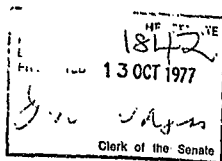


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1977

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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

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JOINT COMMITTEE OF PUBLIC ACCOUNTS

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ONE HUNDRED AND  
SIXTY-FIFTH REPORT

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THE REPORT OF THE  
AUDITOR-GENERAL—  
FINANCIAL YEAR 1974-75

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

ONE HUNDRED AND SIXTY-FIFTH REPORT

THE REPORT OF THE AUDITOR-GENERAL -  
FINANCIAL YEAR 1974-75

Australian Government Publishing Service  
CANBERRA 1977

JOINT COMMITTEE OF PUBLIC ACCOUNTS

ELEVENTH COMMITTEE

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	J.R. SHORT, Esquire, M.P.

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

- (1) Discharged 8.4.76
- (2) Appointed 8.4.76 elected Vice-Chairman 29.4.76
- (3) Elected Vice-Chairman 16.3.76 resigned as Vice-Chairman 29.4.76
- (4) Appointed (Ex-officio) 9.6.76
- (5) Discharged 31.3.77
- (6) Appointed 31.3.77

DUTIES OF THE COMMITTEE

Section 8 of the Public Accounts Committee Act 1951 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 subsection (1) of section fifty-three of the Audit Act 1901-1950;
- (b) to report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
- (c) to report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
- (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

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

ONE HUNDRED AND SIXTY-FIFTH REPORT

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CHAPTER 1

INTRODUCTION

The first duty of the Committee as set down in section 8 of the Public Accounts Committee Act 1951 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 enquiries related specifically to matters raised by the Auditor-General in his Reports transmitted to the Parliament.

3. The Auditor-General's report for 1974-75 was tabled in the Parliament on 11 September 1975. The Report followed the new format begun in 1973-74 with one section (Section 3 - Summaries of Audit Observations and Results of Audit Representations) containing reports of any unsatisfactory features as a result of Audit investigations. This revised method of presentation greatly assisted the Committee in its selection of items for examination.

4. On 30 September 1975, the Tenth Committee sought written submissions from nine departments in explanation of a number of items on which the Auditor-General had commented in his Report.

Due to the Double Dissolution of the Parliament on 11 November 1975 the submissions were not considered by the Committee until 18 March 1976 when the newly appointed Eleventh Committee decided to examine three departments (in respect of the four items referred to in Chapters 2 to 4 of this report) at public inquiry.

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

Tuesday, 27 April 1976

Tuesday, 4 May 1976

Tuesday, 18 May 1976

Tuesday 25 May 1976

On Friday, 14 May 1976 the Committee inspected the Australian Government Clothing Factory, Coburg Victoria and also the Department of Industry and Commerce's Regional Office at 393 Swanston Street, Melbourne.

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

Australian Telecommunications Commission

Mr W.F. Brigden	-	Manager, Buildings Branch
Mr G.P. Hudson	-	Manager, Financial Planning, Headquarters
Mr R.N. Lowe	-	Superintending Engineer, Planning and Programming
Mr J.C. McCarthy	-	Manager, Buildings Branch, New South Wales

Department of Construction

Mr L. Fenton	-	Project Manager, Western Australian Region
Mr W.D. Hamilton	-	Acting Assistant Secretary (Finance), Central Office
Mr M.N. Lewicki	-	Project Manager, New South Wales Region
Mr K.J. Rodda	-	Deputy Secretary
Mr N. Sneath	-	Chief Structural Engineer

Department of Defence

Mr D.S.Clues	-	Assistant Secretary Standardisation and Cataloguing Branch
Air Commodore D.H. Solin	-	Director-General, Supply (Air Force)

Department of Environment, Housing and Community Development

Mr N.F. Neild	-	Assistant Secretary, Program Implementation Branch No. 1
Mr A.J. Selleck	-	First Assistant Secretary, Housing Division

Department of Industry and Commerce

Mr J.H. Dolphin	-	Regional Director, Victoria
Mr M.C. Morrison	-	Acting Manager, Australian Government Clothing Factory
Mr D.J. O'Connor	-	Controller-General (Management)
Mr R.J. Thompson	-	Controller, Munitions Supply Division



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

Mr R.G. Parker	-	Auditor-General's Office
Mr T.R. Rees	-	Auditor-General's Office
Mr A.M. Finch	-	Department of the Treasury
Mr A.D. Sinclair	-	Department of the Treasury
Mr G.A. Mawer	-	Public Service Board

CHAPTER 2

DEPARTMENT OF CONSTRUCTION

(a) Extensions to City South Telephone Exchange, Sydney

8. In paragraph 3.9.6 of his Report for 1974-75 the Auditor-General referred to a number of approved payments to contractors resulting from delays in construction caused by departmental action, errors or omissions in original contract specifications and documentation, changes in original specifications arising from client requests, and factors not apparent during design. In particular, the Auditor-General made the following comments in relation to expenditure on the extensions to the City South Telephone Exchange in Sydney:

P.P. 186  
of 1975

"A contract was let on 3 August 1971 for the erection of a self-contained building adjoining the existing City South telephone exchange building in Sydney for \$1,966,184.

Prior to completion of documentation the Postmaster-General's Department advised the Department of Housing and Construction of a decision to install electronic switching equipment instead of crossbar exchange equipment. As a result, the documentation required extensive alteration. The cost of abortive documentation work was agreed with the consultant concerned at \$34,759.

Because of the lack of progress on the project since October 1973 and earlier serious delays, the contract was terminated by agreement under Deed of Release executed on 23 October 1974. At that date, payments made under the contract amounted to \$589,649 against an authorisation of \$2,115,146.

In July 1974 the Postmaster-General's Department informed the Director of Works, New South Wales that it was estimated the annual financial and resources losses amounted to \$2.26 million and 32 staff respectively, in addition to the costs of contingency works necessary because of the delays. The estimate included allowances for the revenue loss due to the lack of STD facilities, the additional salary required for manual trunk subscriber operators and 23 additional staff required to maintain the obsolescent equipment, less a deduction of \$500,000 representing interest on the cost of equipment required for the new building.

A further contract for \$3,515,519 was entered into on 10 June 1975 for the completion of the project.

At 30 June 1975 expenditure on the project amounted to \$724,019 representing approximately 26 per cent completion of the work. The authorisation at that date was \$4,903,613."

9. By way of background information, the departmental witness briefly outlined the system for programming capital works items and the relationship between the Department of Construction and client departments. The Committee was provided with a copy of the "Commonwealth Civil Works Budgeting Administrative Procedures" which summarises the responsibilities of departments in the following terms:

Q. 3 and  
Committee  
File 1975/3

"The approved works procedures impose clear responsibilities on sponsoring departments, the Departments of Works and the Treasury. The nature and extent of these will appear clearly enough from this Circular. Broadly, however, the sponsor's duty is to begin its thinking about a project at the earliest possible time (i.e. as soon as the need for the project is recognised), to bring the Department of Works into consultation as early as possible, to produce to the Department of Works a satisfactory functional brief, and thereafter to comply with the directions given in this Circular. It is the responsibility of the Department of Works to design and construct each project, and to control the cash appropriated each year for Part I of the civil works programme as part of the annual Budget.

Each year's current works programme must be approved by Cabinet. Treasury is required to service Cabinet in this area, and is thus primarily responsible, at the departmental level, for controlling the programme and the design lists."

• The brief for the extensions

10. The brief for the extensions to the City South Telephone Exchange, Sydney was prepared by the Postmaster-General's Department (now Australian Telecommunications Commission) and the proposal was referred, by resolution of the House of Representatives on 15 May 1969, to the Parliamentary Standing Committee on Public Works. The Public Works Committee subsequently recommended that the extensions, which would permit access to the automatic trunk switching network by up to 21,000 subscribers and would cater for growth in the area up to the year 2000, should proceed at an estimated cost of \$1,850,000.

Exhibit  
165/1 and  
P.P. 71  
of 1969

The building was to accommodate crossbar subscribers exchange equipment which would replace obsolescent local subscribers switching apparatus in the existing exchange.

11. The Committee was informed that consultant architects were engaged on 10 July 1969 to prepare contract documents at a total estimated fee of \$87,400. The departmental submission stated that the final fee was to be assessed on the recommended tender price in accordance with the Royal Australian Institute of Architects scale of charges. Witnesses for the Department explained that the arrangement for payment of the consultant architect's fees was a standard arrangement used throughout the profession. Payment was currently assessed on a three-phase arrangement comprising a design commission, a documentation commission and a contract administration commission with the latter determined at the completion of the contract on the basis of hours worked with respect to client and latent variations, extra curricular activities plus a basic percentage (normally about 2%) of the overall contract price.

Exhibit  
165/1 and  
Qs. 11 and  
30

Alteration of the Brief

12. The Department of Construction stated in its submission that on 4 March 1970, the Postmaster-General's Department advised the Department (then the Department of Works) of a decision to revise its original proposals in relation to the switching equipment and that it was proposed to install electronic switching equipment in the exchange in lieu of cross-bar type equipment<sup>1</sup>.

Exhibit  
165/1

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1. The Committee was informed that cross-bar equipment was an electro-mechanical type of switching equipment which had been in use in Australia since 1960. The electronic equipment, which the Telecommunications Commission preferred to describe as Stored Program Control (SPC) equipment, contained switching instructions stored in a computer program. Although the two types of equipment provided essentially the same facilities, the SPC equipment required less space and was more flexible because its switching configuration could be altered by running a new program into the computer while the cross-bar equipment required physical alteration of the wiring to achieve the same result.

Qs. 5 and  
77 and  
Committee  
File 1975/3

13. At the inquiry, and in a supplementary submission to the Committee the Telecommunications Commission (Telecom) explained that the revision of the original proposal had been made "to provide the building with the capability of accommodating electronic exchange equipment" when it became available. Initially cross-bar type equipment, which was currently available, would be installed in the building but the Commission had, in this and other buildings constructed since 1970, sought to provide maximum flexibility in buildings to enable them to cope with future advances in technology.

Qs. 73 to  
75 and 81  
and  
Committee  
File 1975/3

14. The departmental submission stated that at the time the alteration was made, documentation of the work was well advanced and progress was as follows:

Exhibit  
165/1

. Architectural	90%
. Structural	75%
. Mechanical (air-conditioning and specified work)	95%
. Sprinklers	90%
. Diesel Alternators	25%
. Electrical	78%
. Hydraulics	60%
. Excavations	100%

15. The Committee was told that as a result of the decision to change the type of switching equipment, major alterations were necessary and the air-conditioning and electrical components had to be almost completely redesigned. A lump sum fee of \$34,759 was negotiated with the consultants to amend the documents to incorporate the changed requirements. The increased fee covered the extra design work, the cost of delays to the Consultant's work program and abortive work. The amount directly attributable to abortive work was assessed at \$16,145 and was based on the percentage completion of documents of the components of works directly affected by the alterations. The balance of the lump sum fee was for a new design to cope with the additional requirements

Exhibit  
165/1 and  
Qs. 13 and  
15

for the stored program control (SPC) equipment. The total cost of preparation of the documents was \$146,152.

16. In relation to the revision of the building design to accommodate the SPC equipment, the Committee was informed that alterations were necessary in the services provided to the building, particularly in the air-conditioning system. It was explained that the SPC equipment purchased for the Pitt Street exchange, which was 10-C type SPC equipment and which led the world in that particular technology, required very strict environmental controls such as triplicated air-conditioning of plant. Some of the equipment necessary for this triplication was removed from the City South building but the capability to install the 10-C type of equipment remained. The witness representing Telecom stated that the Commission was hopeful that the new generation of SPC equipment would not require such a rigidly controlled environment and that it could be installed in the same type of accommodation as the cross-bar equipment.

Qs. 17, 19,  
21 and 80

17. The Committee was advised that planning work on City South Exchange began in the mid-1960's, before any decision had been made on the utilisation of SPC equipment - either trunk or local. Although evaluation of such equipment was taking place in this period no firm decision had been taken in respect of SPC equipment before the design of the building had commenced. As a result the then Postmaster-General's Department had proceeded on the assumption that the building would accommodate the then current type of equipment which was cross-bar equipment. The witness representing Telecom explained that the technology was advancing so rapidly that he did not consider it unusual that the requirements for the building had been altered only eight months after the design stages had commenced. He pointed out that although cross-bar equipment would have met the exchange's requirement for STD facilities, the increased range of subscriber and network flexibility and reduced space requirements of SPC equipment were important considerations.

