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Commonwealth of Australia

ONE HUNDRED AND
FIFTY-SEVENTH REPORT

The Report of the Auditor-General
Financial Year 1973-74

Joint Committee of Public Accounts

*Presented pursuant to Statute and
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Canberra 1977

JOINT COMMITTEE OF PUBLIC ACCOUNTS
ELEVENTH COMMITTEE

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*The House of Representatives appointed its members on 3 March 1976 and the
Senate appointed its members on 4 March 1976.*

DUTIES OF THE COMMITTEE

Section 8 of the *Public Accounts Committee Act* 1951-1973 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 receipts, control, issue or payments of public moneys; and
- (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

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

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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 subsection (1.) of section fifty-three of the *Audit Act 1901-1950*.

The second duty of the Committee is:

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

2. Each year since 1959 the Committee has conducted a separate series of inquiries related specifically to matters raised by the Auditor-General in his Reports 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, however, due to the Double Dissolution of Parliament in April 1974 and the later than usual resumption of Parliament after the winter recess, the Report for 1973-74 was not presented until 26 September 1974.

4. The Report for 1973-74 appeared in a revised format with one section (Section 3—Summaries of Audit Observations and Results of Audit Representations) containing reports of any unsatisfactory features disclosed as a result of Audit investigations. The revised method of presentation greatly assisted the Committee in its selection of items and we would commend the Auditor-General and his staff on the adoption of this new approach.

5. On 30 October 1974 the Committee sought written submissions from fourteen 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 four departments (in respect of the six items referred to in Chapters 2 to 5 of this Report) at public inquiry.

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

Tuesday 18 March 1975

Wednesday 19 March 1975

Thursday 1 May 1975

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

Department of Defence

Mr P. D. Naughton Assistant Secretary Budgets and
Estimates (General and Co-
ordination)

Brigadier J. H. Studdert	Deputy Chief of Materiel (Army Office)
Air Commodore J. D. G. Lessels	Director-General Accommodation and Works (Air Force)
Mr M. J. Madden	Assistant Secretary Resource Planning (Air Office)
Mr I. M. Reid	Assistant Secretary Defence Facilities Division

Department of Education

Mr R. N. Allen	Assistant Secretary Management Services Branch
Mr W. C. Bowron	Director Tertiary Education Assistance Section Student Assistance Branch
Mr M. B. Brassington	Assistant Director Management Services Branch Northern Territory Education Division
Mr G. Green	Regional Director New South Wales Office
Mr K. N. Jones	Secretary

Department of Housing and Construction

Mr K. Frey	Principal Architect Darwin
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Department of Manufacturing Industry

Mr J. A. Clark	Assistant Secretary Technical Services Branch
Mr G. J. Churcher	Manager Government Aircraft Factories
Mr R. S. Thompson	Controller Munitions Supply Division

Department of the Prime Minister and Cabinet

Dr J. A. Battersby	Executive Officer Australian Council for the Arts
Mr D. Ingall	Director of Administration Australian Council for the Arts

8. During its examination of matters in respect of the Australian Council for the Arts the Committee was assisted by the following Observers from the Department of the Prime Minister and Cabinet:

Mr J. G. Hinton
 Mr B. E. W. Kelson
 Mr K. W. Pearson

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

- Mr E. W. Clark Auditor-General's Office
- Mr E. J. Donnelly
- Mr C. A. Harrington
- Mr P. J. Hinchy
- Mr R. G. Parker
- Mr W. K. Oakes Public Service Board
- Mr D. G. Wheen
- Mr A. M. Finch Treasury
- Mr R. W. Mason

CHAPTER 2—DEPARTMENT OF DEFENCE

(a) INDUSTRIAL WHEELED TRACTORS

P.P. 331 of 1974.

10. The Auditor-General, in paragraph 3.23.7 of his Report for the year ended 30 June 1974 stated:

During 1966-67 approval was given for the purchase of one modified industrial wheeled tractor with earthmoving attachments, for the purpose of evaluating among other things, its air portability by Caribou aircraft. The related Army specification imposed certain weight and dimensional limitations on the equipment to be procured for this purpose having regard to the maximum permissible loading of that type of aircraft.

After publicly inviting tenders, separate orders were placed with each of 3 companies in September 1967 for the supply of one modified tractor and attachments at a total cost (as amended) of \$46 366. Each of the accepted tenders was based on the same commercial design of tractor weighing approximately 8000 lbs prior to modification, substantially greater than the Caribou aircraft load limit.

Evaluation trials of the 3 modified tractors with attachments were conducted by Army personnel during May-June 1968. According to departmental records each tractor's air portability was tested by using a mock-up of a Caribou aircraft and simulated loading ramp to show that it fitted inside the aircraft; however, no check apparently was made with RAAF technical officers to ensure that each tractor met the criteria used by the RAAF in respect of the cargo compartment floor loading, axle loads, vertical and lateral clearances between load and aircraft fuselage, etc.

One of the tractors and attachments evaluated was selected and orders were placed with the successful tenderer in December 1968 for the supply of 61 modified tractors and a range of earthmoving attachments, etc., at a cost (as amended) of \$480 314 and \$428 649 respectively. The other 2 tractors purchased for evaluation at a cost of \$32 541 (including attachments) having fulfilled their purpose, were subsequently declared surplus to requirements and realised \$8900 when disposed of in September 1971.

Audit examination of departmental records disclosed that a series of mechanical defects was reported after delivery of the equipment in 1969; and the modified tractors were finally declared in 1972 to be not transportable by Caribou aircraft. The modifications apparently had weakened and reduced the stability of the tractors and instructions severely restricting their use had been in force since June 1971.

At the time of preparing this Report, a program had been approved to reconvert partly the 52 tractors still held to original specifications at a currently estimated cost of \$90 000.

Exhibit 157/8.

11. By way of background the Department informed the Committee that the industrial wheeled tractors referred to in the Auditor-General's Report were purchased to provide airportable earthmoving equipment for Army Field Engineer Squadrons and some other Army units to enable them to fulfil their operational role. The machines were intended to provide the maximum earthmoving capability consistent with an ability to be transported in RAAF Caribou aircraft.

Exhibit 157/8 and
Qs 550 and 566 to
569.

12. In the Department's submission it was stated that prior to the purchase of these tractors earlier models of commercially available wheeled tractors had been in use in the Army. Although airportable in Caribou aircraft these earlier models had insufficient power and weight to produce the work output required for the operational tasks. The new tractors were expected to overcome this inadequacy. It was explained to the Committee that the original intention was to deploy 12 of the tractors outside Australia but in the event none were deployed. The requirement that the tractors be airportable was dictated by the fact that the Army was operating on what was essentially a forward defence policy which could necessitate operating in South-East Asia or other tropical areas.

13. When questioned regarding the actual requirement of the Army, the departmental witness stated that at the time the purchase was being contemplated there was a requirement for 35 to 40 tractors according to the order of battle at that time. However, by the time the purchase order was placed in December 1968, the order of battle had changed and there was a requirement for 61 tractors. The break-up of the distribution of the tractors was as follows:

Divisional unit entitlement	39
Army troops entitlement	2
Repair pool entitlement	16
Additional scaling	4
	—
	61
	—

14. The departmental submission stated that public tenders were invited on 29 May 1967 for the supply of one prototype tractor with attachments. Tenderers were also invited to offer a production quantity of 35 to 40 tractors. The specification given to tenderers called for a large tractor which with some modification to the standard commercial design would be sufficiently reduced in weight to enable it to be carried in a Caribou aircraft. The Committee was told that the specifications were prepared within the Department of the Army and approved on behalf of the Master General of the Ordnance who was the Military Board Member responsible for the purchase of equipment. The specifications stipulated dimensional and weight limitations for the tractors without attachments including maximum length, width, height, weight and turning radius and minimum wheelbase and ground clearance.

15. The Committee was informed in the Department's submission that three tenders were received. However, it was learned during the inquiry that seven tenders had actually been received, four of which had been rejected on the grounds that they were too wide to fit into the aircraft.

16. The Department told the Committee that the three tenderers considered to be worthy of further evaluation used the same basic commercially available tractor (a Chamberlain Mark II) but had devised a different modification to meet the weight and size limitation specified. To enable evaluation of each proposal before purchase of the bulk requirement an order was placed in September 1967 with each of the three tenderers for the supply of one prototype tractor with attachments. In response to a question from the Committee the departmental witness stated that he could not say with any certainty why the same basic tractor was selected by the three tenderers.

17. It was stated in the departmental submission that the three prototype tractors were delivered early in 1968 and a comparative evaluation was commenced in May 1968. The Department intended to carry out the evaluation in three phases:

- First Controlled testing of performance at the Army School of Military Engineering
- Second Endurance testing under field conditions at Holsworthy, N.S.W. and Shoalwater Bay, Qld
- Third Airportability evaluation at the RAAF Air Movement Training and Development Unit

Exhibit 157/8.

18. During the first two phases of the evaluation the prototype supplied by the lowest tenderer performed best and showed no significant defects. The prototype supplied by the highest tenderer suffered serious mechanical defects in the first stage of the evaluation process and was not taken to the second stage. The prototype supplied by the second highest tenderer was found to be satisfactory but second in preference to the lowest tenderer whose tractor was judged to be superior and was recommended for acceptance by both the Army and the then Department of Supply.

Exhibit 157/8 and Q. 563.

19. It was explained to the Committee that during the first phase of the evaluation process each prototype tractor was weighed and loaded into a mock-up of a Caribou aircraft. The mock-up was a dimensionally accurate simulation of the aircraft ramp and payload compartment. It was found that each of the prototypes was of acceptable weight and fitted within the mock-up with about one inch to spare all round. It was pointed out to the Committee that this preliminary testing in relation to the size of the tractors was not intended to be the final airportability evaluation but was carried out in the early stages to eliminate any machine which was not airportable in the Caribou. Airportability was planned to be determined during the third stage of evaluation at the Air Movement Training and Development Unit when the tractors would be tested under RAAF supervision.

Exhibit 157/8 and Q. 558 and Committee File 1974/5.

20. However, the Committee was told that while the second phase of the evaluation was taking place advice was received (on 9 October 1968) that the Chamberlain Mark II tractor on which each tender had been based was about to be superseded in production by a Mark III series. A deadline of 28 November 1968 was fixed as the date by which a firm intention had to be given to retain the Mark II model in production to fulfil the Army order. Inquiries showed that the new Mark III tractor was so different and so much heavier that it was extremely doubtful if the new tractor could have been made airportable and it was obvious that the effort and expenditure already made would be lost if the Mark II model was not used. Production of the Mark II model ceased in June 1969 following the completion of the Army order.

Exhibit 157/8.

21. In the circumstances the Department decided in late November 1968 to proceed immediately with the Mark II Chamberlain tractor as modified by the lowest tenderer. The Department stated that the urgency of the situation precluded continuing with the planned third phase of the evaluation. At the time this was not considered a risk in view

of the results of the weight and size tests carried out in the mock-up of the Caribou aircraft at the School of Military Engineering. The prototype tractor was returned to the successful tenderer to serve as the standard pattern for manufacture and inspection purposes during the production run and the two prototype tractors from the unsuccessful tenderers were disposed of for \$8900.

22. Orders were placed with the contractor during December 1968 for 61 tractors with attachments at an overall final cost of \$908 963. Of this amount, approximately \$3500 per tractor represented the cost of the special modifications to lighten and reduce the size of the basic Chamberlain tractor. The Committee was informed that all tractors were delivered during 1969.

Exhibit 157/8.

23. One of the tractors from the production run, delivered to the Department in 1969, was submitted to the Air Movement Training and Development Unit in 1972 to establish the loading and lashing down procedures for carriage in Caribou aircraft. It was then found that although the tractor met weight requirements and would physically fit into the aircraft, there was insufficient clearance between the tractor and the roof and sides of the aircraft load compartment to meet RAAF requirements. The RAAF requirements for these clearances were as published in the Air Standardisation Agreement and unfortunately the 1" air gap thought to be satisfactory during the first phase of the evaluation tests with the mock-up of the Caribou aircraft was not sufficient to comply with the provisions of the Agreement.

Exhibit 157/8 and Committee File 1974/5.

24. The Committee was informed that although copies of the airpotability standards, which formed part of the Air Standardisation Agreement, were available from 4 June 1964, Australia was not a party to those standards until 29 August 1969—eight months after the contract for the tractors was let. The margins which are required between the load and aircraft fuselage during and after loading under the Agreement are:

Committee File 1974/5.

CONDITIONS FOR LENGTH/HEIGHT/WIDTH RELATIONSHIPS

	Vertical clearance	Lateral clearance
During loading		
1. Australia	6"	5"
2. Canada	1"	1"
3. U.S.A.	6"	5"
4. U.K.	1"	1"
After loading		
1. Australia	6"	5"
2. Canada	3"	3"
3. U.S.A.	6"	5"
4. U.K.	3"	3"

25. The Departmental witness admitted that at no stage up to the time one of the production tractors was submitted to the Air Movement Training and Development Unit in 1972 had there been any contact

Exhibit 157/8 and Qs 563, 564 and 565.

with RAAF technical officers other than to inform the RAAF that they wished to carry out the airportability evaluation of the tractor at the Air Movement Training and Development Unit. This test was finally dispensed with because of the urgency of the situation caused by the fact that the Chamberlain Mark II tractor was to be superseded. The witness agreed that the lack of consultation and co-ordination with the RAAF had been very costly.

Exhibit 157/8 and
Qs 684 to 687.

26. The Committee questioned the witness on the reason for the delay between delivery of the tractors in 1969 and the submission of one of the tractors to the Air Movement Training and Development Unit in 1972 to establish the loading and lashing down procedures. The witness replied that he had no doubt that it was because the Army had concentrated first on solving the mechanical problems encountered with the tractors. He went on to say that during this period the tractors were being used but only within certain specified limits. At that stage they were being transported from place to place by train or by road on the back of a truck.

P.P. 331 of 1974,
Exhibit 157/8 and
Qs 592, 593 and
Committee File
1974/5.

27. It was mentioned in the Auditor-General's Report that a series of mechanical defects were reported after delivery of the equipment in 1969. The departmental submission mentioned that the main defects were in the alloy front wheels and the lightweight front stub axles which were caused by overloading these lightweight components under service operating conditions. The submission went on to state that all stub axle failures were made good by the contractor under the warranty provisions of the contract and welding repairs were made to the front axles from which the stub axles had broken away. It was also mentioned that shortly after delivery of the tractors to store in 1969, hydraulic hoses were found to be damaged. The Department believed that the problems with the hoses may have arisen from incorrect connection of the hydraulic equipment by inexperienced staff at Army stores depots. A contributory factor in this was believed to be the fact that operators handbooks covering the use of the machines were not available in the early period after delivery.

Qs 592 and 600 to
631.

28. The departmental witness was questioned on the reasons why the defects which showed up when the equipment was operated under service conditions were not discovered during the tests made on the equipment prior to acceptance of delivery. It was pointed out to the Committee that two types of tests had been involved—the testing of the prototype, which had been carried out by the School of Military Engineering, and the acceptance tests of the production equipment which were the responsibility of the Director of Army Quality Assurance. The Committee was told that the prototype had been subjected to quite a wide range of rigorous tests but the tests carried out prior to acceptance of delivery were to see that the equipment met the requirements of the specifications under the contract.

29. It was put to the departmental witness that as the mechanical defects which showed up in the production equipment after acceptance of delivery had not occurred during the testing of the prototype then either the testing of the prototype had not been satisfactory or rigorous enough or that the production equipment had not been manufactured to the same specifications as the prototype. The witness stated that looking at the tests that were carried out at the time, he had no reason to believe that they were not properly carried out or that they were unreasonable. He went on to say that if he had to venture an opinion as to where the fault lay he would look to the quality of the production equipment and not the prototype. He pointed out that the prototype was tested under service conditions and the production units were not, nor were they required to be, prior to acceptance. The Department also stated in a supplementary submission that front wheel or front axle failures occurred on production units in 13 cases between 48 and 491 hours of operation with the average being 205 hours, while the prototype tractor underwent 41 hours of operation without failures. The departmental witness stated that the Army's general practice now is to carry out a much more rigorous testing than was the case in 1968.

Qs 605 to 607 and
Committee File
1974/5.

30. The departmental submission stated that there had recently been a change in the concept of tactical employment and movement of Army Engineer Field Squadrons. Many earthmoving equipments which previously were required to be airportable in Caribou aircraft do not have to meet this requirement as the introduction of the Chinook Medium Lift Helicopter into the RAAF provides a much less restrictive form of air transport for movement of these machines in operational circumstances. To take advantage of this, development studies recently made at the Army Design Establishment have shown that it is possible to considerably remodify the tractors back to a standard commercial configuration and thereby substantially improve their output, safety, reliability and operator confidence. The Department decided, therefore, to modify the 52 tractors which remain in Army service. The Department's original submission mentioned the intention to modify the 52 tractors remaining in Army service but neglected to inform the Committee of the disposition of the other 10 tractors purchased from the contractor. The Department subsequently informed the Committee that 10 of the 62 tractors purchased from the contractor were sold to the Department of Foreign Affairs in 1972 which were then provided as defence aid to the Khmer Republic.

Exhibit 157/8.

31. In a supplementary submission the Department informed the Committee that the modifications required to bring the tractors back to a commercial configuration were as follows:

Qs 650, 675 and
Committee File
1974/5.

- (a) The major modifications, directly associated with the tractor defects are:
 - (i) replace front axle
 - (ii) replace front wheels
 - (iii) reverse rear wheels to widen wheel track and thereby increase stability

- (b) Additional minor modifications which are proposed are routine product improvements not associated with the defects being considered. These improvements are:
- (i) improve seat frame and seat fabric
 - (ii) provide alternator isolation switch
 - (iii) change battery and anti-spill plate
 - (iv) additional grease nipple
 - (v) reposition lifting lugs on backhoe attachment
 - (vi) provide flood light protective guards
 - (vii) instal drawbars on some tractors

Exhibit 157/8 and
Committee File
1974/5.

32. The Committee was told that if carried out by contract the estimated cost of the modifications to the 52 tractors would be \$90 000 but if the capacity for the work is available in Army workshops, because no separate charge is made for labour costs for work performed in the workshops, the cost would be considerably less. In a supplementary submission the Department stated that although the decision to modify the remaining tractors had been made, it had not yet been decided how many are to be modified under contract and how many by Army workshops. The probability is that those tractors now held in depots (which is the main portion) will be modified under contract, while those on issue to units will be modified by the local supporting Army workshops.

Conclusions

33. The evidence shows that three different prototype tractors were purchased from three contractors to allow a comparative evaluation to be carried out, including assessing their capability of being transported in Caribou aircraft, before a production order was placed to meet the Army's requirement for this type of equipment.

34. It was originally proposed that the evaluation should be carried out in three phases, the last of which was to be an airportability evaluation at the RAAF Movement and Development Unit. However, because the basic tractor selected by each of the contractors was about to be superseded, it was decided not to proceed with the last phase of the evaluation tests and to order 61 tractors from the contractor who had produced the most satisfactory prototype. Subsequently, it was found that although the tractors met the weight requirements and would physically fit into the aircraft, there was insufficient clearance around the tractors to meet RAAF requirements.

35. It is a matter of grave concern to the Committee that there was no consultation between the Army and the RAAF on the airportability of this equipment during the evaluation period. The Committee considers that the then Department of the Army should, at the very least, have consulted technical officers from the RAAF before abandoning the third phase of the evaluation process, and prior to placing an order for 61 tractors at a cost of \$908 963. It appears to the Committee that even at that stage, which was eight months before Australia became a party to the Air Standardisation Agreement, the RAAF would have been aware that the 1 inch clearances around the tractors, which was observed during the

first phase of the evaluation process, would not have been sufficient for RAAF requirements.

36. The Committee finds it difficult to understand why it took from 1969 to 1972 to find out that the equipment would not fit into a Caribou aircraft. It seems to the Committee that the Department was extremely fortunate that the need to transport the tractors by air did not eventuate during this period as originally envisaged and that because of changes in operational circumstances, earthmoving equipment such as these tractors are no longer required to be transported by Caribou aircraft.

