was intended that this would include preparation of agreed system flow charts covering every phase of the project so that the Department and the contractor jointly establish a fully clarified description of the work to be done. The flow charts would be used to prepare a detailed program specification which would then form part of the complete system specification.

Committee
File 1973/4

159. A System Specification Working Party was subsequently established in February 1970 which consisted of Australian Post Office and UNIVAC representatives. It took until September 1970 before agreement was reached on the system specification to be included in the contract. The agreed system specification did not include system flow charts or program specifications but was a closely detailed Facility Requirement Specification. UNIVAC felt that the system flow charts and program specification were part of the UNIVAC design responsibility.

Committee
File 1973/4

160. Following the development of the facility specification, the contract price was increased by \$513,000 making a total price of \$4.95m. The amount of \$513,000 covered modifications for the communications terminal module control, additional core, equipment and programming requirements, plus \$24,000 for training of departmental maintenance staff. Contract No. 38100 to the value of \$4.95m. was issued on 21 September 1970. The contract was to establish the Melbourne, Sydney, Brisbane, Adelaide and Perth C.U.D.N. centres, the corresponding software development and training in maintenance. Since the issue of the contract there has been a number of minor adjustments as requirements varied and the value of the contract at the time of the inquiry (November 1973) was \$5.105m. At the time the contract was issued an option was taken and later exercised by the issue of a separate contract (No. 41127 of 22 December 1971) for the purchase of a laboratory model for \$738,000 from UNIVAC. It was explained that it was necessary to have a laboratory model to be able to provide a test medium for faults and difficulties experienced in the operational centres and to provide a development centre to develop facilities for additional customers.

Exhibit
150/5 and
Q. 931 and
Committee
File 1973/4

Total Cost of C.U.D.N.

161. The Department's submission stated that the nature of the service being offered required protracted negotiations to obtain firm orders from the three initial customers - the Department of Health, Bureau of Meteorology and T.A.A. It was explained to the

Exhibit
150/5 and
Q. 947

Committee that the protracted negotiations were necessary to describe to the prospective customers the facilities offered by C.U.D.N. and to measure these facilities against the known and expected requirements of those customers. The customers had to measure the facilities offered by C.U.D.N. against the alternative of each proceeding individually with a single user network. They had to be assured that there would be security within a common user network, that the speeds of transmission would be adequate and that the capacity offered by C.U.D.N. would meet all their needs. The Committee was told that it was expected that eventually seven customers of the size of the initial three as regards volume and variety of traffic would be connected to the system.

162. The Department made four assumptions about the system. These were:

Exhibit
150/5

- The first customer would be connected by 1972.
- The last customer would be connected by 1976.
- The system would have a working life of twelve years from the date of commencement of the installation in 1970.
- The system would be capable of coping with the normal growth in traffic of the seven customers (or their equivalent) from 1976 to 1982 without the need to outlay substantial additional capital.

163. Regarding these assumptions, the departmental witness told the Committee that the first assumption had been virtually achieved in that the Department of Health and T.A.A. had commenced operations towards the end of 1972 and the beginning of 1973. He also stated that the target date mentioned in the second assumption would be difficult to achieve and the actual date impossible to predict because it is not known precisely when the system would be accepted from the contractor. Regarding the third assumption, the Committee was told that the working life of the system was based on its likely obsolescence and information recently received from

Qs. 962,
963 and
1037

Overseas points to the working life being well beyond the 12 years originally estimated. In respect of the fourth assumption, we were told that the growth so far in the traffic of the three initial customers has been greater than anticipated which means that a greater part of the capacity of the system will be taken up by those customers than had been assumed.

164. The Department had estimated that over the first six years the total value of UNIVAC equipment required to handle traffic for seven customers would be \$7.362m, made up of the original contract equipment plus equipment for expansion of the laboratory model and some other items. After adding an amount of \$131,000 to cover the administrative costs of the Department's Supply Branch, the estimated overall cost of UNIVAC equipment was set at \$7.493m. Capital expenditure on items other than UNIVAC equipment was estimated at \$2.841m and, after appropriate loading figures were added, that figure was set at \$3.131m. Therefore, the total capital cost of the system was then seen to be approximately \$10.624m. At the time of the inquiry, November 1973, the Department's estimate of the final cost of the project was approximately \$11,700,000 made up as follows:

Exhibit
150/5 and
Qs. 924 and
1046 to
1048

	\$
Contract 38100 (main UNIVAC contract)	5,105,152
Miscellaneous equipment contracts (Includes laboratory model)	1,428,000
Other Contracts and departmental expenditure of a capital nature (equipment and site preparation excluding accommodation ⁶)	2,328,000
Staff training	83,000
Development staff costs	2,778,000
	<u>\$11,722,152</u>

6. No special accommodation provided for C.U.D.N. Rental to be calculated for space occupied and treated as an operating cost

165. The amount of \$2,778,000 shown in the preceding paragraph for development staff costs is expected to be spent over 5 years. The following dissection of this figure has been provided by the Department.

Q. 1050 and
Committee
File 1973/4

	\$
1. ADP Accounting System	193,000
2. Programming staff	219,000
3. Engineering Divisions staff	
- design and project management	1,107,000
4. Engineering Divisions staff	
- supervisory and operative staff to test, operate and maintain system in establishment phase	1,032,000
5. Telecommunications Division staff	
- assistance in testing arrangements and supervisory control of centres in establishment phase	227,000
	<u>\$2,778,000</u>

Delays

166. The departmental submission stated that contract acceptance dates set out originally in Contract 38100 were:

Exhibit
150/5

• Brisbane	-	17 November 1971
• Melbourne	-	13 March 1972
• Sydney	-	11 September 1972
• Perth	-	11 November 1972
• Adelaide	-	7 January 1973

Under this contract, liquidated damages were as follows with total damages not to exceed \$370,000:

- . Brisbane site - \$6,000 per week to a maximum of \$120,000
- . Melbourne site - \$10,000 per week to a maximum of \$100,000
- . Sydney site - \$10,000 per week to a maximum of \$100,000
- . Adelaide site - \$6,000 per week
- . Perth site - \$6,000 per week

167. The Committee was informed that because there had been considerable slippage from the acceptance dates set out in the contract, it became necessary in February 1973 to renegotiate the contract in terms of new completion dates and liquidated damages.

Exhibit
150/5

168. The Department explained that it could have claimed the full damages of \$370,000 but may have had to contest legally a counter claim from UNIVAC for substantial damages caused by an admitted 19 weeks delay for which the Department could be held responsible. This delay was due to time lost while the Department and UNIVAC reached final agreement on requirements to be included in the system and late provision of departmental sites and power required by UNIVAC to develop the system. The late provision of sites and power was caused primarily by industrial difficulties experienced by the building contractor at the Sydney site during the installation of the air-conditioning.

Exhibit
150/5 and
Qs. 996 to
998

169. Following negotiations with UNIVAC, Contract 38100 was amended on 26 April 1973 to cover the following:

Exhibit
150/5

170. The witness explained that modified reliability is a lower reliability used to indicate the point at which liquidated damages would not be imposed if all qualitative and quantitative specifications were met by the date quoted, 31 January 1974. From this point the contractor had four months for the system to reach the full specified reliability. It was also explained that expansibility means the ability to add additional customers easily and conveniently to the system, provide additional functions, increase the number of lines or handle a greater volume of traffic.

Qs. 999
and 1006

171. The Committee was told that liquidated damages in the amended contract was restricted to the Melbourne site because it was the key site, and once the system has been developed and accepted in Melbourne, it could be fairly readily adapted at the other sites.

Exhibit
150/5

172. The Department stated that by September 1972 the first C.U.D.N. installation in Brisbane was not up to the required standards of reliability and performance for final acceptance. (The reliability at which the Department was aiming was that there should not be a system failure in 120 hours of operation.) However, the Department agreed to provide service, in Brisbane, for the Department of Health and T.A.A. who were anxious to commence sending traffic, provided certain lower operational standards could be guaranteed by the contractor. Both customers operated traffic on a trial basis for a period to check out the C.U.D.N. system and their own processor and operating procedures. T.A.A. commenced sending commercial traffic in November 1972 and the Department of Health in February 1973.

Exhibit
150/5 and
Qs. 1011

173. The Department informed the Committee that after the Brisbane installation commenced operations it quickly became obvious that the lower operational standards referred to above were not being met. However, there has been a steady improvement

Exhibits
150/5 and
150/6 and
Qs. 1021
and 1022

since November 1972 and the Committee was told at the time of the inquiry (November 1973) that the Brisbane installation was operating very satisfactorily and is handling heavy traffic for both the Department of Health and T.A.A. During the month of October 1973 the only interruption to service in the Brisbane centre was of two minutes duration. Comparing the Brisbane centre with other centres of similar size around the world the Department said it is clear that it is operating at a high level of reliability. It was stated that the system in Brisbane is now at a standard where both customers are experiencing a reasonably satisfactory performance although the centre is not operating strictly in accordance with the contractual requirements and it has not yet been fully accepted. The witness explained that there are some functions which the customers should be able to carry out under the C.U.D.N. which are still not available to them at the Brisbane centre. This was done by agreement with the two customers in order to get service at the Brisbane centre. It is the intention to re-program the Brisbane centre to give it a full range of functions after the Melbourne centre is completed.

174. The departmental submission stated that some C.U.D.N. equipment was put into service in Sydney to handle commercial traffic in April 1973 using the same interim program as Brisbane and carrying Health Department traffic from Melbourne to Canberra. It was explained that this service was an emergency operation to enable Department of Health traffic to be handled pending a final solution of the problems in the full C.U.D.N. system based upon completion of the Melbourne centre. C.U.D.N. equipment destined for Adelaide was used to provide this service on a single user basis as the plant constituting the Sydney centre is being used to test the Melbourne centre.

Exhibit
150/5 and
Q. 1023

175. In the Department's view, a major reason for the delays in the implementation of C.U.D.N. was that UNIVAC had under-estimated the difficulties to be encountered in developing the system, particularly the software. This was notwithstanding the world-wide experience UNIVAC has had in the field of message and data

Exhibit
150/5 and
Qs. 1025
and 1026

switching and the experience of UNIVAC Australia in implementing switching systems for the Overseas Telecommunications Commission (Australia) in Sydney and Cable and Wireless in Hong Kong.

. Present Status of C.U.D.N.

176. The delay in implementing C.U.D.N. has had important consequences for the Department. The Committee was informed that a definite interest was shown in the service by many potential customers to the point where they proposed to use C.U.D.N. for the transfer of their data traffic. The Department has now informed these customers that there will be a delay in introducing C.U.D.N. service and that a commitment cannot be given as to when C.U.D.N. will be available. The Department has also advised customers that it is unable to provide at this stage consultative service on prospective C.U.D.N. connection to new customers. These customers have therefore sought alternative methods for the transfer of their data traffic and the Department is assisting them with consultative service in the provision of leased line datel systems.

Exhibit
150/5

177. The departmental submission stated that the delay in implementing C.U.D.N. has had a detrimental financial effect on the Department in a number of ways:

Exhibit
150/5

- . The Department has a substantial investment in the C.U.D.N. system and it is earning insufficient revenue to cover the annual charges on this investment.
- . Alternative leased line data services are being provided to committed customers at less than full rentals.
- . The period up to 1982 over which the customers were to pay for the system has been reduced and consequently the total revenue over the period would be lower than anticipated.

178. The departmental witness told the Committee that the Department provided the alternative services mentioned above at less than full rental because it felt that it had an obligation to those customers to provide them with the service they could ordinarily have expected at that stage if the C.U.D.N. implementation had been on schedule and to charge them at estimated C.U.D.N. rates.

Q. 1036

179. The Department stated that it had had doubts for some time that the system being developed by UNIVAC would meet the full contractual specification. The witness said that the Department began to have these doubts about two years ago and as development continued a great many points were raised with the contractor in a number of areas. In early 1973 the Department particularly started to question the ability of the system to handle the specified traffic. These questions began to develop within the Department's organisation and were finally taken up with UNIVAC. We were told that at that time the Department felt that UNIVAC resources used on the job were insufficient and that international expertise from UNIVAC organisations in the United States and the United Kingdom was required.

Exhibit
150/5 and
Qs. 1039
and 1040

180. The Committee was told that the Department tried to exert pressure on UNIVAC Australia to seek aid from the company's organisation overseas but the local company was reluctant to do so. Representations were then made by the Director-General of Posts and Telegraphs to the Chairman of the Sperry-Rand Company in New York (of which UNIVAC Australia is a division). Senior representatives of the parent company visited Australia for discussions with departmental officers and a reassessment of the technical position of the project was carried out. As a result additional technical support has been given by the Headquarters of the Company and technical staff from overseas have recently been allocated to the project. We were

Exhibits
150/5 and
150/6 and
Q. 1045

told that UNIVAC has continued to inject additional technical support into the Melbourne installation including the use of a number of overseas experts and sophisticated computer analysis equipment.

181. The Department stated that this additional technical support has resulted in quite considerable improvements in the traffic carrying capacity of the Melbourne equipment and in this important area the Department considers that there are now good chances that the contract specification will be at least substantially met.

Exhibit
150/6

182. During the course of the inquiry the Committee asked the departmental witnesses for information regarding the capacity of C.U.D.N. to accommodate its proposed customers. The witnesses described this capacity using terms such as "processor occupancy" and "load carrying capability" and it was also described by the Post Office in terms of number of customers. In a subsequent submission the Post Office clarified these terms and supplied additional information to the Committee in regard to the capacity of the network.