Qs. 7, 8  
and 16 and  
Committee  
File 1975/3

18. As background to the decision, the Telecommunications Commission explained that in September 1969, a decision was made to accept a quotation for 10-C type trunk SPC equipment for the Pitt Street Exchange (Sydney) and it was considered that the inherent advantages of SPC equipment made it desirable to prepare all new major city exchange buildings for this equipment. The principal advantages were seen to be due to three factors:

Committee  
File 1975/3

- (a) The cost of SPC equipment would be less than that of cross-bar.
- (b) As the size of the installation increases the SPC equipment would have greater efficiency than the cross-bar equipment, and this would reflect in cost saving throughout the network, in terms of both external circuits and switching equipment in other exchanges.
- (c) SPC equipment would require less space than cross-bar.

19. The Committee was informed that in accepting the quotation for 10-C trunk equipment for the Pitt Street Exchange the Postmaster General's Department judged that the local switching version for 10-C local equipment produced by the same company would also be acceptable and it was on this basis that the decision was taken in March 1970 to revise the City South building design for accommodation of SPC local equipment. A firm quotation for a 10-C local installation at Pitt Street Exchange was sought and received from the Company (Standard Telephones and Cables Pty. Ltd.) in May 1971. However, detailed evaluation of the offer indicated that the quotation was not satisfactory with regard to cost and in particular, that the exchange configuration employed to cater for the high ceiling rates experienced at Pitt Street, was not suitable for general network application. Since the decision not to proceed with a 10-C local installation at Pitt Street was made, all new major city exchange buildings have been designed for 10-C trunk where applicable, and cross-bar local. However, flexibility has been provided where possible

Committee  
File 1975/3

in local switching accommodation to cater for possible use of SPC in the future.

20. The Committee was informed that the additional costs arising out of the decision of 4 March 1970 comprised the \$34,759 for revision of the building design plus a further \$200,000 for additional building features resulting from the revision. The Commission believed at that time that potential savings of \$3.25m. with SPC both from the initial installation and subsequent extension as well as the reduced operating costs outweighed the costs of revising the specifications. It was also pointed out that on present day costs the installation of 14,000 lines of cross-bar equipment would cost \$7.5m. while a similar SPC installation would cost about \$5m.

Qs. 9, 20  
and 84 to  
87 and  
Committee  
File 1975/3

21. The Telecom witness stated that ultimate installation of SPC equipment in the exchange was inevitable and the Department of Construction supported the Commission's belief that the decision to revise the contract documents in March 1970 was, in the circumstances "the reasonable and economical course of action available". The departmental submission summarised the alternatives in the following terms:

Exhibit  
165/1 and  
Q. 10

"To have proceeded with the documents in accordance with the original requirements would have resulted in subsequent major changes by way of -

- . a major variation to the building contract to include electronic equipment, or
- . a major restructuring of services after the building had been constructed."

and

"Both courses of action would have involved additional consultant expenditure in documenting the alternations, the extra cost of introducing additional work during the course of the construction of the building, delays to the builder, with the possibility of substantial delay claims."



22. In response to questions regarding the current position relating to the equipment to be installed in the building the Committee was informed that evaluation of SPC local exchange systems continued after the rejection of the 10-C type system in 1971 and by 1974 the situation on the world market was such that Telecom considered it appropriate to seek world-wide tenders for an SPC local system for use throughout Australia. Tenders were called in July 1975 and were, at the time of the inquiry, being evaluated by Telecom. It was stated that provided one of the current tenders was accepted, this type of equipment could be placed in service by 1980. In the interim the initial installation of 14,000 lines of cross-bar equipment would be made when the building was completed.

Qs. 90 and  
91 and  
Committee  
File 1975/3

• Construction Problems

23. The Public Works Committee report stated that the preparation of final drawings and tender documents would take approximately ten months after approval to proceed was given. As a consequence of the need to revise the documents public tenders were advertised on 6 February 1971, nineteen months after the consultant architects had been engaged. The departmental submission stated that the contract for the erection of the building was awarded to Allan Commercial Constructions Pty Ltd of North Sydney on 11 June 1971 for \$1,966,184 and the formal documents were executed on 3 August 1971. It stated that the original completion date was set at 22 December 1972, with a construction period of 80 weeks.

P.P. 71 of  
1969 and  
Exhibit  
165/1

24. The Committee was advised that the completion date was extended to 8 November 1973 due to the following delays:

52 days	-	industry wide stoppages
52 days	-	industrial stoppages restricted to the site
56 days	-	wet weather
44 days	-	variations to contract
15 days	-	negotiations and discussions relating to contractors bill of rates

Exhibit  
165/1 and  
Qs. 32, 33  
and 35

25. The departmental submission pointed out that at the time the contract was awarded there was considerable industrial unrest in the building industry in Sydney. The unrest manifested itself in "green bans" imposed by the New South Wales Builders Labourers Federation on some sites prepared for redevelopment by private companies and statutory authorities, and demands for conditions in excess of the then existing Builders Labourers awards. It also stated that the City South project was one of several projects which attracted a greater degree of disputes, strikes and delays than others. The departmental witnesses were of the opinion that the City South project was selected, as a major government project, under a policy to isolate stoppages to specific projects instead of having an industry-wide strike.

Exhibit  
165/1 and  
Qs. 36, 38  
and 44

26. It was stated that the position was aggravated by deficiencies in the contractor's managerial and industrial relations expertise. The departmental witness explained that in the early stages of construction the managers on the site had been deficient in their technical management of the planning of the job and later on they had been unable to come to terms with the unions. Although the Department had taken action which resulted in the introduction of successive managers in an endeavour to overcome the problems, improvements were only of short duration with each change. The Department was requested by the contractor to intervene in the industrial relations problems but the contract specifically excluded the Department from becoming involved.

Exhibit  
165 /1 and  
Qs. 37 and  
72

27. The departmental witnesses defended the selection of the contractor stating that as far as the Department had been aware there had been nothing unusual about the types of industrial problems experienced by the contractor. They pointed out that before a major contract was let, the Department checked the contractor's performance on previous jobs and these checks would extend to industrial relations if the contractor's performance on previous jobs warranted it.

Qs. 40 to  
43

28. The Committee was told that on 6 February 1974 the contractor was given a program of work, which would achieve completion by 13 November 1974 and was warned that failure to achieve the program could lead to action by the Department, under the conditions of the contract, leading to termination of the contract. The initial review of achievement, under the program, was set for the end of February 1974, and, as the required progress had not been achieved, it was decided that the contract should be taken out of the hands of the contractor. The Deputy Crown Solicitor's advice was sought, and he advised on 2 May 1974 that termination of the contract could result in legal action against the Commonwealth, with possible penalties and further delay in construction activities. He recommended that, in the circumstances, the Commonwealth should seek to negotiate termination of the contract on acceptable terms. Accordingly, negotiations for termination were commenced, and a Deed of Release was executed resulting in termination of the contract on 23 October 1974.

Exhibit  
165/1

29. The witness for the Department expressed the view that the Department and Telecom had become aware of the difficulties with the construction at about the same time and that none of the delays could be attributed to any lack of communication. The Telecom witness pointed out that they had been in close consultation with the Department because of the great concern they had about the construction delays and had provided additional information to help strengthen the case for terminating the contract.

Qs. 53,  
55 and 56

30. It was explained that in the period between the expiration of the contract on 8 November 1973 and 6 February 1974 no significant work had been undertaken on the site and during that time the Department had been seeking legal opinion with respect to termination of the contract. The decision to provide a program of work in February 1974 had been a final effort by the Department to establish a program against which the contractor could demonstrate progress and to establish the conditions under which the Department could proceed to termination action. The witness pointed out that the delays which automatically resulted from taking termination action made it difficult for the Department to decide if and when it should set termination processes in train.

Qs. 45,  
101 and  
104

31. The Department believed that the Deputy Crown Solicitor's advice to seek to negotiate termination of the contract did not indicate any weakness in the contract conditions. Although the Deputy Crown Solicitor believed that the Department could cancel the contract, he warned the Department that there was a grave risk of expensive and unpredictable litigation. Q. 47

32. The Committee was informed that negotiations for termination of the contract involved further legal advice from the Deputy Crown Solicitor. It had also been necessary for the Department's Head Office to be fully involved and the Minister's consent to the deed of mutual release also had to be obtained. To obtain the contractor's agreement to termination the Department had agreed - Qs. 52, 102, 105, 106 and 115

- (a) to extend the contract to the agreed termination period
- (b) not to collect liquidated damages
- (c) to pay for all work that had been done, including rise and fall on that work
- (d) to purchase certain materials required for the building from the contractor and
- (e) to refund the security deposit

The total amount paid to the contractor for physical work on the building was \$629,774, plus a further rise and fall payment of \$82,000, for what amounted to approximately 30 per cent of the work necessary to complete the building.

33. The departmental witness explained that the Department normally went to public tender for contracts of this nature or occasionally sought tenders from a group of contractors. However, in this case the Department took the rare step of negotiating with one tenderer only because of the importance of the job and because the site problems had made it unattractive to contractors by the time the Deed of Release had Exhibit 165/1 and Qs. 49, 64 and 101

been executed in October 1974. The Department entered into negotiations with Graham Evans Pty Ltd, a firm with a proven record of performance with respect to time, standard of workmanship and industrial relations, on large projects for the Department. The negotiations were complex and protracted and involved clear definition of the extent of work still to be completed, negotiation with existing and new sub-contractors and the negotiation of an agreement between the Unions and the contractors concerning industrial issues pertaining to the City South site.

34. The Committee was informed that a contract was awarded on 22 May 1975 for \$3,515,520, with a construction period of 72 weeks, to Henley Industries Pty Ltd (an associated firm in the same group as Graham Evans Pty Ltd). Included in the new contract was a specific clause which required the Department to deduct from the schedule rate of cost up to 40 per cent of the contractor's overhead in the event of industrial stoppage exceeding twenty days. Stoppages of less than twenty days would attract proportionately lower deductions.

Exhibit  
165/1 and  
Q. 114

35. At the time of the inquiry the contract had been extended from the original completion date of 7 October 1976 to 8 March 1977 (eighty-three working days) due to industrial action on the site (forty-three days), weather (twenty-five days), space program and cable laying activities by Telecom (eight days) and an off-site stoppage (seven days). The Committee was told that the industrial activity related to union requirements to have three of Allen's former labourers re-instated within the new contract. The Department believes that the problem has now been corrected.

Q. 113

36. The Committee was informed that at the time of the inquiry the contract was about 50 per cent completed and that the current estimated final cost of construction, including costs of design of both contracts, was \$5.729m.

51

Conclusions

37. From the evidence received by the Committee it would appear that the then Postmaster-General's Department made the decision to alter its requirements for the City South Telephone Exchange building on the assumption that 10-C local exchange equipment, produced by the same company which was to provide the 10-C trunk exchange equipment for the Pitt Street Exchange, would be acceptable and would be installed in the City South Exchange.

38. The Committee, while acknowledging the Department's desire to provide a degree of flexibility in its exchange to cater for possible technological advances, is concerned that the alterations to the design of the City South building was made to accommodate equipment which had not been fully evaluated and which, on evaluation, proved to be unsuitable. It would appear that the delay of approximately ten months occasioned by these alterations, resulted in the building being constructed in a period where the industrial and economic climate had altered dramatically.

39. On the other hand, as the decision to provide the building with the capability to accommodate electronic switching equipment was based to a large extent on the type of equipment being installed in the Pitt Street Exchange, the Committee believes that the decision should have been taken earlier than March 1970. The Committee bases this view on the fact that quotations for the installation of 10-C type SPC trunk switching equipment in the Pitt Street Exchange were being considered at about the time the consultant architects were engaged to prepare the contract documents for the City South Telephone Exchange.