37. It was stated in evidence before the Committee that two different Army authorities were responsible for testing the tractors. The evaluation of the prototypes was carried out by the School of Military Engineering under service operating conditions and the tests prior to the acceptance of the production tractors were made by the staff of the Army Quality Assurance Service. The latter tests were to see that the equipment met the requirements of the specifications under the contract.

38. In view of the fact that no field tests were carried out or were required to be carried out by the Army Quality Assurance Service, it seems clear to the Committee that the responsibility for detecting mechanical faults of the type that eventually showed up in the production units must rest with the authority that carried out the field tests on the prototype.

39. The departmental witness ventured the opinion that the reason why the production units had developed mechanical faults that had not shown up during testing of the prototype was that the quality of the production units may not have been up to the standard of the prototype. There was no evidence to support this point of view and the Committee is mindful of the fact that the prototype was tested for 41 hours while in 13 of the production units mechanical failures had occurred between 48 and 491 hours of operation with the average being 205 hours.

40. This leads the Committee to the conclusion that the evaluation tests carried out on the prototype were not exhaustive enough to detect the mechanical weaknesses that developed later in the production units. The Committee has noted that the Army now carries out a much more rigorous testing of prototypes than was the case in 1968.

41. In this regard 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 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.

42. The Committee has noted that the tests or inspections carried out by the Army Quality Assurance Service prior to the acceptance of production units are designed to ensure that the equipment meets the requirements of the specifications under the relevant contract. The Committee wishes to draw the attention of departments, whose contracts are subject to pre-acceptance tests or inspections by the Army Quality Assurance Service, to the need to ensure that specifications state quite clearly the technical and quality requirements of the units being manufactured under each contract.

43. Finally the Committee feels that it must express its dissatisfaction with the quality of the information presented in the Department's submission. Firstly, the submission stated that three tenders had been received, whereas it was discovered during the inquiry that, in fact, seven tenders had been received. The Department also did not inform the Committee, in the submission, that 10 of the 62 tractors had been sold to the Department of Foreign Affairs.

44. The Committee views any inaccuracies in the information presented to it in a very serious light and would invite the Department's attention to Memorandum 66/385 of 16 October 1970 from the Secretary to the Treasury to all Permanent Heads which relates to the preparation of material and the briefing of witnesses. This memorandum includes the following:

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.

It would be appreciated if this circular could be brought to the attention of all officers of your Department who become concerned with the preparation of written material for the Committee or are required to attend in person at future hearings of the Committee and all Commonwealth authorities whose affairs come under the administration of your Minister.

(b) MARRIED QUARTERS AT RAAF BASE, TINDAL, NORTHERN TERRITORY

P.P. 331 of 1974. 45. In paragraph 3.23.8 of this Report the Auditor-General stated:

Reference was made in paragraph 225 of the 1966-67 Report to the provision of 114 transportable/demountable married quarters for use by members of No. 5 Airfield Construction Squadron at Tindal in the Northern Territory. The estimated final cost of the houses, including site preparation and services and cost of erection, was stated by the then Department of Air to be \$1 443 473.

Ministerial approval was given in March 1965 for provision of the particular type of married quarters on the understanding that the accommodation was required at Tindal for a relatively short period and the houses would be so designed as to be readily transportable to Learmonth in Western Australia when the Squadron moved to that location to construct a new airfield.

It appeared from Audit inquiries and examination of departmental records during 1973-74 that all but 4 of the houses at Tindal had remained unoccupied since they were vacated in 1971 by the families of the members of the Squadron after its move to Learmonth. The houses evidently were not readily demountable and transportable as was intended; consequently, it was

not considered an economical proposition to dismantle, package, transport and re-erect the houses elsewhere. With the Minister's approval, the 110 surplus houses were declared to the Northern Territory Administration in June 1972 for disposal and removal from Tindal.

In reply to recent Audit representations the Department informed my Office that minimum standards of engineering services were provided when erecting the houses at Tindal because they were not intended to remain at that location. Following discussion of possible alternatives with other interested departments, Ministerial approval had been obtained by the Department of the Northern Territory for the transfer of the assets to the Department of Services and Property for sale and removal.

46. The Committee was informed that the requirement for transportable type married quarters was formulated in May 1964 when it was envisaged that No. 5 Airfield Construction Squadron would be employed firstly at Tindal in the Northern Territory and then after completion of the works program at Tindal to possible other locations at Learmonth, Wewak, Townsville and Darwin. The provision of demountable/transportable houses was made in 1965 in order to establish quickly and to maintain a suitable temporary housing complex for the RAAF construction work-force engaged upon the construction of a permanent airfield and limited facilities at Tindal. The then Minister for Defence decided that it would have been unreasonable to expect married members of the Squadron to operate in remote locations and live apart from their families.

Exhibit 157/9 and Q.693.

47. It was stated at the inquiry that in May 1964 Cabinet approved a housing program which included the 114 demountable/transportable houses for Tindal. The technical specifications for these houses were prepared by the then Department of Works. The homes were not of a type which were available on the commercial market but following the production of the specifications several firms showed an interest in obtaining the contract and one firm subsequently produced part of a prototype of a house. The witness from the Department of Housing and Construction agreed that the Department of Air had made its requirements quite clear to the then Department of Works in that the houses were to be demountable and transportable and were to be removed and re-erected elsewhere when the Tindal project was completed. The Committee was told that tenders for the supply and delivery of fabricated components were called on 5 June 1965, the contract was let on 7 October 1965 with completion by 4 May 1966. All units were delivered by the scheduled date of completion.

Qs 693, 694, 695 to 698 and 701 to 703.

48. The Committee was informed in a supplementary submission that the then Department of Air requirement from the inception of the proposal was for transportable houses. To this end the specification which was passed to the Department of Works and on which tenders were based stated inter alia:

Committee File 1974/5.

Building Structure

The married quarters should be a simple, basically modular structure comprising a minimum number of components, capable of erection by minimum skilled labour, under RAAF skilled supervision, without the need for special tools and equipment. Speed of erection is not an essential factor. As an example, a hut such as our standard Rudnev with a simplified roof might be adopted as a basic unit and partitioned into rooms. It should be designed for use primarily in

tropical or subtropical areas and in areas subject to cyclones. The building and its plumbing and electrical installations should be as fully recoverable as practicable. To facilitate recovery of the floor the building should be mounted on stumps which could be built in brickwork or concrete by the Unit erecting it.

Internal partitioning and installations should be removable in such a way as to facilitate the use of the building for purposes other than as a married quarter, e.g. single accommodation, offices, stores. The buildings should be capable of being joined longitudinally in the case of their being used for these alternative purposes.

Transportability

The building must be demountable into components which can be readily transportable by road, rail and sea and, desirably but not essentially, by air in Hercules type aircraft. Road transport would generally be on semi-trailer low loaders.

Exhibit 157/9.

49. It was stated in the Department's submission that the completed total capital cost of the project was:

Procurement of 114 transportable demountable houses, site preparation and services provided by Department of Works	\$1 081 000
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In addition, there were other associated costs which were for:

Erection by No. 5 Airfield Construction Squadron:

	\$	\$
Direct labour	119 389	
Plant motor transport usage	18 240	
Indirect labour	224 844	362 473
Total cost		1 443 473

Q. 753 and
Committee File
1974/5.

50. The witness from the Department of Defence stated that the Treasurer had expressed some reservations at the time about the economics of this temporary housing proposal, particularly with regard to the duration of occupation. The Minister for Defence finally satisfied the Treasurer by comparing the cost of permanent housing with the cost of transportable houses and giving an assurance that the houses would be occupied until at least March 1967. In the event the houses were occupied until the end of 1970. The improved morale and efficiency of the Squadron resulting from the provision of the houses was also a major consideration in obtaining approval for the project.

Committee File
1974/5.

51. In a supplementary submission the Department stated that no detailed study on the cost effectiveness of dismantling, transporting and re-erecting the houses was conducted prior to project approval. It was pointed out that the question was raised in a letter from the Department of Air to the Department of Defence dated 22 December 1964 in which it was stated that:

Transportation costs to a new locality would be dependent on its location, while labour and material costs involved in their dismantling should be no more than £300 per unit.

At that time, of course, tenders had not been invited and it was not known what particular types of houses might be offered to meet the specified requirement.

Exhibit 157/9 and
Committee File
1974/5.

52. It was stated in the Department's submission that after four years at Tindal several major defects had developed in the houses. These were:

- (a) flooring—the floors were too springy and required stiffening with additional joists
- (b) shower bases—the plastic shower bases (fitted as an economy measure instead of metal) were cracking and required replacement with fibreglass units
- (c) leaking roofs—new decking with greater fall required
- (d) water heaters—due to hard water, units required replacement—water softeners were deleted in the initial specification as an economy measure

53. The Committee was informed that the main project on which the Squadron embarked upon initially was finished during 1967 but further work was given to the Squadron which enabled some personnel to continue working at Tindal until about the end of 1970. The Squadron Headquarters moved to Amberley in 1969 and then to Learmonth in Western Australia in February 1971. The departmental witness told the Committee that at the time of the inquiry (May 1975) Tindal is now used for exercise purposes by the RAAF and there are no permanent officers based there.

Exhibit 157/9 and
Qs 710 and 711.

54. As the work at Tindal was nearing completion, the Department gave consideration to the possibility of removing the houses from Tindal and re-erecting them at other places where work was being carried out by the Squadron. Consequently, on 21 January 1970 the Department of Works was asked to provide an estimate of the cost of dismantling, crating, transporting, re-erecting and rehabilitating 100 transportable houses from Tindal to Darwin. This estimate was provided on 2 February 1970 and totalled \$510 000 of which \$160 000 was the cost of rehabilitating the Tindal houses made up as follows:

Exhibit 157/9 and
Q. 709 and
Committee File
1974/5.

	\$
(a) stiffening springy floors—additional joists required	25 000
(b) replace plastic shower bases—plastic bases cracking	20 000
(c) replace roofing—new decking with greater fall required	45 000
(d) replace water heaters—due to local hard water	55 000
(e) internal and external painting	15 000
Total	160 000

55. On 20 February 1970 the Department of Works was asked to provide an estimate for dismantling 100 houses at Tindal, transporting them to Exmouth and re-erecting them there. This estimate was provided on 17 March 1970 and totalled \$580 000 of which \$400 000 was for dismantling, crating, transporting and re-erection and \$180 000 for rehabilitation.

Committee File
1974/5.

56. The two estimates were revised by the Department of Works on 25 June 1970 and details of the revised estimate per house are as follows:

Committee File
1974/5.

	Exmouth	Darwin
	\$	\$
6 man weeks dismantling and crating	1 000	1 000
Transport to Darwin	300	300
Transport Darwin to Exmouth	1 700	..
Transport to site at Exmouth and uncrate	400	..
Site Works	3 000	2 000
Re-erection	3 000	2 500

	Exmouth	Darwin
	\$	\$
Strengthening	1 000	..
Rehabilitation (including solar hot water system)	4 000	2 000
Electrical rewiring	600	..
	*\$15 000	\$8 000

* Amended to \$16 000 on 9 July 1970.

Exhibit 157/9 and
Q. 714.

57. The Department stated that other proposals were examined including the possibility of retaining the houses at Tindal for use as single accommodation during exercise periods in lieu of tented accommodation. However, rehabilitation costs and continuous maintenance costs made this proposition uneconomical. A proposal to move 100 houses to Townsville was also examined but the estimated removal cost of \$10 000 per house plus the cost of serviced land also made this proposal uneconomical.

Q. 729.

58. In relation to the proposal to move the houses to Darwin it was stated that the Department of Works had recommended against this proposal on the grounds that the houses would have to be located within the suburbs of Darwin and this would have been resisted by local Government authorities because of their inferior type and quality.

Qs 715, 716, 726
and 728.

59. The RAAF witness stated that in housing the No. 5 Airfield Construction Squadron at Exmouth, the choice basically was between obtaining Commonwealth-State Housing Agreement houses provided by the Western Australian Housing Commission or using some form of transportable housing. The housing provided under the Commonwealth-State Housing Agreement would cost \$26 000 for houses and \$19 000 for flats while the rehabilitated Tindal houses would cost \$16 000 and new transportable houses \$18 000. So after taking into account all the factors including costs and standards, the Department decided the best solution for housing the Squadron at Exmouth would be to obtain 48 houses under the Housing Agreement, 40 new transportable houses and 12 converted dwellings at the Commonwealth Hostel. Other factors that made it difficult to utilise the Tindal houses at Exmouth were that they were built to withstand winds of only 110 m.p.h. (the required standard when built) instead of the 130 m.p.h. required at Exmouth since a new standard was set in 1971. In addition, the electrical wiring in the houses did not meet the standards of the Western Australian housing authorities although acceptable under the Standards Association of Australia.

Committee
File 1974/5.

60. The Committee asked for some information on the standard of materials used in the construction of the houses which was supplied by the Department in a supplementary submission. The Committee was advised that the materials used in the construction of the prefabricated

houses were, and with one exception still are, considered by the Department of Housing and Construction to be equal to normal standards used in the construction industry and above standard for the majority of work then available in the 'knock-down' construction market at that time. It was pointed out that some problems that arose subsequently (referred to in paragraph 52 of this Report) resulted from insufficient development time in that form of construction and not, with the exception of shower bases, from inferior material. As stated earlier the shower bases were a substitute for the original metal bases in order to reduce capital costs. It later became evident that these plastic fittings were insufficiently developed and cracking occurred, apparently due to the composition of the plastic used. Fibreglass shower bases of proven quality have since been developed by the industry.

61. The Committee was informed that a formal approach was made in November 1971 by the then Department of the Interior on behalf of the Northern Territory Administration, to obtain the houses at Tindal to house Aborigines. Later the Department of the Northern Territory also had in mind using the houses for staff of the Department of Education and other Government Departments. In March 1972 Ministerial approval was given for the disposal of the houses as it was uneconomic to move them to possible future locations of the Airfield Construction Squadron. The houses were declared for disposal and removal from the airfield on 29 June 1972. Exhibit 157/9 and Q. 735.

62. An approach was made by the Department of the Northern Territory in March 1973 to have the area of land on which the houses were located excised from the Air Force holding and transferred to the Department of the Northern Territory. This proposal was unacceptable for civilian occupation as it would affect the operational use of the airfield. Moreover, a civilian colony on the part of the airfield occupied by the houses would create an unacceptable security problem for the Department of Defence. In addition, the utility services had been constructed to minimum standards and the services, such as water supply and sewerage would require complete replacement. Exhibit 157/9.

63. At the time of the inquiry (May 1975) the Committee was told that of the 114 houses only 78 were not in use. Two were permanently occupied by caretakers, 4 were reserved for RAAF use while 32 are occupied on a temporary basis—10 by staff of the Department of Education, 20 by staff of the Department of the Northern Territory now located at Katherine as a result of Cyclone Tracy and 2 by staff of the Repatriation Department. The departmental witnesses stated that the houses have been declared for disposal to the Department of Services and Property and they had no knowledge of any progress made by that Department in relation to the disposal of the houses. Exhibit 157/9 and Qs 738 and 746.

Conclusions

64. The Committee is satisfied from the evidence presented that the Department of Air made its requirements known to the then Department of Works by submitting a written specification which set out quite clearly the fact that the houses were to be capable of being dismantled, transported and re-erected in other locations as required.
65. It would appear, however, that the design finally accepted for the 114 houses, which the Committee understands was based on the technical specifications prepared by the Department of Works, did not measure up to the specified requirements of the Department of Air, particularly with regard to the ability to be dismantled, transported and re-erected at other sites for a reasonable cost. It also appears to the Committee that some of the faults that developed in the houses after four years of occupation indicates a lack of research into the types of materials and design for transportable homes suited to Northern Australia.
66. The Committee also believes that insufficient consideration was given to the economics of dismantling, transporting and re-erecting the houses at the time tenders were invited and the contract let and even before then. In this regard the Committee feels strongly that a detailed study into the likely costs of moving the houses should have been carried out by the Department of Air in conjunction with the Department of Works before the project was approved by the Minister.
67. The Committee has noted that the original intention was that the houses would be used at Tindal for a relatively short period and March 1967 was the possible date mentioned. As it happened, the houses were occupied by RAAF personnel until the end of 1970 and some of the houses were still occupied by staff from other departments at the time of the inquiry. The Committee would like to be informed of the final disposition of the houses.

CHAPTER 3—DEPARTMENT OF EDUCATION

(a) TERTIARY ALLOWANCE SCHEME

68. In paragraph 3.5.4 of his Report for 1973-74 the Auditor-General included the following general comments relating to the Tertiary Allowance Scheme: P.P. 331 of 1974.

The Tertiary Allowances Scheme announced by the Minister for Education on 23 August 1973 provides for living, dependants and incidentals allowances for full-time students undertaking approved courses of tertiary and post-secondary education. The Scheme became operative from the commencement of the 1974 academic year. Expenditure to 30 June 1974, charged to Division 848, Item 05, amounted to \$34 866 664, and, according to departmental records, more than 50 000 students were receiving allowances under the Scheme at that date.

The Tertiary Allowances Scheme replaced the Commonwealth University, Advanced Education and Technical Scholarships Schemes previously operative throughout Australia and the Teachers Scholarships at the Canberra College of Advanced Education.

Audit examinations in 1974 resulted in a number of unsatisfactory matters, which disclosed deficiencies in procedures and controls relative to payments under the Scheme, being referred to the Department.

69. By way of background the Department informed the Committee in its submission that: Exhibit 157/1.

The Government's emphasis on education has been reflected in massive expenditure inputs and new policies. In particular, major changes have occurred in the area of student assistance. The following statistics show the trends of expenditure and number of beneficiaries.

	Expenditure	No. of students receiving benefits
	\$m	
1972-73	67.3	76 012
1973-74	87.7	121 214
1974-75 est.	120.4	152 000

Over the three-year period, five new schemes have been phased in and seven schemes are being phased out. We have thus been faced with the development of new policy and procedures, transfer arrangements with options between old and new schemes together with increasing expenditure and increasing numbers of beneficiaries.

The speed with which new and changed initiatives must be implemented—drafting of legislation, development of ground rules and procedures, financial arrangements, payment to meet announced expenditure targets, recruitment and hasty training of staff, has put great pressure on staff. We accept that the desirable level of control has not been attained in all areas and perhaps will not be completely attained until the functions, organisation and staffing of the Department settle down. Nevertheless, it is felt that the implementation of government policy in education has progressed effectively.

70. The Department also informed the Committee that early in 1973 the Minister for Education asked the Department to formulate a scheme to provide assistance to all students in tertiary education on the basis of financial need. The scheme, which was to be implemented in 1974, was to replace the competitive Commonwealth University Scholarship Scheme, the Commonwealth Advanced Education Scholarship Scheme, the Commonwealth Technical Scholarship Scheme and the Canberra Teacher Education Scholarship Scheme. The new scheme was to complement the Government's program for the abolition of fees at tertiary institutions. The grants are available to technical college students as well as those attending universities and colleges of advanced education. Exhibit 157/1 and Q. 9.

71. The Department stated that the first applications for assistance were received in October 1973. The legislative basis for the new scheme, the Student Assistance Act, was assented to on 27 November 1973. The Department informed the Committee that because of the necessity to produce regulations in great detail and precision, the Act was not proclaimed until 8 October 1974, with effect from 15 October 1974. The witness for the Department explained that in order to cover payments up to 14 October 1974 the Commonwealth Scholarships and Awards Regulations, pursuant to the *Education Act* 1945-1973, were amended as an interim measure.

Living Allowances

P.P. 331 of 1974.

72. In relation to living allowances payable under the scheme, the Auditor-General stated in his report for 1973-74:

The Scheme provides for payment, subject to means test, of living allowances up to \$850 per annum for a student living at home and \$1400 per annum for a student living away from home.

The Scheme provides that the living allowance be reduced by \$2 for each \$10 by which the adjusted family income (A.F.I.) exceeds \$5300 per annum and by \$3 for each \$10 by which the A.F.I. exceeds \$10 600. The calculation table issued by the Department to its officers to assist in the assessment of living allowance entitlements shows, at \$20 intervals of A.F.I., the amount of living allowance payable. On applying the calculation table to an actual case (where the A.F.I. was \$8236) the entitlement of the student was found to be \$2 per annum greater than the entitlement if the table had been constructed in intervals of \$10 as laid down in the approved Scheme. Although these annual overpayments are small in each case, they do not appear to be authorised under the Scheme.