Qs. 975 to
987, 1052
and 1053
and
Committee
File
1973/4

183. The supplementary submission stated that there is a limitation on the rate at which the central processor can make decisions in accordance with the rules programmed into it. Each decision takes a little time. If the number of decisions to be made in a given time is greater than the sum of the times necessary to make each decision, this would cause failure of the system because it would be unable to process all of the data coming into the system. Failure would involve loss of data and the automatic stoppage of the central processors. Reactivation of the system would take some time and involve restarting at every customer input.

Committee
File
1973/4

184. It was also explained that if the number of decisions to be made in a given time is just equal to the sum of the times necessary for each decision then the system would work provided that the flow of data requiring decision is at an absolutely even rate. In such a case the processor is said to be "occupied" for 100% of its time. This is never achievable in practice, although designers attempt to smooth the flow to the central processor by a number of techniques, even though the traffic input from customer lines is not smooth. Initially, because of software techniques known at that time, it was believed that a safe system would be achieved if under peak load conditions over a 10 minute period the occupancy did not exceed 65%. This would mean that within that 10 minute period there might be segments of some seconds when for that shorter period the average occupancy might be close to 100%. As development has proceeded there is evidence that the 65% figure might be raised to 72% without malfunction of the system.

Committee
File 1973/4

185. The Committee was told in the submission that the minimum allowable figure for Melbourne (with the initial three customers carrying their defined 1972 loads) specified under the contract is 40% in the knowledge that there would be an upper limit of safe operation significantly less than 100% and bearing in mind the need to ensure sufficient spare occupancy to cater for future growth in traffic and customers.

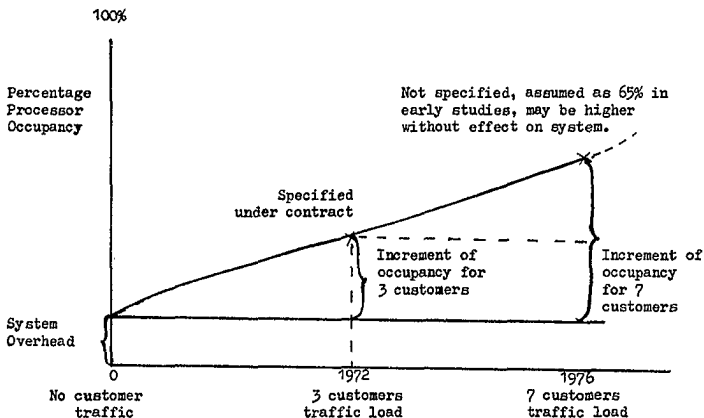
Committee
File 1973/4

186. The Department also pointed out that it was known that the system would have a measurable occupancy even though there was no customer traffic, e.g. because of the line scanning processes normally used in this technology where the decisions to be made which are a load on the processor are "Has there been a change of state on the input line since the previous scan"? The processor occupancy without customer traffic is often referred to as the

Committee
File 1973/4

"system overhead".

187. Represented graphically this produces a situation as follows:



188. It was explained to the Committee that although in the diagram the three points are joined by a smooth curve the actual design under test might show a somewhat different shape. This was the best assumption at the time from which to derive an indication of the limit to capacity of the system using a single on-line processor. There must always be a degree of inaccuracy in such an approach but when the design is complete the precise curve of processor occupancy versus customer traffic load can be measured quite accurately for defined volumes and mixes of customer traffic.

Committee
File
1973/4

189. In further explanation the Committee was told that there is a degree of inaccuracy in using the "customer" as a unit of traffic load but this is unavoidable when the actual customers and their mix of various volumes and classes of traffic are not known.

Committee
File
1973/4

In actual fact therefore it may be more or less than seven customers which would fully utilise the maximum safe processor occupancy of 65%-72% in respect of the initial equipment installed.

190. The Committee was told in November 1973 that the emphasis in attention had been shifted to reliability, (at that time the Melbourne centre was undergoing intensive contractor testing), and the experience in Brisbane makes the Department optimistic that this important aspect of the contract specification will also be at least substantially met.

Exhibit
150/6

191. In November 1973 we were advised that the acceptance testing phase for the Melbourne installation would be reached shortly. We were informed that although the Department continues to doubt that the system will meet the full contractual specification it should come close to it though not by the scheduled date.

Exhibit
150/6 and
Q. 1041

192. We were informed that the Post Office has indicated to the Company that, in the event of the system not meeting the full contractual specification but nevertheless being acceptable as a working system, a reduction in price would need to be negotiated. In the event of the system being sufficiently outside specification so as not to be acceptable as a working system, the Department has indicated to the Company that it proposes to determine the contract and claim against the Company for losses suffered by the Post Office.

Exhibit
150/5

Economic Comparison - C.U.D.N. and Single User Systems

193. In response to a request by the Committee the Department provided an economic comparison between the C.U.D.N. system and other single user systems. The Department considered that the comparison would best be illustrated by taking an actual case and gave details of a study which was carried out in respect of the

Q. 1035 and
Committee
File 1973/4

Department of Health.

194. It appears that in 1969 the Department of Health estimated that the capital and other costs which could be identified and associated with those functions which C.U.D.N. would replace were as follows:

Committee
File
1973/4

Initial capital outlay	\$641,000
Maintenance charges	\$37,200 p.a.
Line and Modem charges	\$112,900 p.a.
Programming	\$20,100 p.a.

The total outlay over a 10 year period would therefore have been in the vicinity of \$2.74 million on \$234,000 p.a.

195. However, C.U.D.N. could provide additional features not covered in the above figures:

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1973/4

Reliability

C.U.D.N. uses duplicated processors, one on-line and one on standby ready to take over automatically. The proposed Health single user system, for economic reasons, was not based on duplicated processors. In addition, C.U.D.N. provides duplication of the other main elements of the system. C.U.D.N. is protected against power failure by the use of no-break power plant, whereas the Health proposal was based upon the use of commercial power.

C.U.D.N. also provides a greater degree of protection against line failure because of the greater number of connecting circuits with route diversity between centres, any of which can carry Health traffic.

Facilities

C.U.D.N. provides for the switching of traffic as authorised between Government Departments using the Commonwealth format developed for this purpose. The Public Service Board places considerable value on this feature of the system.

C.U.D.N. provides extensive storage for customer traffic in the event of failure of the customer data processing computer. This feature "CCU held traffic" permits Health data entry station operators to continue to work even though the data processing computer may fail for some hours. The single user Health proposal did not provide this function.

C.U.D.N. also provides for more comprehensive customers sub-network controls than could be economically provided in a single user system, e.g. retrieval capability, command features to alter traffic flow on traffic routing arrangements.

The Post Office operates a supervisory control facility with its own staff which backs up and can directly undertake sub-network control under certain circumstances giving greater protection to customer sub-network traffic.

196. We were told that the agreement with Department of Health provides for a charge of \$240,000 a year for the first five years, variable according to any additional terminals needed and to a variation of more than 5% in the estimated Health traffic. Bearing in mind the additional reliability and facilities provided under C.U.D.N. the Department considers that this charge compares favourably with the outlay avoided by Health.

Committee
File
1973/4

• Forward Financial Prospects

197. At the hearing on 30 November 1973 the Committee questioned the Department on the likely financial outcome of C.U.D.N. The Department pointed out that there would be a considerable degree of uncertainty surrounding any forward estimates prepared due to the number of assumptions that would have to be made. Because of

Qs. 967,
971 to 973,
987 to 992
and 1034
and
Committee
File 1973/4

this uncertainty the Committee did not press for an up-to-date study to be carried out. However, since that time a study covering a 16 year period has been completed which gives an indication of the possible range of future financial results. A summary of the study, prepared by the Department, has been supplied to the Committee. The summary, which incorporates revenues and costs to March 1974 is set out in Appendix D.

198. The latest study shows that C.U.D.N. would be earning an annual profit by 1981-82. There would still be a relatively small accumulated loss of \$2 million at the end of the first 16 years of the data network service but the Department has pointed out that revenues are of such magnitude that these losses should be quickly eliminated. The Department has emphasised that although this latest assessment should probably be correct within \pm \$2 million there are considerable uncertainties involved in some of the assumptions made for the purposes of the study.

Committee
File
1973/4

199. As part of the above 16 year study, the Department made an assessment of the estimated revenue and profit foregone by the Post Office because of delays by the contractor UNIVAC. Details of this assessment are also given in Appendix D. The Department has stated that with the proviso that the assessment is also subject to considerable uncertainties on the assumptions made, it indicates that if there had been no delay, the data network service may have earned an annual profit three years earlier than is now considered likely (1978-79 in lieu of 1981-82), the accumulated losses would be offset by accumulated profits by 1983-84, and at the end of the 16 year study period the Post Office could have made a profit of about \$10 million from the service instead of the \$2 million loss estimated in the revised financial assessment. The conclusion can be drawn, therefore, that the

Committee
File
1973/4

delay may have adversely affected Post Office profits to the extent of about \$12 million.

200. The Department has informed the Committee that intensive studies are being pursued in a number of areas in order to achieve a better financial result than that shown in Appendix D, which the Department considers is not entirely satisfactory. These studies are:

Committee
File
1973/4

1. A study of changed configuration of the initial service offering to limit maintenance and operating costs which have been seriously affected by wage rises since 1970.
2. Further study of the staffing of data network service centres to contain maintenance costs which are too high relative to earnings particularly in the early years.
3. A study of service offerings having greater generality and with the more complex functions performed in customers' data terminal equipment rather than the communications network. (The initial service is tailored closely to particular customers' requirements. Further additions of new customers using current techniques is unduly protracted, and this delays revenues.)

Conclusions

201. The evidence shows that as far back as 1967 the Australian Post Office was aware of the need to develop a system such as the C.U.D.N. to meet the growing demand for data transmission facilities, including the provision of facilities that would meet the future needs of Australian Government A.D.P. systems.

202. Following studies made by the Post Office in the period 1967-1969, approval was given in mid-1969 for tenders to be called for C.U.D.N. and the main contract was awarded to the UNIVAC Division of Sperry Rand Australia on 21 September 1970.

203. In the original contract the acceptance date for the first centre, Brisbane, was 17 November 1971, but due to the considerable slippage on the acceptance dates specified in the contract, the contract was amended on 26 April 1973 to provide for new completion dates with the first centre (now Melbourne) to be accepted by the end of May 1974 and the others to follow within a few months. At the time of the inquiry the Post Office did not expect the new dates to be met.

204. Although the C.U.D.N. project had a high developmental content and therefore technical problems and consequent delays were likely to occur, the Committee feels that the delay, which could approximate 3 years, is far greater than should have occurred. The Committee believes that the period of delay could have been appreciably shortened had the Post Office made representations to the Sperry-Rand Company in New York for additional technical support as soon as it became apparent that insufficient resources were being used by UNIVAC Australia to develop the C.U.D.N. system.

205. The Committee also considered whether a further period of research by the Post Office to allow a more definitive detailing

of the technical specifications and operational requirements in the purchasing schedule could possibly have shortened the delays or reduced the cost of the project. The Committee is inclined to the view that further research would have had very little effect on the delays or the cost as it seems from the evidence that most of the problems that arose as the project developed would not have become evident during a further research period. The Committee is also mindful of the fact that it was necessary for the Post Office to know what facilities were offering from tenderers before the detailed system specification could be written into the contract.

206. The Committee examined carefully the evidence presented by the Post Office relating to the awarding of the contract to UNIVAC Australia and concluded that a proper evaluation of the tenders was made and the decision to award the contract to UNIVAC seems to have been the correct one based on the information available to the Post Office at that time.

207. The Committee notes that the existing C.U.D.N. tariff schedule has been increased by 5 per cent to reflect some of the higher costs encountered since 1970 and that this does not affect the special pricing agreements with the initial customers for the first five years. The agreed charges for the initial customers were apparently related to the estimated cost of developing single user systems for the customers and not to the estimated capital and operating costs of C.U.D.N. which, at that stage, were difficult to assess.

208. Although the Committee understands why it was necessary to assess charges this way initially, the Committee feels that the Post Office should have left room for later negotiation on the charges when it became possible to estimate accurately the capital and operating costs of the system. The Committee also feels that 5 years was too long a period to have agreed charges for such a system without having some provision for review over that period other than variations related to additional terminals and volume of traffic.

209. The Committee notes that the 16 year study carried out by the Post Office indicates that the delay in implementing C.U.D.N. may have adversely affected Post Office profits to the extent of about \$12 million and that intensive studies are being pursued in a number of areas in order to achieve a better financial result. It is, of course, of considerable concern to the Committee that the delay could result in the foregoing of \$12 million profit to the Post Office and the Committee hopes that the studies being pursued by the Post Office will achieve a better financial result.

210. The Committee also notes the statement by the Post Office that in the event of the system not meeting the full contractual specification but nevertheless being acceptable as a working system, a reduction in price would be negotiated with the contractor and in the event of the system being sufficiently outside specification so as not to be acceptable as a working system, the Post Office has indicated to the contractor that it proposes to determine the contract and claim against the contractor for losses suffered by the Post Office.

211. The Committee wishes to be informed, in due course, whether the system did finally meet the full contractual specification and, if not, what has been the result of the negotiations with the contractor.