40. The Committee notes that at the time of the inquiry, the Telecommunications Commission was examining tenders for a SPC local

exchange system and expected that this type of equipment would be in service by 1980. The Committee wishes to be advised of the outcome of the Commission's examination of tenders and of the compatibility or otherwise, of the chosen equipment with the design of the building as originally proposed and as eventually constructed.

41. In relation to the delay from 8 November 1973 until 6 February 1974 before action to terminate the contract was set in motion, the Committee is not satisfied that this delay was necessary. The Committee believes that the extent and nature of the delays and problems experienced on the site during the "approved" construction time should have prompted the Department of Construction (or Housing and Construction as it was then known) to act more quickly when the extended completion date was reached on 8 November 1973, with only 30 per cent of the work on the contract completed. The Committee is disturbed that the Department had not sought legal advice regarding the possibility of termination before the contract was due to expire.

(b) Wellington Telephone Exchange

42. In paragraph 3.9.6 of the Auditor-General's Report for 1974-75, the following observations were made in relation to the construction of the Wellington Telephone Exchange, Perth:

P.P. 186  
of 1975

"A contract for \$400,733 was let on 18 June 1973 for foundation piling in preparation for the construction of the Wellington telephone exchange, Perth. A certificate of practical completion was issued, effective from 14 June 1974, for work at a final project cost of \$523,988 including certain work outside the contract.

The main contract for the construction on prepared foundation piles of a 17 storey building was let on 19 March 1974 for \$11,691,780 and scheduled for completion in 130 weeks.

Significant faults were discovered in the piling after the main contract was let, requiring extensive remedial piling. A new contract was let for this work on 27 June 1974 for \$477,417. The work was completed on 24 January 1975 at an approximate cost of \$667,390 which included casing valued at \$156,217 provided by the Department. Certain work by the original contractor, considered to be defective, was made good at the contractor's cost.

As a result of the additional foundation work necessary, the contractor for the main structure was denied possession of the site for some 43 weeks until the remedial piling was completed. The site was handed over on 31 January 1975. A payment of \$146,367 was approved in settlement of a claim by the contractor for losses arising from the consequential delay. Such claim did not, however, cover escalation costs which are subject of current evaluation. Certain increases totalling \$1,262,957 in original tenders submitted for nominated sub-contractors were also approved because of the delay.

At 30 June 1975 the amount authorised for the project was \$13,324,334, expenditure being \$2,173,618 to that date."



43. The Department of Construction's submission explained that early in the design process of the exchange, it was known that a difficult situation would be encountered in providing adequate foundations as the site was located in an area which was formerly a swamp, drained during the late 19th century. At the inquiry, witnesses representing the Telecommunications Commission (Telcom) explained that the site had been chosen because of its proximity to the existing exchange and to the existing network of underground lines. They pointed out that Perth was built on land of this nature and there was no reason to believe that the site was worse than any other site in the centre of Perth.
- Exhibit  
165/2  
and Qs. 118  
and 119.
44. The Committee was advised that the Department of Construction became aware of possible problems with the site during the pilot site investigation stage immediately prior to the commencement of the design and, because of the expected poor sub-soil conditions, decided to seek the advice of a foundation engineering consultant.
- Exhibit  
165/2  
and Q. 120
45. The Department's submission explained that the firm of Dames and Moore was selected, because of its international reputation and its world wide establishment of 35 offices through which it had the benefit of experience in many countries. It stated that although the firm's Central Office was located in the U.S.A. the firm has an Australia-wide organisation, including an office in Perth. In addition, the firm had been consultants on the City Square project in Perth which had "an almost identical foundation problem". The departmental witness pointed out that the firm had been used on other occasions and the Department had been satisfied with their performance on those occasions.
- Exhibit  
165/2  
and Qs. 122  
to 127
46. The Committee was told that on 17 March 1972, Dames and Moore was commissioned to investigate subsurface conditions, to evaluate the strength, consolidation and other characteristics
- Exhibit  
165/2

of the soils encountered, and to recommend an appropriate foundation system for the proposed building. The consultant was also required to provide design parameters for the structural design of the recommended foundations. In its final report, which the Department received on 22 August 1972, Dames and Moore recommended as follows:

"In our opinion the most suitable foundation type for the structure, excluding the podium, which best fulfils the requirements of safety and economy would be friction caissons socketed in the King's Park Shale. These caissons should be installed using temporary casing which would be removed during the concrete pouring. There is a local and overseas precedent for this type of foundation, including projects on which the writer has been involved in San Francisco.

We have made enquiries which indicate that at least two contractors (Frankipile and Vibropile) have experience and equipment to install these foundations."

47. The Committee was informed that the report recommended against the raft type of foundation previously adopted successfully in most major buildings in Perth, including the two largest buildings built by the Department, namely, the Australian Government Offices and the Reserve Bank. The report predicted very large settlements accompanied by tilting if a raft were adopted. Exhibit 165/2

48. The witness explained that the method recommended by the consultants had been fairly commonplace throughout the rest of the world since about 1964. The problems which ultimately occurred on the Wellington Project were not known to the Department at the time the method was adopted although similar problems were now being experienced and reported elsewhere. Qs. 128 and 149

49. The Department conceded that it had no experience with the type of foundation proposed by the consultants. The proposals were examined by the Department's Perth Office and reviewed by the Central Office in Melbourne. In addition the Qs. 129, 145, 146, 152, 153, 155 to 158 and 170

Department requested that the consultant obtain approval of the foundation system from its head office in California before proceeding. It was also pointed out that the Department had discussed the type of foundations with the four major contractors in the area and none of them commented adversely on the system that was adopted and put out for tender.

50. By way of explanation of the advantages of a system using temporary casings, the Committee was informed that recovery of the casings resulted in significant savings. There would also have been a long delay associated with obtaining supplies of steel casings. The Department had estimated that the cost of uncased piles would have been about \$500,000 and the additional cost of the casings would have been \$211,000. Nevertheless, in inviting tenders for the piling contract the Department sought tenders which included both temporary and permanent casings so that the question of retaining permanent casings would not be immediately excluded from consideration.

Exhibit  
165/2 and  
Qs. 130 to  
134

51. The Committee was informed that, in order to meet the target dates for completion of the building, tenders were invited for the construction of the piling as a separate contract ahead of the balance of the work, and whilst the contract documents for the latter were being completed. A contract for \$400,733 was awarded on 18 June 1973 to Frankipile (Australia), the lowest of four tenderers. The contract was for the loading of a test pile, followed by the construction of 132 working piles.

Exhibit  
165/2 and  
Qs. 135 and  
136

52. The Committee was advised that prior to the construction of a test pile, two working piles had been constructed to establish the construction procedure. It was explained that this had been done to train the team of operators involved in constructing the piles and also to ensure that there was a viable system of putting down the piles before the actual test pile was constructed. These two piles were deliberately located in the outer wall to permit easier replacement in the event of difficulties emerging.

Exhibit  
165/2 and  
Q. 171

53. The departmental submission stated that the loading of a test pile was necessary to test the strength of a pile socket into the strata<sup>1</sup>. As a result of the first load test the socket length was increased, and a method was developed for grooving the socket. A second load test was then done and confirmed the adequacy of the socket. After load testing was completed, the first test pile was also successfully cored, and the core was seen to be completely sound, indicating that the method of concrete placement was successful. The pile casing had been left in place for the test pile in order to isolate the socket. As a result no experience was had at this stage in withdrawing the casing.

Exhibit  
165/2

54. The Department of Construction witnesses pointed out that the casing had been left in place for the load testing to enable adequate testing of the strength of the socket<sup>2</sup> as this was the primary purpose of the test pile. It was explained that although the casings had been removed from the two initial working piles no tests were done as these had been constructed to establish the detailed procedures and confirm the adequacy of the plant being used. The witnesses believed that the method recommended by Dames and Moore had been adequately checked and that the testing had been sufficient to verify the strength of the piles.

Qa. 140,  
144, 162  
to 164 and  
170

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1. It was explained that the site strata was such that there was approximately 30 metres of poor ground before the King's Park Shale was reached. To ensure adequate strength of the piles it was necessary to "socket" the piles by drilling into the shale for about 15 metres and grooving the sides of the socket to increase its weight-carrying strength.
  2. It was explained that the casing was left in place to ensure no load was being transmitted to the sides of the excavation. This was important because although some load might be picked up by the sides of the excavation in the short run, this load would dissipate down to the socket in the long run.

Q. 144

55. The Committee was told that with the successful completion of the two working piles, followed by successful load tests and coring of the test piles, no further difficulties were anticipated and construction was allowed to proceed. During the progress of the work the Department maintained a constant check on the Contractor's construction procedures to ensure that these were carried out within the parameters specified. Detailed records were kept of each pile constructed.

Exhibit  
165/2

56. The Department's submission stated that during the concreting of Pile No. 44 on 16 February 1974 irregularities were noted during the pile casing withdrawal<sup>3</sup>. This gave rise to doubt as to the soundness of the pile as constructed, and the strong probability that it would contain a void or voids<sup>4</sup>. The contractor was therefore instructed on 19 February 1974 to test drill this pile and obtain a core for assessment.

Exhibit  
165/2 and  
Qs. 172 to  
174

57. The Committee was told that, in departmental experience and in experience reported in technical literature, it was not unusual for two to four per cent of defective piles to require replacement. At that stage the department had no reason to suspect that the defects were widespread and so allowed construction of the remaining piles to proceed.

Qs. 175 to  
178

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3. The Committee understands that the irregularity observed was that during the withdrawal of the casing the flow of concrete and of bentonite (drilling mud) out of the hole stopped. The evidence is not clear but it appears that the normal occurrence is that concrete comes out of the casing, filling the hole and recharging the top of the casing.
  4. A void is a section of the pile where there is no concrete. The witnesses explained that it was believed that there had been a relationship between the voids in the pile and an excessive amount of vibration which had been required to maintain a continuous flow of concrete during pile construction. The excessive vibration was not recognised as a potential problem until the irregularities were noted during withdrawal of the casing.

Q. 172

Qs. 173, 174  
and 177

58. The Committee was advised that test drilling of Pile No. 44 commenced on 25 February 1974 and resultant core samples presented on 26 February confirmed the Department's suspicion that the pile contained a major void. The pile was certified defective and the contractor was ordered to construct a replacement pile in accordance with the contract. Exhibit 165/2

59. The departmental submission explained that the construction records of all piles poured prior to Pile No. 44 were re-examined to ascertain whether there was any indication that other piles might also contain similar voids. Another pile was selected on this basis (although the construction procedure irregularity was much less apparent than was the case in Pile 44) and the Contractor was instructed on 18 March to core drill it and provide test cores. However, due to difficulties in obtaining a suitable rig, the drilling operation was not commenced until 6 April 1974. The results of the test coring of this pile not only confirmed the presence of another major void, but revealed another unexpected problem - zones of bentonite (drilling mud) contamination. Exhibit 165/2

60. The submission went on to say that the extent of the problem became progressively apparent during subsequent coring investigations of a small group of piles, selected because grounds were found to suspect the presence of voids. By the end of April the possibility of the existence of the general problems of zones of weakened concrete through bentonite contamination was confirmed. An extension of the core drilling program was then undertaken although this procedure was limited in extent because of the time, cost (in each instance approaching the original construction cost of a pile) and difficulty of carrying it out successfully. Alternative methods of testing were investigated, including the use of radio isotope probes, but without success. This program confirmed that the bentonite contamination problem was widespread, and it was concluded that the strength effectiveness of the piling system as constructed was inadequate. Exhibit 165/2

61. The submission commented that because the process of core drilling was necessarily slow, and a period of six weeks had elapsed before the Department became aware that the problem extended to most of the piles in the foundation, the piling contract had proceeded to completion.

Exhibit  
165/2 and  
Q. 177

62. The Committee was informed that an explanation for the occurrence of bentonite contamination proved to be very complex. Core testing and analysis of construction records indicated that the defect was not due to normally recognised hazards in this type of operation. The Department had in fact guarded against the known possible hazards both in the specification and in the degree of supervision that was instituted. The particular type of defect that developed however, was totally unexpected by all parties - the Department of Housing and Construction, the contractor and the foundation consultant. In the light of the best knowledge available at the time such defects had not previously been detected or recognised as a possible hazard elsewhere in the world. Although possible causes of the defect can be postulated, the actual cause and the measures necessary to ensure the defect would not occur in future piles are still uncertain.