Under the Scheme, provision is made for married scholars to receive living allowance subject to the same means test as applies to other students except that their spouses may earn up to \$5300 per annum without affecting their living allowance entitlement. The living allowance of a married student is reduced by \$2 for every \$3 by which the spouse's income is in excess of \$5300.

For the assessment of living allowances for married scholars the Department's calculation table lists the weekly allowances payable at intervals of \$78 of the spouse's income. Where the spouse's income does not exceed \$5300 per annum the maximum personal living allowance payable (without dependants) is \$26.92 per week.

Audit noted that where the spouse's income does not exceed \$5377 per annum the weekly allowance payable according to the table is \$26.90 whereas the correct rate for an income of \$5377 should be \$25.96, according to the Ministerial statement that the living allowance will be reduced by \$2 for every \$3 by which the spouse's income exceeds \$5300 per annum. The error in calculation is continued throughout the table and, for income of \$5455 per annum and above, results in an excess entitlement of 96 cents per week per student for each weekly rate shown.

The extent of the overpayments cannot be calculated as departmental statistics were not available relative to the number of married students whose spouses had incomes in excess of \$5300.

In reply to the Audit query the Department advised that broadbanding of the table had resulted in considerable administrative savings within Regional Offices. Further administrative savings had been achieved by obtaining approval to pay allowances only when the entitlement was at least \$50 per annum. The Department accepted that specific authorisation by the Minister to the principle of broadbanding had not been obtained and action would be taken to rectify this.

The Scheme also provides for living allowances to be paid to single students who are independent of parental support or who, for other defined reasons, live away from home. A means test is applied to their own income from other sources. Under the Scheme, as announced by the Minister, such students may receive income up to \$1500 per annum (excluding income earned during long vacations) without affecting their entitlement to living allowance, and where income in excess of \$1500 per annum is received the living allowance is subject to reduction of \$1 for each \$1 of income in excess of \$1500. The calculation table issued by the Department provides for the allowance to be reduced by \$1 for each \$1.50 of excess income. In response to the Audit query the Department has advised that the matter is to be submitted to the Minister for review.

73. The Department told the Committee that the rates of living allowances under the Scheme are set out in the Regulations to the *Student Assistance Act* 1973 and any amendment to those Regulations would be subject to the approval of the Minister and/or a Cabinet Decision. Qs 12 and 24 to 26.

74. Under the Tertiary Allowance Scheme students are classified as Ordinary or Independent. They are classified as Ordinary unless they meet one of the criteria for the granting of independent status i.e. they are 25 years of age, are or have been married, are orphans or wards of State, have maintained themselves without support from their parents for two years or have been living in a bona fide de facto relationship for two years. Exhibit 157/1.

75. The Committee was informed that whether living at home or away from home whilst studying, Ordinary students have the means test applied initially to the combined gross income of their parents for the financial year preceding the year of study and subsequently to their own income during the study year. In 1974 the means test applied to any income which the student himself received in excess of \$1500. Exhibit 157/1 and Qs 11 and 16 to 18.

76. The Department informed the Committee that for an Ordinary student, maximum rate of living allowance is payable when the combined gross incomes of the parents, less certain deductions for business expenses and maintenance of other dependent children is equal to or less than a set amount, which for 1974 was \$5300 p.a., and the student's personal income does not exceed \$1500 per year. Where the adjusted family income exceeds \$5300 p.a. the maximum rate of living allowance is reduced by \$2 for each \$10 of income between \$5300 p.a. and \$10 600 p.a. and \$3 for every \$10 of income in excess of \$10 600. The living allowance entitlement is further reduced by \$1 for every \$1 by which the student's personal income exceeds \$1500. For an Independent student the maximum rate of living allowance is payable when his own income is equal to or less than \$1500 p.a. or where married, the income of his spouse is equal to or less than \$5300 p.a. Where his personal income exceeds \$1500 or that of his spouse exceeds \$5300 p.a., the maximum rate of living allowance is reduced by \$1 for each \$1.50 of income in excess of \$1500 or \$5300 respectively. Exhibit 157/1.

77. The Committee was informed that the abatement rates and a formula for calculating the monetary amount had been embodied in the Commonwealth Scholarship and Award Regulations since they were introduced in 1951 and are now set out in the new Student Assistance Regulations. Amendment to the rates or formula would also be subject to the approval of the Minister and/or a Cabinet Decision. Qs 12 and 26.

78. With regard to the overpayments mentioned in the Auditor-General's report resulting from a broadbanding of income in the calculation tables used for assessing entitlements of Ordinary students, the Department informed the Committee that under the former P.P. 331 of 1974 and Exhibit 157/1.

Commonwealth University and Advanced Education Scholarship Schemes, the calculation tables up to 1972 provided for the adjustment of a student's annual entitlement by as little as 20 cents when income declared under the means test varied by \$1. The Department stated that these very small adjustments and payments of allowance caused considerable irritation to both students and parents, and, in addition, caused administrative and workload problems which delayed the assessment of students' entitlements.

Exhibit 157/1 and
Qs 13, 15 and 18.

79. Following comments by the then Minister for Education and Science the Department decided in 1972 that, as far as possible, entitlements to allowances in the future would retain the previous ratio. But in order to reduce the number of adjustments that would have to be made, these allowances would be paid in accordance with pay tables which broadbanded income. These pay tables were constructed with a reduction rate based on \$10 units.

Exhibit 157/1 and
Qs 20 and 21.

80. In its submission the Department informed the Committee that for 1974 the approved reduction rate for determining Ordinary students' entitlements was set at \$2 or \$3 for each \$10 of income. The calculation tables were, however, structured in \$20 bands of income, with the reductions being \$4 or \$6 for each \$20. This step was taken in an effort to reduce further the workload, with a view to minimising delays associated with the payment of allowances. The Department conceded that it had omitted to obtain Ministerial endorsement to further broadbanding within the Department. The Department informed the Committee that endorsement had since been obtained. The witness for the Department in a reply to a question told the Committee that the payments made under the principle of broadbanding are in accordance with the provisions of the Student Assistance Act and Regulations.

Exhibit 157/1.

81. The Committee was informed that of the 43 700 Ordinary students in receipt of living allowance as at 30 June 1974, some 18 000 were in receipt of the maximum rate of living allowance and were not affected by the extension of broadbanding to \$20 units.

Exhibit 157/1.

82. The following table illustrates the effect of the \$20 broadbanding on the remaining 25 700 students:

Adjusted family income	Living allowance entitlement	
	\$10 broadband	\$20 broadband
\$		
8220	all eligible for \$266	all students within \$20 band (\$8220-\$8239) were paid \$266
8221		
8222		
8223		
8229		
8230	all eligible for \$264	
8236		
8239		

The Department commented that of the 25 700 students affected by the extended broadbanding, it could be assumed that half would receive the correct living allowance entitlement whether the tables are constructed in \$10 or \$20 bands of income. The additional payment to the other half would be \$2 per year. The Department considered that this additional payment should be viewed in the context of an estimated total amount to be paid for living allowances during 1974 of \$61.5 million.

83. The Auditor-General in his Report for 1974-75 stated that the Department was not able to determine readily the amount overpaid as a result of the use of calculation tables which broadbanded income but the Department had estimated the total overpayment at about \$62 100. It was also stated that the Treasury had advised the Department in February 1975 that approval had been given to waiver recovery of the living allowance overpaid. P.P. 186 of 9175.

84. The Committee was informed that during a speech on the Government's programs in education on 23 August 1973, the Minister for Education referred to the Tertiary Allowance Scheme and a statement provided by the Department setting out the provisions of the scheme was incorporated in *Hansard*. The Auditor-General in his report pointed out that under the provisions of the scheme as announced by the Minister, the reduction rate for single Independent students in relation to personal income was shown as being the same as for Ordinary students, i.e. \$1 for \$1 instead of \$1 for \$1.50 as provided in the calculation tables. P.P. 331 of 1974 and Exhibit 157/1.

85. In explanation of the variation between these details of the scheme, the Department admitted that the information given to the Minister in this regard was incorrect and the reduction rate should have been \$1 for \$1.50. The Department stated that the incorrect details provided to the Minister resulted from human error in the preparation of the material. The incorrect statement was prepared as an interim measure by the Department, pending receipt of supplies of the information booklet for the scheme from the printers and was not intended for incorporation in *Hansard*. The Department said that the information booklet which contained the correct rates, was used in the administration of the scheme. Exhibit 157/1 and Qs 22 and 23.

86. The Department in its submission stated that further examination of the Ministerial statement had detected another inaccuracy. When referring to a reduction rate for excess income earned by student's spouses, a rate of \$2 for \$3 was used. The ration of 2:3 was correct in terms of previous practice, but again the rate should have been, in terms of using the nearest whole dollar of allowance, \$1 for \$1.50. This latter rate was also included in the information booklet used during the administration of the scheme. Exhibit 157/1 and Q. 22.

87. The Committee was informed that the original statement made by the Minister has been replaced by a statement substituting the figures Exhibit 157/1.

referred to above for those originally quoted. This statement was tabled on 21 November 1974.

Exhibit 157/1 and
Qs 27 and 28.

88. With regard to the overpayments in relation to married (Independent) students the Committee was informed that the reduction rate of allowances to married students in previous schemes was 20 cents per week for each 30 cents per week income in excess of a set weekly amount. This was converted for 1974 to \$1 per \$1.50 excess income which was interpreted as being a reduction of \$1 per week for every \$1.50 per week in excess income, and calculation tables were constructed accordingly. In January 1974, State Offices were advised that the rates were to be applied to annual not weekly amounts of income. All but two State Offices of the Department ceased using the independent calculation tables on receipt of the Central Office direction. The other two did not appear to appreciate the implications of the change and continued to use the tables. The witness for the Department stated that the two State Offices were now calculating the reductions on an annual basis and the Treasurer, as an act of grace, had waived recovery action of any overpayments that may have resulted from the use of the incorrect tables.

Exhibit 157/1 and
Qs 29 to 31.

89. The Committee was informed that at 30 June 1974 there were 13 227 Independent students, both single and married, in receipt of living allowance. Some 12 000 were in receipt of the maximum rate of allowance and hence their entitlements were not affected by the tables. Of the remaining 1200, 419 were in one State which continued to use the tables and 327 in the other. The witness for the Department told the Committee that details of the student's income or family income are provided on the student's application form and that an assessment of the rate of living allowance is made on a prepared section of the application form. The Department maintains records of amounts paid to students, but statistics which would indicate how many of these students are married are not maintained.

Dependants' Allowances

P.P. 331 of 1974.

90. The Auditor-General in his report also stated that:

In addition to living allowances, the Scheme provides for the payment of maximum allowances of \$416 per annum in respect of a dependant spouse and \$260 per annum in respect of each dependant child under 16 years of age.

It was observed that Regional Offices of the Department paid the dependant child allowance under the same conditions as had applied under the former Commonwealth University Scholarships and Commonwealth Advanced Education Scholarship schemes, viz. that living allowance was paid to the student, male or female, and the dependence of the child on the student was substantiated to the satisfaction of the Regional Office.

Audit enquiries indicated some uncertainty had arisen in one Regional Office on the test to be applied to determine the dependency of a child on a student. This uncertainty had arisen because of a telex advice in May 1974 to the Regional Office from the Central Office of the Department setting out a revised test of dependency. The revised criteria had not been applied in the Regional Office but Audit test checks disclosed that, if applied, there would be at least 2 cases of continuing overpayments of a dependant's allowance to students. My Office therefore sought from the Department clarification of the basis for determining eligibility.

In reply the Department advised that the Central Office telex of May 1974 was incorrect and that all Regional Offices had been directed to continue paying child allowance in accordance with the previous policy—namely that eligibility for child allowance was considered to be established whenever the scholar was in receipt of living allowance under the Scheme. The Department stated it had not been possible to draw precise guidelines concerning the degree of dependency of children on parents because of the wide variation in family circumstances.

My Office sought the Department's advice of instructions, if any, issued to Regional Offices regarding the determination of eligibility for child allowance to ensure a uniform approach throughout Australia in the assessment of the allowance.

The Department recently advised that whilst the guidelines for the payment of child allowance were essentially those which applied under the former Commonwealth University and Advanced Education Scholarship Schemes, it was aware these were somewhat out of date and action was being taken to draft new guidelines.

In one State, from the sample of cases checked, my officers noted a case where both the husband and wife received living allowances under the Scheme and both were granted a child allowance of \$260 per annum in respect of the same child. The husband was also in receipt of a spouse's allowance of \$416 per annum which is not payable where both husband and wife receive living allowance under the Scheme. The Department advised that directions had been issued to begin recovery action forthwith.

In another State, my officers reported that a student had been paid child allowance at the rate of \$1560 per annum when the children should have been classified as dependant on her husband. The Regional Office advised that the incorrect payment arose as the result of misinterpretation of a rule. The entitlement had been adjusted and the overpayment was being recovered.

91. The Committee was informed that under the former Commonwealth University and Advanced Education Scholarship Schemes a child allowance was payable at a flat weekly rate to either a female or male scholar with a dependent child under the age of 16 years. Under the Tertiary Allowances Scheme, no age limits apply to applicants; assistance is available on a non-competitive basis to all full-time students attending universities, colleges of advanced education, and technical colleges. The age limit of 16 years for dependent children mentioned in the Auditor-General's report was increased to 25 years in 1973, to bring it into line with the age limits for student child endowment paid by the Department of Social Security and concessional deductions for student children permitted for taxation purposes. Whilst it was expected that a wider socio-economic group of students would be catered for under the new scheme, there was insufficient time and operating experience of the new scheme for the Department to draw up precise guidelines which might cover the degree of dependency of children up to the age of 25 years on students who were say, divorced, separated, deserted, in a de facto relationship, etc. It was decided, therefore, to continue the former policy of requiring the student to substantiate the dependence of the child to the satisfaction of the State Offices.

Exhibit 157/1 and
Q. 32.

92. The Department stated that the general guidelines of the former schemes had been less than adequate to cover some of the cases encountered this year. As a result, more detailed guidelines which amplify the provisions of the Student Assistance Regulations were issued to State Offices in October 1974 for use in dealing with applications for 1975.

Exhibit 157/1 and
Qs 33 and 34 and
Committee File
1974/5.

Exhibit 157/1.

93. The Department informed the Committee that in the case of the two errors mentioned by the Auditor-General the following occurred:

- (a) Incorrect advice concerning one of the criteria for dependency was sent to one State Office this year. This could have, but did not lead to any errors, as it was quickly queried by the State Office concerned and amending advice was furnished.
- (b) Recovery action is being taken in the two cases of incorrect payment mentioned.

Incidentals Allowances

P.P. 331 of 1974.

94. The Auditor-General included the following comment in his report in relation to the incidentals allowances:

Under the Scheme students are eligible for an incidentals allowance, ranging from \$100 per annum to \$30 per annum according to the category of institution attended. Payments are made on applications received prior to acceptance of students at a nominated university, presumably on the assumption of acceptance at that university. In one State my officers reported instances where students had subsequently not been accepted by the nominated university but were later accepted at institutions of a lower category without consequential reduction of the allowance.

This matter was referred to the Department which recently advised that Regional Offices would be reminded of the need to vary the allowance in the circumstances cited.

Exhibit 157/1.

95. It was explained to the Committee that in 1974 tuition and associated fees were abolished at universities, colleges of advanced education and technical colleges. However, Student Representative Council fees, Sports Union fees and other student activity fees continued to be levied. To assist needy students to meet these fees, the scheme provides for the payment of an incidentals allowance of \$100 for students at universities who qualify for the means tested living allowance, \$70 for colleges of advanced education and \$30 for technical colleges.

Exhibit 157/1 and Q. 36.

96. The Committee was informed that the incidents reported by the Auditor-General involved a neglect of some departmental procedures in the State of Victoria. In this State, the examination revealed two cases in a sample of 247 where a reduction should have been made because the students were not accepted by the institution originally nominated. The necessary adjustments to the allowances in both cases have been made.

Exhibit 157/1.

97. In its submission the Department informed the Committee that it attempts to advise as many students as possible of their eligibility for assistance under the scheme prior to their commencing tertiary study. Applications are called for before enrolments at institutions are confirmed and payments to new students are commenced in March on the assumption that students will be accepted by the nominated institution. Where a student gains admission to an institution of a lower category than that nominated on the form, the amount of incidental allowance payable needs to be adjusted.

Exhibit 157/1.

98. In further explanation the Department pointed out that students undertake, when applying for assistance, to advise the Department immediately of any change in their proposed course. In addition, students must submit a Confirmation of Enrolment form early in the year to ensure continuation of payments beyond a specified date, and a declaration in mid-year confirming that they are still enrolled in the nominated course.

99. The Department explained that the existing procedures call for a check of the details of these forms against the original application form in order to determine whether an adjustment to allowances is necessary. The Department maintained that the basic procedure for checking on cases such as these is considered to be sound. In view of the errors which occurred, the Department reminded State Offices on 7 November 1974 of the need to ensure that details of forms returned by students during the year are checked against the original application form and adjustments made where necessary. As Victoria was the only State where a break-down of procedures was apparent, the Department did not consider it justified or warranted to carry out a detailed examination in other States. Exhibit 157/1 and
Qs 36 and 37.

100. The Observer for the Auditor-General's Office Mr Hinchy, Q. 35. informed the Committee that Audit examinations into incidentals allowances were also carried out in New South Wales, Queensland and Tasmania, but no deficiencies similar to those in Victoria were noted.

Duplicate Payments

The Auditor-General also stated in his report that:

P.P. 331 of 1974.

In one State 3 instances were detected from a sample check of students receiving living allowance under both the Tertiary Allowances Scheme and in relation to Commonwealth Teaching Service Scholarships which are referred to at paragraph 3.5.8.

In response to an Audit query the Department recently advised that departmental checks in the State concerned had revealed 3 further instances of over-payment; recovery action was in course in all cases; and that the failure to exercise proper cross check had been confined to the one Regional Office.

101. The Committee was informed that under the Tertiary Allowances Scheme a grantee is permitted to receive limited assistance from any other award or scholarship provided it is not a bonded award. Under this provision, a grantee may receive up to \$600 per annum from another award without affecting the entitlement under the scheme. When the amount exceeds \$600, the entitlement is reduced on a \$1 for \$1 basis. Hence in 1974 a grantee could receive the maximum allowance of \$1400 under the scheme plus \$600 from another award. Exhibit 157/1.

102. The Department explained that a Tertiary Allowance Scheme grantee may also hold a Commonwealth Teaching Service Scholarship, because these scholarships are not bonded and provide means tests free assistance of \$850 or \$1400 per annum. However, a Tertiary Allowance Scheme grantee must declare the assistance received on the application form. The witness for the Department informed the Committee that it had instituted a record system in which a card is raised for every scholarship or award holder within the departmental records in the Office concerned and then channelled into a master record system. Cross-checks are then carried out to establish numbers of scholarships, etc. Exhibit 157/1 and
Q. 38.

P.P. 331 of 1974,
Exhibit 157/1 and
Q. 39.

103. The Auditor-General in his report pointed out that a State Office failed to cross-check the records of applicants for assistance under both schemes in order to detect students in receipt of assistance under the Tertiary Assistance Scheme who had not declared assistance received from a Teaching Service Scholarship. The Auditor-General's sample check detected three cases of students incorrectly receiving assistance under both schemes. A total check by the State Office found a further three cases. The Committee was informed that the duplicate payments are being recovered. The Department stated that a check was carried out in all other States.

Exhibit 157/1 and
Q. 41.

104. The Department informed the Committee that it had been a long-standing practice to cross-check numbers of scholarships under the former Commonwealth Scholarship Schemes with applications for similar tertiary awards administered by the Department. The failure of one State Office to carry out the check this year was brought about by an oversight in the preparation of procedures by that Office. The omission was not detected, mainly because of the large proportion of relatively untrained and inexperienced staff who had to be used to implement the scheme at short notice and also because of the lack of time to provide thorough training of staff in the operating procedures.

Qs 42 to 46.