CHAPTER 6

DEPARTMENT OF SUPPLY

(Now the Department of Manufacturing Industry)

Payment in Advance for Supplies

212. The Auditor-General in paragraph 315 of his Report for 1972-73 stated:

Parl. Paper
159 of 1973

"Payments in advance for supplies - Expenditure charged to Division 737 - Machinery and Plant in June 1973 included advance payments totalling \$31,071, representing 60 per cent of the total contract price for five forklift trucks ordered in March 1973 but not delivered by the close of the financial year. If the payments had not been processed on or before 30 June the funds available under the appropriation would have lapsed at that date in conformity with section 36 (1.) of the Audit Act.

It appeared from audit inquiries and examinations of the related accounts and records that the contracts had been amended towards the end of June to enable, subject to the provision of a bank guarantee, advance payments to be made to the contractor against funds currently available; the bank guarantee required under the contracts, as amended, was not provided until July; and the cheques drawn in favour of the contractor were retained by the Department until the required bank guarantee was received.

As these transactions appeared to be contrary to the provisions of section 34 of the Audit Act and Treasury Directions, the Department's advice was sought by my Office on their propriety and the apparent breaches of statutory provisions.

According to the Department, the responsible District Contract Board, before approving the advance payments had carefully examined relevant departmental documents and obtained further information on the operational need for the trucks and the action taken by the contractor to minimise the delay in delivery time. It was the view of the Department that the Board had acted with complete propriety. Explanations relating to the certification of the accounts and the retention of the cheques were being obtained.

The Department's comments have been noted but Treasury Directions require that payment shall not be made in advance of satisfactory performance unless it is provided for in the contract; and that contracts shall not provide for advance payments merely to avoid the lapsing of an appropriation."

• Operational Need

213. The Department informed the Committee that two fairly recent developments in the Department's transport operations created an urgent operational need for five fork lift trucks. These developments, which caused the Department to seek prompt delivery of the fork lift trucks, were:

Exhibit
150/12

- (a) The introduction of sea freight containers for Government cargo between London and Sydney and Melbourne in April/May 1973.
- (b) The introduction of road-rail containers to inland transport of Government cargo in May/June 1973.

214. The Committee was told that the Department had prior knowledge of the impending changes in transport operations and had made an assessment of its equipment requirements. Two fork lift trucks, which were already in use, were considered suitable for use in the new operations and it was planned to add to the equipment during the 1972-73 financial year.

Qs. 1059
and 1060

215. The witness told the Committee that when the new operations actually started in May, it was found that the rate of flow for the sea freight containers was higher than expected and in addition one of the two fork lift trucks which the Department had intended to use became unserviceable. These circumstances caused unexpected pressure on the Department's resources which resulted in:

Exhibit
150/12 and
Q. 1060

- (a) The use of "slippers" on fork lift trucks.
(Slippers are attached to the tines on fork lift trucks to increase the lifting area but present some safety risks)
- (b) The hire of equipment where available and at additional cost.

- (c) The improper use of trucks in containers with some safety risk and consequent damage to container floors.

• Contract Details

216. The Department stated that in response to two procurement demands, one dated 5 September 1972 and the second 29 November 1972, the Contracts Branch, Sydney called for tenders providing for alternative quantities of two or five fork lift trucks. Tenders closed on 14 December 1972. Four tenders were received of which Hyster Australia Pty. Ltd. was the lowest suitable tender. One lower tender was received but it was passed over because the trucks failed to meet the specifications in two very important features, lift and aisle width. The witness told the Committee that the tender documents stated that delivery of the trucks was required as soon as possible - no specific date was mentioned. The witness said that this type of delivery requirement is quite common in tenders particularly where urgent delivery is desired. Qs. 1061 to 1065

217. The departmental submission stated that two contracts were arranged with Hyster Australia Pty. Ltd. for the supply of 5 fork lift trucks - 4 to be delivered into the departmental store in Melbourne and 1 into store in Sydney. The respective contract prices were \$41,428 and \$10,357. In each instance the contractor's tender provided for delivery to be made 12 weeks from receipt of the contract. As the contracts were placed on 28 February 1973, they should have provided for delivery by 24 May 1973 but the delivery date in each contract was inadvertently shown as 30 April 1973. The witness told the Committee that this was a simple error made in calculating 12 weeks from 28 February. Exhibit 150/12 and Q. 1066

218. The Committee was informed that because of the urgent requirement for the trucks a great deal of pressure was exerted on the contractor to obtain delivery as soon as possible. However, by mid-April 1973 it had become apparent to the Department that the contractor was unlikely to meet the 24 May delivery date owing to Exhibit 150/12 and Qs. 1070, 1071, 1076 to 1078 and 1082

the late arrival of masts and carriages from overseas. The contractor was pressed by the Department to take all possible steps to minimise delivery delays and the firm undertook to assemble the trucks as far as possible so that when the masts and carriages were received, final assembly and testing could proceed quickly. It was explained to the Committee that assembly of the trucks would not normally have started until all the required parts and components were on hand. The departmental witness said that the masts and carriages actually arrived in Sydney on 2 June 1973 but owing to a demarcation dispute on the waterfront, which commenced on 5 June and ended on 29 June, delivery of the parts to the contractor was not made until 19 July 1973.

219. It was stated that an oral approach had been made by the Company to the Contracts Branch, Sydney on 20 June 1973 to ascertain whether an advance payment could be made before 30 June. The contractor in giving reasons why the request was being made, mentioned the extreme pressure which was exerted on the Company by the Department to expedite delivery. This led to a decision by the Company to perform the partial assembly of the trucks, which meant an outlay of considerable funds by the contractor that could not be recovered until the dispute at the wharves had been resolved, the overseas components delivered and the assembly of the trucks completed. The company also expressed concern that it would be unable to deliver the trucks and receive payment in time to include the transaction in its 1972-73 fiscal report to its overseas principals. Confidential commercial information was presented to the Committee which showed, to the Committee's satisfaction, that it was extremely important from the Company's viewpoint that an advance payment should be made. The Company was advised orally that its request should be put in writing and that to have any chance of consideration, it should indicate the Company's willingness to lodge a bank guarantee as security.

Exhibit
150/12 and
Committee
File 1973/4

220. The Committee was advised that the Company made written application to the Department on 22 June 1973 in which the Company confirmed arrangements regarding the bank guarantee. After receipt of the firm's written application, the Department's New South Wales District Contract Board considered the matter on 27 June 1973 and approved that the contracts be amended to provide for an advance payment of 60 per cent of the value of the two contracts, which amounted to \$31,072, subject to the lodgment of a bank guarantee for that amount. The Board was informed on 21 June that technical officers of the Department's Stores and Transport Branch had examined the part-assembled trucks on 19 June and had certified that they were 60 per cent completed and that all parts except the imported components were held adjacent to them.

Exhibit
150/12 and
Q. 1102 and
Committee
File 1973/4

221. When questioned on the legal basis for amending the contracts, the departmental witness informed the Committee that Section 8 of the Supply and Development Regulations specifically states that the Minister may make contracts or agreements in connection with the production and supply of goods and vary any contracts or agreements, including existing contracts or agreements. Under Section 37 of the Regulations the District Contract Board derives its authority from the Minister for Supply and within its delegation - or where it is above that delegation, through the Central Contract Board in Canberra - it is authorised to exercise any of the powers or functions delegated by the Minister, including the right to vary any contract. The witness stated that it is not uncommon to amend contracts to provide for advance or progress payments, even though the original contract makes no such provision. In such cases requests for advance payments are usually due to circumstances beyond the control of the contractor.

Qs. 1083
and 1098

222. The Committee was told that the New South Wales District Contract Board did not record in detail the reasons for its decision, the papers were simply marked "Approved". The witness said that although this particular case has now become important because of the Auditor-General's query, it would not have been regarded at the time as being of sufficient importance to warrant any elaboration

Qs. 1099
and 1122

of the Board's decision. The Audit Observer, Mr Scott, suggested that there could be definite advantages if the Contract Board were to record very briefly its reasons for giving approval in two categories, firstly, where it is a variation not provided for or authorised by the contract itself and *secondly* when a payment is made very close to the end of the financial year.

223. The Chairman of the N.S.W. District Contract Board informed the Committee that the Board had given the fullest consideration to the proposal to make an advance payment to the contractor and had clearly recognised that no advance payment could be made purely to achieve budgeted expenditure. He said that a copy of Staff Circular C 60, which makes special mention of the Treasury attitude to making advance payments in order to use up potentially unexpended funds, was submitted to the Board with the papers. Paragraph 4 of the Circular states:

Exhibit
150/12 and
Qs. 1093,
1099, 1100
and 1122

"It is to be clearly understood that any proposal to make payments either in advance of the time at which they would be due under the contract or earlier than they might reasonably be expected to become payable under the normal practices of the firm or industry concerned requires to be examined critically. Where such a proposal appears upon examination to be primarily a means of having moneys spent within a financial year it is to be rejected."

He assured the Committee that the fact that there were unexpended funds had not influenced the Board in any way and stated that the Board's approval had been given to the payment because of the Company's efforts to meet the Department's urgent operational need which had placed the contractor in a very difficult financial situation. He pointed out that there was no question of payment being made in advance of manufacture as work commensurate with the progress payment had been done and had been verified.

. Details of Payment

224. The Department stated in evidence that the departmental accounting officers at the Stores and Transport Branch were advised on 28 June by telephone that the District Contract Board had approved the advance payment to the contractor subject to the Company lodging a suitable bank guarantee. The Accountant at the Stores and Transport Branch then made arrangements with the Sub-Treasury that, subject to the Company providing a letter of authority, cheques for the amount would be drawn which would be held by the Branch until the Company lodged the bank guarantee. According to the evidence given the Accountant then telephoned the Contracts Branch to make sure that the arrangements made would not abrogate the Board's approval. The following teleprinter message was sent on 28 June 1973 from the Contracts Branch to the Stores and Transport Branch:

Exhibit
150/12 and
Qs. 1110 and
1113

"Re the orders. Confirming the telephone conversation. The Board has approved progress payment of 60 per cent of the total value of each order subject to the company lodging a suitable bank guarantee. In view of the restricted time for the company to submit a guarantee, this office agrees that the Board's approval will not be abrogated if the cheques are drawn by S. and T. on written authority from the company, and are not released to Hyster until the company lodges a guarantee to the satisfaction of the Contracts Branch. On the question of the guarantee it is likely to be lodged 29.6.73."

225. The Committee was told that a letter was received from the Company, signed by the Managing Director, giving authority for the Department to hold the cheque made out in favour of the Company, pending receipt by the Department of the bank guarantee. Acting on this advice a Treasury Form 12 was certified and forwarded to the

Exhibit
150/12

Sub-Treasury together with a written instruction for the Sub-Treasury to hand the cheques to a particular officer of the Stores and Transport Branch. On receipt of the cheques from the Sub-Treasury they were retained in the Receiver of Public Moneys safe until teleprinter advice was received from the Contracts Branch advising that the bank guarantee had been received.

226. It was explained to the Committee that although the contractor fully intended to have the bank guarantee completed and lodged with the Department by 29 June, because of a chain of circumstances the Contracts Branch did not receive it until 13 July. A teleprinter message was sent immediately informing Stores and Transport Branch that the bank guarantee was held and payment could be made. The Committee was told that the contractor had picked up the bank guarantee form from the Contracts Branch on 28 June and took it to the suburban branch of the bank where the company had its account with the object of having it completed by 29 June. However, the bank's head office approval was necessary and despite the best efforts of the company and the bank it was not approved until 5 July. It was then incorrectly posted to Stores and Transport Branch and finally arrived at the Contracts Branch on 13 July.

Qs. 1111
and 1112

227. The Department's submission stated that at no stage were the funds of the Commonwealth placed in jeopardy. It then went on to state that, "It does appear, however, that the responsible accounting officers relied rather heavily upon extraneous advice and could have been more mindful of their responsibilities under the Audit Act." When questioned on this statement the departmental witness said that the Department was referring to the responsibilities of Certifying Officers under section 34 of the Audit Act, where they are required to ensure that an account is correct in every particular. He stated that arising out of this case, the accounting officers concerned in the Stores and Transport Branch have been specifically reminded of their responsibilities in a letter sent to their Manager in the form of an admonishment. Two paragraphs of this letter were quoted to the Committee:

Exhibit
150/12 and
Qs. 1115,
1116, 1118
and 1121

"Also, your accountant acted without due recognition of his responsibilities in instructing the O.I.C. General Accounts to certify the account, and to arrange for the collection and retention of the cheque, in contravention of Treasury Regulation 111 and Treasury Direction 27(2)."

and the last paragraph

"Would you please make sure that the seriousness of these actions is appreciated by all concerned."

228. The Committee was informed that in addition a circular memorandum was sent throughout the Department on 18 October 1973 which stated:

Q. 1116

"The purpose of this memorandum is to remind all officers connected with payment of accounts and funds management duties of the importance of their obligations to comply with the Audit Act, Treasury Regulations and Directions issued by Treasury and this Department under Treasury Regulation 127 (a). It is to be accepted that accounting officers have a statutory responsibility to ensure that the law is carried out and that departmental performance is above reproach in these matters. Therefore, they cannot agree to pass for payment any account which does not meet the prescribed requirements. It is quite improper to achieve expenditure targets by taking unauthorised actions which contravene the Audit Act or associated regulations and directions."

229. The Audit Observer, Mr Scott, said that he felt that the Department of Supply, in this instance, had taken adequate steps to bring the irregularities to the notice of all concerned, and had done its best to prevent a repetition.

Conclusions

230. The Committee is satisfied from the evidence presented that the New South Wales District Contract Board had not approved the advance payment to the contractor in order to avoid the lapsing of an appropriation and considers that the Board acted quite properly in its consideration of the request by the contractor.