Exhibit  
165/2

63. At the inquiry, the departmental witnesses reaffirmed that the department had not been aware of the possible problems at the time the decision was made to proceed with the piling although they drew the Committee's attention to an editorial in the Engineering News Record in 1966 which referred to a similar problem with the John Hancock Center in Chicago and to a seminar in England in September 1973 (3 months after the contract was let) which mentioned problems similar to the void defects experienced with the Wellington Telephone Exchange. The witnesses stressed that the Department had no knowledge of these articles and did not know whether the foundation consultants had been aware of them.

Qs. 180 to  
189 and  
Committee  
File 1975/3

64. The Committee was told that because of the unusual nature of the problem, the Department sought and obtained the services of Mr William W. Moore, a principal partner of Dames and Moore from their Central Office in San Francisco and a recognised world authority in foundation engineering to review the on-site problems and the remedial measures proposed. It was stated in evidence that Dames and Moore were chosen because the Department believed they were the firm with most experience of the type of problem encountered on the Wellington site. The cost of this further consultation was about \$8,000 compared with the initial consultation fee of \$16,385. Exhibit 165/2 and Qs. 168, 169 and 190

65. The departmental submission stated that on 11 June 1974 Mr Moore reported: Exhibit 165/2

"From currently available information we are not able to delineate a specific fault in the Contractor's procedure which clearly caused the defects to be created in the concrete quality."

and on receipt of this advice, the Deputy Crown Solicitor, Perth, was consulted. His opinion was that, under the circumstances, the contractor could not be held liable, other than for the replacement of piles containing voids resulting from departures from approved construction procedures.

66. The Report also endorsed the Department's remedial proposal to use permanent steel casings as being the most appropriate in the circumstances. In his opinion the remedial system provided the needed assurance of satisfactory foundation support. The report confirmed that repair measures were out of the question on the counts of time and prohibitive cost, and commented most favourably on the standard and detail of the Department's supervision. Exhibit 165/2



57. The Department's submission pointed out that while it appeared possible that only relatively minor alterations in construction techniques and design details could produce completely satisfactory piles to the original design, several months of delay to construct trial piles and test them would have been involved before the installation of remedial piles could proceed. The Department had therefore decided to use permanent steel casing for the remaining piles as -

Exhibit  
165/2 and  
Q. 192

- . a further delay in construction of the nature outlined was not acceptable
- . the Department had been able to locate sufficient stocks of steel piping which could be adapted to permanent piling
- . permanent casing would eliminate problems associated with the withdrawal of temporary casing, the further period required for trial and testing of piles, and minimise the risk of construction faults.

It was decided to proceed, as quickly as possible, with construction of the supplementary piling system, as a new and separate contract, and in a manner that would allow the earliest possible start by the main contractor for the building works and thus reduce the delay in completion of the building to an absolute minimum.

68. The Committee was told that selected tenders were invited from Frankipile and Vibropile. A contract was let on 17 June 1974 to Doust - Vibropile Joint Venture the lower of the two tenderers, for \$477,417, which excluded the cost of the steel casing valued at \$156,217 provided by the Department. It was explained that selected tenders were called because of the urgency of the project. *The two firms were selected because they were the only two firms which could have commenced immediately the contract was let.* The Committee was informed that Doust, the main contractor for the building, had joined with Vibropile to form a joint venture to complete the piling contract. This contract successfully completed 64 supplementary piles and the site was made available to the main contractor for the building works on 24 January 1975 (a delay of some 43 weeks from the date of acceptance of the contract for the building).

P.P. No. 186  
of 1975  
Exhibit  
165/2 and  
Qs. 201 and  
202

69. The Department provided the Committee with a detailed breakdown of the costs of the two piling contracts and also of costs arising out of the failure of the initial piling system:

Exhibit  
165/2

(a) First Piling Contract

<u>Original Contract (for a provisional (i.e. estimated) length of piling)</u>		<u>\$400,733</u>
Contract amount as varied		492,849
Contract variations, including:		
Additional length of piling	\$22,000 approx.	
Grooving Pile Sockets	4,400 "	
Core Drilling	20,000 "	
Amendment to Sheet Piling Support System	4,500 "	
Construction of Additional Test Pile	31,000 "	
Various minor Variations	Balance	
Work outside the Contract including escalation costs and testing		<u>31,139</u>
Total Cost of Initial Piling Contract		<u>\$523,988</u>

(b) Second Piling Contract

<u>Original Contract (for a provisional (i.e. estimated) length of piling)</u>		<u>\$477,417</u>
Contract amount as varied		475,798
Plus Rise and Fall	\$27,211	<u>27,211</u>
Total Cost of Contract:		<u>\$503,009</u>
Plus Cost of Casing	156,217	
Other Costs	<u>8,166</u>	<u>\$164,383</u>
Total		<u>\$667,392</u>

(c) Major Contract

(i) Loss of Profits due to decreased turnover

The Contractor for the main building, H.A. Doust Pty Ltd made a claim for recovery of establishment and mobilisation costs inclusive of loss of profits due to decreased turnover following the delay in possession of the site. After detailed evaluation and negotiations this claim was settled for \$146,367.

(ii) Rises in building costs

During the period of unavailability of the site (March 1974 to January 1975) unprecedented rises in building costs occurred throughout Australia. The formula for the adjustment of the contract price for reasons of change in the price of building materials and labour which had been incorporated in the accepted contract with H.A. Doust was agreed to be inadequate and after negotiation a settlement was arrived at comprising:

- . Payment for the established rises in costs of the building work which occurred from the date of closing tenders (24.1.74) to the date of possession of the site (24.1.75). This was agreed at an additional cost rise of \$696,217 which would be paid progressively as items in the contract were physically completed. It would represent a "Loading" on original Bill of Quantities rates to be applied to each progress payment paid on these rates.
  
- . Adjustment to the basis of calculation on the rise and fall formula to operate from the date of possession of the site (i.e. 24.1.75) to completion of the building.

(iii) Sub-contractors

- . Included in the original tender of \$11,691,780 were provisional sums totalling \$5,560,000 for seven nominated sub-contracts for specialist work. It was conceded that these sub-contracts were similarly affected by cost rises during the delay period not fully compensated for in their contract adjustment formula. Changes to the formulae applicable to each sub-contract were separately negotiated, and the cost adjustment would be made as the work progressed.
  
- . At the time of examination of the project by the Auditor-General the cost of these increases was estimated to be \$1,262,957. Since then tenders for the fire sprinkler system had been received, and the increased cost was estimated at \$1,415,000<sup>5</sup>.

70. The Committee was advised that at the time of the public inquiry (April 1976) the concrete structure of the building had been completed to the third floor and partially constructed to the seventh floor. The extended completion date at that time was October 1977 although the department believed that date would not be achieved and that October 1978 was a more likely completion date. The expected final cost was around \$17m. but taking future rise and fall provisions into account, the departmental witness expressed the opinion that the final cost could be as high as \$20m.

Qs. 193 to  
199

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5. The submission pointed out that an amount of approximately \$800,000 would have been payable over the period from January 1974 to January 1975 under the original rise and fall formula.

Exhibit  
165/2

71. Towards the conclusion of the public hearing the departmental witnesses reaffirmed their belief that the Department had acted appropriately in the circumstances and expressed the opinion that another consultant would have probably given the same advice. Qs. 206 to 208

72. The Committee was told that as a result of the effects of the rapid escalation of construction costs in recent years, the Department was introducing a procedure which was described as "fast tracking". The witness explained that this was to shorten the total design and construction periods in an attempt to reduce the amount of escalation of costs on individual construction projects. Q. 215

#### Conclusions

73. The Committee is generally satisfied with the explanations given by the Department in relation to the reasons for selecting the foundation system adopted and with the remedial measures taken following the discovery of the problems with the piling. However, the Committee wishes to express its concern at the Department's failure to test piles subsequent to withdrawal of the casings. Noting that part of the recommendations made by the foundation consultant related to the use of "temporary casing which would be removed during the concrete pouring", the Committee believes that the adequacy of this procedure should have been tested early in the pile construction period either by coring one of the working piles or by constructing an additional test pile.

74. The Committee believes that the San Francisco-based foundation engineering consultant should have been aware of similar problems experienced in the United States in relation to the John Hancock Center in Chicago and which were recorded in engineering trade publications in view of their pre-eminence in the profession.

CHAPTER 3

DEPARTMENT OF ENVIRONMENT, HOUSING AND  
COMMUNITY DEVELOPMENT

75. Paragraph 3.9.2 of the Auditor-General's Report for 1974-75 p.p. 186 of 1975 contained the following comment:

"Sections 31 and 32 of the Audit Act set out the procedures for drawing money from the Commonwealth Public Account to make payments from an appropriation of the Consolidated Revenue Fund or the Loan Fund. Briefly, these procedures require the Treasurer to notify the Auditor-General of the amounts to be withdrawn from the Commonwealth Public Account and the purposes for which they are required, whereupon the Auditor-General is required to certify whether the amounts to be drawn are lawfully available for the purposes specified. On the basis of the foregoing, the Governor-General authorises the Treasurer to draw the amounts from the Commonwealth Public Account. As appropriate, the Governor-General's Warrant is allocated to departments by means of warrant authority issued by the Treasury. Departments may further allocate this authority by means of warrant advices.

In April, 1975 a warrant advice was issued which purported to authorise payments to the extent of \$10,000,000 for purposes of the States Grants (Dwellings for Pensioners) Act 1974. To 30 June 1975 amounts totalling \$6,048,024 were paid against this authority. Audit enquiries established that no warrant of the Governor-General had been obtained for this expenditure.

It is a matter for concern that fundamental controls over the expenditure of public moneys were not observed in this instance and I have expressed my concern to the Treasurer in a report under section 45(2) of the Audit Act."

76. The Committee was informed that the States Grants (Dwellings for Pensioners) Act 1974 is a "special appropriation" which received assent on 17 December 1974. The Act appropriated

Exhibit  
165/4 and  
Qs. 471, 477  
and 526

an amount of \$10,000,000 for payments before 1 July 1975. It was explained to the Committee that in accordance with the Act, the Minister approved certain building schemes and authorised the payment of grants for approved schemes to the States in quarterly instalments according to progress made and up to the amount of the estimated cost of the schemes. During the period concerned six payments totalling \$6,048,024 were made before 1 July 1975.

77. The Committee was informed that each quarter the States list the building schemes still in progress showing expenditure incurred to date, estimated expenditure for the following quarter and then claim a grant up to the amount of their expenditure to the end of the next quarter. The Department on receipt of the quarterly reports from the States check them with the departmental records of what was authorised by the Minister. The Department stated that it endeavours to pay the amounts claimed by the States as quickly as possible.

Qs. 516 to  
518 and  
523

78. The procedure for drawing money from the Commonwealth Public Account to make payments from an appropriation of the Consolidated Revenue Fund or the Loan Fund is set out in section 32 of the Audit Act 1901 (See Appendix A). In brief, the procedure provides for the Treasurer to notify the Auditor-General of the amounts that are required to be withdrawn from the Commonwealth Public Account under the authority of the annual Appropriation Acts or by other legislation. The form of this particular advice is in accordance with the Schedule to section 32 of the Audit Act and when all action has been completed the Schedule becomes the Governor-General's warrant. When the Auditor-General is satisfied that the moneys are lawfully available he signs the certificate on the Schedule to that effect and the Schedule is then signed by the Governor-General.

Q. 463

79. It was explained to the Committee that in respect of each Appropriation Act only one Governor-General's warrant is required and that the warrant authorities used to disburse the amounts included

Qs. 463  
to 466

in an Appropriation Act are prepared by the Department of the Treasury<sup>1</sup> before the Governor-General's warrant is signed. So that when the Governor-General's warrant is received the warrant authorities are signed and despatched to departments. In the case of special appropriations the warrant authorities are not prepared until the Governor-General's warrant is received. The Department of the Treasury maintains a warrant authority register which records every warrant authority that is issued, and a separate record is kept of all the Governor-General's warrants that have been received and the number of warrant authorities issued in respect of each specific piece of legislation.