105. Upon questioning, the witness for the Department admitted that the requirements of the particular check were not included in the procedures of the particular State Office concerned. The Committee was also informed that copies of each State Office procedures are sent to the Central Office for information and scrutiny but only minimum uniformity is practised between States even though the underlying principles are the same.

Exhibit 157/1.

106. In its submission the Department stated that it is the Department's intention to continue the practice of cross-checking applications for both schemes and all State Offices have been instructed to ensure that the check is included in procedures for future years.

Qs 56 and 57.

107. The Committee was told that when the new Tertiary Allowance Scheme was introduced the Department realised that it would be necessary to strengthen the State organisations of the Department in order to cope with the new scheme. Time did not permit a total review of the Department's organisation, so the Department and the Public Service Board agreed on an interim establishment for the sections dealing with the new scheme, increasing the existing positions from 204 to 295. These new positions were filled by extensive temporary transfers of existing staff from within the Department and by recruitment at the base clerical level. The witness for the Department explained that the officers filling the newly established positions had little or no experience in the particular area and the existing staff, although generally experienced in the administration of the established schemes of the Department, had no experience with the administration of the new scheme.

General

108. Other comments made by the Auditor-General in his report P.P. 331 of 1974. which related to the Tertiary Allowance Scheme were:

Audit enquiries revealed the Department had not instituted uniform procedures for ensuring that students in receipt of living allowances at the away from home rate were living at the 'away from home' address. The Department recently advised that it was conscious of the need to regularise the position and action would be taken to issue a standard set of procedures for 1975. The difference between the 'at home' and 'away from home' rates of living allowance is \$550 per annum.

The Central Office of the Department advised a Regional Office by telex in January 1974 that 'it is the student's responsibility to declare any other awards and you should not take special efforts to discover them'. In the State concerned, my officers later reported that certain students in receipt of allowance under the Scheme had returned cheques because they had subsequently accepted Teachers College University Scholarships from the related State Department. The Department had advised me that attempts are normally made to obtain information on awards made by significant bodies but workload precluded this in 3 States in 1974 and that it is not practicable to make special efforts in respect of awards by small bodies, e.g. local councils and organisations, and the telex in question was intended to refer to this latter type of award. My Office considers the Department has a responsibility to carry out such checks as are practicable to ensure that scholars do not obtain such dual benefit. In this regard the Department recently advised that sample checks will be made in the 3 States concerned in the near future.

In December 1973 my Office suggested to the Department for consideration that the student's declaration on the Application for Assistance Form be in the form of a statutory declaration as a deterrent against the inclusion of false information.

The *Student Assistance Act* 1973, which makes provision for benefits to students by way of senior secondary scholarships, tertiary education assistance and post-graduate awards, is to come into operation on a date to be fixed by Proclamation.

The Department recently advised me that following discussion the Attorney-General's Department considered, for the future, the preferred course of action would be to include in the student's 'declaration' a statement setting out the penalty under the Student Assistance Regulations, when operative, for furnishing false or misleading information. The Department also informed me that the Student Assistance Act is expected to be proclaimed shortly and that the 1975 application forms will include the proposed statement.

109. The Department stated that it accepted as correct the Auditor-General's comment that they had not instituted uniform procedures to ensure that students in receipt of living allowances at the 'away from home' rate were living at the 'away from home' address. P.P. 331 of 1974 and Exhibit 157/1.

110. The Department in its submission explained that there are two rates of living allowance under the scheme; a maximum of \$850 per annum for students living at home whilst studying and \$1400 per annum for those living away from home. The 'away from home' rate is payable where students: Exhibit 157/1 and Q.47.

- (i) have reached or will turn 21 years of age in 1974 and wish to live away from home;
- (ii) must live away from home in order to meet the compulsory residence requirements of their course, e.g. medicine;
- (iii) because of the distance and time involved in daily travel must live away from home in order to attend the institution of their choice;
- (iv) are under 21 years of age and must live away from home because of difficult conditions at home which would have an adverse effect on their studies.

Exhibit 157/1 and
Q. 47 to 49.

111. The Committee was informed that a variety of procedures, based on past experience, was adopted in 1974-75 by State Offices. With one exception, checks of various kinds were introduced, but all relied on students truthfully declaring their actual place of residence.

Exhibit 157/1.

112. The Department in its submission stated that under various procedures adopted this year, which varied from the provision of statutory declarations to a cross-check of new addresses with parental addresses, no cases have been detected of students having falsely claimed to be living away from the parental home.

Exhibit 157/1 and
Qs 50 to 52.

113. The Department informed the Committee at the time of the inquiry that it was examining ways and means of checking on the place of residence of students. The witness for the Department stated that in future the Department proposed to send out an Acknowledgement Receipt (A.R.) registered letter to the stated living away from home address, and cross-check the signatures with the application form. However, the witness admitted that this method would not guarantee a one hundred per cent result.

Exhibit 157/1.

114. The Department stated that the non-establishment of a set of standard procedures was mainly due to the Department's inability to arrive at a technique other than sending officers to inquire at addresses given on forms, to determine that students were, in fact, residing away from parents.

P.P. 186 of 1975.

115. In his report for 1974-75 the Auditor-General stated that the Department had informed his office in February 1975 of procedures to be adopted under the Student Assistance Regulations to establish a student's eligibility for living allowance at the 'away from home' rate.

Exhibit 157/1.

116. With regard to procedures for checking whether award holders receiving assistance from other schemes, the Committee was informed that students are ineligible for assistance under the scheme if they hold a bonded award from another source and their allowance rates may be reduced if they are in receipt of benefits from another unbonded award. They sign a declaration to undertake to inform the Department whenever they enter into a bonded arrangement or receive in excess of \$600 from an unbonded award. It has been the Department's usual practice to cross-check lists of scholarship winners with winners of bonded awards or cadetships offered by major organisations such as State Departments of Education and the Commonwealth Public Service Board.

Exhibit 157/1 and
Q. 53.

117. The Department informed the Committee that it was considering the use of computer processing to assist in checking on certain awards.

Some of the information is held by different computer systems used by State Departments and Australian Government Departments which has created a programming problem that has not yet been solved. The witness for the Department told the Committee that there was a reluctance on the part of some of the States to disclose information that they considered to be confidential.

118. The Department informed the Committee that it carried out a sample survey of 5% of students receiving assistance under the Tertiary Allowance Scheme with those receiving assistance under bonded teacher trainee scholarships from the Education Departments in the three States concerned. The survey has shown that:

Exhibit 157/1 and
Q. 59.

- (i) of the 350 students sampled in one State, no cases of duplicated assistance were found;
- (ii) of the 1000 students sampled in another, one student, in the process of discharging his bond obligation to the State Education Department, had been overpaid for part of the year. Recovery action is being taken.
- (iii) of the 782 students sampled in the third State, one student had been overpaid for part of the year and one other student for a period of 22 days whilst in the process of discharging his bond obligation to the State Education Department. Both overpayments are being recovered.

119. The Committee was informed that checks to establish if students were in receipt of State Education Department scholarships were not carried out by three State Offices because of the work-load of the new scheme. The Department explained that checks are carried out manually and consist of matching names of students holding State Education Department scholarships with Australian Government scholarships. The Committee was also informed that it is not possible to check awards made by private organisations as the information on such awards is not available to the Department.

Exhibit 157/1 and
Q. 59.

120. The Committee was informed that applicants for assistance under the scheme are required to sign a declaration that information provided in the form is correct and undertake to inform the Department when details vary. For many years under former scholarship schemes the declaration, although witnessed when signed by the student, was not in the form of a statutory declaration. However, the declaration indicated that the Commonwealth Scholarships and Awards Regulations provided a penalty of \$100 for false or misleading information. The Deputy Crown Solicitor had successfully won proceedings against students on the basis of the declaration. The same form of declaration was used on the application forms for the new scheme. However, no warning concerning misleading information was included because the legislation for the new scheme, which included penalty provisions, had not been finalised.

Exhibit 157/1 and
Q. 60.

121. The Department explained that application forms for 1974 had already been printed when the Auditor-General's suggestion was

Exhibit 157/1 and
Q. 60 and
Committee File
1974/5.

received in December 1973. Subsequent discussions with the Attorney-General's Department indicated that the preferred course of action for 1975 would be to include in the declaration made by students on application forms a statement setting out the penalty provisions of the Student Assistance Regulations for furnishing false or misleading information, as was done under former schemes. Consequent upon the proclamation of the Student Assistance Act, the student's declaration on the application form for 1975 contains a statement that under Regulation 91 of the Student Assistance Regulations there is a penalty of \$100 for furnishing false or misleading information.

Conclusions

122. The Committee appreciates the very practical considerations that prompted the adoption of the principle of broadbanding of incomes as a means of calculating living allowances payable under the Tertiary Allowances Scheme and commends the Department for its initiative. However, it feels that it must also criticise the Department for its failure to recognise that it was necessary to obtain the Minister's authorisation to extend the broadbanding from \$10 to \$20 units of income.

123. The Committee notes from the evidence that the Minister's approval to this further broadbanding has since been obtained. However, the Committee was disturbed to learn from the Auditor-General's report for 1974-75 that further overpayments of allowances have apparently occurred in New South Wales and the Australian Capital Territory as a result of the use of calculation tables which included unauthorised broadbanding of incomes.

124. The Committee viewed with some concern the disclosure that a statement relating to the Tertiary Allowance Scheme provided to the Minister by the Department had been incorrect in some respects. The Department's evidence to the effect that the statement was not intended for incorporation in Hansard does not alter the fact that the Minister, the Parliament and the public were incorrectly informed on details of the scheme. The Committee also considers that action should have been taken earlier than 21 November 1974 to correct the information given in the original statement tabled by the Minister on 23 August 1973.

125. The Committee notes that there were cases where students were incorrectly receiving assistance under both the Tertiary Allowance Scheme and the former Commonwealth Scholarship Scheme because certain cross checks had not been included in the procedures of the particular State Office concerned. The Committee considers that the omission of such a basic check from the procedures should have been detected by the Central Office of the Department when the procedures were forwarded to that Office for scrutiny.

126. Finally, the Committee views in a serious light the fact that in many of the instances referred to by the Auditor-General, the Department has given as the reasons for the errors that proper procedures were not prescribed, that the prescribed procedures were not followed or that instructions were not properly understood. The Central Office of the Department has a clear responsibility to ensure that suitable procedures are prescribed and that the prescribed procedures are followed. In exercising this responsibility the Department should make certain that all officers are aware of the existence of the procedures, that copies are freely available and that each officer is informed of the necessity to comply with the procedures.

(b) SALARIES AND PAYMENTS IN THE NATURE OF SALARY

General

127. In paragraph 3.5.5 of his Report for 1973-74 the Auditor-General stated: P.P. 331 of 1974.

Audit test checks in 1974 of salaries and payments in the nature of salary in all States, the Australian Capital Territory and the Northern Territory disclosed numerous defects in all areas. The defects were such as to indicate overall unsatisfactory departmental control in some States. In response to Audit queries the Department advised that remedial action has been or will be taken; replies to Audit queries addressed to 2 Regional Offices were awaited at the date of preparation of this Report.

The audit in the Northern Territory, based on the sample examined, revealed a particularly unsatisfactory situation. There was a high incidence of error in the calculation of entitlements and in associated personnel records as a result of failure to apply proper procedures and controls.

In reply to the Audit query the Northern Territory Branch of the Department advised that remedial action either had been or would be taken. In partial explanation of the unsatisfactory matters reported, the Department stated that they were invariably caused by a quite impossible workload falling to a young and inexperienced work-force.

The audit in the Australian Capital Territory also disclosed defects in the application of proper procedures and controls.

128. The Committee was informed that salary entitlements within departments are normally handled by standard personnel record teams comprising a Clerk, Class 2/3 and a Clerk, Class 1 who process leave applications, salary variations and other related matters. A Clerk, Class 4 is responsible for the supervision of two or three teams. In some areas where there is a range of determinations or some determinations which are more complex, a Clerk, Class 5 or Clerk, Class 6 would be the supervisor over a number of teams. In other areas greater use has been made of clerical assistants. This varies according to availability of suitable staff at a particular location.

Exhibit 157/1 and
Qs 61, 67 and 68.

129. The Department explained to the Committee that the level of knowledge required of the staff in this area is quite high. Clerks, Class 2/3 and Class 1 are required to have a knowledge of extensive and complicated legislation and instructions. They may be required to make salary adjustments under, for example:

Exhibit 157/1 and
Q. 61.

- Public Service Act and Regulations
- General Orders

- PSB Circulars and Memoranda
- Superannuation Act and associated circulars
- Commonwealth Employees Furlough Act
- Arbitrator's Determinations
- Compensation Act

Exhibit 157/1 and
Q. 69.

130. The Committee was informed that turnover of staff in the salaries area is the highest in the Department. The following table provided by the Department in November 1974 sets out the length of experience of people occupying positions of Clerks, Class 2/3 and Class 1 in departmental State Offices and also shows the extent of their salaries experienced prior to occupying their current positions.

	Length of service in current position	Length of previous salaries experience
Clerks, Class 2/3		
Less than 6 months	3	3
6 months-1 year	3	1
1-2 years	1	3
Over 2 years	Nil	Nil
Clerks, Class 1		
Less than 6 months	2	3
6 months-1 year	2	1
Over 1 year	Nil	Nil

Qs 61 and 69.

131. At the public inquiry the witness representing the Department gave three basic reasons for the high turnover of staff in the salaries area. Firstly, the work in this area provides a good training ground, qualifying people for promotion outside the area. Secondly, in 1973-74, the establishment of new departments created promotion opportunities within the salaries sections of these new departments. Thirdly, staff in the finance area are often subject to pressure as they have to deal directly with complaints concerning errors in salaries even though such errors may not have originated in the salary sections. Also the need to get new salary determinations through quickly often requires staff to work extensive overtime. These factors caused a high turnover of staff in the salaries area due to resignations, transfers and promotions.

P.P. 331 of 1974
and Qs 61 to 66.

132. The departmental witnesses involved in the inquiry when asked whether the numerous defects mentioned by the Auditor-General in his report were caused by perhaps a too low classification of salary section personnel, stated that the problem was related more to the complexity and volume of the legislation dealing with salaries and the lack of adequate training and supervision. The witness for the Department told the Committee that the work load of the officers responsible for training and supervision of junior staff is such that they have little time to carry out this function. With regard to training, the witness explained that although formal training courses of one or two hours per week had been

introduced, these were not considered by the Department to be sufficient.

133. The Committee was told that as a result of an experiment in the Northern Territory, the Department intends to submit to the Public Service Board a proposal in which one salaries team is set up as a training cell and given less than half the normal workload. New and existing staff would then be rotated through this team to be given detailed constructive training covering the more difficult entitlement cases. Q. 61.

134. The Public Service Board Observer, Mr Wheen, commented that the Public Service Board had, late in 1973 and early 1974, conducted a survey into the structure of the standard personnel record teams. The conclusions that the review team drew at that stage were that there was not sufficient evidence to show that the establishment or classifications were seriously in error. However, the Public Service Board Observer pointed out that the information provided from the survey showed that a number of errors, varying from 30 to 50 per cent of the total error rates, were simple clerical errors such as the incorrect transcription of identity numbers and simple errors in arithmetic. The Committee was informed that the Treasury and the Public Service Board were trying to establish why such errors should occur in these particular areas. Q. 67.

135. The Committee was informed that the volume of transactions handled is substantial. In Canberra for instance there would, during 1973-74, have been at least 45 000 different calculations prepared for computer processing. There were another 9000 transactions such as paid leave which did not involve salary variations. A witness for the Department pointed out that a large number of temporary positions are filled at the beginning of each academic year to meet the October-March seasonal peak. This creates an abnormal amount of extra work for the personnel sections compared with most other departments who do not have this seasonal staff movement. Exhibit 157/1 and
Qs 70 and 71.

136. With regard to the comment in the Auditor-General's report on State Offices, where cases were found where certain internal control checks had lapsed and errors in assessing entitlements had been made, the Committee was informed that the control checks had been reintroduced and the errors rectified. Exhibit 157/1 and
Q. 74.

137. In evidence, the Department agreed that the criticism of the Auditor-General was valid regarding a high incidence of error in the calculation of entitlements in the Northern Territory and in associated personnel records as a result of failure to apply proper procedures and controls. The departmental witness said that the error rate was in excess of 50 per cent, including minor errors. The Department pointed out that during 1973-74 its Northern Territory Division experienced a considerable increase in workload, moving from a total establishment of about 600 to 2200 during the year. The more significant increases were: Exhibit 157/1 and
Qs 84 to 86.

- (a) Takeover of responsibility from the Department of the Northern Territory for 500 teachers, administrative staff and support staff in aboriginal schools.
- (b) Transfer of about 400 Aboriginal teaching and support staff from a training allowance payment system to a system involving the payment of award wages and general public service conditions.
- (c) The final phase of staffing schools in the Territory with teachers from the Commonwealth Teaching Service rather than from the South Australian Education Department, was implemented early in 1974. An additional 700 personnel were taken on to the payroll, of whom 400 filled new positions and 300 were replacements or transferees from South Australia.

Exhibit 157/1.

138. The Department stated that the salaries section establishment of only 5 officers at 1 July 1973 could not cope with increases of this magnitude. An additional 7 positions were approved in November 1973, 3 in December 1973 and a further 14 in July 1974. The Department further informed the Committee that the positions approved in November and December 1973 were, because of inevitable lead times in recruitment, not filled until some months later.

Exhibit 157/1 and
Qs 91 to 95.

139. The Committee was told in the submission that the staff of the Personnel Unit in Darwin was unable to cope with the demands placed on it. It was explained to the Committee that from October 1973 to February 1974 the unit in Darwin was faced with bringing 500 Aboriginal staff on to the payroll under award wages when none of the staff had any prior experience with industrial awards. It had to induct teachers transferring from the South Australian Department of Education and handle an intake of 400 teachers from outside the Northern Territory including physical reception, arranging housing and placing them on the payroll. The induction of the teachers was complicated by new Teachers' Awards effective from 18 October 1973 and 20 January 1974, which involved complex retrospective adjustments. The Committee was informed that the Department had experienced difficulties in obtaining and processing formal salary history details from the South Australian Department of Education and the Commonwealth Teaching Service.

Exhibit 157/1 and
Qs 84 and 96 to
100.

140. The Department informed the Committee that since the Auditor-General's investigation the progressive introduction of additional staff has enabled:

- (a) a complete review of teachers' salary rates and personnel records. This was undertaken during the period 12 March to 10 May 1974—the period in which the audit investigation was carried out;
- (b) administrative staff salaries and personnel records have been systematically updated and checked;

- (c) new procedures have been introduced in respect of staff employed under industrial award conditions;
- (d) all procedural deficiencies highlighted by the audit examination have been investigated and remedial action is in hand; and
- (e) a systematic training program has been implemented.

Duplication of Salary Entitlement

141. The Auditor-General in his report also mentioned the following: P.P. 331 of Entitlement

It was noted that 2 payments had been prepared for the one pay period for a part-time employee—one in her professional name and one in her legal name. Further investigation revealed that payment authorisation for the person concerned had been issued for 2 separate commencement dates and at 2 different rates of payment. In reply to the Audit query the Department advised that the duplication arose from the failure of the staff to follow the correct procedure, that the overpayment had been recovered and that remedial action would be taken to prevent recurrence.

142. The Department in its submission stated that the duplication of salary entitlement referred to by the Auditor-General in his report referred to a part-time member of the staff employed by the Canberra School of Music. The employee was recruited as an emergency measure to replace a flute teacher who resigned at short notice. The one person available was then self-employed in Sydney and she was not prepared to forego her usual employment but agreed to come to Canberra on a three days per week basis. P.P. 331 of 1974 and Exhibit 157/1.

143. The Committee was informed that the error arose from a confusion between the professional (maiden) and married name of the employee and from failure to observe the prescribed procedures. The procedural failures were that the staff of the School of Music did not ensure that the employee reported to the Personnel Section immediately she commenced duty. The Personnel Section should not have initiated salary action without completing the normal induction procedures. Furthermore, when she did ultimately report (two weeks after commencement) the officer in the Personnel Unit who 'signed her on' did not match her claim for employment with the authority for employment. Exhibit 157/1.