231. Regarding the actual payment to the contractor, the Committee agrees with the departmental witness at the inquiry that the accounting officers acted improperly in the certification of the accounts and the retention of the cheques on behalf of the contractor pending receipt of the bank guarantee. The Committee notes and approves of the steps taken by the Department to bring the circumstances of the payment to the attention of the officers concerned and to officers in other Branches.

232. The Committee considers that there is merit in the suggestion by the Audit Observer, Mr Scott, that the Contract Board should record very briefly its reasons for giving approval in those cases where it is to cover a variation not provided for or authorised by the contract itself and when it authorises a payment to be made very close to the end of the financial year.

CHAPTER 7

DEPARTMENT OF WORKS

(Now the Department of Housing and Construction)

(a) Australian Capital Territory - Payment in Advance for Supplies

233. In paragraph 290 of his Report for 1972-73 the Auditor-General stated:

Parl.
Paper 159
of 1973

'Expenditure charged by the Department of Works in June 1973 to Division 656 - Department of the Navy - Buildings, Works, Fittings and Furniture included an advance payment of \$180,000 to a contractor in relation to equipment to be supplied for incorporation in works being carried out at H.M.A.S. Harman in the Australian Capital Territory. At the date of the payment, the equipment had not been delivered to the Department.

From Audit inquiries and examination of the contract general conditions and specification, it appeared that payments for any materials and equipment not included in completed work or actually built in at the work site were limited to \$80,000 if not already taken into account in the making of progress payments.

In response to Audit representations in relation to the authority for the payment of \$180,000, the Department indicated that, for reasons beyond the control of the contractor, delivery of specific goods, to a value in excess of the \$80,000 referred to above, which were required for the works, had been delayed; the goods, however, were in Sydney at the time of the payment. By oral agreement with the contractor and on the lodgment of an unconditional bank guarantee for the full value of the progress payment, an amount of \$180,000 was paid. According to the Department, the Commonwealth's interests were safeguarded by the provision of the bank guarantee which was substantially reduced when the equipment was delivered to the site on 18 July 1973.

Following consideration of the Department's reply, my Office advised the Department that, as no evidence had been produced of approval of competent authority for any amendment to the contract, Audit was not satisfied that the payment of \$180,000, at least to the extent to which it exceeded \$80,000, was authorised in accordance with the provisions of the contract or was otherwise properly approved.

Treasury Directions provide that payment shall not be made in advance of satisfactory performance unless it is provided for in the contract.'

234. The Committee was informed that expenditure incurred by the Department's Regional Office in the A.C.T. during 1972-73 totalled approximately \$56,000,000. The project at H.M.A.S. Harman - Belconnen Transmitting Station - was to provide a building to house an emergency generator and to supply and install a 1250 KVA standby diesel alternator, a new main switchboard and other equipment. The Department decided to let separate contracts for the building works (an estimated 30 per cent of the project's total cost) and the supply and installation of the equipment, with the Department acting as the contracts co-ordinator.

Exhibit
150/2
and Qs.
220, 221,
230, 231
and 248

235. Tenders for the alternator were called on 25 March 1972, for the switchboard on 20 May 1972 and for the building works on 27 May 1972. The successful tenderer for the switchboard was to be nominated as a sub-contractor to the main mechanical contractor. The witness explained that the proposed mechanical and electrical works were similar in character.

Exhibit
150/2 and
Q. 248

236. The building works contract included preparation of engine beds and cable trenches for the installation of the alternator and associated equipment, the installation and successful testing of the new equipment, removal of the existing equipment and finally the completion of the building work. The contract was let to Twin City Builders Pty. Ltd. on 28 June 1972 for completion by 16 August 1973. The contract price was \$129,900, which was the lowest price tendered.

Exhibit
150/2
Q. 249
and Com-
mittee
File 1973/4

237. A notice of acceptance for the supply and installation of the alternator was issued to Automated Power Supplies Pty. Ltd. on 31 August 1972 for completion by 31 August 1973, and the sub-contractor for the switch-board, Baulderstone Electrical Pty. Ltd., was nominated to Automated Power Supplies Pty. Ltd. on 31 August 1972. The tender was for \$254,910, which was the lowest price tendered. The tender included a provisional sum of \$80,000 for the nominated sub-contract. On 5 October 1972 Automated Power Supplies Pty. Ltd. placed an order with Hawker Siddeley Brush Pty. Ltd. for the manufacture, in the United Kingdom, of a 1250 KVA standby diesel alternator and associated equipment for delivery early in 1973. By 1 November 1972 manufacture of the alternator had commenced.

Exhibit
150/2
Qs. 253,
255, 265
and 266,
and
Committee
File
1973/4

238. On 31 October 1972 Automated Power Supplies Pty. Ltd. advised that it had not been able to arrange for the security deposit required under the contract and subsequently, on 10 November 1972, the Department revoked its notice of acceptance. The witness explained that a security deposit (normally 6 per cent of a contract's value), in the form of cash, bonds or, more usually, a bank guarantee, indicates the contractor's intention to complete the contract, and serves to protect the Commonwealth's interest, e.g. if the contractor becomes bankrupt in the course of the contract, the security deposit can defray any extra costs later incurred by the Commonwealth to complete the works, or, if the Commonwealth has a claim against the contractor, the security deposit can be drawn on. A contractor is required to lodge a security deposit after receipt of the letter of acceptance and before the contract is signed. The deposit amount requested of Automated Power Supplies Pty. Ltd. was approximately \$16,000, but the company was said to be "unable or unwilling" to arrange a bank guarantee. The witness believed nevertheless that his Department's investigations of the company had been "good and sufficient."

Exhibit
150/2
Qs. 220,
254 and
256 to
260, and
Committee
File 1973/4

239. Negotiations commenced on 21 November 1972 with the next lowest tenderer, T.S.F. Engineering Pty. Ltd., which had submitted a tender which included, as an alternative offer, manufacture of an alternator by Hawker Siddeley Brush Pty. Ltd. The alternative offer, as amended, was for \$272,500, and a notice of acceptance was issued on 25 January 1973 for completion by 24 January 1974. The Department did not negotiate directly with Hawker Siddeley Brush Pty. Ltd.

Exhibit
150/2
Qs. 264,
266 and
268, and
Committee
File 1973/4

240. Boulderstone Electrical Pty. Ltd was re-nominated as the sub-contractor for the switchboard on 2 February 1973. The contract price of T.S.F. Engineering Pty. Ltd. was varied downwards, as the accepted tender for the sub-contract was for \$70,150, which fell short of the Department's estimate by \$9,850.

Exhibit
150/2
and
Committee
File 1973/4

241. The matter in issue between the Department and the Audit Office revolved on the interpretation of the general conditions and specifications of the equipment contract. The Department maintained in its submission that the contract met the requirement of Treasury Directions in that it did, in fact, contain provision for advance payment. Asked whether he considered the requirements of Treasury Direction 18/7D had been fulfilled, the witness answered that it was 'fairly marginal' and that there had been an 'exercise of judgment'. Treasury Direction 18/7D states:

Exhibit
150/2 and
Qs. 215 and
228

'Payment shall not be made in advance of satisfactory performance unless it is provided for in the contract. Contracts shall not provide for advance or progress payments merely to avoid the lapsing of an appropriation.'

242. The relevant terms of the contract were described to the Committee as follows:

Exhibit
150/2
Qs. 213,
216 and
217, and
Committee
File 1973/4

- Progress payments to be made at monthly intervals in respect of equipment after delivery on site. It was the Director of Works' responsibility to assess progress. Clause 29 stated:

'Unless otherwise provided in the specification, and subject to these conditions, the contractors shall from time to time, at periods to be approved by the Director of Works, be entitled to receive 95 per cent of the value of work done as determined by the Director of Works, and the Commonwealth shall retain the remaining 5 per cent.'

- Progress payments to be made only for work completed and actually built in at the site of the works (clause 2.09 of the specifications).
- Advance payments will not be made for materials, manufactured items, plant and/or equipment not built into and/or installed in the works except as indicated below for the diesel alternator set (clause 1.08 of the specifications).
- Advance payments were provided for in the contract, as there was specific provision for advance payments for the diesel alternator set (clause 1.08 of the specifications). The clause required that advance payments equal to the value, as determined by the Director of Works, of the materials, plant and equipment from time to time provided by the contractor for incorporation into the works would be made by the Commonwealth, upon the contractor's written application to the Director of Works, subject to conditions. The equipment must have been inspected and found to be satisfactory, subject to certain provisos. It was stated that 'the amount of the payments in advance that have been made by the Commonwealth and have not been taken into account in the making of progress payments shall not at any time exceed the sum of \$80,000.' The clause also provided that the contractor would lodge an unconditional bank undertaking for a sum equal to the amount of any advance payment made.
- Claims for payment to be made in writing.

243. In its submission to the Committee the Department stated that when the specifications were in preparation it was not known whether the equipment would be assembled in Australia or manufactured overseas and, as the equipment represented by far the greater proportion of the value of the contract, the Director of Works decided to include a clause to provide for advance payment should it be required. Provision for \$80,000 was made, which represented 80 per cent of the estimated cost of the alternator prime equipment. The limit on the Commonwealth's liability for advance payments in respect of this equipment was placed as a protective measure. The witness explained that the equipment could have been manufactured in any of a number of overseas countries where it could not have been inspected. It would have been difficult for the Department at this point in time to have predicted how much of the equipment would be manufactured overseas. The witness said that it was not unusual in contractual arrangements for progress payments to be made on equipment under assembly overseas. In the event, the equipment was manufactured in the United Kingdom, the opportunities for inspection were limited, and the final full cost was approximately \$130,000.

Exhibit
150/2 and
Qs. 212,
222, 223,
232 to 234
and 236

244. Prior to an expenditure review within the Department in April 1973 the mechanical contractor advised that the alternator would leave the Hawker Siddeley Brush Pty. Ltd. works in the United Kingdom on 16 April 1973 and be on site early in June. On 28 May the Department was advised that because of an industrial dispute in the United Kingdom the scheduled shipment had been missed and time lost. The equipment had left the United Kingdom on 10 May and it was expected in Sydney by 17 June and on site by the end of June. The ship in fact docked in Sydney on 26 June but, because of a work-stoppage which had been in effect since 28 May and which was not resolved until 11 July, the equipment was not able to be off-loaded. The equipment was eventually delivered on site on 18 July.

Exhibit
150/2
and Q. 211

245. The Department had become aware on 14 May that Hawker Siddeley Brush Pty. Ltd. were pressing the contractor for payment for the alternator set and had requested advice of the arrangements which the contractor intended to make with the Department in relation to the payment. Later, the contractor asked the Department orally whether a payment of \$180,000 could be made. The items in respect of which this payment was requested were valued at \$185,000, of which approximately \$130,000 represented the cost of the alternator prime equipment assembled by Hawker Siddeley Brush Pty. Ltd. Although the equipment was not on site the Department sent a cheque for \$180,000 to the contractor on 22 June. The contractor had not at this time paid Hawker Siddeley Brush Pty. Ltd. The payment of \$180,000 was said to be the second progress payment. (The first progress payment, for \$7,000, had been made in respect of an overhead travelling crane after it had been installed).

Exhibit
150/2
and Qs.
226, 273,
274, 277,
278 and
283

246. The main reasons presented to the Committee by the Director of Works to explain the reasonableness of his action, were as follows:

Exhibit
150/2 Qs.
212, 218,
220, 221,
224, 225,
227, 228,
245, 274,
281 and
284 to
297, and
Committee
File 1973/4

- It was known that the equipment had been manufactured and that it had been tested in the United Kingdom. The test sheets had been inspected, and the Department was satisfied that value existed for the full amount of \$180,000. Furthermore, bills of lading in respect of the equipment had been circulated, and the equipment was believed to be on board ship in Australian waters.
- The Director's main responsibility was to determine that there was value in the works, and the method by which payment came about was a side issue.
- Since the contract included a rise and fall clause it had been considered appropriate, and in the Commonwealth's interest, for all progress payments to be made to the full assessed value of the works.

- Prior to payment the Department had required from the contractor an unconditional bank undertaking for \$180,000. The arrangement ensured that, in the event that the Department had reason to call upon the contractor's bank to make payment, \$180,000 would be available and the Commonwealth's interest would be protected. (Following delivery on site of the alternator and some of the associated equipment the bank undertaking was reduced to \$35,000 on 26 July 1973).
- The Department makes progress payments only on condition that recovery can be made if the equipment paid for proves defective.
- All payments against contracts are in fact progress payments, i.e. not payments in full.
- There is no limit on the Director's authority to make progress payments. It was the Director's judgment that payment of \$180,000 was warranted in the circumstances that existed.
- There was express provision in the contract for 'advance' payment, at least to the extent of \$30,000.
- A contract is an arrangement between 2 parties, alterable to suit their mutual convenience. The achievement of the desired end is what is important. The Director took the view that, as one of the parties to the contract, he could seek to vary it.
- The Department could have delayed payment of the amount of \$180,000 until such time as the equipment was installed, but the contractor could have claimed that it had been unduly stringent in its administration of the contract,

and could have reacted, e.g. could have deliberately delayed completion until the last possible moment. The witness indicated that co-operation in the course of a contract is in the interests of both parties and that sometimes it is not desirable for the Commonwealth to be concerned only with the fine print of the written word.