80. The Treasury Observer, Mr Finch, told the Committee that as a result of what had transpired in this case, the issue of warrant authority against special appropriations is now entered in a section of the central ledger print-out from the Treasury computer and is monitored by the Treasury section which issues the warrant authority. Copies of the central ledger print-out are also distributed to the various policy areas of the Treasury responsible for the oversight of expenditures of groups of departments.

Q. 546

81. The Department of the Treasury in a submission to the Committee stated that the practice has been that, once the Budget is passed the Treasury obtains Governor-General's warrant and then issues warrant authority to departments in accordance with the amounts set out in Table 7 of the document "Estimates of Receipts and Summary of Estimated Expenditure", with the exception of those amounts for which legislation is pending. As Treasury Direction 16/23 states that departments need not apply for warrant authority for special appropriations appearing in Table 7

Q. 470 and  
Committee  
File  
1975/3

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1. At the time of the Committee's inquiry action relating to warrant authorities was the responsibility of the Department of the Treasury. Subsequent to the creation of the Department of Finance on 7 December 1976 this responsibility was transferred to that Department.



of the Estimates of Receipts and the Summary of Estimated Expenditure, it was the Treasury view that the Department, in this instance, could have been misled into thinking that the Treasury had obtained a Governor-General's warrant and had issued warrant authority for the amount estimated. This action was not taken because the making of a Determination by the Minister under the States Grants (Dwellings for Pensioners) Act had not been notified to the Treasury by the Department of Housing and Construction and it was the Treasury practice not to prepare a Governor-General's warrant until Determinations - where they are required by law - are obtained.

82. The Department believed that the Minister was required under the Act to approve individual building schemes and to authorise payments to the States in respect of individual schemes of such amounts as he determines. The witness for the Department stated that he was of the opinion that under the Act there was no requirement upon the Minister to issue a Determination in regard to the total amount to be expended during the year.

Qs. 471 to  
473 and  
479 and  
Committee  
File  
1975/3

83. The Committee was subsequently informed that the Department had sought advice from the Attorney-General's Department on 19 December 1975 whether or not a Determination by the Minister of the estimated amount to be payable in the financial year was a pre-requisite to the Treasury obtaining Governor-General's warrant for expenditure under the States Grants (Dwellings for Pensioners) Act 1974. The Department in its memorandum to the Attorney-General's Department stated that a Determination of this kind was first sought from the Department by the Treasury in respect of the 1975-76 year, apparently after the failure to obtain the Governor-General's warrant for expenditure in 1974-75 had come to notice. This request was made orally and, although the Department stated its view that a Determination of this kind was not necessary, it arranged at Treasury's insistence

Committee  
File  
1975/3

for the Minister to signify his approval on 20 August 1975. A request for similar Ministerial approval had not been made by the Treasury in respect of 1974-75 or in any of the five previous years of the earlier Dwellings for Aged Pensioners Schemes which operated under comparable legislation, namely, the States Grants (Dwellings for Aged Pensioners) Act 1969 (No. 87 of 1969). The Department informed the Committee on 13 October 1976 that it was still awaiting a reply from the Attorney-General's Department.

84. The Committee was informed that the Section in the Department of the Treasury concerned with the Governor-General's warrants keeps a careful check of the legislation passed by the Parliament and notes whether a piece of legislation has an appropriation clause and if there are requirements for a ministerial Determination or any other conditions that have to be met. The Treasury Observer (Mr Finch) informed the Committee that providing there was no impediment to the obtaining of the Governor-General's warrant, it would be sought by the Treasury immediately the legislation was passed and Royal assent granted.

Qs. 485  
to 489

85. The Committee was informed that the Department of the Treasury amended Treasury Direction 16/23 on 26 August 1976. The Direction has been clarified to provide that departments need not make application for warrant authority in respect of moneys required under a Special Appropriation covered by existing legislation and shown in Table 7 of the Estimates of Receipts and Expenditure. However, where existing legislation is being amended or new legislation is pending, departments should make application for the amount of warrant authority required as soon as the relevant Act has come into effect.

Exhibit  
165/4,  
Committee  
File  
1975/3 and  
Q. 470

86. The Treasury Direction now reads:

Treasury  
Direction  
16/23

"Warrant Authority

23. Before the commencement of each financial year departments should make application (in duplicate) for warrant authority for estimated annual requirements under Refunds of Revenue and Loan Appropriations and for expenditure chargeable directly to; or required to be covered temporarily by, the appropriation "Advance to the Treasurer", pending recovery. It will not be necessary to make application for warrant authority in respect of moneys appropriated by the annual Appropriation Acts, nor will an application be necessary for amounts shown for Special Appropriations of existing legislation in Table 7 of the Estimates of Receipts and Summary of Estimated Expenditure. Where existing legislation is to be amended or new legislation is pending, departments should make application for the amounts required as soon as the relevant Act has come into effect!

87. With regard to the expenditure of \$6,048,024 without Governor-General's warrant, the Department confirmed that it had not obtained a warrant authority from the Department of the Treasury for the expenditure in question. Notwithstanding the failure to obtain warrant authority, warrant advice No. CG.20 was issued by the Department's Central Office, Melbourne on 2 April 1975, for the amount of \$10m. (i.e. the full amount appropriated under the Act for payment during 1974-75).

Exhibit  
165/4

88. The Committee was informed that in accordance with Treasury Direction 17/2 departmental procedures provide for a warrant control register which records warrant authorities received and the details of warrant advices issued. Each item is listed on a separate page of the register. A running total is kept of the warrant advices and at no time should the total of all warrant advices exceed the amount of the warrant authorities. The Warrant Control Officer in the Central Office at Melbourne is the only departmental officer who deals with the Department of

Exhibit  
165/4 and  
Qs. 480 to  
482 and 484

the Treasury on matters of warrants. Treasury Direction 17/2 states that:

"Warrant Authority

Regulation 90 provides that expenditure shall not be authorized from Revenue or Loan Appropriations until warrant authority is held. When warrant authority is issued to the head office of a department the Authorizing Officer in that office may apportion the warrant authority by means of warrant advice and allocation advice (see Directions 34/59-63) between the various Authorizing Officers and Overseas Authorizing Officers, as appropriate, operating on the department's appropriations. Warrant authority allocated by means of warrant advice may be re-apportioned from time to time as necessary, provided that the total amount included in the warrant authority for each appropriation is not exceeded. Warrant advices shall be given a numerical sequence in respect of each Authorizing Officer. A warrant advice shall apply with equal force and effect as a warrant authority".

89. The Department explained that during the period concerned the Central Office of the former Department of Housing and Construction was in three locations, Melbourne, Canberra and Sydney. The Melbourne Office dealt with the Department of the Treasury on matters relating to warrant authority and issued warrant advices to Authorizing Officers at various locations including Central Office, Canberra. The Warrant Control Officer (Clerk Class 6) is responsible for the issuing of warrant advices to the Authorizing Officers. He is assisted by a Clerk Class 2/3 who maintains a warrant control register. A Senior Finance Officer (Clerk Class 9) is responsible for the supervision of the work of the Warrant Control Officer.

Qs. 480, 500,  
530, 536 and  
537

90. The Department stated in its defence that there had been extenuating circumstances in that this was the first year of operation of the joint Department and the section concerned had not dealt with special appropriations previously. The Department

Exhibit  
165/4 and  
Qs. 480, 491  
and 532

stated that prior to the case in question, the control system had operated successfully for many years despite the complexity and volume of warrant transactions involved. This is illustrated by departmental statistics which show that during 1974-75 the Department processed expenditure through 20 Authorizing Officers under more than 200 heads of expenditure and that on 2 April 1975, the day of issue of warrant advice CO.20, the Warrant Control Officer issued some 50 warrant advice variations covering both new allocations and adjustments to existing allocations.

91. The Committee was informed that the Queensland Housing Commission in a letter dated 10 January 1975 asked the Department for funds covering 8 schemes that the Commission proposed to build with grants under the States Grants (Dwellings for Pensioners) Act 1974. The Minister approved three of the schemes, but in order to satisfy himself that the costs were reasonable and that there was a demonstrated need for these schemes, more information was sought on the other five. The last of the additional information requested was submitted to the Minister on 10 March 1975. The Minister approved the remaining 5 schemes on 13 March 1975, and because two months had already passed since the Queensland Housing Commission claim for expenditure had been received the matter was considered urgent and the Authorizing Officer in the Department was requested to ask for payment on the same day.

Qs. 526 to 528

92. The witness for the Department of Construction told the Committee that in a case where the Department does not hold a warrant authority and payments have to be met, the Department would normally approach Treasury for an appropriate warrant authority to cover the intended expenditure.

Qs. 491 to 493

93. The Committee was informed that although the first claim for payment under the States Grants (Dwellings for Pensioners) Act was certified for payment on 25 March 1975, the Department

Exhibit 165/4 and Qs. 491 to 493 and 526

did not become aware of the irregularity until August 1975 when the Auditor-General directed the Department's attention to it. The Department stated in its submission that although it could not be established with any certainty, it was reasonable to conclude that the Warrant Control Officer at Central Office, Melbourne issued the warrant advice in response to a telephone request from the Authorizing Officer at Central Office, Canberra, when the latter received the first claim for payment shortly before 18 March 1975. The Department stated that the Warrant Control Officer was aware of the established procedures for the issue of warrant advices, and that they were to be issued only to the extent covered by warrant authority. In the case in question he could not recollect the circumstances whereby he issued warrant advice CO.20 without covering warrant authority but concluded that the advice was issued only after he had made a telephone request to the Department of the Treasury to obtain the warrant authority and satisfied himself that this would be forthcoming.

94. The witness for the Department, in order to demonstrate that it was normal procedure for the Warrant Control Officer to approach Treasury, stated that the same circumstances occurred in August 1975 in respect of the 1975-76 payments under the Act when the Department again did not have the necessary warrant authority to settle the payment of a claim. In this case the Department sent a Telex message to the Treasury requesting the issue of a warrant authority so that warrant advice could be issued. The witness felt that it was logical to conclude that a telephone call was made in the previous year under similar circumstances. However, the Committee was told that there was no direct evidence to substantiate the claim that the Warrant Control Officer had made a telephone request to the Department of the Treasury to obtain the warrant authority number.

Qs. 498,  
529 and  
541

95. The Department informed the Committee that in cases of urgent payments it would not be unusual for a telephone request to be made from the Central Office, Canberra to the Department's

Qs. 494  
to 496  
and 499

Office in Melbourne to obtain a warrant advice number. The subsequent issue of the actual warrant advice would confirm the oral transactions.

96. The Treasury Observer (Mr Finch) stated that although numerous telephone calls seeking information concerning warrant authorities are made to the clerk who issues warrant authorities, it is not possible to obtain a warrant authority by telephone. Any request for a warrant authority has to be made in writing, although a Telex message would be acceptable. A written request for a warrant authority would be passed down from the policy division of the Treasury with its recommendations to the Budget Section which controls the issue of the authorities. Before the warrant authority is issued a firm recommendation is made in writing by one Chief Finance Officer and a written approval obtained from another,

Qs. 498,  
501 and  
529

97. Mr Finch said that it was quite legitimate and a very common occurrence to seek a warrant authority number by telephone, once the warrant authority had been issued. No records of such telephone calls are kept by the Treasury. The Department stated that in cases of need for urgent payments a request by telephone for a warrant authority number was not unusual.

Q. 501

98. The Treasury Observer was asked when did his Department first become aware that a warrant authority for the expenditure had not been issued. He stated there was evidence to show that the clerk in the Treasury responsible for the preparation of the Treasurer's Finance Statement for submission to the Auditor-General at the end of the financial year and who controls the Governor-General's Warrants noticed that there was some expenditure without warrant. However, no action was taken until early in August 1975, when the Department came to the Treasury for the issue of some warrant authorities for the 1975-76 financial year. It was

Q. 545

explained to the Committee that during the period the Minister's Determination was being obtained, Treasury issued some \$3.2m. from the Treasurer's Advance to enable the Department to make payments.