144. The Department in its submission stated that the original approval for employment referred to the employee by her professional name. Her employment commenced on 11 February 1974 and payment at the approved rate was arranged from this date for the time actually worked (53 hours) in the ensuing fortnight. In the absence of any advice to the contrary, payment by cash was arranged by the Personnel Unit. Arrangements were made for her to work a regular 22½ hours (3 days per week) from 25 February 1974. However, when she reported to the Personnel Unit on that date, she used her married name, indicated the number of hours she would be working and asked for payment by cheque because she would not normally be in Canberra on pay-days. On the assumption that the Department was aware of her employment in Exhibit 157/1 and Q. 101.

the previous fortnight, she did not mention this employment to the Personnel Unit Officer on 25 February. The Personnel Unit Officer failed to check against the authority for employment and assessed that 25 February was the actual commencing date. Consequently, there were two different names, payments and commencing dates.

Exhibit 157/1 and
Q. 101.

145. Regarding the two different rates of pay, the Committee was informed that on the basis of experience and skill, an hourly rate which was above the usual commencement rate for Teachers, Grade 1, was agreed upon by the Public Service Board and payment for the first fortnight was paid accordingly. However, the second payment, because of the failure to check on the authority to employ, was made at the normal commencing rate for Teachers, Grade 1.

Exhibit 157/1.

146. The Committee was informed that the error was detected by the Registrar of the School of Music because pay slips in each of the two names were delivered to the School of Music. The overpayment has been recovered. The Department pointed out that there was no indication of any deliberate attempt at deception by the employee or the departmental staff involved. The Department stated that a thorough check carried out in the Personnel Unit has demonstrated that this was a 'once only' occurrence. The attention of all staff has been drawn to the need to follow proper procedures.

Duplicate Remittance of Salary

P.P. 331 of Salary

147. It was also stated in the Auditor-General's report that:

It was noted that an education adviser stationed in an overseas country had been overpaid an amount of \$2600 by reason of fortnightly salary remittances being made from 2 sources during the period July 1972 to March 1973. The Department had not informed my Office of the overpayment as required by Treasury Directions.

Investigation disclosed that salary remittances had been made for some time by the resident British High Commissioner (reimbursed through the Australian High Commission, London) and, in rearranging the procedure as at July 1972 for remittances by the Australian High Commissioner in a neighbouring country, effective action was not taken to ensure that the British High Commissioner ceased payments.

In October 1972, the Australian High Commissioner's Office, London, advised the Department of Education that payments by the British High Commissioner were continuing and in January 1973 the education adviser notified the Department that he had been receiving double payments. Notwithstanding these advices the payments continued from the 2 sources to March 1973.

In reply to the Audit query, the Department advised that the duplication was caused by the misdirection of the overseas payment authorisation when the new payment arrangements were made in July 1972. The overpayment was being recovered by instalments from the education adviser.

Exhibit 157/1.

148. By way of background the Committee was informed that under the Commonwealth Co-operation in Education Scheme (C.C.E.) advisers are provided only in response to requests from governments of developing Commonwealth countries. In November 1974, there were 15 advisers, 3 were located in Zambia, 1 in Kenya, 1 in Botswana, 6 in Fiji, 3 in the British Solomon Islands and 1 in Western Samoa. Where an adviser is sought on a long-term basis, the Department of Education

usually seeks nominations from State Education Departments and those selected are normally seconded to and paid by the Australian Government.

149. The incident referred to by the Auditor-General related to salary payments made to an education adviser who had been employed under the C.C.E. scheme since 1967 in Zambia. His salary was originally paid by the British High Commission in Zambia by arrangement with the Australian High Commission in Tanzania. The British High Commission then claimed the amounts concerned from the Australian Sub-Treasury, London through the British Foreign Office, authorisation was provided to the Sub-Treasury for payment through the submission, at six-monthly intervals, of Form OA2—'Request for payment of moneys'.

Exhibit 157/1 and Q. 108.

150. In its submission the Department stated that on 6 July 1972 a Form OA2 authorising payment at \$200 per fortnight (the residual salary was paid to the officer's bank account in Australia) for the period 1 July-31 December 1972 was forwarded in error to the High Commission in Tanzania instead of to the Sub-Treasury in London. The High Commission made a lump sum payment of \$2600 and the British High Commission in Zambia, in the absence of any instructions to the contrary, continued to make payments of \$200 per fortnight. The witness for the Department was not aware why the Australian High Commission in Tanzania made the lump sum payment of \$2600 to the adviser. The witness stated that the Form OA2 authorised only payment of \$200 per fortnight for the period 1 July-31 December 1972.

Exhibit 157/1 and Q. 104.

151. The Department informed the Committee that in October 1972 they were advised by teleprinter message from the Australian Government Sub-Treasury in London that payments by the British High Commission in Zambia were continuing. The Department stated that efforts were then made to cease the duplicate payments but these efforts were not as effective as they might have been, mainly because of the communication difficulties inherent in the system which involved four overseas authorities—the Australian Sub-Treasury London, the British Foreign Office, the Australian High Commission, Tanzania, and the British High Commission in Zambia. The Department in its submission admitted that the need to advise the Auditor-General's Office of the overpayment had been overlooked.

Exhibit 157/1 and Qs 103 and 106.

152. The Committee was told that on 26 January 1973 the Department cabled the Sub-Treasury London advising that payment would in future be made by Tanzania and asking that the Sub-Treasury ensure that no further payments were made through Zambia. The Sub-Treasury informed the Department in a letter received on 6 February 1973 that it had asked the Australian High Commission in Tanzania to ensure that the British High Commissioner in Zambia made no more payments. The duplicate payments ceased in March 1973, by which time the overpayment had increased to \$3600. This has since been recovered.

Exhibit 157/1.

Qs. 107, 114 and 115.

153. The Treasury Observer, Mr Finch, informed the Committee that the Sub-Treasury in London did not reimburse the British Foreign Office for the payments made in Zambia until it had obtained an authority from the Department of Education in January 1973.

Exhibit 157/1 and Q. 107.

154. The Department informed the Committee that it now deals directly with the High Commission in Tanzania and this reduces the possibility of communication breakdowns to a practicable minimum. Payments have been centralised in the Department's Central Office since 22 August 1974.

Exhibit 157/1 and Q. 109.

155. During the course of the inquiry the Committee was informed that as a result of the investigation of the error reported by the Auditor-General, the records of all advisers were transferred to the Personnel Unit of the Department's Central Office from the State Offices in which the advisers resided prior to their secondment to the Australian Government. All records were then comprehensively reviewed and another ten cases were found where errors were made in the assessment of entitlements of allowances. A number of overpayments were involved. The witness for the Department told the Committee at the inquiry that action to recover the amounts overpaid was proceeding and it was expected that full recovery would be made.

Irregular Payments

P.P. 331 of Payments

156. The following observations were also made in the Auditor-General's report:

Audit examination of the salaries of teachers showed the Department had noted a number of instances of unearned and duplicate payments. Enquiries by my officers indicated the payees had been included on the payroll as part-time teachers evidently on the oral advice of an officer to re-activate in 1974 the pay of all part-time teachers who were so employed at the end of the 1973 school year. Some of the teachers did not resume duty in 1974 and others accepted employment by the Commonwealth Teaching Service on a full-time basis. The Department became aware of the irregular payments only on the receipt of cheques returned by all except 2 of the payees.

My Office queried the Department on the manner by which the payees had been included in the payroll and expressed concern that part-time employees could be paid without proper and continuing evidence of performance of duty.

In reply the Department advised that remedial action had been taken or would be taken. At Audit request the Department carried out a check to establish the entitlements of all teachers employed on a part-time basis.

Exhibit 157/1.

157. The Department in its submission informed the Committee that with the enactment of the *Commonwealth Teaching Service Act 1972*, the responsibility for the processing and payment of the salaries of teachers of the Interim A.C.T. Schools Authority was transferred progressively from the N.S.W. Education Department to the Australian Government payroll during the latter part of 1973. The Commencement of the 1974 school year was the first occasion on which the Schools Authority had the task of engaging part-time teachers.

158. The Department informed the Committee that in the absence of formal procedures the salary of part-time employees working at the end of 1973 was automatically recommenced in 1974, without checking if these employees had actually taken up duty again. Exhibit 157/1 and Q. 113.

159. The Committee was informed that remedial action had been taken, and new procedures for the engagement and control of hours worked had been introduced during the third term of 1974 for part-time teachers. Exhibit 157/1.

160. Mr Harrington, the Observer from the Auditor-General's Office told the Committee that checks carried out by staff of his Office during 1974-75 indicated that the procedures concerning part-time teachers were adequate. Q. 110.

161. In the course of the Committee's examination the Committee inquired into the general position within the Department of the internal audit of salary payments. The Committee was informed that the staff of the Internal Audit Section had increased from 11 positions at the end of 1973 to 22 positions at the time of the public inquiry. Four of these positions in Darwin were vacant due to Cyclone Tracy and there was also one vacant position in South Australia. In reply to a question the witness for the Department said that the errors reported by the Auditor-General had all been detected by staff of the Auditor-General's Office. A number of errors reported as a result of internal audit checks had been corrected by the Department. The witness also informed the Committee that a complete internal audit of salaries in the A.C.T. had not been carried out for some time but such an audit was to be carried out in April-May 1975. The Committee was told that internal audits in the States are carried out progressively, and that until 1974, the Central Office carried out internal audits of all State Offices except N.S.W. and Victoria. However, due to the growth of the State Offices, internal auditors are now employed in each State except Tasmania. Qs. 76 to 80.

Conclusions

162. The Department stated in evidence to the Committee that the numerous defects mentioned by the Auditor-General in relation to the calculation of salary entitlements were caused by a high turnover of staff in the salaries area and the lack of adequate training and supervision.

163. In relation to staff training, the Committee was informed that the Department proposed to seek approval to supplement its existing training courses for salaries staff by establishing a special salaries team as a training cell through which new and existing staff would pass to receive detailed constructive training on the more difficult entitlement cases. The Committee would be interested to know whether the special training cell has been established and if so, whether its use has resulted in an improvement in the quality of training for salaries staff.

164. The Committee was concerned to learn that in some State Offices certain internal control checks had been allowed to lapse and errors in assessing salary entitlements had occurred. The Committee considers that these internal checks should not have been allowed to lapse and hopes that the importance of complying with the prescribed procedures was stressed to the State Officers when the checks were reintroduced.

165. The Committee noted with some concern the high incidence of errors detected in the calculation of salary entitlements in the Department's Northern Territory Division. The Committee considers that an error rate in excess of 50 per cent is inexcusable notwithstanding the work-load of the Personnel Unit in Darwin.

166. The Committee has observed that the duplication of salary entitlement in respect of an employee of the Canberra School of Music was caused by a failure to observe prescribed procedures. Also, in relation to the irregular payment of salaries to part-time teachers it was noted that procedures covering the engagement of part-time teachers were not introduced until the third term of the 1974 school year. The Committee would repeat its observation made earlier in this Chapter that it believes that the Central Office of the Department has a clear responsibility to ensure that suitable procedures are prescribed and that the prescribed procedures are followed.

167. The Committee considers that the Department was lax in not taking effective action to prevent duplicate payments to the education adviser in Zambia immediately the advice was received from the Sub-Treasury, London, in October 1972. Although the Department referred to the communication difficulties inherent in the system, it appears to the Committee that it should have been possible for the Department to resolve the matter promptly by cabling the appropriate authorities at that time. The Committee also questions the Department's judgment in adopting such an unnecessarily complicated procedure to make these payments in the first place.

CHAPTER 4—DEPARTMENT OF MANUFACTURING INDUSTRY

(Now Department of Industry and Commerce)

PRODUCTION PERFORMANCE ALLOWANCE SCHEME

168. In paragraph 3.10.1 of his Report the Auditor-General commented on a number of matters relating to the Department's Production Performance Allowance Scheme. The comments were as follows: P.P. 331 of 1974.

The Production Performance Allowance Scheme is a system of incentive payment to wages employees of munitions and aircraft production undertakings for achievement, on a group basis, of approved performance levels set by industrial engineering techniques. The Scheme, which was first introduced in 1964 at the Small Arms Factory, Lithgow, now operates at 12 undertakings.

Initially, 2 levels of allowance were paid equivalent to 5 or 10 per cent of the normal weekly wage based on a 40 hour week dependent upon achievement of respective levels of performance against approved standards. The adult rates of allowance presently paid are \$3.50 and \$7.50 per week subject to achievement of the respective levels of performance.

Following a review of records relating to the Scheme the Department's comments were sought during 1973-74 on a number of matters. These included a decline in the required level of coverage by approved work standards; continuation of payments of the allowance to certain employees who were apparently not co-operating in the application of industrial engineering techniques integral to the Scheme, and reduced departmental audit coverage of operations.

In reply, the Department recently stated that, while it shared the concern expressed by Audit about the decline in coverage by approved work standards, it had long since abandoned the arbitrary concept of an 80 per cent coverage as such coverages were achievable only in certain types of long-run production situations. The judgment of factory managers, who had discretion in the determination of coverage sufficient to measure group productivity, must be responsive to such variables as the turnover of jobs, the difficulty of setting standards, staff available to set standards and the cost benefit of additional standards.

The Department also stated that employees at 2 undertakings were not co-operating in the application of industrial engineering techniques but that the Managers of the undertakings had chosen not to exercise their prerogative to withdraw payment of the allowance.

The regularity of the audits performed by the Department's Consultative Services Section was considered by the Department to be commendable as the Section had not been developed to a stage where it was able to undertake the many tasks for which it had a charter. The Department stated that 3 audits of the Scheme had been completed to October 1973; although instructions in 1967 and 1968 did perhaps envisage more frequent audits, they would have done so without knowledge of staffing restrictions to be imposed at a later date.

It was estimated by the Department that, in addition to amounts paid to employees (\$6.8m), administrative costs of operating the Scheme over 3 years 1971-72 to 1973-74 totalled \$1.5 million.

169. The Department informed the Committee that the Production Performance Allowance Scheme originated from a demand made by the Federated Ironworkers Association on 19 April 1961 on the Manager of the Small Arms Factory, Lithgow for a productivity allowance in relation to the production of the FN rifle. This was followed in February 1964 by what was virtually an ultimatum to the Department of Supply to agree to a productivity allowance for increased productivity already achieved or the union would sanction a stoppage of work at the Factory. Qs 283 and 296.

170. An agreement relating to the terms and conditions of payment of a production performance allowance was subsequently negotiated between the then Minister for Supply with the Amalgamated Engineering Union (Australian Section), the Australasian Society of Engineers and Q. 283 and Committee File 1974/5.

the Federated Ironworkers Association of Australia dated 27 May 1964 with effect from the first pay period in June 1964.

Qs 306 to 308.

171. In relation to the original standards set in 1964, the Committee was told that the standards were set then, and have continued to be set, by industrial engineering practitioners who have been trained in techniques of work measurement which are recognised internationally. Before the commencement of the scheme in 1964, the Department took steps to have staff trained overseas in international engineering standards. On their return these people were located at the Small Arms Factory where the scheme was first introduced. Each factory now has its team of skilled industrial engineering practitioners, who are capable of using these work measurement techniques. Training is now carried out from the Central Office of the Department and that Office also undertakes the auditing of the practitioner's capabilities to ensure that they are setting adequate standards.

Exhibit 157/5 and
Q. 304.

172. In outlining for the Committee the merits of the Scheme, the Department stated that the average level of labour performance believed to have existed in departmental establishments prior to the introduction of the Scheme was approximately 75 per cent. This figure was apparently established by work measurement carried out in January 1960 and April 1961 against recognised work standards. The Department stated that the introduction of the Scheme has resulted in a continued and consistent labour performance in excess of 90 per cent throughout the production establishments of the Department. In addition to the direct benefit of cost improvement resulting from the increased level of performance, the Department believes that the resultant consistency of performance achieved provides management with a very valuable basis for planning and job costing.

Exhibit 157/5.

173. In relation to the percentages quoted above, the Department explained that in given production situations, where achievement is not stimulated by the prospect of additional rewards, labour performance in excess of about 75 per cent of the defined 'normal' cannot confidently be anticipated when averaged over an extended period. 'Normal' performance as defined in the International Labour Office (I.L.O.) Manual, 'Introductions to work Study' is 'the working rate of the average worker working under capable supervision but without the stimulus of an incentive wage-payment plan'. The Manual also states that 'this pace can easily be maintained day after day without undue physical or mental fatigue and is characterised by the fairly steady exertion of reasonable effort'.

Q. 303.

174. As it seemed to the Committee that acceptance of a labour performance of less than this defined 'normal' could hardly be considered as satisfactory, the Department was asked to elaborate further on the statements made in relation to labour performance. The Department explained by giving an example where under the I.L.O. definition, the

'normal' performance for a man walking along a level surface under ideal conditions would be of the order of 3 m.p.h. That 'normal' performance, we were told, does allow him sufficient rest to recover, it does not overtax him, and he can walk at 3 m.p.h. throughout a normal 8-hour working day and not feel overstressed. However, it was pointed out that a man working in a normal factory situation, i.e., without some form of stimulus such as a financial incentive, would not generally be expected to keep up that level of 'normal' performance throughout the whole of his working day. What the man would keep up throughout the day in these circumstances is referred to as an *average* pace of work rather than the defined 'normal'. The average pace, when related to the I.L.O. definition of 'normal' is generally accepted as being about 75 per cent.

175. The departmental witnesses were asked what relevance the I.L.O. definition of 'normal' performance had to the Australian working situation. The Committee was told that the I.L.O. definition of 'normal' performance is extremely relevant to any working situation because it sets down an internationally recognised performance level which can be defined and which can be taught, against which industrial engineering practitioners can be trained to set standards. It was explained that the average achieved against those standards, however, would vary from country to country, as would working conditions, so calling the I.L.O. performance 100 per cent is only a means of establishing an internationally agreed standard. Exhibit 157/5 and Q. 309.

176. The Department also explained that the success of the Scheme depends to a considerable extent upon the existence and maintenance of work value standards against given tasks. The facility to set these standards and maintain their integrity depends in turn on the availability of suitably trained industrial engineering personnel, on the co-operation given to them by members of the work groups participating in the Scheme and by their industrial organisations, and on the standard and extent of normal work supervision. Exhibit 157/5.

177. In relation to the comments in the Auditor-General's Report regarding a decline in the coverage of tasks by work standards, the Department told the Committee that there is no doubt that the greater the coverage the more confident management would be of the measurement of labour performance and of the rates at which production or other kinds of work are being maintained. It was also stated that because there are other conventional means by which group performance can be gauged and work tempo assessed, and because there are other areas such as the analysis and design of control systems where scarce industrial engineering staff can be profitably employed, there is a real and marginally increasing cost of stepping up the level of coverage of tasks by work standards. The Department maintains that it is largely for these reasons that establishments, particularly those with complex production and/or multi-product environments, have found that attempts to reach Exhibit 157/5.

high coverage of work standards are less profitable than maintaining an adequate and representative coverage, while seeking more efficient work methods and engaging in other cost-reducing exercises.

Q. 302

178. The Audit Observer (Mr Donnelly) informed the Committee that the reference in the Auditor-General's Report to a 'decline in the required level of coverage by approved work standards', was based upon comment in one of the internal audit reports on the Scheme in which it was stated that 'the Department is now paying P.P.A. on an overall coverage of 25 per cent of total hours'. It was pointed out by departmental witnesses that a more meaningful comparison would be to relate the coverage by approved work standards to the direct production hours because the total hours would include such items as training, supervision, cleaning and storekeeping and using the total hours as a basis of comparison would give a false picture.

Exhibit 157/5 and
Qs 319 to 322.