247. The Audit Office took the view that the written provisions of the contract, of which the specifications were an integral part, had not been fully complied with. The Observer, Mr Parker, said the Office was not satisfied that the second payment to the contractor, to the extent that it exceeded \$80,000, had been authorised in accordance with the contract, and the Office knew of no conclusive evidence to show that there had been proper approval for the payment. Neither had the Audit Office seen any evidence which indicated that a written application for payment had been made by the contractor or that the equipment had been properly inspected, in accordance with the contract, by the Director of Works or his delegate. Q. 217

248. A point of contention between the Audit Observer and the witness at the public inquiry was the extent of the Director of Works' delegation from the Minister. After discussion, the Audit Observer, Mr Parker, accepted that the Director of Works' authority to accept a contract extended to \$200,000. In respect of the mechanical contract the Committee was informed that the Director had Head Office approval to enter into it to the extent of \$260,000. The Director's authority to vary any particular item within a contract was limited to \$2,000. Qs. 217 to 220, 237 to 243, 295 and 296, and Committee File 1975/4

249. The Treasury Observer, Mr Davidson, drew the Committee's attention to the nearness of the \$180,000 progress payment on 22 June to the end of the financial year, and queried whether the Department had made the payment with the purpose of avoiding a lapsed appropriation. Mr Davidson referred to Treasury Directions 18/7A and 18/7D which are aimed at the discontinuance of this practice. Both Mr Davidson and the Audit Observer, Mr Parker, also made reference to the Qs. 214, 228, 231 and 295

Committee's One Hundred and Second Report, which included an extract from the Treasury's submission to the Committee as follows:

"The Treasury is firmly opposed to:

- (a) payment of a claim before checks can be made to enable certification of the claim in terms of the Audit Act;
- (b) payment of a claim in advance of the time when the Commonwealth is contractually obliged to make a payment (e.g. by making extra-contractual progress payments or unessential advances to contractors);
- (c) the approval by a Contract Board to the acceptance of terms less favourable to the Commonwealth than a contract provides for (e.g. involving payment at an earlier stage of the transaction) merely as a device for avoiding unexpended appropriations; and
- (d) any other such devices to use up potentially unexpended funds."

Mr Davidson said that Treasury's insistence that funds should not be expended before really necessary was not intended to inhibit a Department's efforts to administer, or vary, a contract in the Commonwealth's interest. He stressed, however, that, in this particular instance, the funds which would have lapsed would have been re-voted in 1973-74 without any difficulty, to allow the Department use of an increased budget.

250. The witness indicated that the state of progress of any works is normally assessed jointly by representatives of the contractor and the Department. He conceded that a normal assessment was not carried out before the second progress payment was made and said that, in retrospect, the Department should not have made payment without prior receipt of a written claim. He stated nevertheless that he and his officers are aware of their responsibility to protect the Commonwealth's interest.

Qs. 221
and 279
to 281

251. The Committee was told that, although tenders had been let on time, the Department's schedule to co-ordinate the different contracts had been upset by 5 months. As the Department of the Navy was anxious for the alternator to become operational, the recovery of the lost time on the mechanical contract had been considered critical, and representations had been made to the contractor. When the decision to make the advance payment had been taken the possibility that the contract could thereby be expedited had been considered.

Qs. 220,
221, 226
and 267

252. The Committee was informed that the delay in the completion of the mechanical contract had seriously affected the building contractor, particularly as regards the completion of his contract following installation and testing of the mechanical equipment. The building contract had been delayed about 24 weeks because the Department could not supply the contractor with the drawings which would have enabled him to pour the concrete foundations. As the Department had failed to perform what it had promised, the question as to whether the Department would be liable to a penalty had been raised but, at the time of the Committee's inquiry in October 1973, not settled. The witness believed that if the mechanical contract could be expedited a penalty could be avoided.

Exhibit
150/2 and
Qs. 220,
226, 269
and 270

253. The building contract was to have been completed by 16 August 1973 but, with an extension of 18 weeks, the expected completion date was 20 December 1973. At the time of the Committee's inquiry the mechanical contract was 82 per cent completed, and the intended completion date was 24 January 1974.

Qs. 220,
226 and
267

Conclusions

254. The Committee appreciates the problems which beset the Department in relation to the mechanical contract - particularly that the contractor initially selected did not continue with his contract, that there were two separate causes of delay over which the Department had no control, and that the contractor exerted some pressure on the Department for payment of the \$180,000 in question. The Committee is also mindful that the bank undertaking protected the Commonwealth's interest, and that the payment in question was only a fraction of the \$56 million which the Regional Office expended in 1972-73.

255. The Committee is not satisfied, however, that there was a need to vary the terms of the contract, or that the oral agreement reached between the Department and the contractor constituted a proper variation. The Committee notes the Auditor-General's statement that no evidence had been produced to his Office of approval of competent authority for any amendment to the contract. In all the circumstances the Committee believes that the Department should not have made a payment to the contractor, at least to the extent of \$100,000, before the equipment was delivered on site, and that the Department should not have taken action without prior receipt of a written claim from the contractor. The Committee was also not satisfied that the equipment had been adequately inspected. The question as to whether the payment in contention was considered to be an advance payment or a progress payment made prematurely is not considered significant because the Department did not comply with the terms specified in the contract for making either progress or advance payments.

256. The Committee draws attention to the Treasury Observer's query as to whether the Department had made the

payment with a purpose to avoid a lapsed appropriation (of the amount in question) at the end of the financial year. Treasury Direction 18/7D is again set out, as follows:

'Payment shall not be made in advance of satisfactory performance unless it is provided for in the contract. Contracts shall not provide for advance or progress payments merely to avoid the lapsing of an appropriation.'

257. The Committee commends the Department for its efforts to expedite the different facets of the project at H.M.A.S. Harman in its latter stages.

(b) Northern Territory - Accelerated Expenditure

258. In paragraph 290 of his Report for 1972-73 the Auditor-General stated:

Parl. Paper
159 of
1973

'The general conditions applicable to contracts for capital works arranged by the Department of Works have stipulated, among other things, that the contractor is not entitled to receive any progress payment in respect of work done or materials provided until the relevant Director of Works has certified that the work is done to his satisfaction; and, as appropriate, unless the contractor has furnished satisfactory evidence that all payments required to be made by the contractor to nominated sub-contractors have been made.

Audit examination of expenditure accounts processed by the Department's Northern Territory Region in June 1973 disclosed that amounts totalling in excess of \$1,700,000, had apparently been charged, in breach of the requirements of the Audit Act and associated directions, to various appropriations in 1972-73. Some of the accounts which related to payments to contractors had been certified as correct within the meaning of section 34 of the Audit Act on the basis of estimates prepared during June of the value of work to be completed by 30 June but apparently without an appropriate certification of the performance of the services; and, in other cases, without proper evidence that nominated sub-contractors had been paid, as required under the general conditions of contract.

Cheques relating to the abovementioned payments, together with other cheques, totalling in all approximately \$2,000,000, had apparently been obtained from the Sub-Treasury Paymaster during June and held by responsible officers of the Department of Works for periods of up to several weeks extending, in many instances, into July 1973. No evidence that very exceptional circumstances existed, as required by Treasury Directions, to justify the delivery of the cheques to other than the payees, has been made available to my Office. In some instances it appeared that cheques were released subsequently to other departmental officers but no evidence was produced that the cheques were given or forwarded to the payees.

The Department's comments were sought by my Office and attention was drawn to the Treasury's guidelines circulated in June 1971, which reminded departments that payments to creditors should not be accelerated unnaturally in order to make expenditure more nearly fit the estimate.

At the time of the preparation of this Report, final detailed comments had not been received from the Department but it had advised that an investigation was being undertaken.'

259. Following receipt of memoranda from senior officers of the Auditor-General's Office dated 7 and 8 August 1973, the Department on 17 August initiated a committee of inquiry of 3 officers from other Regions to investigate and report on all aspects of the matters raised by the Audit officers. The 3 members of the committee were the Chief Internal Auditor, Head Office, the Area Manager (Architect), Victoria/Tasmania Region, and the Accountant, Queensland Region. The committee assembled in Darwin on 21 August and, for 5 days, officers who had been concerned with the transactions were interviewed, and all relevant documents and vouchers were examined. The committee presented its report to the Department on 10 September and, on 13 September, the Department supplied this Committee with a copy of the report.

Exhibit
150/3
and Qs.
301, 302
and 309
to 311

260. At a public hearing on 6 November, this Committee was informed that the Department's Head Office had accepted the report as an important factual document prepared by very senior officers of the Department in an independent capacity. Head Office accepted all but some of the minor points to come out of the report, and was concerned that breaches of certain statutory requirements and Treasury directives had occurred. The need for remedial action was realised, but it was believed that the report disclosed no evidence of any form of malpractice. The Departmental witness indicated that misplaced zeal on the part of officers in the Region had contributed to the breaches.

Q. 301

261. The contents of the report, and further explanations provided to the Committee at the public hearing, are summarised below:

262. In common with the practice in other Regional Offices, towards the end of a financial year the Darwin Office maintained a continuing review of expenditure against each appropriation and of payments against projects, to ensure that contractors were fully paid from a current year's appropriation for work performed in that year. It was intended that the maximum amount payable for completed work should be brought to account against each appropriation.

Exhibit
150/3
and
Q. 312

263. On 8 June 1973, the Works Budgeting Officer, in his report to the Director on expenditure achieved by the Region as at 31 May pointed out that, in order to achieve the Region's target for 1972-73, every effort would need to be made to increase the rate of expenditure. To achieve the Region's target as revised in April, the balance to be spent in June was \$8.875 million. The Director and Assistant Director of Works (Construction) were vitally interested in the rate of expenditure in the Region over the last few months of the financial year, as they had to make a judgment about the Region's ability to achieve even greater expenditure in 1973-74.

Exhibit
150/3

264. At the public inquiry, the witness said that work is not quickly accelerated in order to spend an appropriation, but rather that efforts are made to bring items to account more quickly. Pressure is kept on contractors constantly and not merely towards the end of a financial year. A problem faced in the Region is the occurrence of a wet season which has its greatest effect on construction projects during February - April, i.e. towards the end of the financial year. Contractors make efforts to shelter works from the weather during the wet season but it is not always possible, particularly for civil engineering works. It is difficult to recover during May - June any expenditure lag which may have been due to a very wet season. Expenditure during February - April is typically about 40 per cent less than during August-October of the same calendar year. The expenditure lag in 1972-73 was greater than it had been for many years.

Qs. 312
to 317,
326 to
330 and
332

265. In a supplementary submission to the Committee the Department provided monthly expenditure figures for the Region, as follows:

Qs. 318
to 325
and
Committee
File
1973/4

	<u>\$000</u>	<u>per cent</u>
<u>1972</u>		
July	5,122	6.8
August	5,835	7.7
September	5,275	7.0
October	6,320	8.3
November	6,312	8.3
December	6,519	8.6
<u>1973</u>		
January	6,200	8.2
February	5,025	6.6
March	6,142	8.1
April	5,596	7.3
May	7,707	10.1
June	9,864	13.0
	<u>75,917</u>	<u>100.00</u>

The average monthly expenditure was some \$6.3 million

266. The witness indicated to the Committee that the Regional Office's practice is for statements of expenditure on contracts to be produced weekly and, in more detail, monthly. Comparisons with calculated targets and against graphs prepared from typical past experience are prepared, and knowledge of relevant trends and special factors (e.g. labour availability and seasonal conditions) are applied. Separate analyses are made of expenditure on previously committed works (i.e. the re-vote, which normally accounts for about 80 per cent of expenditure) and of current new works. Shortfalls on estimates, and expenditure over anticipated levels, come to the notice of senior officers. The witness said that all staff in the Office are enthusiastic to achieve optimum expenditure results in the Region, and pressure to achieve

Qs. 331
and 333
to 338

targets is self-imposed throughout the year. When required, pressure is placed on contractors to meet schedules.

267. The Construction Manager stated to the Departmental committee of inquiry that there were no specific or implied instructions to staff to estimate in advance, for the purpose of making payments, the value of work to be completed by 30 June 1973. He suggested that, if any such estimates were made, they would most likely have resulted from self-imposed pressures to achieve expenditure targets.

Exhibit
150/3 and
Q. 335

268. The committee of inquiry reported that the Regional Office had advised the local Chief Auditor that the vouchers in question fell broadly into 4 categories, as follows:

Exhibit
150/3

Category A: Payments where cheques could not have been passed on to contractors because of obligations of the Department to nominated sub-contractors.

Category B: Payments where contractors had requested that cheques be picked up and held by the Department for subsequent collection.

Category C: Payments where arrangements had been made for cheques to be held by the Receiver of Public Moneys pending confirmation by responsible officers of the assessment of work completed to 30 June 1973.

Category D: Payments for which cheques had been picked up in error.

269. After examination of the vouchers, the committee of inquiry considered that, in respect of the cheques stated to have been picked up in error (Category D), the relevant vouchers would have been classified more correctly under Category C. There were 2 cheques, one to a furniture store for \$1,800 and one to an individual for \$208. Regarding the first cheque, during a review of orders late in the financial year, a clerk in the Regional Office came upon an order, which had been placed with a Darwin furniture store,

Exhibit
150/3
Qs. 339
to 341,
348 to 351,
361, 374,
375 and
378

for curtains for Katherine Hospital. He checked with the store, discovered that most of the curtains were available for collection, and immediately prepared a payment for the store, care of the Receiver of Public Moneys. He neglected, however, to collect the curtains, and it was August before, on the initiative of the Receiver of Public Moneys, the omission was discovered. The Treasury Observer, Mr Maunder, queried whether the clerk had prepared an unwarranted progress payment in circumstances when, under the contract between the Department and the furniture store, payment was due only on completion of the contract. Regarding the second cheque, payment was processed in advance of full performance, but the Receiver of Public Moneys held the cheque until after 30 June. The reason for the unusual procedure was that it was hoped thereby to avoid hardship to an individual, employed on contract to operate the water supply at Larrimah, who depended on payment at a particular time. It was said that doubt about whether the Office would know Treasury's costing codes for 1973-74 early in July was a factor behind the unusual procedure. Mr Maunder, however, said that new costing codes are available to departments late in June. He could not appreciate that it was necessary for this payment to have been processed in June, and said that time could have been saved in any case had arrangements been made for the Sub-Treasury to send the cheque directly to the payee. In the event, as at 6 September 1973 the cheque was being held by an agent until it could be passed to the payee.