99. The Committee was informed that although the Department considered the control procedures as adequate, as a result of the irregularity and departmental investigations, action had been taken to introduce additional internal controls in an endeavour to ensure that the procedures are followed without exception. A set of detailed warrant control procedures has been issued to the Warrant Control Officer, and an independent check is now carried out of the entries in the warrant control register and the Warrant Control Officer is required to initial the actual register entries so that they can be identified. Details of requests for warrant by telephone have to be endorsed in writing by the Warrant Control Officer.

Exhibit  
165/4,  
Committee  
File  
1975/3  
and Qs.  
491, 531,  
540, 543,  
544 and  
549 to  
556

#### Conclusions

100. As the 1974-75 year was apparently the first year that Treasury had not automatically obtained Governor-General's Warrant and issued warrant authorities for what appear to be schemes operating under similar legislation, the Committee believes that the Treasury should have contacted the Department to inform it of the change in its requirements for 1974-75 and future years. The Committee, therefore, attaches no blame to the Department for its failure to obtain the Ministerial Determination under the Act required by the Treasury as a pre-requisite to obtaining Governor-General's Warrant.

101. In this context the Committee notes that the Department does not agree with the Treasury that such a Determination is necessary under the Act before warrant is issued and has sought a legal opinion



on this matter. The Committee wishes to be informed of the details of this legal advice and how the problem has been resolved.

102. Notwithstanding the Committee's comments regarding the Treasury's lack of liaison with the Department in this matter, the Committee views in a very serious light the fact that the Department failed to observe an important and fundamental principle in the control over the expenditure of public moneys by not ensuring that warrant authority had been issued by the Treasury before authorising the payment of \$6,048,024 to the States.

103. In relation to the Department's contention that a telephone call was made to the Treasury to obtain the required warrant authority for the expenditure, the Committee would direct attention to the Treasury Observer's comment that application would have to be in writing before approval would be given and warrant authority issued. The Committee also considered it significant that no warrant authority number could be quoted by the Department.

104. The Committee has noted the Department's statement that although the control system then in use had operated successfully for many years, it has introduced additional internal control procedures to ensure that as far as possible a similar error will not occur again.

CHAPTER 4

THE DEPARTMENT OF INDUSTRY AND COMMERCE  
Australian Government Clothing Factory -  
Production and Sale of Civilian Clothing

105. In paragraph 3.11.5 of his Report for 1974-75 the Auditor-General had commented on some unsatisfactory features relating to the unauthorised production by the Australian Government Clothing Factory of a range of civilian clothing for sale to the public through commercial outlets and to departmental staff. The Audit examination had disclosed a number of unsatisfactory features including the following:

P.P. 186  
of 1975

- . Stocks received from the Factory were not verified
- . Officers received and handled cash without proper authority
- . Proceeds were banked in an unauthorised bank account
- . Daily takings were not reconciled with cash register controls
- . Adequate security arrangements were not provided for cash held overnight and during weekends
- . Adequate security for stocks on hand was not provided
- . Sales to staff did not conform to Treasury Directions

106. The Committee was informed that the Factory's production of civilian clothing was noticed by an Inspector from the Auditor-General's Office during a routine audit inspection in April 1974. The Factory Manager was approached by the Auditor and questioned as to his authority to carry out this production. As a result of the Audit inquiry the Minister, in June 1974, sought specific legal advice as to whether he had the necessary authority to authorise production of this nature.

Q. 312

107. The Department stated that on the initiative of the then Manager of the Factory, the production of a range of civilian clothing commenced in March 1974. At that time the Factory had an insufficient workload to maintain continuous employment of its total staff and a policy of non-retrenchment of staff. It was explained to the Committee that staff which would otherwise have been idle was engaged upon the production of civilian clothing.

Exhibit  
165/3 and  
Qs. 652  
and 653

108. The Committee was informed that the production of items of civilian clothing was within the terms of government policy relating to manufacturing at the Factory and met the requirements of the 1949 Supply and Development Regulations. However, the particular work undertaken was contrary to policy directives issued in 1969 and 1971 to all managers on the subject of carrying out commercial work. These directives stated that unless there were special circumstances such as retaining essential production skills of defence significance, commercial work is not to be solicited and should be restricted to that which private industry is unable or unwilling to undertake at the time. The directive also stated that where the nature of the work or the type of industry likely to be involved is considered sensitive because of expected reaction by private industry, advice should be forwarded to the Secretary of the Department of the action proposed to be taken to tender for commercial work of the type concerned.

Qs. 248,  
312 and  
590

109. The Committee was told that Supply and Development Regulation 42 states that a manager shall have authority in relation to any undertaking under his charge to incur expenditure within such limits for supplies or services as are determined by the Minister in connection with the maintenance and operation of the undertaking. The Audit Observer, Mr Parker, stated that on the other hand, Regulation 9 of the same Statutory Rules states that the Minister may authorise the carrying out of such work and undertakings and the execution of such contracts and agreements as are necessary or expedient in the interests of defence.

Qs. 312 and  
373

110. The Committee was informed that the Manager's delegation to incur expenditure on non-capital items was limited to the authority that is placed with the Factory through funded orders and capital expenditure was limited to \$2,000. It was stated that the Manager of the Factory departed from policy in that he engaged the Factory on the production of goods for

Qs. 242 to  
244, 294 to  
296, 371,  
372,  
594 and 595

which there was no specific order. The Manager was apparently under the impression that he would be able to sell the production of these items and recover the costs without having a specific order or direction from the Department. The witness for the Department stated that the Manager should have sought approval to embark upon production of a range of materials for stock as he did not have the authority to do so on his own initiative. The witness felt that as funds were being expended on this type of production, the Manager should have ensured that it was acceptable to the Department. The Committee was informed that no discussions were held between the Factory and the Regional Office before production of the civilian clothing was commenced.

111. The Committee was informed that arising from information furnished by the Chairman of a firm which was negotiating with the Clothing Factory for the printing of motifs on garments, and following investigation by the Commonwealth Police, the Manager and the Assistant Manager of the Clothing Factory were charged on 8 October 1975 with attempting to obtain a bribe contrary to section 73(1) of the Crimes Act 1914-1975. The offences were alleged to have occurred between 1 August 1975 and 2 October 1975. Following the laying of the charges, the Permanent Head of the Department on 8 October 1975 suspended both officers pursuant to section 62 of the Public Service Act 1922-1975. The two officers concerned thereupon tendered their resignations and these were accepted by the Permanent Head with effect from close of business on 10 October 1975.

Qs. 259  
and 260  
and  
Committee  
File  
1975/3

112. The defendants appeared before the Melbourne Magistrates Court on 12 November 1975. The cases were found proven and each was discharged on entering into a recognizance in the sum of \$500 to be of good behaviour for three years and to come up for conviction and sentence if called under section 198 of the Crimes Act 1914-1975. Because of the circumstances the Committee did not examine the former Manager or Assistant Manager.

Committee  
File  
1975/3

113. The Department was unable to tell the Committee if an attempt was made by the Factory management to assess the marketing possibilities of the goods before the production was commenced. The witness for the Department stated that it was assumed that the former Manager expected that there would be a market for the goods. Evidence was presented to the Committee which showed that the then Manager, at the latter end of the period during which the goods were being manufactured, had contacted organisations such as the Victorian Postal Institute and the Australian Services Canteen Organisation, but the approaches were unsuccessful except for one limited sale.

Qs. 299,  
300 and 302

114. The Committee was informed that on 6 May 1974 the Department's Principal Executive Officer on a routine visit to the Clothing Factory became aware for the first time of the Factory Manager's action in regard to the manufacture of garments for retail selling. He notified the Controller, Munitions Supply of this situation on 7 May 1974, including advice to the effect that the Manager intended to commence retail selling on Saturday, 16 May, in an annex attached to the Canteen of the Factory. The Controller on 7 May 1974 despatched the following teleprinter message:

Exhibit  
165/3 and  
Qs. 389 and  
407 to 413  
and  
Committee  
File 1975/3

"Your efforts to obtain commercial orders appreciated but difficulties are foreseen in manufacture for retail sale unless necessary approvals are first obtained. Pending advice from me that these approvals have been obtained you are not repeat not to proceed with proposed retail selling".

On 3 June 1974 the Department obtained the Minister's retrospective approval to complete the work but not to expand any further.

115. The Committee was told that the Clothing Factory is grouped organisationally within the Munitions Supply Division of the Department and that the Factory Manager through the Deputy Controller of Munitions Supply is responsible to the Controller Munitions Supply, who in turn is responsible to the Permanent Head of the Department for the management of the Munitions Supply Factories.

Qs. 222,  
250, 251,  
390 to 396,  
401 and 402

116. The Controller of Munitions Supply stated that until 7 May 1974, he was unaware of the situation. He also stated that provided the Minister agrees, section 42(1)(a) of the Supply and Development Act allows the Manager to exercise the prerogative of undertaking work of this nature. He believed that it was an error of judgement on the part of the former Manager in not seeking Ministerial approval as a prerequisite to commencing the manufacture of civilian clothing for retail selling without customer's orders.

Qs. 397,  
398 and  
656

117. The Committee was informed that the Munitions Supply Division was being continually advised of the overall employment situation at its factories. The then Manager of the Clothing Factory had, in January 1974, indicated to the Department its requirement for more work. Consequently the Department had sought advance information from the Service Departments regarding their ordering patterns for the ensuing period. However, this action was not able to improve the immediate workload situation. The Committee was told that the question of workloads in government factories had been a problem for 5 or 6 years.

Qs. 399,  
410 to 420,  
422, 664  
and 665

118. The Department informed the Committee that Ministerial approval was obtained on 13 August 1974 to engage in retail selling to factory employees in a shop set up in the Factory canteen. The Department stated in its submission that after several weeks of selling operations at the Factory, it became apparent that there was little likelihood of the stock being cleared by this means, at least for a considerable period of time. The Regional Director volunteered to augment the selling rate by arranging selling at the Regional Office, to reach a wider range of potential customers within the Department. This offer was accepted and stocks were moved from the Factory, with selling commencing on 6 September 1974. Selling ceased at the Regional Office on 8 October 1974.

Exhibit  
165/3 and  
Qs. 333,  
334 and 670

119. The Department in commenting on the observation in the Auditor-General's Report that stock received from the Factory was not verified stated that this was a conscious decision by the Regional Director having regard to -

Exhibit  
165/3 and  
Q. 341

- a) the purpose of extending the selling operation from the Factory to the Regional Office was to boost the conversion of manufactured stock to cash, and therefore reduce the holdings of stocks which were proving difficult to sell,
- b) the goods were being handled within the Department (between the Factory and the Regional Office) and it was assumed that deliveries from the Factory would be accurately recorded on delivery vouchers and could be accepted. Furthermore, it was assumed that any discrepancy could be investigated using the basic Factory records of production and stock,
- c) the selling at Jensen House was planned to be carried out in a reasonably secure area. The building is secured during silent hours and guarded by Commonwealth Police. The selling area was located in the basement and segregated from the adjoining cafeteria by curtains.
- d) the cost of providing staff effort to establish and maintain detailed records of receipts of goods and subsequent transactions, was considered unwarranted having regard to the potential level of sales, and the location of the sale.

120. The Committee was informed that during office hours the selling area was supervised by one or both of the selling officers. During silent hours, access could be gained by cleaning staff in the building or any one of the few people working overtime. However, any of these people would be obliged to leave the building under supervision of the police who had been made aware of the activity and asked to both patrol the selling area and exercise their guarding role in the knowledge of the existence of the stocks. The witness for the Department stated that it seemed inconceivable that the missing garments could have disappeared from the Regional Office. The witness

Exhibit 165/3  
and Qs. 343,  
344, 348 and  
361

said that investigations carried out by the Department's Internal Audit Section and the police had been unable to reveal how the discrepancies occurred. The Department stated that the security arrangements made were judged to be adequate. An alternative arrangement would have been to erect secure partitions, the cost of which was not considered justified.

121. The witness stated that if the Department ever entered into such a sale again, it would certainly take advantage of the experience gained. However, it was pointed out that the introduction of more controls would increase the operating costs. A witness was of the opinion that in this particular exercise \$9,000 worth of cash was recovered which would probably have remained in stock at the Clothing Factory and with changes in fashion, would have been more difficult to sell. The Committee was informed that the prices charged were comparable with some of the warehouses and retailers in Melbourne.