179. The Department provided information to the Committee, which was obtained during the last external audit of the Scheme, on the number of tasks covered by industrial engineering standards expressed as a percentage of direct hours in production areas. These were:

Establishment	Percentage
Small Arms Factory, Lithgow	63
Munitions Filling Factory, St Marys	69
Ammunition Factory, Footscray	45
Ordnance Factory, Maribyrnong	24
Explosives Factory, Maribyrnong	21
Government Aircraft Factory, Fishermen's Bend	40
Government Aircraft Factory, Avalon	32
Ordnance Factory, Bendigo	20
Explosives Factory, Albion	46
Explosives Factory, Mulwala	74
Commonwealth Government Engine Works	52
Central Instrument Pool	55

It was explained that variations in coverage would be due to the type of work being performed. In a production factory in a long-run job the coverage would be extremely high. But if the type of production was changing rapidly the coverage would, of necessity, be considerably lower. The Committee was told that the Department believes that the number of tasks presently covered by work standards is sufficient for management to measure labour performance accurately.

Exhibit 157/5 and
Qs 326 to 328 and
344.

180. The departmental witnesses were questioned on the fact that employees at the Government Aircraft Factory, Fishermen's Bend and at the Ordnance Factory Bendigo would not accept shop floor observations by industrial engineering personnel as provided for in the agreement covering the Scheme. It was stated that personal observation is only a small integral part of the totality of methods engineering and industrial engineering and that it is possible to do without it. It was pointed out to the Committee that it was not time and motion studies that were involved, but the need to observe operations in the factory so as to improve the engineering efficiency on the shop floor. To do this it is necessary to

see how the job is being done, whether it is being done as planned by management and whether improvements can be made in the layout of jobs and the techniques for carrying them out. It was emphasised that it was not necessary to make observations in the factories in order to set standards on which to base payments under the Scheme. It was pointed out, however, that it is important that management reaches the stage where the co-operation of the unions involved at these two factories is obtained to carry out these personal observations, because the standards set will eventually become out of date and the Department will not be able to undertake the improvements of standards which will ensure that productivity continues to increase. The Committee was informed that opposition to the personal observations at the two factories was first expressed by the unions about April 1974.

181. The departmental witnesses were also asked to elaborate on the statement made in the submission that in relation to the two factories mentioned in the previous paragraph, the Managers exercised their legitimate prerogative not to withdraw payment of the production allowance. The following is the relevant section of the agreement that deals with the type of observations to which the unions at the two factories took exception and the rights of management to withdraw payments of the allowance if there was any opposition by the unions:

Exhibit 157/5 and
Q. 336.

The payment of the production and performance allowance is conditional upon the co-operation of employees in the application of industrial engineering studies. These studies can cover all people eligible for the allowance and may involve any of the recognised techniques of industrial engineering. Management reserves the right to withdraw payments of the allowance if there is opposition by members of the group to the applications of industrial engineering.

182. It was explained that the management in this case exercised its judgment in favour of continuing to pay the allowance because it was satisfied that the workers involved were, in fact, earning the allowance because of the measured performance being recorded and it was also believed that withdrawing the payment would have meant very serious industrial stoppages which would have jeopardised important national programs. This decision was made after consultation at a very senior level in the Department and the action was endorsed by the Minister on 20 August 1974. The Department stated that the matter is being kept under close scrutiny and it believes that there are signs that a breakthrough will occur in the near future.

Qs 336 to 338 and
340 to 346.

183. In its submission the Department drew attention to the fact that although the Auditor-General's Report referred to the administrative costs of operating the scheme (\$1.5m in the 3 years 1971-72 to 1973-74) reference was not made to the resulting estimated gross direct savings of \$9.7m accruing to the Department's production establishment during the same period. The departmental witnesses were asked how the \$9.7m savings were calculated. It was apparently based upon measurements of work made some time before the Scheme came into existence. These measurements were made in 1960 and 1961 before productivity

Exhibit 157/5 and
Qs 298 to 300.

increased to the level where the unions pressed in 1964 for payment of a productivity allowance based on that increase. These measurements showed labour performance in the production areas averaged about 75 per cent whereas in maintenance areas it averaged about 78 per cent. As productivity had increased to over 90 per cent since those measurements were taken, a conservative estimate of 12½ per cent increase in labour performance, applied to the wages paid, produced the figure of \$9.7m direct savings on the Scheme over the 3 years.

Qs 291, 292 and 295.

184. In regard to the administrative costs of the Scheme which have been estimated at \$500 000 per annum, the Committee was told that the cost is made up of the wages and salaries of estimators who calculate standard times and clerks who are involved in calculating the work performances against those standards. A break-up of the \$500 000 was given to the Committee as being approximately \$350 000 for estimating and standard setting, and the remainder represented the clerical cost of calculating performance against standards. The number of people employed in operating the Scheme making up the administrative costs are 65 employed in estimating and 31 clerks employed on calculating performance. The Committee was told that approximately 4500 people participate in the Scheme which in the 3 years 1971-72 to 1973-74 paid out \$6.8m. The Department emphasised that the work done by the estimators and clerical staff is not entirely directed towards calculating whether the allowance should be paid. The Department stated that the task of carrying out production estimates and of measuring performance against them is a normal process of management and it would be in the interests of management to have this type of activity carried out even if no production Performance Allowance Scheme had been in existence.

Exhibit 157/5.

185. In relation to audits of the Scheme, the Department stated that within the staff ceiling limitations imposed on the Department, and because of the many and competing demands for human resources in the Department as a whole, it has been necessary to reduce the capacity of the Consultative Services Section below a level deemed ideal to perform the audit function. Nevertheless, the Department believes that the number of total audits which have been carried out have been sufficient to evaluate the way the Scheme is being applied and to draw attention to any weaknesses.

Qs 358, 359 and 361.

186. The witnesses also pointed out that in addition to the external audits referred to in the Auditor-General's Report, the industrial engineering staff within the factories also carry out a continuous audit of operations of the Scheme within that factory. The external audits are carried out by the Central Office of the Department right through all establishments. The main aim of these audits, which are performed by industrial engineering practitioners, is to appraise the factory standards and the quality of them, to evaluate the coverage of tasks with standards in the various factory areas and to determine the adherence to the industrial engineering aspects of the agreement under which the Scheme operates.

It was pointed out that the external audits carried out showed that the quality of the standard setting in all establishments was extremely good.

187. The Committee was informed that three total external audits have been performed by the Central Office since December 1967 when it was first thought that audits of the Scheme should be carried out. It has taken approximately 390 man-weeks of effort or over 8 man-years of effort to carry out the three audits of the department's 12 establishments. The Committee was told that management is happy with the audits that have been performed to date and that generally speaking, matters discovered by the audits have been resolved quite quickly and amicably. Q. 359.

188. At the time of the inquiry the Department informed the Committee that the Agreement with the unions is due for re-negotiation and that the Department was examining what changes to the Scheme, if any, are desirable. The submission also stated that— Exhibit 157/5.

. . . having regard to the attitude of some unions towards any system of improved productivity which relies to any extent upon work measurement techniques, the negotiations will have to be initiated and conducted with the utmost diplomacy. The future role of the factories, their levels of production and employment, their adaptability to competitive commercial processes and products and the maintenance of their defence capability, are among a number of considerations which will impinge upon the success of the negotiations and the nature of the incentive scheme, if any, which will emerge from the negotiations.

189. It was stated in the Auditor-General's Report for 1974-75 that the Minister for Manufacturing Industry had formally approved continued payment of the allowance in the production undertakings under existing arrangements, subject to review in December 1975. In addition, the Minister has written to the Minister for Labor and Immigration seeking his support and advice towards the development of alternative approaches to incentive payments in the Department, directing particular attention to the possibility of any follow-on effects which could impact upon wage fixation generally. P.P. of 1975.

Conclusions

190. The evidence presented to the Committee shows that the Production Performance Allowance Scheme was introduced by the Department of Supply in May 1964 so that payment of a production allowance could be made to workers for increased productivity already achieved. Although the extent of this increase was not expressed as a percentage of the defined 'normal' by the Department it would appear from the evidence that it was quite substantial.

191. The Committee believes, therefore, that the wording of the Department's submission is misleading in that it suggests that the introduction of the Scheme resulted in an increase in labour performance from 75 per cent of the defined 'normal' performance to over 90 per cent, when this was apparently not the case. The 75 per cent was measured in 1960 and 1961 and it appears to the Committee that the level of labour performance in 1964 immediately prior to the introduction of the Scheme must have been much higher than 75 per cent and possibly close to the 90 per cent finally achieved. Nevertheless, the Committee concedes that the Scheme's introduction has ensured the continuation of the higher level of labour performance achieved and also resulted in a greater degree of industrial harmony than would otherwise have been the case.

192. The Committee found the International Labour Office definition of 'normal' performance to be very confusing when related to the labour performance in the Department's establishments. It appeared to the Committee that if the defined 'normal' performance is accepted as being 'the working rate of the average worker working under capable supervision but without the stimulus of an incentive wage-payment plan', then it would be expected that the labour performance of a factory worker working with the stimulus of a financial incentive would be in excess of the defined 'normal'. However, it appears from the Department's evidence that the defined 'normal' performance, which is apparently accepted by industrial engineering practitioners as being the maximum (100 per cent), could only be achieved under very exceptional circumstances. It appears to the Committee that the use of the word 'normal' in those circumstances tends to confuse and mislead non-practitioners.

193. Notwithstanding the Committee's confusion in this matter, the Committee accepts the Department's assurance that in given production situations where achievement is not stimulated by the prospect of additional rewards, labour performance in excess of about 75 per cent of the defined 'normal' cannot be expected over an extended period and that the higher labour performance achieved warrants the payment of a production performance allowance to ensure its continuance.

194. The Committee has noted the Department's comments regarding the additional cost involved in increasing the coverage of tasks by work standards beyond the present level and to the fact that staff employed on achieving this extra coverage could be more profitably employed on other tasks. The Committee has also noted that the Department believes that the number of tasks presently covered by work standards is sufficient for management to measure labour performance accurately.

195. In relation to the two factories at which the unions would not accept shop floor observations by industrial engineering personnel, the Committee has noted that the Department considers it important that the co-operation of the unions involved should be obtained because the standards set will eventually become out of date. The Committee hopes

that the break-through in this matter forecast by the Department as likely to occur in the near future does eventuate and it wishes to be informed in due course of the outcome.

196. It appears to the Committee that the administrative costs of the Scheme, which were estimated at \$1.5m over the three years 1971-72 to 1973-74, were disproportionately large when related to the amount of \$6.8m paid out under the Scheme in the same period.

197. The Committee appreciates the difficulties faced by the Department in organising its staff resources so as to provide the extent of external audit coverage originally envisaged for the Scheme. The Committee has also taken note of the amount of staff effort involved in carrying out such audits and of the fact that the Department believes that the number of audits which have been carried out have been sufficient to evaluate the Scheme. Nevertheless, the Committee feels that the Department should, as soon as staff resources permit, step up the audits carried out on the Scheme by the Central Office of the Department to the level originally envisaged.

198. In relation to the comments on this Scheme featured in the Auditor-General's Report for 1974-75, the Committee wishes to be informed of the outcome of the approaches made to the Minister for Labor and Immigration with regard to the development of alternative approaches to incentive payments and the results of the review to be carried out in December 1975.

CHAPTER 5—DEPARTMENT OF PRIME MINISTER AND CABINET

AUSTRALIAN COUNCIL FOR THE ARTS

P.P. 331 of 1974.

199. In paragraph 3.16.1 of his Report for 1973-74 the Auditor-General referred to a number of unsatisfactory features relating to the expenditure and activities of the Australian Council for the Arts. The report stated:

Administration of Grants

The audit disclosed a generally unsatisfactory position in the administration of grants to organisations and individuals. No evidence was produced of established procedures or the issue of formal instructions to ensure uniform processing of grant applications and the related recommendations by the various Boards and the Council.

Numerous cases were noted where the conditions of the grant either were not stated or were stated only in very general terms.

Financial statements supplied by some organisations were inadequate as regards accounting for grants received. In some instances, the statement had not been certified or authenticated by an auditor. In other instances, further grants were made before audited statements of expenditure from earlier grants had been supplied.

There was also evidence that arrangements had been made with some grantee organisations for the expenditure of funds from the grant at the direction of the Council or a Board for its own purposes and not for the purposes of the grantee organisation.

The comments of the Executive Officer of the Council have been requested on the above matters.

Use of Grants for Payment of Staff Engaged on Duties for the Council or the Boards

Some of the arrangements made with grantee organisations for the expenditure of funds from grants concern the payment by the organisations from the grant moneys of the salaries of consultants and other staff engaged on work for the Council or the Boards. As at 4 June 1974, there were more than 20 persons so engaged, some of whom worked part time.

An example of these arrangements was a grant of \$27 000 to the Musica Viva Society for the purpose of paying the salaries of 3 trainee administrative and 3 secretarial staff employed by the Music Board. The terms of the grant to the Musica Viva Society approved by the Minister were 'Training scheme for professional art administrators'.

The comments of the Executive Officer of the Council have been requested on the practice of using grants to organisations for the purpose of making payments to staff engaged on work for the Council and the Boards; and on the apparent avoidance of Public Service Board procedures for the recruitment of staff and the fixing of salaries; and on the possible negation of staff ceilings determined by the Public Service Board.

Use of Grants for Purchase of Works of Art

My Office requested the comments of the Executive Officer of the Council on the practice of purchasing craft works from funds appropriated for support for the arts. In reply the Executive Officer advised that purchases and commissions are the most common way, other than providing a basic income through a general maintenance grant, of providing assistance in certain art forms; and that a substantial proportion of funds allocated by the Council for assistance to these art forms is spent in this way. It was added that in many instances grants are given to other bodies to commission a purchase and in some instances that right is reserved to the Council.

Payment of Travelling Allowance

Numerous unsatisfactory features and errors were located in the accounts for travelling allowances and similar payments made to members of the Council and the Boards and to members of the staff. The incidence of error disclosed by the audit indicates an unsatisfactory standard of accounting. Details of the unsatisfactory features together with lists of incorrect or doubtful payments have been referred to the Executive Officer of the Council for comment.

Crockery, Glassware, Cutlery

Following inquiries by my Office regarding a brown earthenware pottery dinner set in the possession of the Council and recorded in its records, the Executive Officer advised that the set is a work of art which was commissioned by the Crafts Council of Australia and is the property of that body but which is on loan to the Australian Council for the Arts. Further Audit inquiries are being made.

In the course of the Audit examination the following purchases were noted:

		\$
May 1973	Cutlery	334
June 1973	Cutlery and glassware	837
July 1973	Glassware	159
September 1973	Crockery	300

Payments for the above items were made by the Department of the Prime Minister and Cabinet, Canberra, from appropriations for the Australian Council for the Arts under the control of that Department.

200. By way of background the Committee was informed that the Australian Council for the Arts was first established within the Prime Minister's Department early in 1968 by the Australian Government to act as its financial agent and adviser principally on the performing arts and on other art forms not receiving aid through other Commonwealth agencies such as the Commonwealth Art Advisory Board, Commonwealth Assistance to Australian Composers Program and the Commonwealth Literary Fund. Responsibility for the arts was transferred to the Department of the Environment, Aborigines and the Arts on its creation in May 1971 and was subsequently transferred to the Department of the Prime Minister and Cabinet in December 1972 when steps were taken to restructure Government support for the arts and to establish a new authority which would subsume the responsibilities of the previous advisory bodies. The new Council was appointed in January 1973. The Australian Council for the Arts was replaced in March 1975 by the Australia Council, a body corporate established under the Australia Council Act 1975.

Exhibit 157/2 and
Qs 117 and 120.

201. The Australian Council for the Arts consisted of the Council and seven specialist constituent Boards. The Boards dealt respectively with crafts, film and television, literature, music, theatre, visual arts and Aboriginal arts. The functions of the Council as stated in the Australian Government Directory for 1975 are:

P.P. 331 of 1974
and Qs 129 and
130.

To develop broad policies and new initiatives for the Arts and to provide a forum for joint discussion and co-ordinated planning between the various boards.

The functions of the Boards are stated as:

Funding of activities in the Arts and advice on policies and initiatives relating to particular art forms.

202. The Council in its submission stated that in accordance with Government policy, the aims of the Council are, *inter alia*, to promote a standard of excellence in the arts, to widen access to and the understanding and application of the arts in the community generally, to help establish and express an Australian identity through the arts, and to promote an awareness of Australian culture abroad. In pursuit of these aims the Council collaborates with other public and private organisations including the Australian Broadcasting Commission, the Australian Elizabethan Theatre Trust, the Arts Council of Australia, Musica Viva Australia, the Film Development Corporation, the Crafts Council of Australia and the Aboriginal Theatre Foundation, with State, Local and Federal Government departments having similar or associated interests and responsibilities, and with sources of patronage in the private sector.

Exhibit 157/2.

P.P. 202 of 1974
(P. 9) and Q. 131.

203. The Committee was informed that when the Council was re-established in 1973, it was requested to subsume the responsibilities of the previous advisory agencies and of certain inquiries such as the Crafts Inquiry. The Department of the Environment, Aborigines and the Arts with which the previous Council had been linked and which had provided the secretariat for most of the advisory bodies in the Arts had been abolished. The staff within the Department which had previously serviced the agencies in the Council for the Arts were in general employed elsewhere.

Exhibit 157/2.

204. The Council stated that from its inception it had been hampered by inadequate administrative capacity. This was stated to be particularly acute during the first year of its operations. All sections of the Council were seriously understaffed; some of the Boards were required to assume their functions with no staff and relied for months on part-time artist members to provide administrative assistance. The situation began to improve during 1974 and administrative procedures relevant to the diverse needs of the constituent arts programs and which at the same time satisfy Treasury, audit and other requirements were progressively instituted.

Qs 163 and 165.

205. The witness stated that the Council had run into consistent difficulties including delays in recruiting suitable staff to carry out its functions and in attempting to change entrenched points of view on public administration within the Australian Government Service to establish a new set of values to suit a new type of organisation. Furthermore there had been difficulties in establishing with the Department of Prime Minister and Cabinet and the Public Service Board what the Council considered to be the ideal administrative arrangements. In the course of the Committee's examination the point was elaborated on at length by the witness for the Council that during the period concerned, the Council was obliged to obtain approval for its staffing proposals first from the Department and secondly from the Public Service Board and neither organisation had experience in the fields covered by the Council for the Arts. On the other hand the Council consisted of a number of highly experienced public administrators such as several Permanent Heads of Australian Government Departments, a number of judges, professors and managing directors, who had certain views of what the ideal administrative arrangements for this sort of organisation should be. The witness told the Committee that because the Council was not prepared to change its view on the classification of some of its proposed positions, long delays occurred.

Exhibit 157/2 and
Q. 163.

206. The Council stated that it had been pioneering a new field of public administration in Australia and because the agency was unorthodox by government standards there had been difficulties in relationships between the Council and its parent departments, the Public Service Board

and the Auditor-General's Office. The witness for the Council told the Committee that the Council's experience had been that the Council was required to fit in with the Public Service view of what public administration in any field should be rather than the other way around. The witness stated in relation to the administrative section of the Department of the Prime Minister and Cabinet that the Council had 'run into consistent difficulties, delays in making our points known and delays in getting finally the kind of situation and circumstances which the Council in its wisdom considers to be the ones most appropriate to our needs'.

207. Mr Pearson, an Observer from the Department of the Prime Minister and Cabinet told the Committee that he did not accept the general criticism of the administrative section of his Department made by the witness for the Council. Mr Pearson informed the Committee that the Department had provided administrative assistance to the Council to help prepare organisation proposals for submission to the Public Service Board, and had arranged with the Public Service Board for a special adviser to prepare administrative manuals for the Council. Mr Pearson also said that the Council's submissions and proposals were processed to the Public Service Board as quickly as possible given that sometimes they needed further investigation and examination. Mr Pearson also stated that his Department had fought hard with the Public Service Board both in writing and discussion to obtain additional staff ceiling figures for the Council to enable it to meet its staffing difficulties. He illustrated this by mentioning that the Department had accepted a 1 per cent increase in staff ceilings but achieved about a 20 per cent increase for the Council. Qs 375 to 378.

208. The Observer for the Public Service Board, Mr Wheen, stated that under section 25 of the Public Service Act the Permanent Head had a responsibility for the general working of his department and the administrative arrangements that are to be developed. He also stated that the Permanent Head had asked the Board as early as February 1973 to provide some assistance for the Council which was willingly provided. Further assistance was asked for in March-April 1973 to look at the establishment and staffing needs of the Council and this assistance was readily given. In fact two officers of the Board effectively drew up the staff and establishment specifications for the Council which, after discussion with Council officers, were submitted to the Board for approval on 23 May and approved on 31 May 1973. Qs 138 and 260.