270. Another 3 payments, which had been included in Category A, were reclassified into Category C because the certificates were prepared for the value of completed work to 30 June.

Exhibit
150/3

271. A summary of the progress payments, cheques and amounts involved is set out below:

Exhibit
150/3

	<u>Progress Payments</u>	<u>Cheques</u>	<u>Amount (\$)</u>
Category A	18	17 *	1,051,847.91
Category B	19	16	297,291.02
Category C	37	34 *	732,288.48
	<u>74</u>	<u>66</u>	<u>2,081,427.41</u>

* One cheque is included in both Categories A and C as it covered 2 progress payments.

272. A further 2 cheques not included in the above table were repaid to the credit of the relevant appropriations. The amounts involved were \$30,000 and \$13,945.04. As the unexpended balances under the relevant appropriation items at 30 June 1973 were \$1,668 and \$6 respectively, there would have been expenditure without warrant authority if the cheques had been cashed. The Committee was told that, because it was falsely believed that funds were available, the vouchers were certified and sent to the Sub-Treasury for cheques to be drawn. The correct procedure would have been for the relevant entries to have first been made in the Office's Appropriation Ledger, when the state of the appropriations would have been discovered. It appears that this procedure was not followed in this instance as the vouchers were at the Sub-Treasury before the Appropriation Ledger entries had been made. The witness indicated that the Office's practice until 30 June 1973 was to filter vouchers to the Sub-Treasury through a clerk who maintained a personal check of expenditure levels but who was not part of the Appropriation Ledger section. The aim of this practice was to hasten the payment process. The dates on which the 2 vouchers in question were processed were 18 and 20 June.

Exhibit
150/3
and Qs.
342 to
346 and
353

273. It seems that the errors occurred because of the incorrectness of costing data on 2 other vouchers. Certain confusion and difficulty had arisen from the substantial changes effected on 1 April 1973 to the Department's

Qs. 342
and 347

appropriation structure, in that clerks in remote localities had to be made aware of the changes. The mistakes were detected when a clerk went to make the relevant entries into the Appropriation Ledger. Because of the lateness in the financial year there was no time for preparation of any application for funds from the Advance to the Treasurer. Fortunately, the cheques had not yet been typed out at the Sub-Treasury, and the Office was able to withdraw the vouchers.

Category A.

274. In this category, cheques were not passed on to contractors until proof, by way of receipts, had been provided that nominated sub-contractors had received payments due to them from previous payments to the contractors. The Departmental committee of inquiry, however, discovered several instances where more than one payment to a contractor had been processed (cheques to be held by the Receiver of Public Moneys) late in June 1973 in respect of the same project. At the public hearing the witness indicated to this Committee that the Regional Office had tried to expend its fund allocations as much as possible for work expected to be carried out during the year, and on occasions more than one payment had been made in June because of difficulty in knowing the extent of unexpended balances until towards the end of a round of Appropriation Ledger postings.

Exhibit
150/3 and
Q. 352

275. The Treasury and Audit Observers, Messrs. Maunder and Parker, expressed strong reservations about the Office's practice of preparation of payments before its establishment of contractors' entitlement under conditions of contract. It appears that payments to contractors had been prepared (but cheques held) before receipt of proof that sub-contractors had been paid. The prudence of the officers' anticipation was questioned. Mr Parker was concerned that, after initial preparation of the Department's approved expenditure vouchers (Form W74), certificates that section 34 of the Audit Act had been complied with had been prepared, payments authorised, and appropriations

Qs. 354 to
356

impacted in the Appropriation Ledger section. He was critical of the officers' anticipation beyond initial preparation of expenditure vouchers, and could see no reason for it other than the officers' desire to avoid lapsed appropriations.

Category B.

276. The Departmental committee of inquiry found that it was common practice in the Region for the Authorizing Officer to arrange with the Receiver of Public Moneys for the latter to hold cheques for contractors. The cheques were either marked 'Hold' or 'Care of the R.P.M.', and, from January to May 1973 inclusive, 129 cheques were so held. This practice arose from contractors' own requests, and was useful to contractors from remote localities who wished to avoid inordinate delays in the mail, or for smaller contractors with liquidity problems. As causes in the postal delays the witness instanced airline industrial disputes, heavy rain, staffing difficulties within the Post Office and incorrect sorting of mail. Relating to liquidity problems, the witness explained that officers appreciated the special problems which faced smaller contractors in the Northern Territory, e.g. their difficulty in securing labour, their need to import materials from interstate, and to place orders months ahead, and their dependence sometimes on receipts of a cheque for payment of their men on time. To ensure prompt payment, the Regional Office makes special efforts to hasten the payment process for particular contractors. Payment can be made in 1 - 2 days instead of a more usual 10 - 12 days. The committee of inquiry considered the practice whereby cheques were held by the Receiver of Public Moneys to be valid in the circumstances and within the competence of the officers involved.

Exhibit
150/3 and
Qs. 357,
359, 360,
363 to 367,
370 and 371

277. Relating to the physical safeguarding of cheques held by the Receiver of Public Moneys, the witness informed this Committee that they are kept in a strongroom under dual locks,

Q. 360 to
362

and, on instruction from the Authorizing Officer, the Receiver of Public Moneys identifies payees (or their agents) and obtains their signatures before he releases their cheques. In exceptional instances during 1973 payees did not come to collect their cheques, which were then posted as if no arrangements for collection had been made. No regular review of cheques held has been made previously, but a system has now been instituted.

Category C.

278. The Departmental committee of inquiry found that the arrangement that existed whereby the Receiver of Public Moneys held cheques for valid reasons was also used late in the 1972-73 financial year, by agreement between the Construction and Accounts branches of the Regional Office, to allow expenditure to be recorded either in advance of performance or in advance of proper certification. The agreement was that, to avoid actual advance payment, cheques would be withheld from contractors until confirmation by construction staff of the value of work done. The origin of this practice was said to be obscure.

Exhibit
150/3 and
Qs. 358
and 368

279. The Certifying Officer stated to the committee of inquiry that, towards the end of the financial year, he had been aware that some expenditure vouchers showed a value of work to 30 June 1973 and, when he had discussed this with his immediate superior (the Assistant Accountant (General)), he had been assured that there was no problem as no payments would be made in advance of work performance. The Assistant Accountant (General) confirmed this statement. At the public hearing, the witness indicated to this Committee that he was concerned that the Certifying Officer, who carried statutory responsibilities, had relied on the questionable advice offered.

Exhibit
150/3
and Q. 369

The witness further said that the Assistant Accountant Q. 369 (General) is an experienced, reliable officer who believed genuinely that the Commonwealth's interest was protected under the arrangement, which he therefore considered legitimate.

280. The Departmental committee of inquiry expressed reservations about some of the statements of certain construction staff. Reference had been made on certain vouchers to work estimated to be completed by 30 June 1973, but, in later discussion with the committee of inquiry, these construction staff stated that, in fact, the work had been completed on the date of their endorsement of the vouchers. The staff said that they either did not notice, or attached no significance to, the date 30 June 1973 which had been shown separately on Forms W74 or on supporting detail sheets. One works supervisor who was interviewed about a particular voucher admitted that he had endorsed the supporting break-up of trade valuations to the effect that work was estimated to 30 June 1973, but contended that his valuation had actually been to 14 June and that the purpose of his endorsement had been to ensure that no other payment would be processed in the same financial year. The committee of inquiry stated in its report that, in other cases, where more than one payment had been processed within a few days it had to be assumed that the earlier payment(s) had been over-conservative. The committee could not accept that all payments had been properly assessed at the time of certification of vouchers. The Audit Observer, Mr Parker, agreed with the committee.

Exhibit
150/3
and Qs.
376 and
377

281. The committee of inquiry found no evidence that any payment had actually been made in advance of supplies or work performed. The witness told this Committee that, after on-site inspection, construction staff would tell a project clerk when a particular cheque which had been held could be

Exhibit
150/3
and Qs.
370, 372
and 373

released; and, if the cheque was to be collected, the project clerk would tell the relevant contractor and would later introduce him personally to the Receiver of Public Monies, from whom he would receive payment. The voucher would be endorsed with a certificate from the works supervisor or the project clerk.

282. The witness believed that the Regional Office could have been over-cautious in its retention of cheques. He pointed out that sometimes payment is not effected for 6 - 8 weeks after the relevant stage of the works has been completed. When progress payments are paid monthly, work done early in the month may not be paid for, in favourable circumstances, for about 6 weeks, and if sub-contractors need to be paid or to acknowledge payment the period could be 8 weeks.

Q. 370

Requirements of the Audit Act, Treasury Regulations, Treasury Directions and directives:

283. The committee of inquiry found as follows:

Exhibit
150/3

(i) Section 34 of the Audit Act. Section 34(3.) requires that accounts shall not be certified for payment unless they are 'correct in every particular' and section 34(5.) provides that 'the correctness of every account in regard to rates of charge and faithful performance of the services charged shall be certified by the person incurring the expense.....' These provisions were breached in the case of the vouchers in Category C.

(ii) Treasury Regulation 45. This regulation determines the responsibilities of Certifying Officers under the Audit Act, and paragraph (1.)(c) provides that Certifying Officers shall ensure 'that the particulars of the claims are stated in such a manner as will admit of the calculations being readily checked'. The Departmental committee of inquiry took the view that it would not be sensible to accept that calculations

are in order for a period of time which had not expired. It was considered, however, that paragraph (1.)(a) of the regulation was not contravened. This paragraph provides that accounts to be certified shall be 'in due form'. The committee of inquiry held that, as the payment vouchers (Forms W74) were an approved variant of Treasury Form 12, and were filled in, the payments were 'in due form'. Stroud's Judicial Dictionary of Words and Phrases states that 'Where a statute says that a thing shall be "in the form" prescribed, that means that the form must be strictly and literally followed (Henry v. Armitage, 12 QBD 257)'. On the basis of Henry v. Armitage the committee believed that the Forms W74 did not contravene regulation 45 (1.)(a), even if all the facts contained therein were not necessarily correct in that some showed the date the work was completed to as a date in advance. (Q383 and Committee File 1973/4).

(iii) Treasury Direction 18/7D. There was no evidence that any payment had actually been made in advance of performance. The General Conditions of Contract used by the Department, which provide for progress payments on contracts, do not provide for advance or progress payments to be made to avoid the lapsing of appropriations.

(iv) Treasury Regulation 111(2.) and Treasury Direction 27/2. The regulation states that 'The Authorizing Officer may authorise the Paymaster to post or deliver a cheque to a person other than the payee' and the Direction states: '...The handing or posting of a cheque to other than the payee whose name appears on the cheque shall not be authorised unless there are very exceptional circumstances and unless, in the light of those circumstances, the Authorizing Officer has addressed in writing to the

Paymaster a specific direction giving reasons why it is considered desirable to depart from normal procedure.' The Departmental committee of inquiry considered that it was within the competence of the Authorizing Officer to determine these 'very exceptional circumstances'. In the cases in question there was no written record of any such circumstances, but the committee did not believe that this was required. In the Northern Territory Region, specific directions from the Authorizing Officer to the Paymaster (as described in Direction 27/2) were made on a local Sub-Treasury form which made no provision for statement of reasons. The committee of inquiry concluded that the Authorizing Officer had not conformed with the Direction, but had followed a local practice which seemingly was approved by the Sub-Treasury.

- (v) Treasury Circular 1971/10 The committee of inquiry found evidence that additional payments had been processed on contracts in order to make expenditure in certain appropriation Divisions more nearly fit the estimates, and stated that this was contrary to the intention expressed in Treasury Circular 1971/10.

284. In its report the committee of inquiry included a certificate (dated 6 September 1973) from the Department's Acting Senior Internal Auditor, which showed that all of the cheques in question had been received by the respective payees. This officer stated: 'During my investigation there was no evidence of any attempt to defraud the contractors in any manner'. Exhibit
150/3

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7. The exceptions were 2 which had been withdrawn and repaid to the Receiver of Public Moneys on 26 June 1973, and one to the individual who operated the water supply at Larrimah, whose cheque was being held by an agent until it could be passed to him. (Exhibit 150/5).