Qs. 345 to  
347

122. With regard to cash being received and handled without proper authority, the Department stated that the two officers did so in a spirit of co-operation and desire to assist the Department in selling the otherwise surplus stock, as well as participate in an activity which could have a welfare benefit to the staff at the Regional Office. The Department admitted that it was in error in not having appointed the two officers concerned as Collectors of Public Moneys. The Committee was also told that the two officers, who were employed by the Department's Contracts Branch, devoted their full time on this selling exercise, with the exception of handling odd queries that may have come in from business not completed before the sale commenced.

Exhibit  
165/3 and  
Qs. 349,  
352, 650  
and 651

123. The Treasury Observer, Mr Finch, told the Committee that there is very little involved in having people appointed as Collectors of Public Moneys. The Director, Sub-Treasury, Melbourne has a delegation to appoint Collectors of Public Moneys, and as the officers concerned were handling public moneys such an approach should have been made. Had this been done instructions concerning the handling and banking of the receipts would have been given and a number of problems that arose in this area could have been avoided.

Qs. 356 to  
359



124. The witness for the Department stated that he was under the impression that even if a Collector of Public Moneys had been appointed it would have made little difference to the consequences. The Collector would have received the cash and the money would have gone through the Commonwealth bank account rather than a private bank account. However, the Collector would not have been responsible for operating the cash register, only to collect the cash received from sales.

Q. 368

125. The witness for the Department stated that the main concern for the Department at the time was to sell the stocks as quickly as possible. It was considered that the officers concerned, who were from the contracts area in the Department, were best suited for the purpose of selling the clothing. The witness stated that if officers from the finance area had been used for the selling operation, financial controls would have been instituted but probably the volume of sales would have been less.

Qs. 350 to  
355

126. Regarding the banking of proceeds in an unauthorised bank account the Committee was informed that the officers concerned with the sales were instructed to bank cash from sales regularly, on the understanding that interest accruing from the deposits could be paid to the Department's Social Club. This had some attraction to the officers concerned as both were interested in the social and welfare activities of the Regional Office. An official departmental bank account was not established but a bank savings account was used. As the sale covered a limited period only, the interest involved amounted to approximately \$3 which was offset by bank charges of \$2. The Treasury Observer, Mr Finch, and the Observer from the Auditor-General's Office both agreed that the opening of a private bank account clearly contravened section 18 of the Audit Act. The Treasury Observer informed the Committee that despite the small amount an important principle is involved and Treasury will be seeking to have the interest recovered and paid into the Consolidated Revenue Fund.

Exhibit  
165/3 and  
Qs. 373 to  
377

127. With regard to the daily takings not being reconciled with cash register controls, the Committee was informed that a cash register was installed primarily to issue receipts to buyers, and secondly, to hold cash takings. The two officers experienced difficulty in operating the register and did not use it as a control on sales. The tapes in the machine jammed frequently and individual sales were registered more than once if the register did not issue a receipt in the first instance, so the cash register tapes, (all of which are available) were not an accurate record of sales. The control of sales was exercised by retaining tickets from garments sold, and the intention was to reconcile the total of these tickets to the cash received from sales, and, in turn, to bankings. The Committee was told that the value of sales in accordance with the amounts shown on garment tickets retained was \$9,261, whilst cash banked amounted only to \$9,250. The witness for the Department was unable to explain the reason for the variation.

Exhibit  
165/3 and  
Qs. 378 to  
383

128. In relation to the failure to provide adequate security arrangements for cash held overnight, the Committee was told that cash held after banking, which usually comprised a cash float of about \$20, plus takings from sales made after bank trading hours, (although banking was not possible every day due to selling activity) was stored in a security cabinet on the 3rd floor of Jensen House in an office next to that of the Regional Director. The cabinet was accessible to normal users, and the use of the cabinet to hold cash from the sale of the clothing was known to them. The cabinet was secured at close of business each day, and opened each working morning, i.e. it was secured during "silent" hours. The arrangements were considered adequate, as access to the area is very restricted and the cabinet provided adequate security during "silent" hours. The witness, in a reply to a question, said that although all investigations had failed to clearly establish whether there was a cash or stock discrepancy, the Department believed it to be the latter.

Exhibit  
165/3 and  
Qs. 384 and  
385

129. Regarding the Auditor-General's comments that the sales to staff did not conform to the Treasury Directions and that discounts were offered, the Department informed the Committee that no consideration had been given before the sales occurred to the fact that the

Exhibit  
165/3 and  
Qs. 440 to  
451, 459 to  
459 and 561  
to 563

sales would contravene Treasury Directions. The witness for the Department conceded that from the viewpoint of adhering to Treasury Directions the Department was in error. However, it was the witnesses' view that fewer sales would have been made if the Department had adhered to the Treasury requirements. The Department stated in its submission that the prime objective of the sales exercise was to convert the stock to cash and the officers were encouraged to secure sales and offer minor discounts if that was necessary to achieve that end. The recorded discounts granted amounted to \$347. The witness went on to say that it was the view of the Department that if discounts had not been offered, the level of sales would have been much lower.

130. Treasury Direction 32/45 states in part that the sale of stores to an officer shall not be permitted except under the following conditions:

- a) the stores to be sold have been declared by competent authority to be surplus to departmental requirements; and
- b) no concession whatever is given in regard to price or in any other direction, and
- c) the sale is conducted by public tender or public auction

131. The Treasury Observer, Mr Finch, stated that an approval for the discounting of stock to staff should have been obtained by the Department from the Secretary to the Treasury, who has the delegation from the Treasurer to approve such matters. The departmental request to Treasury would have revealed the situation and corrective action could have been taken before the sales exercise to staff members commenced. Q. 360

132. The Department admitted that in this instance it had displayed a lack of understanding or knowledge of the Audit Act, the Treasury Regulations and Directions and that the officers responsible should have been aware of them. Q. 366

133. Regarding the sales of clothing from a private supplier, the Committee was informed that the selling officers were approached by a firm experiencing liquidity problems, and with the approval Exhibit 165/3 and Qs. 564 and 567 to 569

of the Regional Director, it was agreed that the sale would include knitted wear made available by that firm on consignment. Eighty garments out of 180 made available were sold and the balance was returned to the firm and no discrepancies in goods or cash were recorded. The Social Club received \$278 as a consequence. The Committee was told that it was clearly understood at the time the arrangements were made that if the transactions were unsuccessful, the Social Club would be responsible for any losses incurred.

134. The Treasury Observer commented that it is not unusual for departmental social clubs to conduct their own private business on government property. However, clubs must ensure that the Department should not become involved by handling clubs' funds. The witness for the Department informed the Committee that the private sale revenues were kept separate from the public moneys received from the sale of garments manufactured by the Clothing Factory.

Qs. 565,  
566 and 567

135. The Committee was informed that at the conclusion of the selling operation at the Regional Office, and before the goods were returned to the factory, a stock-take was undertaken. After taking into account unsold stock and cash, a discrepancy of \$1,019 was determined.

Exhibit  
165/3

136. The Committee was informed that notwithstanding exhaustive investigations by the Internal Audit Section, Commonwealth Police, the Department's Central Office Stores Branch and its Central Office Finance Branch, it had not been possible to determine with certainty how much of the deficiency could be attributed to a loss of cash or to a loss of stock, or how the discrepancy occurred. The Department was of the opinion that the discrepancy arose from a recorded loss of garments only. However, that view could not be substantiated beyond all doubt.

Exhibit  
165/3 and  
Qs. 575  
to 587

137. The investigations showed that there were insufficient records in existence to establish the nature of the discrepancy with any degree of certainty. The Department stated that any of a number of contributory factors could have applied, including the following:

Exhibit  
165/3 and  
qs. 575  
to 587

- 1) The Factory maintains that it double checked issues to the Regional Office and these checks were reconciled to the delivery vouchers. Certainly, the stocks received at the Regional Office were not checked for accuracy of receipt, and the situation was further confused by -
  - a) a consignment (valued at \$638) on 24 September 1974, was not acquitted by the Regional Office.
  - b) two consignments (valued at \$315) on 11 and 12 September, were acquitted by Factory staff temporarily located at the Regional Office.
  - c) two consignments (valued at \$10,199) on 17 and 18 September, were the subject of delivery vouchers prepared by the Factory and issued after the deliveries (and acquitted by the Regional Office).
  - d) the quantity discrepancies being a mixture of deficiencies and surpluses.
- 2) The cash register did not provide a control of cash sales, and the tapes from the register could not be used to reach any positive conclusions regarding the level of sales.
- 3) The use of garment tickets as a control of sales could not be effectively exercised as such, as it proved impossible to establish whether or not there were missing garment tickets, because records at the Factory mixed the tickets applicable to the Factory and Regional Office sales, and a number of tickets became detached from unsold garments as a consequence of handling.
- 4) The only valid input to the investigations was the stock returned to the Factory which was the subject of a stock check. However, this assessment, when related to the stated issues from the factory, and cash on hand, merely established the level of a discrepancy.

138. The Department stated that with the benefit of hindsight, it is now clear that the sales conducted at Jensen House had many unsatisfactory aspects, particularly from an accounting and internal control point of view, but there is no evidence of any offence, committed by any person or persons involved, warranting action by the Commonwealth Police. The various investigations have revealed no reason for doubting the honesty of the officers concerned and the Department has concluded that they did not contribute to the deficiency.

Exhibit  
165/3

139. The Department in its submission also stated that the unusual nature and location of this once-only sale were the main reasons for the absence of the normal internal control measures. It was also stated that had the Department not proceeded to sell stocks at the Regional Office the Clothing Factory would still be holding those stocks now. The Department believes, therefore, that the sale venture was effective in liquidating a considerable quantity of stock. Furthermore, it was stated that had the additional cost been incurred of providing a more secure area for the sale and allocating extra staff to the task, the cost would have been more than the amount of the recorded discrepancy.

Exhibit  
165/3

140. The Committee was informed that during the financial year 1975-76 sales of finished articles to employees have continued and stocks on hand have been reduced from \$17,828 to \$11,727 and unused material from \$7,942 to \$3,077 by use in other production. Approval has been given to dispose of the remaining stocks of finished garments and unused materials by public tender.

P.P. 225  
of 1976  
and Q.588

Conclusions

141. The evidence shows that the production of the particular civilian clothing mentioned by the Auditor-General in his report was improperly authorised by the Manager as it was not covered by a specific funded order or otherwise authorised by the Minister in accordance with Government policy. The decision of the Manager was also contrary to policy directions issued in 1969 and 1971 to all managers on this particular subject.

142. It is the Committee's view that there was no excuse for the Manager taking this course despite the pressures to maintain an appropriate workload at the Factory. The Committee believes that the decision was of sufficient importance to warrant an approach to the Central Office of the Department and through that Office to the Minister for the necessary approval. In other circumstances the Committee would have expected the Department to have taken disciplinary action against the Manager for not complying with the policy directions. The Committee considers that if it has not already done so, the Department should direct the attention of all factory managers to this particular breach of the policy directions and stress the need for their strict observance.

143. In relation to the arrangements made for selling the manufactured garments at Jensen House, it is the Committee's view that the officer or officers who approved those arrangements and the officers conducting the sales should have been aware of the legislative provisions covering the control of public moneys and stores and ensured that they were followed. In this context the Committee would direct the attention of the Department to Treasury Regulation 132 which states that every Chief Officer should ensure that the provisions of the Audit Act and Treasury Regulations are complied with so far as they concern the officers under his control.

144. The Committee takes a very serious view of the fact that experienced officers in the Department were apparently unaware of some extremely

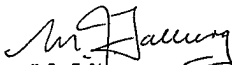
important principles incorporated in the Audit Act, Treasury Regulations and Treasury Directions for the control of public moneys and stores.

145. Although the Committee appreciates that the main objective of the Department at that stage was to convert the stock of manufactured garments to cash, the Committee cannot agree that the methods used were justified. The Committee believes that the Department should have followed the procedures laid down in the legislation. In this particular case the Department did not follow proper procedures for banking Commonwealth moneys or for recording and maintaining adequate control over stock, sales and cash received.