209. The witness for the Council did not consider that the present system of obtaining an establishment for a new organisation through the Public Service Board was appropriate or adequate. The witness was of the opinion that the Public Service Board should have the right and responsibility to determine, on a consultancy basis, the appropriate staffing arrangements necessary to enable a new organisation to carry out the functions allocated to it by the Government. Q. 131.

Qs 131 and 169.

210. During the course of the inquiry evidence was given in relation to the staffing requirements at the time the Council was restructured in January 1973. The witness stated in evidence that the Council was not certain at that stage what the ultimate nature of the Council's operations were going to be. The witness also told the Committee that although it would have been possible at that stage to draw up a blueprint for effectively administering the arts with appropriate staffing levels etc. it was considered undesirable to do so because the precise needs of the Arts in Australia, or how these could best be serviced was not known, at that time. The witness also stated that experience had shown that actual staff requirements were very different from what was expected early in 1973.

Exhibits 157/2
and 157/4.

211. The Council stated in its submission that in the period since early 1973 while the Council was exploring the most appropriate administrative and staffing arrangements for this new scheme of government support for the arts, a number of employment arrangements had been adopted with the knowledge and where necessary the approval of the Public Service Board, the Department of the Prime Minister and Cabinet and the Prime Minister.

There had been four kinds of arrangements:

- (a) permanent positions established under the Public Service Act;
- (b) temporary positions under the Public Service Act which are expected to be confirmed now that the Council has become a Statutory Authority;
- (c) contract arrangements—fees for specialists, consultants or short term appointments; and
- (d) grants which include an employment component for professional, administrative and advisory purposes relating to Council programs.

Appointments in the first and second categories are approved by the Public Service Board. Grants in the third and fourth categories are approved by the Prime Minister.

Exhibit 157/2 and
Qs 134 and 135.

212. In response to a question the witness for the Council stated that applicants for vacancies in the Council area were readily available. The witness said that the work was quite an interesting field of government administration and it attracted people to a larger degree than some other government departments. However, the Council in its submission stated that staff ceilings, combined with a generally poor response to staffing advertisements prevented the recruitment of personnel to the positions of Sub-Accountant (Administration), Methods Officer, Accounts Clerks and Internal Auditor.

Q. 154.

213. Contrary to the above statement by the witness for the Council the Public Service Board Observer (Mr Wheen) told the Committee that during 1973 there were some real difficulties in recruiting some categories of staff in Sydney, particularly staff in the secretarial and typing areas.

Q. 154 and
Committee File
1974/5.

214. The Committee was informed that the Council with the agreement of the Public Service Board had been given an establishment of which approximately two-thirds consisted of temporary positions. The

Council stated that these temporary positions were of varying classifications and where suitable permanent officers were available from within the Council the positions were filled on the basis of temporary transfers of those officers from their nominally occupied position to one where there was a more pressing need for staff. In normal circumstances the mechanism of provisional promotion would have allowed the permanent filling of these vacancies and the recruitment of additional staff. This mechanism was not available in a large number of cases because it was not possible to provide permanent promotion to a temporary position.

215. The Council informed the Committee that a proposal had been submitted to the Department on 1 November 1974 to have the eighty-nine temporary positions on the Council's establishment created as permanent positions. It was explained to the Committee that no action was taken before that date because of the expected passage of the Australia Council Bill which had been reintroduced into the House of Representatives on 23 July 1974. Had the legislation been passed without delay, the Council would have had the power to create its own permanent positions. The legislation to establish the Council was not passed until February 1975. The Committee was told that these continued delays contributed to the difficulties in staffing positions at all levels because not only was it impossible to promote permanent officers, but some selected applicants declined positions with the Council when no unequivocal guarantees could be given on conditions of service which depended on the passage of the Bill.

Committee File
1974/5.

216. In response to a request from the Committee for information regarding the number and categories of vacant positions the Committee was told by the Council that in January 1974, there were 26 vacant positions in the various arts boards comprising Directors, Senior Project Officers, Project Officers and Board Secretaries and that by the following December, there were 24 vacancies. The corresponding numbers for the Central Administrative Section of the Council which included administrative, accounting, typing and clerical staff were 34 in January and 21 in December 1974.

Committee File
1974/5.

217. The following table shows the establishment of the Council, number of positions occupied at certain dates and staff ceilings:

Qs 139, 146 and
149 and
Committee File
1974/5.

Date	Establishment	No. of positions occupied	Staff ceiling (a)
January 1973	40	39	
June 1973	97	53	
January 1974	146	86	
March 1974	154	113	116
June 1974	154	123	
December 1974	168	123	143
12 March 1975	196	130	

(a) Staff ceiling is set by Department of Prime Minister and Cabinet.

Committee File
1974/5.

218. The Public Service Board informed the Committee that in both the financial years 1973-74 and 1974-75 the Government set certain limits on the growth of full time Public Service Act employment. In 1973-74 there was a limit set of a 5 per cent increase in total Public Service staffing over the year and in 1974-75 a limit of 1 per cent increase in total operative staff was set. In January 1975 the Government removed the staff ceiling for the remainder of the financial year and indicated that proposals for any additional positions within the limits of appropriations for each department would be considered on their merits.

Committee File
1974/5.

219. The Public Service Board further advised the Committee that in the year 1973-74, the Department of Prime Minister and Cabinet was set a staff ceiling which allowed for a 41.9 per cent (209 persons) increase in staff between 1 July 1973 and 30 June 1974. In 1974-75 the Department of Prime Minister and Cabinet was set a ceiling which allowed for an 8.1 per cent (57 persons) increase in staff between 1 July 1974 and 30 June 1975. The allocation to the Council for the Arts, from within the overall departmental figures was made by the Permanent Head of the Department.

Q. 166.

220. During the inquiry the Council outlined for the Committee the internal procedures that had been introduced for the consideration of staffing proposals. A finance and administration committee of the Council examines all establishment proposals suggested by the various boards, committees and Council administration. The function of the finance and administration committee is to ensure that the positions conform to Public Service requirements and maintain internal consistency in terms of numbers and levels within the organisation of the Council. The Committee reports to the Council with a recommendation on what it considers to be the desired number and levels of staff included in the proposal. The Council then approves the proposal or modifies it, as the case may be, and it is then forwarded to the Department for consideration before being forwarded to the Public Service Board.

Exhibits 157/2
and 157/4 and Qs
197, 202 and 250.

221. A considerable amount of evidence was given by the Council to the Committee as to the interpretation of the term 'support for the arts'. The Council stated that no narrow definition of the term 'support for the arts' has ever been proposed. On the contrary, all public statements on this subject stress the variety and developmental nature of the Council's functions. Statements of particular relevance in this regard include the Policy Speech of the then Leader of the Opposition in November 1972, the Prime Minister's press statement of 26 January 1973, the Second Reading Speeches of 21 March and 22 August 1974, the Interim and Final Reports of the Council tabled by the Prime Minister on 24 May and 8 November 1974 and Part 2 of the Australia Council Act 1975, relating to the functions and powers of the Council. Against that background the proposition which is implicit in the argument that the appropriation 'support for the arts' should be interpreted narrowly in terms of

grants to artists or grants for arts projects does not appear to the Council to be justified and has never been the basis for its work. The Council believes that support for the arts in fact reflects what is essentially a special program designed to ensure that in the whole context of Australian life the arts have a broader place than they had in the past. This involves the interests not only of artists or people in the community who may wish to pursue a career or undertake an activity in the arts, but also of people who may wish to be patrons, who may wish to have a leisure interest, or who may wish to pursue an amateur activity and enjoy a broader concept of education. Support for the arts encourages the pursuit of knowledge of the arts, the development of a program of public information, the stimulation of public interests, educational programs, support for institutions which sponsor, co-ordinate or otherwise assist the arts and many other factors relating to the general development of the arts in the community.

222. The evidence given by the Council implied that the Chief Auditor for New South Wales was not fully aware of the role of the Council. An observer from the Auditor-General's Office (Mr Hinchy), stated that the Chief Auditor was fully aware of the role of the Council, the intended role of the Council as indicated by the Government, and that there was no question of a narrow interpretation being taken by the staff of the Auditor-General's Office of the role of the Council, in the conduct of the audit. Mr Hinchy stated that the Auditor-General's Office was not questioning the role or policy of the Council but there were certain rules and regulations in the Audit Act and the Public Service Act and Regulations which had to be complied with by a departmental organisation and this was the basis on which the audit was conducted.

Exhibit 157/4 and
Q. 260.

223. The Australian Council for the Arts, during the period concerned, came within the administration of the Department of the Prime Minister and Cabinet and its expenditure was met from the appropriations of that Department. In order to give effect to the policies of the Government in the arts field, the Council had three items within Division 442 of the Appropriation Act available to it. One of these covered salary and payments in the nature of salary, the second covered administrative expenses and the third was entitled 'Support for the Arts'. Funds to support the arts were made available in sub-division 3 of Division 442 under separate items for Council programs and for each of the seven Boards. Where the support was by way of grants to organisations or individuals, the procedure followed was for the Council or the Board concerned to consider requests for grants by organisations and others and to make recommendations to the Minister. The witness told the Committee that the Boards had substantial autonomy within their own field to manage their funds.

P.P. 331 of 1974,
Exhibit 157/2 and
Qs 129 and 130.

224. During the course of the inquiry the Committee was informed that on 2 May 1975 the Council passed a resolution conferring on each Board certain financial powers relating to grants or loans of money and

Q. 369 and
Committee File
1974/5.

the provision of scholarships or other benefits with respect to its own art form to the limit of the funds allocated by Council resolution on such conditions as the Board thought fit. It was stated that the delegation of any power would not preclude the Council from recommending guidelines or policies for implementation by the Boards.

P.P. 202 of 1974.

225. The Council stated in its first annual report covering the period January–December 1973 that in April 1973 the Council put forward the estimates on behalf of the various Boards. The 1973 Budget contained an appropriation of \$14 million for support for the arts and \$1 019 900 for administration for the 1973-74 financial year. Following discussions with the Boards, the sum of \$14 million was divided as follows:

	\$
Council	3 055 000
Aboriginal arts	531 000
Crafts	717 000
Film and television	1 681 000
Literature	1 080 000
Music	3 068 000
Theatre	3 090 000
Visual arts	778 000

226. The Council's allocation included 10 per cent of each Board allocation held on the Board's behalf in a central contingency fund. This fund was designed to provide flexibility between the programs, some of which might develop more or less rapidly than planned. In 1973-74 total expenditure from Division 442 amounted to \$15 302 484.

Exhibit 157/2 and
Q. 203.

227. The following table shows the financial support for the arts and the proportion of administrative expenditure incurred during 1973-74 and the two previous years.

Year	Support for the arts	Administrative expenditure	Percentage
	\$'000	\$'000	
1971-72	4 493	352	7.8
1972-73	6 674	511	7.6
1973-74	13 999	1 304	9.3

P.P. 202 of 1974.

228. The Australian Council for the Arts' first annual report stated that the Council accepted responsibility for policy development in matters of common concern to all Boards, for the co-ordination of activities involving more than one art form, for budgetary planning and control, for relationships with Government Departments and authorities, and other matters of general concern. The Council's staff provides the essential services required by all Boards. It was also stated that Council committees including representatives from the different Boards were set up to develop programs and to administer funds allocated to them. Similarly the Council staff were responsible for accommodation, staffing and

administration resources, office and general services, publicity information and research.

229. The Committee was informed that when the Boards have received applications for grants or if they wish to initiate a particular program, the Chairman of each Board forwards through the Council a schedule of recommendations to the Prime Minister for approval. If approved the procedures to disburse the grants are then set in motion. The Committee was told that the Council, before submitting the schedules of the Boards to the Prime Minister, examines the schedules only to satisfy itself that the Boards concerned are operating within the terms of the charter from the Government to the Council. Qs 130, 193 and 194.

230. The witness for the Council stated that it was the responsibility of the Council to ensure that the procedures by which the Boards operate met the requirements of the Treasury, the Auditor-General's Office and the Public Service generally. The witness informed the Committee that there were a set of agreed procedures and conventions whereby the Boards broadly adhere to the charter of the Council. Q. 194.

231. With regard to the lack of uniform procedures the Council informed the Committee that it was not until April 1974, that the Council had staff competent to devise a uniform procedure for processing grants relevant to the diverse needs of the Boards and at the same time satisfy the Treasury, the Auditor-General and other requirements. Exhibit 157/2 and Q. 175.

232. The Council in its submission explained that in the normal course of its operations in providing support for the arts, members of the Council, Board Chairmen, Directors, project officers and staff were required to attend meetings, undertake field studies, evaluate performances and participate at a personal level in community projects. These activities placed a heavy demand on the Council's available administrative resources in arranging transport, room hire, accommodation and the processing of associated payments. During the period under examination by the Audit Office, the Council was involved in a personnel recruitment program to fill established positions particularly in the accounting and administrative areas of the Management Services Section. In February 1974 the Council secured the services of an experienced administrator as Director of Management Services, and in March 1974 was able to staff the position of Administrative Officer with a permanent officer of the Public Service. Prior to these appointments the basic administrative functions of the Council were, of necessity, carried out by seconded officers, relief officers from the Boards of the Council and officers temporarily performing these functions. And as previously mentioned the Council stated that staff ceilings, combined with a generally poor response to staffing advertisements prevented the recruitment of personnel to the positions of Sub-Accountant (Administration), Methods Officer, Accounts Clerks and Internal Auditor. Appointees to these positions commenced duty on the following dates: Exhibit 157/2.

Sub-accountant (Administration)	20 June 1974
Methods Officer	25 March 1974
3 Accounts Clerks	8 April 1974
	18 April 1974
	5 September 1974
Internal Auditor	19 August 1974

Until these positions were filled satisfactorily the Administrative Officer appointed in March was required to carry out the more urgent duties of these positions in addition to those of his own position.

Exhibit 157/2. 233. The Committee was informed that following the placement of staff in all of the abovementioned positions, considerable progress was made in the development of administrative procedures, and the implementation of acceptable administrative and accounting practices in accordance with the requirements of the General Orders under the Public Service Act and the Audit Act and Treasury Directions.

Qs 176, and 250 to 252. 234. The witness in reply to a question stated that in so far as it was consistent with the different art forms, attempts have been made to have standard procedures, but in many respects art form vary from each other and this was reflected in the types of grants given and the methods used for making decisions about expenditure in those fields. The purpose of giving the Boards responsibility for their own budgetary operations and decisions was precisely to recognise the distinctions that do exist between the different art forms. The witness said that as far as possible the Council had to devise administrative procedures which secure and safeguard public money without seeming to impose restraints on the activities of artists.

Exhibit 157/2. 235. The Committee was informed that nineteen cases were cited by the Chief Auditor, Sydney where, in his opinion, the conditions of the grant either were not stated or were stated in very general terms and not in accordance with Treasury Direction 23/8 as then operative, and which read as follows:

Grants to quasi-governmental and public organisations shall, wherever possible, be made for a fixed period and for specific purposes. Authenticated statements of a year's activities shall be supplied, and if the grant is for a particular purpose, the organisation shall also certify that the purposes and conditions of the grant have been complied with. The annual financial statement of any State organisation shall be accompanied by an audit certificate from the State Auditor-General. For other statements, the certificate shall be that of a qualified public accountant or, if the annual grant by the Commonwealth is small, e.g., does not exceed \$200, that of a person who has had some practical audit experience and who is not an officer or employee of the organisation. Any difficulties encountered by Departments in this matter should be referred to the Treasury.

Exhibit 157/2. 236. The Council stated that Treasury Direction 23/8 until it was amended on 7 May 1974 by Treasury Circular 1974/7 did not apply to grants to individuals and private organisations. The amended Direction now reads:

Grants, other than grants to individuals for living expenses, grants for foreign aid or to international organisations, or grants which are covered by legislation, should be made subject to the

conditions that evidence is to be provided to show that the purposes for which the grant was made are being met. Organisations receiving general support grants should be required to supply copies of their audited financial statements covering the periods for which the grants were made. Recipients of grants for specific purposes should be required to certify that the purposes and conditions of the grant have been complied with and should be required to produce statements of expenditure on those purposes. These statements may form part of their audited statements or be provided as separate statements; any separate statements should be required to be supported by vouchers or accompanied by an audit certificate given by a qualified public accountant who is not an officer or employee of the organisation.

237. A new Treasury Direction was also introduced at the same time. This Direction reads as follows:

Where a grant is to be made for the purpose of purchasing equipment or other assets, the question of ownership of the assets should be determined before the grant is made.

238. The Council informed the Committee that the change in the Treasury Direction was brought promptly to the attention of the Boards. Each Board has now developed a form of application for grants and a set of conditions to ensure that grants are administered in accordance with the revised Treasury Direction 23/8. The Committee was informed that wherever practicable the conditions attaching to the grants will be standardised.

Exhibits 157/2, 157/3 and Qs 240 to 242 and 248.

239. The Treasury Observer (Mr Finch) told the Committee that the original Treasury Direction 23/8 had been drafted in response to the Committee's Seventeenth Report. It had not been designed to deal with the types of grants being made by the Council for the Arts. Nevertheless, if the Council had sought the advice of the Treasury on how to deal with their grants, the Council would have been advised as had a number of departments that the principles embodied in the Treasury Direction should be applied.

Qs 239 and 276.

240. The Observer from the Auditor-General's Office (Mr Hinchy) commented that the audit query in regard to the control of grants was made approximately six months before Treasury Direction 23/8 was amended and was based on the procedures which the Auditor-General's Office considered the Department could be expected to adopt as prudent financial administration. Evidence that the Council accepted that it had an obligation to satisfy itself that grants were expended for the purposes for which they were made is evident in a minute from the then Chairman of the Council to the Board Chairmen dated 13 November 1973. The minute stated in part:

Qs. 254 and 255.

The Council and the Boards have a clear obligation to satisfy themselves that any grants are used for the purposes for which they are made and evidence of this will be required by the Auditor-General.

241. Mr Hinchy further commented that it was the view of the Auditor-General's Office that it would be prudent not to make further grants to an organisation if it had not acquitted earlier grants in a satisfactory manner. He pointed out, however, that the Auditor-General's Office recognised that in specific instances such a course could be recommended if after investigation it was evident that the earlier grant was

Q. 255.

being expended properly and there was a valid reason for the delay in its acquittance.

Exhibit 157/4.

242. The Council stated that grants may result either from an application for a grant or from an initiative of the Council or Boards. Grants are put before the Prime Minister each month in classified categories which indentify:

- (a) basic or general maintenance grants
- (b) special project grants
- (c) grants for particular projects or individuals, paid to an organisation which administers them on behalf of the Council
- (d) grants to organisations administered on the Council's behalf to provide a variety of professional and administrative services, including services relating to Council programs which the Council cannot effectively provide for.

Exhibit 157/2.

243. The Chief Auditor, Sydney, cited fourteen instances where grantees had not satisfactorily accounted for previous grants. The Council in its submission stated that while it would certainly seem prudent in the light of unsatisfactory accounting by some grantees to delay further grants until previous grants have been acquitted, this requirement does not appear to be specified in Treasury Direction 23/8. The Council also stated that it had not always been possible to insist that this be done, given the variety and differing duration of projects and the fact that, in the early stages, some organisations and individuals were in very urgent need of financial assistance. The submission went on to state that to withhold succeeding grants pending the receipt of audited financial statements could have caused serious embarrassment and lost valuable work. The submission also stated that the Boards took the view that the viability of the project was of prime importance and that acquittals should be obtained at a time and in circumstances appropriate to the needs of each case. The Committee was informed that the procedures evolved by the Council in April 1974 were designed to ensure that, wherever it was thought by the Boards to be appropriate, grants are satisfactorily acquitted before further payments are made to grantees.

Exhibit 157/2.

244. In relation to the use of grants for payment of staff engaged on duties for the Council or the Boards, the Council in its submission stated that the employment arrangements adopted in order to implement Government policy in the arts area included, as previously stated:

- (a) contract arrangements—fees for specialists, consultants or short term appointments; and
- (b) grants from Item 442/3 with an employment component where the Council enters into an arrangement with the major organisations to which it provides support in the various art forms to furnish a range of services which include assisting the Council by the provision of professional administrative or advisory services in relation to some of its programs.