285. The committee of inquiry considered, however, that the practice within the Region whereby cheques were held by Accounts staff until collected by the payee or held by the Receiver of Public Moneys until collected by Construction staff, who would subsequently deliver or despatch them to the payees, was both unusual and undesirable. The practice continued during June and July, and some cheques were not released until late July or early August. Exhibit 150/3

286. At the public inquiry, the witness told this Committee that he considered the possibility of malpractice in the Region's procedures to be infinitesimal. He said that the cheques were marked 'Not Negotiable' and were order cheques, and even if one were stolen, and possibly cashed, the Commonwealth would not bear any loss. The Treasury Observer, Mr Maunder, however, said that 'Not Negotiable' account payee cheques are sometimes wrongly negotiated, and that, with the turnover of staff in the Region, it would be difficult to ensure that no member of staff would take an opportunity to negotiate a cheque not intended for him. His view was that the possibilities for temptation should be minimized. Qs. 308 and 378

287. A difference of opinion between the Departmental witness and the Audit and Treasury Observers which became apparent at the public hearing rested on the interpretation of Treasury Circular 1971/10. The witness considered that the inference of the Circular and of Treasury Direction 18/7A is that the Department should not generate claims for payment whereas, under the Department's own General Conditions of Contract,⁸ a Director of Works has authority to generate a claim if a contractor's statement has not been submitted. Reference was made to a memorandum of 30 March 1971 from the Qs. 380 and 387

8. The current set, which has operated from April 1973, was approved by the Minister for Works. (Q.385)

Treasury to this Committee, which stated: "It is our view that, except in the case of established periodical payments, or other cases where the terms of the arrangement or contract envisage payment without a claim, receipt of a claim from the creditor is desirable before payment is made. However, it cannot be said, as a general proposition, that a claim is required to be submitted by law or that it is essential, in every circumstance, in order to establish the correctness or propriety of a payment." The Department proposed a discussion with Treasury officers with a view to modification of Treasury Circular 1971/10 to accord with the above-quoted memorandum.

288. The Department's view was that procedural flexibility was desirable if due payments were to be made quickly. The Department seeks to make progress payments at regular intervals, usually monthly. It was said to be convenient sometimes for all concerned for the Department to prepare claims on behalf of contractors (particularly those with little command of English), and also for it to hold contractors' cheques, as was done in 1973, so that payment could be made quickly once proof of payment of nominated sub-contractors had been provided. A relevant factor in payment delays has been the number of nominated sub-contractors based interstate. The witness also pointed out to the Committee that better prices could be obtained if contractors could be sure of quick payment.

Qs. 379,
380 and
384

289. The Departmental committee of inquiry held the opinion that payments should neither be restricted to one per month if the work rate warranted more, nor need to wait on contractors' claims. It considered Treasury Circular 1971/10 too constrictive, particularly in circumstances where several contractors operated in the same remote locality, to which, in the likely event that accounts in respect of different jobs were rendered at different times, works supervisors could need to make separate time-consuming, expensive

Exhibit
150/3

trips. The committee of inquiry believed that if the Department initiated action on a regular basis then all jobs in one locality could be assessed during one trip.

290. The committee of inquiry stated its view, however, that the Department had gone beyond reasonable limits in recording expenditure when payment had not actually been made and, in some cases, in making 2 or more payments within a few days. The committee of inquiry believed it would not be unreasonable for the Department to review expenditure critically on a day-to-day basis towards the end of a financial year, to determine the latest date on which the last payment could be recorded in the appropriation ledger.

Exhibit
150/3

291. The Treasury Observer, Mr Maunder, told the Committee that Treasury Directions set out normal procedures and do not cover all possible exceptions. He said that Treasury acknowledges the particular requirements of the Department of Works, and, on account of this, a special Form W74 had been approved to cover progress payments. He explained that Treasury Direction 18/7A precludes action intended merely to be rid of an unspent appropriation but does not exclude preparation of a claim or payment of an account in the normal course of business where a claim has not been received. The occasional requirement of the Department for preparation of claims for progress payment by an officer after on-site inspection was acknowledged. Treasury did not share the Department's view about conflict between the Department's General Conditions of Contract and Treasury Circular 1971/10, whose main purpose was to introduce Treasury Directions 18/7-7D, and Treasury did not consider any amendment to the Circular necessary. Treasury would be prepared, however, to discuss the matter with the Department.

Qs. 381
and 388

292. Notwithstanding his other remarks, Mr Maunder said that it was sound general accounting principle that accounts should not be paid prior to receipt of claims, and added that

Qs. 381
and 392

the preparation of several progress payments in June, which is a busy month for a finance section in any case, can lead to unnecessary administrative work and overtime, and consequently considerable expense.

293. The Audit Observer, Mr Parker, said that his Office did Q. 392 not take as narrow a view of the Treasury Circular as the Department did, and agreed broadly with the Treasury that the Department's General Conditions of Contract and the Circular were not in conflict. Mr Parker referred to Treasury's memorandum of 30 March 1971 to this Committee as an instance of its flexible approach.

294. Mr Parker also informed the Committee that his Office Q.392 had reservations about the practice whereby cheques were withheld by the Sub-Treasury Paymaster and passed to the Department's Receiver of Public Moneys. It did not accept the practice as a norm, to be maintained as permanent. Mr Parker emphasised the words 'very exceptional circumstances' in Treasury Direction 27/2. He said that there may be some scope for a clearer enunciation of internal controls - e.g., whereby the Paymaster's cash book and/or the particular account in question are notated to the effect that a particular cheque has not been despatched but has been passed to an officer of the Department.

295. The witness informed the Committee that the practice Qs. 304 whereby cheques have been held (marked 'Not to be paid before to 307, 368 30 June') in anticipation of completion of construction and 389 to 391 before the end of the year has not occurred prior to 1972-73. The Audit Observer, Mr Parker, confirmed that his Office was not aware of similar situations in previous years.⁹ The witness conceded that it was neither 'a very good thing to do' nor 'really necessary'. Apart from staffing difficulties, which are a perennial problem in the Region, the only unusual problem in 1972-73 was the extent of under-expenditure.

9. The Departmental committee of inquiry examined 1,884 vouchers processed during the last 3 weeks of June 1972, and found no evidence of any instances similar to the ones for June 1973 which were queried by the Audit Office (Exhibit 150/3).

296. Improvements to the Department's financial procedures which have been effected, and which were made known to this Committee at the public hearing, were as follows:

qs. 303,
304 and
342

- A properly authorised certificate for work actually performed is required to be provided by the project clerk to the person signing as the officer incurring expense.
- A person signing as the officer incurring expense is required to satisfy himself that all payments due by a contractor to nominated sub-contractors in respect of previous progress payments have been made.
- Finance officers have been instructed in their responsibilities under the Audit Act and the Treasury Regulations and Directions.
- Treasury has introduced a new form ('Collect Cheque Authority') to cover the circumstances where cheques are made available to persons other than payees. The new form provides for reasons to be stated by the Authorizing Officer.
- Instructions have been issued which require the Receiver of Public Moneys, in respect of cheques held by him, to obtain acquittance from both the relevant construction officer and the payee.
- All vouchers are now posted to the Appropriation Ledger before being processed to the Sub-Treasury.
- A system whereby cheques held are regularly reviewed has now been instituted.

297. In addition, the Treasury Observer, Mr Maunder, informed the Committee that Treasury Direction 29/1 (Payment of Accounts Direct to Bank Accounts) was under examination with a proposal to amend it to provide for payments by the Sub-Treasury, in circumstances such as occur in Darwin, direct to bank accounts. It was hoped that such an amendment would assist contractors with liquidity problems and minimise their overdraft fees.

Q. 378

Conclusions

298. The evidence presented to the Committee discloses that the financial procedures of the Department's Regional Office in Darwin in 1972-73 were unsatisfactory in several respects. That the Department's Head Office had suspected the same is clear from its establishment of a Departmental committee of inquiry, an initiative which this Committee commends highly. The Committee also commends the committee of inquiry for its prompt action and comprehensive report.

299. The evidence does not disclose criminal malpractice but does indicate imprudence within the Darwin Office, as possibilities existed for fraud under the Office's financial procedures which could and should have been minimized.

300. It appears clear that sections 34(3.) and (5.) of the Audit Act and Treasury Regulation 45(1.)(c) were breached, and there must be suspicion that Treasury Direction 18/7A was not followed.

301. It was admitted freely that efforts had been made to increase the rate of expenditure in June 1973 to achieve the Region's target, and pressures were exerted on contractors. The

Office prepared a number of payments in June before it had established contractors' entitlements under conditions of contract, and in a number of instances more than one payment was made in respect of the same project. The expenditure in June was approximately \$9.9 million, which compared with the monthly average of approximately \$6.3 million. In these circumstances, and in view of the inability of the Departmental committee of inquiry to accept that all payments had been properly assessed when vouchers were certified, this Committee feels bound to conclude that the rate of payments had been deliberately accelerated in June 1973, counter to Treasury Direction 18/7A and the spirit of Treasury Circular 1971/10. A special disappointment must be expressed that the Departmental committee of inquiry was unable to accept unreservedly some of the statements made to it by certain staff of the Office.

302. The Committee notes that no payments were actually made in advance of performance, but is nevertheless critical of the practice whereby expenditure was recorded in advance of performance or of proper certification. The consequential procedures under which cheques were necessarily withheld were open to abuse, and the Committee queries whether any 'very exceptional circumstances' (as referred to in Treasury Direction 27/2) existed to warrant the procedures as a norm. The Committee cannot concur with the opinion that the Office could have been over-cautious in its retention of cheques, and is not satisfied that any of the special problems encountered in the Region justified the unusual procedures.

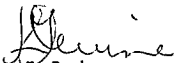
303. The Committee is most concerned that procedures followed within the Office to check on funds availability before payment were inadequate. The situation in which 2 cheques were about to be typed out at the Sub-Treasury when there were insufficient funds in the appropriations to cover them, should not have arisen; and would not, had entries been made in the

Office's Appropriation Ledger prior to submittal of the vouchers to the Sub-Treasury. The Committee draws attention also to the comments of the Treasury Observer, Mr Maunder, in relation to the preparation of payments for the Darwin furniture store, for curtains for Katherine Hospital, and for the individual employed to operate the water supply at Larrimah.

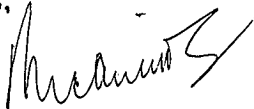
304. It became clear during the public hearing that the Department and the Treasury held views and took attitudes which in some sense conflicted. This was particularly so with respect to the interpretation of Treasury Circular 1971/10. The Committee notes that the Department proposed to discuss with the Treasury the apparent conflict between its General Conditions of Contract and Treasury Circular 1971/10 with a view to modification of the Circular. The Committee hopes that its inquiry has helped to resolve any misunderstandings.

305. The Committee notes with approval the various improvements stated to have been made to the Office's financial procedures.

For and on behalf of the Committee,



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



R.E. McAuliffe
Chairman

14 November 1974

CONTRACT CLEANING, RUSSELL OFFICES/LEASED PREMISES
DEFENCE GROUP DEPARTMENTS CANBERRA ACT
CROTHALL AND CO. (NSW) PTY. LTD.

A. Commencement of Contract on 1st November 1967 @
\$158,492.00 per annum or .27 cents per square
foot per annum. Total area 583,000 sq.ft.

Russell Building 1	57,000 Sq.Ft.
Russell Building 2	57,000 Sq.Ft.
Russell Building 3	57,000 Sq.Ft.
Russell Building 4	57,000 Sq.Ft.
Russell Building 5 (Maintenance/Storage Area)	6,000 Sq.Ft.
Russell Building 5 (Office Areas)	92,000 Sq.Ft.
Russell Building 6	88,000 Sq.Ft.
Russell Building 7	57,000 Sq.Ft.
EDP 1	33,800 Sq.Ft.
EDP 2	46,000 Sq.Ft.
BL 36 Sect 27 Fyshwick (Woollongong Street)	7,500 Sq.Ft.
BL 15 Sect 21 Fyshwick (72 Barrier Street)	8,000 Sq.Ft.
Endeavour House Manuka	16,700 Sq.Ft.
	583,000 Sq.Ft.

B. Areas Added to Contract after 1 November 1967
or deleted from Contract

<u>Date Added/Deleted</u>	<u>Building</u>	<u>Area</u>
11/12/67	Endeavour House Manuka	8000 Sq.Ft.
29/5/68	Russell Building 9	58000 Sq.Ft.
1/8/68	EDP Annex Kingston	3800 Sq.Ft.
12/4/69	EDP Annex Kingston deleted	3800 Sq.Ft.
27/8/69	JSSC Woden	2300 Sq.Ft.
1/9/69	Basement Russell Bldg 9 (JIB Area)	3000 Sq.Ft.