146. It appears to the Committee that it would not have taken a great deal of additional staff effort to have checked stocks of clothing on arrival from the Factory to form a firm basis for the transactions to follow or to have instituted periodic reconciliations of sales with cash on hand. The Committee is not convinced that the institution of basic financial controls would have seriously affected the volume of sales.

147. The Committee notes that there were no discrepancies in cash or clothing relating to the sales of knitwear provided on consignment by a private supplier and assumes that the control over sales in this private selling operation was superior to the control exercised over the Factory-made clothing.

148. For and on behalf of the Committee,



M.J. Talberg  
Secretary  
Joint Committee of Public Accounts  
Parliament House  
Canberra



David M. Connolly  
Chairman



8 September 1977



APPENDIX A

AUDIT ACT 1901

Section 32

(1) Where it appears to the Treasurer that an amount of money, being money lawfully available for expenditure by virtue of an appropriation of the Consolidated Revenue Fund or of the Loan Fund, will be required to be drawn from the Commonwealth Public Account for expenditure in respect of services or purposes for which that appropriation was made, he may notify the Auditor-General accordingly by instrument under his hand in accordance with Form 1 in the Second Schedule to this Act.

(2) Upon receipt of the instrument, the Auditor-General shall consider whether the amount is lawfully available by virtue of that appropriation for expenditure in respect of those services or purposes.

(3) If the Auditor-General is satisfied that the amount is so lawfully available, he shall -

(a) give a certificate in relation to the amount by writing under his hand in accordance with Form 2 in the Second Schedule to this Act; and

(b) return the instrument and certificate to the Treasurer.

(4) If the Auditor-General is not so satisfied, he shall not give such a certificate but shall -

(a) state in writing the amount or amounts considered by him to be not so lawfully available and the grounds on which he considers that amount or those amounts to be not so lawfully available; and

(b) return the instrument and the statement to the Treasurer.

(5) Where the Auditor-General has given a certificate under this section in relation to an amount specified, in relation to an appropriation, in an instrument prepared by the Treasurer under this section, the Governor-General may issue to the Treasurer a warrant under his hand in accordance with Form 3 in the Second Schedule to this Act authorizing the drawing of that amount from the Commonwealth Public Account for expenditure in accordance with that appropriation in respect of the services or purposes referred to in the instrument.

(6) The Governor-General may issue a warrant to the Treasurer under the last preceding sub-section without obtaining the advice of the Executive Council.

(7) Strict compliance with a form referred to in this section is not required and substantial compliance is sufficient.

(8) A reference in this section to the Auditor-General shall, if the Auditor-General has, by instrument under his hand, appointed a person to act on his behalf for the purposes of this section, be read as a reference to the person so appointed.

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MR PRESIDENT,

ON BEHALF OF THE JOINT COMMITTEE OF PUBLIC ACCOUNTS I PRESENT  
THE 165TH REPORT. I SEEK LEAVE TO MAKE A STATEMENT

(WHEN LEAVE HAS BEEN GRANTED)

THE 165TH REPORT RELATES TO THE COMMITTEE'S INQUIRY INTO MATTERS  
RAISED BY THE AUDITOR-GENERAL IN HIS REPORT FOR THE FINANCIAL YEAR 1974/75.  
THE COMMITTEE REGRETS THE DELAY IN TABLING THIS REPORT BUT THE COMMITTEE'S  
NORMAL TIMETABLE FOR CONDUCTING THESE INQUIRIES WAS AFFECTED BY THE PRIORITY  
WHICH THE COMMITTEE CONSIDERED SHOULD BE GIVEN TO THE COMPLETION OF ITS  
162ND REPORT ARISING FROM ITS INQUIRY INTO THE FINANCIAL ADMINISTRATION  
OF THE DEPARTMENT OF ABORIGINAL AFFAIRS.

IN THIS INQUIRY THE COMMITTEE TOOK EVIDENCE FROM THE DEPARTMENTS  
OF INDUSTRY AND COMMERCE, CONSTRUCTION AND ENVIRONMENT, HOUSING AND  
COMMUNITY DEVELOPMENT, RELATING TO FOUR MATTERS.

REGARDING THE DEPARTMENT OF INDUSTRY AND COMMERCE, THE COMMITTEE  
TOOK EVIDENCE ON A NUMBER OF UNSATISFACTORY FEATURES RELATING TO THE  
UNAUTHORISED PRODUCTION BY THE AUSTRALIAN GOVERNMENT CLOTHING FACTORY OF  
A RANGE OF CIVILIAN CLOTHING FOR SALE TO THE PUBLIC THROUGH COMMERCIAL  
OUTLETS AND TO DEPARTMENTAL STAFF. THE EVIDENCE SHOWED THAT THE  
PRODUCTION OF THE PARTICULAR CIVILIAN CLOTHING MENTIONED BY THE AUDITOR-  
GENERAL WAS IMPROPERLY AUTHORISED BY THE MANAGER AS IT WAS NOT COVERED  
BY A SPECIFIC ORDER OR AUTHORISED BY THE MINISTER IN ACCORDANCE WITH  
GOVERNMENT POLICY. THE DECISION OF THE MANAGER WAS ALSO CONTRARY TO

POLICY DIRECTIONS ISSUED IN 1969 AND 1971 TO ALL FACTORY MANAGERS ON THIS PARTICULAR SUBJECT. THE COMMITTEE BELIEVES THAT THE MANAGER WHO TOOK THE DECISION ON THE PRODUCTION OF THE CIVILIAN CLOTHING SHOULD HAVE MADE APPROACHES TO THE DEPARTMENT'S CENTRAL OFFICE AND HAD HE NOT ALREADY RESIGNED FROM HIS POSITION AS MANAGER THE DEPARTMENT SHOULD HAVE TAKEN DISCIPLINARY ACTION. IN SELLING THE MANUFACTURED GARMENTS TO DEPARTMENTAL STAFF THE COMMITTEE FOUND THAT PROPER PROCEDURES FOR BANKING COMMONWEALTH MONEYS OR FOR RECORDING AND MAINTAINING ADEQUATE CONTROL OVER STOCK, SALES AND CASH RECEIVED WERE NOT FOLLOWED. THE COMMITTEE HAS EXPRESSED ITS CONCERN THAT PROCEDURES LAID DOWN IN LEGISLATION WERE ALSO NOT FOLLOWED AND THAT EXPERIENCED OFFICERS IN THE DEPARTMENT WERE APPARENTLY UNAWARE OF SOME EXTREMELY IMPORTANT PRINCIPLES INCORPORATED IN THE AUDIT ACT, FINANCE REGULATIONS AND FINANCE DIRECTIONS FOR THE CONTROL OF PUBLIC MONEYS AND STORES.

EVIDENCE WAS TAKEN FROM THE DEPARTMENT OF CONSTRUCTION IN RELATION TO UNPRODUCTIVE EXPENDITURE OCCASIONED BY DELAYS IN THE COMPLETION OF TWO MAJOR BUILDING PROJECTS, THE CITY SOUTH TELEPHONE EXCHANGE IN SYDNEY AND THE WELLINGTON TELEPHONE EXCHANGE IN PERTH.

THE COMMITTEE HAS NOTED THAT THE THEN POSTMASTER GENERAL'S DEPARTMENT MADE A DECISION TO ALTER ITS REQUIREMENTS FOR THE BUILDING OF THE CITY SOUTH EXCHANGE AFTER THE DOCUMENTATION OF THE BUILDING HAD REACHED AN ADVANCED STAGE. THE REVISED REQUIREMENTS CAUSED A DELAY OF APPROXIMATELY TEN MONTHS AND RESULTED IN THE BUILDING BEING CONSTRUCTED IN A PERIOD WHEN THE INDUSTRIAL AND ECONOMIC CLIMATE HAD ALTERED DRAMATICALLY. THE COMMITTEE HAS EXPRESSED ITS CONCERN THAT THE ALTERATIONS TO THE DESIGN OF THE BUILDING

WERE MADE TO ACCOMMODATE EQUIPMENT WHICH HAD NOT BEEN FULLY EVALUATED AND WHICH ON EVALUATION PROVED TO BE UNSATISFACTORY. WE HAVE REASON TO BELIEVE THAT THESE CASES ARE NOT UNIQUE IN THE COMMONWEALTH'S CONSTRUCTION ACTIVITIES AND THAT ALL DEPARTMENTS CONCERNED SHOULD TIGHTEN THEIR PROCEDURES TO ENSURE THAT MONEY IS NOT WASTED ON UNNECESSARY AND EXPENSIVE ALTERATIONS. YOUR COMMITTEE WILL BE WATCHING THIS SITUATION CLOSELY. THE COMMITTEE HAS ALSO EXPRESSED ITS CONCERN AT DELAYS BY THE DEPARTMENT IN TAKING ACTION TO TERMINATE THE CONTRACT IN SPITE OF AN EXTREMELY POOR PERFORMANCE BY THE ORIGINAL CONTRACTOR INVOLVED WITH THE PROJECT.

CONSTRUCTION OF THE WELLINGTON TELEPHONE EXCHANGE IN PERTH WAS DELAYED WHEN SERIOUS DOUBTS WERE RAISED AS TO THE STRENGTH EFFECTIVENESS OF THE BUILDING'S FOUNDATIONS. THE DEPARTMENT OF CONSTRUCTION HAD, ON THE RECOMMENDATIONS OF A FIRM OF FOUNDATION ENGINEERING CONSULTANTS ADOPTED A TYPE OF FOUNDATION DIFFERENT FROM THAT PREVIOUSLY USED SUCCESSFULLY IN MOST MAJOR BUILDINGS IN PERTH. THE COMMITTEE HAS EXPRESSED ITS CONCERN THAT THE ADEQUACY OF THE METHOD FOR THE FOUNDATIONS HAD NOT BEEN SUFFICIENTLY VERIFIED DURING TEST PILING.

IN RELATION TO THE DEPARTMENT OF ENVIRONMENT, HOUSING AND COMMUNITY DEVELOPMENT, THE AUDITOR-GENERAL HAD REPORTED THAT AMOUNTS TOTALLING \$6,048024 WERE PAID UNDER THE STATES GRANTS (DWELLINGS FOR PENSIONERS) ACT 1974 ALTHOUGH NO WARRANT OF THE GOVERNOR-GENERAL HAD BEEN OBTAINED FOR THE EXPENDITURE. THE COMMITTEE FOUND THAT THE FINANCIAL YEAR 1974/75 WAS APPARENTLY THE FIRST YEAR THAT THE THEN DEPARTMENT OF THE TREASURY HAD NOT AUTOMATICALLY OBTAINED GOVERNOR-GENERAL'S WARRANT AND ISSUED WARRANT AUTHORITIES FOR WHAT APPEARS TO BE SCHEMES OPERATING UNDER SIMILAR

LEGISLATION. THE COMMITTEE EXPRESSED THE VIEW THAT THE TREASURY SHOULD HAVE CONTACTED THE DEPARTMENT TO INFORM IT OF THE CHANGE IN ITS REQUIREMENTS FOR 1974/75 AND FUTURE YEARS. THE COMMITTEE THEREFORE HAS ATTACHED NO BLAME TO THE DEPARTMENT FOR ITS FAILURE TO OBTAIN MINISTERIAL DETERMINATION UNDER THE ACT REQUIRED BY THE TREASURY AS A PRE-REQUISITE TO OBTAINING GOVERNOR-GENERAL'S WARRANT. THE COMMITTEE HAS NOTED THAT THE DEPARTMENT DOES NOT AGREE THAT SUCH A DETERMINATION IS NECESSARY UNDER THE ACT BEFORE A WARRANT IS ISSUED AND THAT THE DEPARTMENT HAS SOUGHT A LEGAL OPINION ON THE MATTER. HOWEVER, THE COMMITTEE HAS EXPRESSED ITS CONCERN THAT THE DEPARTMENT FAILED TO OBSERVE AN IMPORTANT AND FUNDAMENTAL PRINCIPLE IN THE CONTROL OVER THE EXPENDITURE OF PUBLIC MONEYS BY NOT ENSURING THAT WARRANT AUTHORITY HAD BEEN ISSUED BY THE TREASURY BEFORE AUTHORISING THE PAYMENT.

I COMMEND THE REPORT TO HONOURABLE SENATORS.