Q. 410.

245. The Council informed the Committee that because of the length of time it took to establish an appropriate staffing organisation, the Council could only perform some of its functions by using an employment component in some of the grants. The witness stated that in the opinion of the Council the use of such an employment arrangement was not contrary to Public Service Board employment policies.

246. The Committee was informed that under the contract arrangements category, two types of arrangements apply. Firstly, there are consultants used on a long term basis, engaged with the approval of the Public Service Board and funded from Item 442/1/01—Salaries and Payments in the Nature of Salary. The other group in this category are consultants who are engaged after Prime Ministerial approval has been obtained. The Committee was informed that within this category two consultants have been engaged by the Council and the fees for these services were paid directly from the 442/2/08 sub-appropriation.

Exhibit 157/2,
Qs 278, 404 and
405 and
Committee File
1974/5.

247. The employment component of the second group of grants applies to the payment of professional, administrative and advisory services, which included people who assess applications for experimental films, people who inspected craft kilns to see whether they were working properly, people who provide advice on the artistic standing of particular applicants and so on. The Committee was informed that the Council first entered into employment arrangements with grantees in November 1970 and up to and including 1 May 1975 the Council had employed 212 consultants in this category. In its submission the Council stated that it had decided to phase this form of assistance out by 30 June 1975 as its own staff increased in numbers. However, it was pointed out to the Committee that the varied and specialised nature of arts activities suggests that the Government administering authority will frequently need to call on expertise beyond the professional competence of its own staff.

Exhibit 157/2, Qs
406, 413 and 437
to 439 and
Committee File
1974/5.

248. The Council stated that at the time the Council entered into these staffing arrangements no particular problems were foreseen in this regard. However, a new Finance and Administration Committee appointed in July 1974, reviewed these staffing arrangements and advised the Council that the Auditor-General could be expected to disapprove of grants to organisations to employ people providing full-time services to the Council and the Boards. The Council at its meeting on 13 September 1974 adopted the following recommendations submitted by the Finance and Administration Committee:

Q. 439 and
Committee File
1974/5.

1. That whilst it would be permissible to use consultancy funds to employ people to undertake specific projects on a fee for service basis, grants to outside bodies to provide general staff support should not be permitted without Council approval.
2. That the 49 people at present employed by the Council and the Boards through outside organisations should not be replaced as vacancies occurred and that there should be a scaling down with a view to concluding these arrangements by 30 June 1975.

249. The witness for the Council stated that due to the slow process of establishing a homogeneous administrative unit the Council had only been able to carry out its work by virtue of a whole series of unorthodox and undesirable arrangements. The Council maintained that there was nothing improper in the arrangements entered into and that at the time these arrangements were necessary.

Q. 438 and
Committee File
1974/5.

Q. 393 and
Committee File
1974/5.

250. The witness representing the Council was asked by the Committee whether grantee organisations invest grant moneys received and not immediately required and, if so, who benefited from the resultant income. However, the Committee's question was not fully answered as the Council's reply, given in a supplementary submission, merely informed the Committee that the Council had not authorised grantee organisations to invest grant moneys received and not immediately required. It was also stated that grantee organisations had not asked the Council if they could invest moneys of this type. The Council pointed out that although payments of grants were made with regard to the recipient's requirements, it was not always possible for payments arising from schedules approved at monthly or six-weekly intervals to coincide exactly with all individual requirements.

Exhibit 157/2 and
Committee File
1974/5.

251. In relation to the Auditor-General's comments concerning the Musica Viva Society, the Committee was informed that on 25 October 1973 a grant of \$27 000 for the Musica Viva Society was approved by the Prime Minister. The grant was paid from Division 442-3 Support for the Arts—Item 04—Music Board. The grant was recommended to the Minister in the following terms—'Training scheme for professional arts administrators'. However, the following extract of a Music Board meeting on 28 September 1973 makes clear that the purpose of the grant was to pay the salaries of additional Music Board staff and no part was applied to Musica Viva activities:

The Meeting discussed the critical need for extra staff in relation to the present work load and agreed to allocate \$27 000 to the appointment of three trainee administrators at \$5000 p.a. and three secretarial staff at \$4000 p.a.

Exhibit 157/2, Q.
442 and
Committee File
1974/5.

252. The Council explained that when the Music Board, in September 1973, provided for additional services to its program by the appointment of trainee administrators, it did so in the knowledge that its then staff could not adequately deal with the volume of work currently in hand and in prospect and against the background of numerous complaints received of delays that had occurred in the processing and payment of grants. The Music Board staff at the time was limited to four project officers and a newly appointed director who was engaged on a temporary stand-in basis.

Exhibit 157/2 and
Qs 397, 398, 419
to 421 and 445 to
448.

253. The Council stated that the provision of secretarial staff was incorrectly categorised by the Board in its schedule of recommendations to the Prime Minister. It was explained that although the schedules of grants went directly from the Boards to the Prime Minister for consideration, the Council had the opportunity to peruse the schedules at about the same time. The witness for the Council admitted that through an oversight the incorrect categorisation had not been picked up and the Council was not aware of the terms of the recommendation. The Committee was told that the Council now tried to ensure that descriptions in the Board's schedules of recommendations to the Prime Minister were clear and that no ambiguous wording was used. The witness told the

Committee that given the circumstances of the establishment of the Council, such errors in the schedules occurred most infrequently.

254. Information available to the Committee showed that in addition to the abovementioned grants to the Musica Viva Society, the Auditor-General's Office requested comments from the Council in respect of two further instances, where the Minister basing his approval on the terms of the recommendation, would not have been aware of the intended use of the grant.

Exhibit 157/4 and
Committee File
1974/5.

255. In relation to the use of grants for purchases of works of art, the Council stated that a purchase of a work of art was in effect a grant, and it was often a more desirable way of supporting creative people than providing them with living wage grants. It performed the dual function of stimulus and promotion, since purchases or commissions encouraged output and subsequent display or use of the acquisitions fostered wider interest in the work of the artist concerned. The Council stated that in many instances, in order to encourage a diversity of patronage and taste, grants were given to other bodies, including orchestras, galleries, government authorities, educational institutions, and professional organisations to commission a purchase.

Exhibit 157/2 and
Qs 453 to 456 and
463.

256. The Council informed the Committee that the Visual Arts Board had an Australian Contemporary Art acquisition program, whereby galleries were granted funds specifically for the purchase of works of art. The Art in Public program of the same Board provided funds for contribution to the purchase or erection or commissioning of works of art. At the date of the inquiry only two grants for commissions had been made—they were \$10 000 to the University of Western Australia as a contribution towards the commissioning of a mural work by Leonard French, and \$15 000 towards the commissioning of a sculpture for the Crippled Children's Association Centre, Regency Park, Adelaide.

Q. 456 and
Committee File
1974/5.

257. The Committee was informed that the Council after obtaining approval from the Prime Minister had purchased in 1970 two items of theatre design, the Don Quixote and Ned Kelly costume designs. These were recorded in the Works of Art Register. The purchases were intended for inclusion in a continuing exhibition in the foyer of the Council's offices.

Q. 460 and
Committee File
1974/5.

258. The Council informed the Committee that following the introduction in April-May 1974 of revised procedures to improve those previously employed in recording Works of Art, a bound Register was compiled from the loose leaf Register previously in existence. The Council stated that the Works of Art Register presents a fair and accurate record of the conditions of loans, values of items, acknowledgement of receipt and return, name of owner and approval of competent authority to the transaction, all in accordance with Treasury Direction 32/23.

Committee File
1974/5.

Q. 462.

259. The Observer from the Auditor-General's Office (Mr Parker) told the Committee that his Office did not question the validity in principle of commissioning works of art, either directly or indirectly from funds available for support to the arts, provided such commissions were approved by the appropriate competent authority.

Exhibit 157/2 and
Qs. 477, 480 and
489.

260. Regarding payment of travelling allowance the Committee was informed that an examination by the Auditor-General's Office of 300 expenditure vouchers out of 900 relating to administrative expenses, sitting fees, travelling allowances and associated payments had resulted in the referral of 152 items to the Council's staff involving the correction of errors or requiring further explanation. The Committee was informed that where applicable recovery action was being taken.

Q. 480 and
Committee File
1974/5.

261. The Committee was informed that the queries and observations raised by the Chief Auditor, Sydney, embraced a number of different categories of principles involved, some of these are set out below:

- discrepancies in calculation of travelling time as per claim
- travelling allowance calculated incorrectly
- travelling allowance paid at incorrect rate
- variance between actual travel time and apparent required travel time
- travelling claims not matched to movement requisitions
- movement requisitions numbers not quoted
- movement requisition approved after travel
- insufficient details of travelling allowance claims
- apparent incorrect times or dates on travelling allowance claims
- air fares queries
- car mileage allowance queries
- accommodation queries
- duplicate payments

Qs 481 and 490.

262. The witness for the Council stated that the replies to the queries of the Auditor-General's Office involved quite detailed examinations which were laborious and rather difficult to pursue. The witness also stated that the amount of administrative time and expense required to look into these queries was very much greater than the amounts represented in the report.

Qs 490, 491 and
498.

263. The Committee was unable to ascertain the total amount of money involved but the errors included amounts of \$115.50; \$71.17; \$51.04; \$83.33; \$40; \$37.50; \$2.08 and \$1.65.

264. The Council informed the Committee that during the period under examination by the Audit Office, the Council was short of staff and the activities of the Council placed a heavy demand on the Council's available administrative resources.

Exhibit 157/2.

265. The Council in its submission stated that since the placement of staff in all of the established positions considerable progress had been made in the development of administrative procedures and the implementation of acceptable administrative and accounting practices in accordance with the requirements of the General Orders under the Public Service Act and the Audit Act and Treasury Directions. It was also stated that the Council and its administration were mindful of the importance of effective internal audit and a copy of the Public Accounts Committee's One Hundred and Thirty-ninth Report relating to that subject had been obtained and examined. An internal audit manual had been prepared, and discussed with officers of the Auditor-General's Office in Sydney and internal auditing had commenced. The Committee was told that action had been taken to effect recoveries where overpayments had occurred and other adjustments had been made in particular cases.

Exhibit 157/2 and Qs 477 and 483 to 487.

266. In relation to the observations made by the Auditor-General regarding a brown earthenware pottery dinner set and purchases of cutlery, glassware and crockery, the Committee was informed that the pottery dinner service by L. Blakebrough was on loan to the Council from the Crafts Council of Australia on the understanding that it would be returned for inclusion in exhibitions of functional pottery whenever required by the Crafts Council. While in the possession of the Australian Council for the Arts, the dinner service was recorded as on loan from the owner—the Crafts Council of Australia—in the Council's Works of Art Register. The Committee was told that the dinner set had been the property of the Crafts Council since 1967-1968 and its value in the Council's Assets Register is \$800.

Exhibit 157/2, Qs 500 to 507, 509 to 512 and 524 and Committee File 1974/5.

267. The Committee was told that the original documentary proof that the dinner service was the property of the Crafts Council and on loan could not be produced by the Council for the Arts.

Qs 515 and 516.

268. Mr Parker, the Observer from the Auditor-General's Office, told the Committee that when the Chief Auditor made a verbal inquiry within the Council's Office, a Works of Art Register, as such, was then not available. The witness for the Council admitted that at the time the Council did not have a satisfactory system of registration or administrative controls. The Committee was informed that such a Register was now maintained in accordance with Treasury Direction 32/23.

Exhibit 157/2 and Qs 524 and 527.

Exhibit 157/2.

269. In relation to the purchases of cutlery, glassware and crockery, the Council in its submission stated that since its establishment in 1968, the Council has had a kitchen and ancillary facilities equipped to prepare and serve working luncheons for its members, members of Boards, Programs and Committees, in accordance with guidelines established by the then Chairman of the Council. These guidelines were developed in consultation with the then Secretary to the Prime Minister's Department. They took into consideration the cost effectiveness of continuing meetings through the normal luncheon period and so avoiding, in many cases, the necessity to extend meetings by a further day with consequential effects on travelling allowance costs and sitting fees. The guidelines also took into consideration the expressed views of the interdepartmental committee which oversees entertainment expenses, that there should be clear evidence that benefit to the Government was being served in each particular case and that there should be a balanced representation between Government and other interests. The Council also extended hospitality to individuals and theatrical groups from overseas and to Ministers. It was stated that Prime Ministers had also attended functions in the Council Offices on several occasions.

Qs 540 and 543
and Committee
File 1974/5.

270. In response to a question the witness for the Council informed the Committee that the expenditure recorded by the Department of Prime Minister and Cabinet as entertainment by the Australian Council for the Arts totalled \$16 548 in the financial year 1973-74. The Council provided the Committee with a copy of the entertainment guidelines set down by the then Chairman, Dr Coombs on 8 February 1974. The guidelines provided that working luncheons for meetings of Council, Boards and Panels extending into the afternoon should not exceed a cost of \$3 per head and that all expenditure should be approved in advance. The Council provided details of working luncheons between 1 April and 28 June 1974 and this showed that during that period 45 out of the 82 working luncheons provided, cost more than \$3.00 per head. The cost of these 45 luncheons varied between \$3.14 and \$14.91 per head.

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271. The Committee has noted from the Auditor-General's Report for 1974-75 that in August 1975, additional guidelines covering expenditure on working luncheons were issued by the Department of the Prime Minister and Cabinet. These guidelines indicated that where working luncheons are held in conjunction with meetings of departments, boards, committees and the like, and those attending are for the most part in Australian Government employment or have their expenses paid by the Government, generally the cost of these luncheons would be met by the persons attending. The Committee also noted that the Council itself has taken steps to reduce its hospitality expenditure, including expenditure on working luncheons.

272. The Committee was informed that the crockery, cutlery and glassware in use by the Council was supplied when the Council's permanent office was first set up in 1969. The payments of \$334 and \$159 related respectively to additional cutlery and glassware for the Sydney office to enable working luncheons to be served to considerably increased numbers of people in the new organisation announced by the Prime Minister in January 1973. The payments of \$837 and \$300 related respectively to the purchase of cutlery and glassware and crockery for the new Melbourne office to be used for the same purposes described above.

Exhibit 157/2 and
Qs 532 to 537.

Conclusions

273. A great deal of evidence was presented to the Committee in support of the Council's contention that it had experienced considerable difficulty in recruiting sufficient numbers of competent staff to carry out its functions. This difficulty in recruiting suitable staff was the main reason advanced by the Council for the unsatisfactory position in the administration of grants disclosed in the Auditor-General's Report.

274. Some of the evidence given in regard to staffing seemed to the Committee to be in conflict and was confusing. For instance the witness for the Council stated that applicants for vacancies in the Council area were readily available while the Council's submission stated that staff ceilings combined with a generally poor response to staffing advertisements, prevented the recruitment of personnel to certain key administrative positions.

275. The Committee has some sympathy with the Council in regard to its early difficulties in recruiting suitable staff to carry out its functions. Nevertheless, it believes that the situation was not helped by the Council's intransigent attitude towards the classifications of some of its proposed positions which caused long delays in the filling of key positions. The Committee is aware that many departments have found themselves in a similar situation in their negotiations with the Public Service Board but have sensibly compromised by accepting lower classifications for the time being with the intention of renewing negotiations with the Board at a later date.

276. The Committee notes from figures provided that there were large variations between the approved establishment for the Council and the number of staff actually occupying positions. These gaps between staff numbers and establishment existed for long periods and were not adequately explained by the witnesses for the Council or by the fact that staff ceilings were imposed on two occasions. The Committee can only conclude from the evidence that the Council did not make any special effort from time to time to expedite the filling of vacancies in its approved establishment, which the Committee finds surprising in view of the importance the Council has attached to staff shortages in its evidence

to the Committee. In reaching this conclusion the Committee has borne in mind that it is possible to reduce the normal recruiting delays by advertising positions before the formal approval of the Public Service Board is received and that temporary positions can be filled with staff more quickly than permanent positions.

277. The Committee notes that the witness for the Council attributed the blame for delays in the creation and filling of positions to the system the Council was obliged to follow which included obtaining approval for its staffing proposals first from the Department of the Prime Minister and Cabinet and secondly from the Public Service Board. The Committee recognises that some delays must be expected from such a system which, nevertheless, is common to all departments and which provided the necessary screening of the Council's staffing proposals. However, there was no specific information tendered to the Committee which indicated that such delays were excessive bearing in mind the competing demands for the staff resources of the Department and the Public Service Board.

278. Another matter on which the Committee wishes to comment is the Council's use of grants for the payment of staff engaged on duties for the Council or the various Boards. While the Committee fully appreciates why this staffing arrangement was adopted, it believes that the practice was irregular and undesirable and as used it undermined the Government's policy in relation to staff ceilings. The Committee notes that the Council intended to phase these arrangements out by 30 June 1975 and wishes to be informed of the present position.

279. The Committee takes a very serious view of the instances disclosed where the Prime Minister was misled by the description of the purposes of proposed grants included in the schedules of recommendations forwarded to him for approval. The Committee notes that the Council now tries to ensure that descriptions in those schedules are clear and that no ambiguous wording is used. The Committee believes it to be essential that the Council has available to it all the information necessary to ensure that the purposes of the grants are clearly stated by the various Boards.

280. The Committee notes from the evidence that the Council has preferred, where possible, to allow experience to suggest the most appropriate administrative patterns and procedures rather than attempt to establish these in advance. The Committee considers this to be a negative attitude which, in its opinion, has caused the Council to take far too long to develop suitable administrative and financial procedures, notwithstanding the Council's claim that it lacked competent staff to devise such procedures. It is the Committee's view that administrative and financial procedures should be developed as soon as possible in the life of a new organisation and amended, as required, in the light of experience.

281. The Committee agrees that Treasury Direction 23/8 prior to its amendment on 7 May 1974 did not apply specifically to grants to individuals and private organisations. Nevertheless, the Committee feels that it would have been prudent financial administration for the Council to apply the principles embodied in the then Direction, particularly in regard to the obligation to satisfy itself that grants were being expended for the purposes for which they were made and that the conditions pertaining to grants were being adhered to. The Committee notes that grants are now administered in accordance with the revised Treasury Direction 23/8.

282. On the question of the investment by grantee organisations of grant moneys received and not immediately required, the Council did not seem to be aware whether, in fact, such moneys were being invested. The Committee draws to the attention of the Treasury its strong view that the payment of grants should only be made progressively in amounts sufficient to meet the financial needs of grantees as they are incurred.

283. Notwithstanding the shortages of staff experienced by the Council during the period covered by the audit examination of travelling allowance claims, the Committee expresses its dissatisfaction with the high incidence of error disclosed. The Committee has also noted the statement by the witness for the Council that the amount of administrative time and expense required to settle the audit queries would be very much greater than the amounts represented in the Auditor-General's Report. While this may be so, it seems to the Committee to be hardly the point. In the Committee's view the degree of error is symptomatic of an inefficient financial administration and would point out that had a little more care been taken originally it would have saved the administrative effort now considered necessary to correct the errors made.

284. With regard to the provisions of working luncheons by the Council, it appears from the evidence that although the guidelines established by the then Chairman on 8 February 1974 set a maximum of \$3 per head for these luncheons, in the period 1 April to 28 June 1974 more than half the luncheons provided cost more, and in a number of cases much more, than the stipulated maximum. The Committee is at a loss to understand why the Chairman's specific directive was apparently disregarded. The Committee has noted, however, that more stringent guidelines were issued in August 1975 and that the Council has taken steps to reduce its hospitality expenditure, including expenditure on working luncheons.

285. The Committee appreciates the initial difficulties which the Council faced in establishing its new organisation. Nevertheless the evidence indicated that the Council at times acted contrary to established Public Service procedures. It did not give the administration of its activities the

attention it deserved and because of the looseness of its recommendations misled the Prime Minister regarding the purposes of proposed grants.

For and on behalf of the Committee,

D. M. CONNOLLY
Chairman

T. Devine
Secretary
Joint Committee of Public Accounts
Parliament House
Canberra, A.C.T. 2600

8 April 1976