2/12/69	Breezeway Area Russell Building 5	3700 Sq.Ft.
11/12/69	Basement Russell Building 9	5900 Sq.Ft.
22/1/70	JSSC Woden - Variation Area	12736 Sq.Ft.
5/5/70	Joint Services Medical Centre	4300 Sq.Ft.
29/6/70	Russell Canteen Public Area	5200 Sq.Ft.
8/12/70	Russell Building 14 Added	97459 Sq.Ft.
14/12/70	Russell Building 11 Added	43350 Sq.Ft.
13/9/71	Audio Visual Centre Fyshwick	6000 Sq.Ft.
6/10/71	EDP 1 Additional Area Computer Wing	850 Sq.Ft.
3/12/71	Lyell Street, Fyshwick	7665 Sq.Ft.
11/4/72	Russell Building 10 Added	95700 Sq.Ft.
5/9/72	Russell Building 14 Basement Increase Area	6434 Sq.Ft.
9/6/73	72 Barrier Street Fyshwick Area Deleted	4000 Sq.Ft.
		<u>356594 Sq.Ft.</u>

Total Area Cleaned (A)	583,000 Sq.Ft.
(B)	<u>356,594 Sq.Ft.</u>
	<u>939,594 Sq.Ft.</u>

SUPERSEDES

IMPROVED BY

CHANGES

DATE

15-11-75

DLS

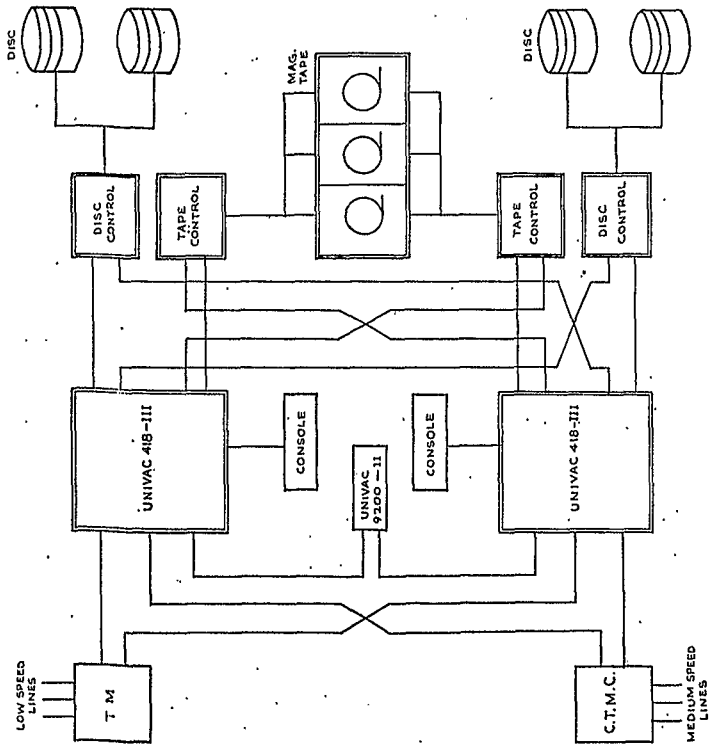
APPENDIX B

COMMONWEALTH OF AUSTRALIA
P.M.S.'s DEPARTMENT

TYPICAL C.U.D.N.
CENTRE CONFIGURATION

REV.	NO.	DATE	DLS
1	1	15/11/75	DLS

DRAWING NO.
CSK-6140
SHEET 1 of 1 ENCL



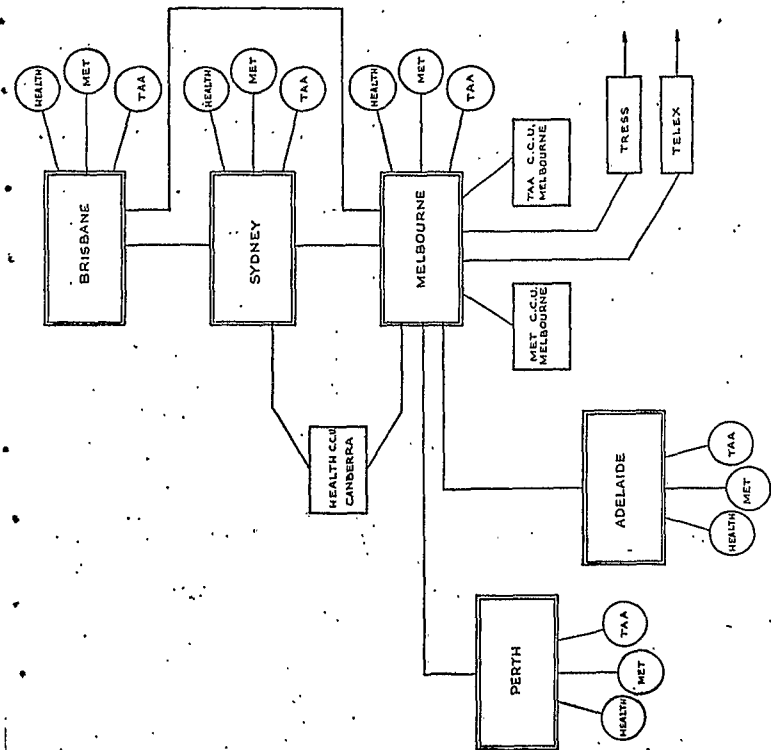
COMMONWEALTH OF AUSTRALIA
 P.H.S. DEPARTMENT

C.U.D.N. NETWORK
 CONFIGURATION

607.

ISS. NO.	REV. NO.	FORM NO.	D.L.S.
100	1	PHS	DLS
ED. PRP			

DRAWING NO.
 CSK-6139
 SHEET 1 OF 1 SHEETS



C.U.D.N. - REVISED FINANCIAL ASSESSMENT

INTRODUCTION

It is apparent that the Post Office will need to provide an on-going data network service into the long-term and such a model has been used for this study of the future financial prospects of the data network service. This statement outlines these prospects over the first sixteen years of the study, shows the receipts and expenditures for each year (Attachment 1) and identifies and comments on the assumptions used.

The study is based on the network configuration specified in the contract placed with UNIVAC. This is a five centre configuration with links between the various centres. Capital injections for expansion of the service in later years of the study represent expansion by plant appropriate to the time and the range of features then sought, but using current equipment prices.

GENERAL ASSUMPTIONS AND NOTES

With regard to receipts, the existing C.U.D.N. tariff schedule has been increased by 5% to reflect some of the higher costs encountered since 1970. This does not affect the special pricing agreements for initial periods with Health and T.A.A. If C.U.D.N. tariffs are increased relative to private line tariffs, it is somewhat speculative whether potential customers would regard the present set of facilities available through C.U.D.N. as offsetting the higher charges. However, the increment used is such that it is considered reasonable to assume that sufficient customers will be found, bearing in mind the present belief that a number of potential customers exist. The development of the service would be in line with customers' needs and have greater generality of application as an objective.

It is assumed that the system will be expanded regularly to accommodate new customers. The expansion of processing capacity at any centre can be achieved without significant additional site preparation costs by the creation of a second switching centre using duplicated processors on the same site. Current equipment prices have been used although as stated earlier in the later years of the study the plant installed would be appropriate to the time and the range of features then sought.

No further payments will be made to the contractor, UNIVAC, for the initial equipment, until after all centres have been accepted. These payments have been included in the studies during 1975/76; their contract values have been reduced by 25%, because of exchange rate variations since 1970.

The figures for capital injection include, in addition to full equipment and site preparation costs, the cost of all development staff and training. Some staff primarily employed for the data network service are employed on other activities for part of their time and the time spent on these activities has been excluded from the studies.

The timetable assumed for the completion of the various stages of the service is set out in Attachment 2, and is later than the current contract dates.

The capital cost of the accommodation is estimated at \$950,000 but it has been included in the study (and in previous studies) by means of an annual rental charge under Maintenance and Operating.

Under Contract 38100, liquidated damages of \$645,000 are payable by UNIVAC if the revised timetables are not met and these have been included in receipts. It is expected that most of this amount will be received in 1973/74.

Staff costs for 1970/71-1973/74 have been assessed at actual salary levels and staff costs for the period 1974/75-1985/86 on the basis of present salary levels. All salaries have been loaded by 27% to cover superannuation, furlough, recreation and sick leave and general administration.

It has been assumed that the productivity of C.U.D.N. staff will improve at the service centres where it is assumed that additional service plant can be maintained with little change in initial staff levels.

In the study the capital injected annually is being depreciated over a 16 year life, except that for no break power, air conditioning plant, and the development costs which have been given a 20 year life. Interest up to 30 June 1974 has been calculated using the average rate of interest paid on new Post Office borrowings in each year. After 30 June 1974 an annual rate of interest of 7% has been assumed. For the purposes of calculating interest it has been assumed that revenues are received and the capital and operating expenses are incurred on 31st December in each year.

RELATIONSHIP BETWEEN VARIOUS ESTIMATES OF CAPITAL COST

The figures quoted in the original submission to the Committee of 11 September 1973 related to a C.U.D.N. model of a system with a 12 year life in which the capital injected was to cater for the needs of a limited number of customers. It did not include capital to expand the system beyond that capacity and to provide it beyond that period.

The latest study is of an on-going data network service, with a continuously increasing number of customers, which has been limited, however, by the restraint introduced of not incurring

significant additional site preparation costs. It therefore includes capital to expand the system beyond the needs of the limited number of customers who are expected to use C.U.D.N. in the early years of the system. There are several other differences between this and early studies. For example, the equipment costs in the latest study include the effect of exchange rate variations since 1970 whereas, as indicated to the Committee on 30 November 1973, for comparability all figures in the submission of 11 September 1973 were at the exchange rate applying at the contract issue date in 1970. Again, in the latest study allowance has been made for the time which development staff have spent on non-C.U.D.N. activities.

ESTIMATED REVENUE/PROFIT FOREGONE BECAUSE OF UNIVAC DELAYS

As part of the revised financial assessment, a study was made of the estimated revenue and profit foregone by the Post Office because of delays by the contractor UNIVAC. Attachment 3 summarises the results.

The data and assumptions used in the model of an on-going data network service were altered to simulate the probable situation in each year if there had been no delay. The main effects involve a bringing forward of capital injections, with a consequent increase in the depreciation provision over the 16 years of the study; capital injection is lower in this study because reduced Departmental development costs more than offset the loss of the devaluation effect on the costs of contractor supplied equipment; receipts are also brought forward so that there are more years in which substantial income flows from the data network service - this is somewhat reduced by the non-receipt of liquidated damages.

FINANCIAL REPORT C.U.D.H. - MODEL ON BASIS OF REVISED DATA AND ASSUMPTIONS AS AT FEB. 1974
ACCOUNTING PROFIT AND LOSS STATEMENT SHOWING ANNUAL FIGURES FOR STUDY PERIOD (\$'000)

YEAR	CAPITAL INJECTION	REVENUE	MAINTENANCE AND OPERATING	DEPRECIATION	INTEREST PAYABLE	TOTAL CHARGE	PROFIT	INDEBTEDNESS
1970/71	1,866	-	118	110	70	298	- 298	2,054
1971/72	3,353	-	190	307	259	756	- 756	5,856
1972/73	2,021	85	368	423	461	1,252	-1,167	8,621
1973/74	633	965	515	458	569	1,542	- 577	9,373
1974/75	452	638	732	484	635	1,851	-1,213	10,554
1975/76	2,847	658	870	659	805	2,934	-1,676	14,418
1976/77	1,542	1,150	970	753	1,016	2,739	-1,589	16,786
1977/78	541	1,490	983	808	1,135	2,903	-1,413	17,965
1978/79	402	2,129	991	808	1,189	2,988	- 859	18,418
1979/80	1,376	2,665	956	892	1,295	3,123	- 458	19,360
1980/81	454	3,131	936	918	1,252	3,165	- 35	18,931
1981/82	274	3,599	936	934	1,199	3,129	470	17,861
1982/83	344	4,081	996	954	1,106	3,056	1,025	16,166
1983/84	779	4,564	996	1,001	989	2,986	1,578	14,366
1984/85	779	5,058	996	1,048	846	2,890	2,168	11,925
1985/86	779	5,554	996	1,096	657	2,749	2,805	8,807
TOTAL	18,442	35,767	12,709	11,630	13,423	37,762	-1,995	

TIMETABLE

Estimated Dates

Cutover Health and TAA Interim Brisbane	Jan 1973
Cutover Health Interim Melbourne (Sydney)	Mar 1973
Cutover Health Interim Nationwide	July 1974
Acceptance of Melbourne Centre	Sep 1974
Cutover Health as in FRS on Melbourne	Oct 1974
Cutover TAA nationwide on Melbourne	Dec 1974
Acceptance of Sydney with TMUX mods.	July 1975
Cutover Health as in FRS on Sydney	Aug 1975
Cutover Health as in FRS on Brisbane	Oct 1975
Acceptance of Adelaide and Perth	Jan 1976
Conversion of network to multi-centre operation	Jan 1976
Cutover Bureau of Meteorology	July 1976
Complete conversion of Health to Simplex procedures	Dec 1976
Accept 2nd Melbourne Centre	July 1977
Cutover 1st group of new customers	Sept 1977

FINANCIAL REPORT - MODEL ON BASIS OF NO DELAY BY URIVAC
ACCOUNTING PROFIT AND LOSS STATEMENT SHOWING ANNUAL FIGURES FOR STUDY PERIOD (\$000)

YEAR	CAPITAL INJECTION	REVENUE	MAINTENANCE AND OPERATING	DEPRECIATION	INTEREST PAYABLE	TOTAL CHARGE	PROFIT	INDEBTEDNESS
1970/71	1,866	-	118	110	70	298	-298	2,054
1971/72	4,963	-	190	407	312	909	-909	7,519
1972/73	3,730	217	635	630	625	1,890	-1,673	12,292
1973/74	1,542	677	370	724	867	2,561	-1,884	14,894
1974/75	541	1,335	983	756	1,009	2,748	-1,443	16,192
1975/76	402	1,956	991	779	1,066	2,836	-880	16,695
1976/77	1,376	2,436	996	863	1,120	2,979	- 543	17,751
1977/78	454	2,882	996	889	1,146	3,031	- 149	17,465
1978/79	274	3,401	996	965	1,101	3,002	389	16,435
1979/80	344	3,925	996	925	1,013	2,934	951	14,863
1980/81	779	4,352	996	972	902	2,870	1,522	13,148
1981/82	779	4,863	996	1,019	766	2,781	2,082	10,826
1982/83	779	5,350	996	1,066	587	2,649	2,701	7,838
1983/84	-	5,413	996	1,066	348	2,410	3,003	3,769
1984/85	-	5,482	996	1,066	61	2,123	3,359	- 656
1985/86	-	5,554	996	1,066	-252	1,810	3,744	-5,466
TOTAL	17,809	47,883	13,847	13,243	10,741	37,831	10,052	