

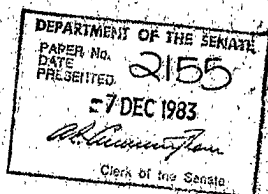


Report of the
Auditor-General—
March 1982

Report

222

Joint Committee of
Public Accounts



THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA



JOINT COMMITTEE OF PUBLIC ACCOUNTS

222ND REPORT

REPORT OF THE AUDITOR-GENERAL

MARCH 1982

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DUTIES OF THE COMMITTEE

Section 8.(1) of the Public Accounts Committee Act 1951 reads as follows:

- 8.(1) Subject to sub-section (2), the duties of the Committee are:
- (a) to examine the accounts of the receipts and expenditure of the Commonwealth including the financial statements transmitted to the Auditor-General under sub-section (4) of section 50 of the Audit Act 1901;
 - (aa) to examine the financial affairs of authorities of the Commonwealth to which this Act applies and of intergovernmental bodies to which this Act applies;
 - (ab) to examine all reports of the Auditor-General (including reports of the results of efficiency audits) copies of which have been laid before the Houses of the Parliament;
 - (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 of payment of public moneys; and
 - (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

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

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PREFACE

Each year the Committee examines recently published reports of the Auditor-General. Following the tabling of the Report of the Auditor-General for March 1982, the Committee sought written submissions from five Departments in respect of seven of the items raised in that report (see Appendix A). After discussion with the Auditor-General and departmental officers, the Committee decided to examine in a public hearing only one item - Department of Defence: The Amphibious Heavy Lift Acquisition, HMAS Tobruk. In respect of the item Department of Health: Commonwealth Medical Benefits - Reimbursement to Registered Medical Benefits Organisations, the Committee referred this matter for consideration in its overall inquiry into Medical Fraud and Overservicing.

The results of the public inquiry into HMAS Tobruk will be the subject of a separate Report of the Committee.

Supplementary submissions were sought from the Departments of Defence, Primary Industry and Social Security. A copy of all submissions received from the Departments concerned is included as Appendix B.

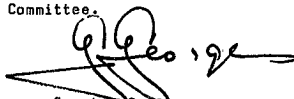
This report analyses the responses of the Departments which were approached by the Public Accounts Committee to explain the criticisms raised by the Auditor-General in his March 1982 Report.

Since the Committee sought submissions on these items, the Auditor-General has commented further on a number of these items in his September 1982, May 1983 and September 1983 Reports. These later comments of the Auditor-General have not been specifically considered in the context of the Committee's inquiry. However, where appropriate, these comments have been used to update information previously supplied to the Committee. A copy of these later Auditor-General's comments is at Appendix C.

For and on behalf of the Committee,



M.J. Talberg
Secretary
Joint Committee of Public Accounts
Parliament House
CANBERRA
1 December 1983



Senator G. Georges
Chairman

CHAPTER 1

DEPARTMENT OF DEFENCE

MOBILE RADIO TERMINALS HMAS TOBRUK - AMPHIBIOUS HEAVY LIFT SHIP HELICOPTERS FOR FFG-07 CLASS GUIDED MISSILE FRIGATES

1.1 The Committee decided to examine three of the matters which were criticised by the Auditor-General for which the Department of Defence was responsible. Only one matter proceeded to public inquiry, the Amphibious Heavy Lift Ship Acquisition.

1.2 In respect of the Mobile Radio Terminals and the Helicopters for the FFG-07 Class Guided Missile Frigates the Committee, sought supplementary submissions to clarify certain aspects of the original submissions (Appendix B).

MOBILE RADIO TERMINALS

Introduction

1.3 The Army and Air Force have separately stated requirements for the provision of high-powered (Hiport) and medium-powered (Medport) mobile radio terminals. These have been combined in one project under Army co-ordination. The Hiport terminals and related equipment are to satisfy single and joint service requirements for long range communications while the Medport requirements are for a 'back-up' capability that can be deployed quickly and provide the minimum essential communications capacity needed to support a force deployed in the field.

1.4 The solution to meet both requirements envisaged many equipment similarities and significant cost savings were identified if both projects were treated jointly. As a result, the projects have proceeded on the basis of a single Hiport/Medport Project under Army control. At the time of the audit (late 1981) the approved total project cost was \$18.7 million (June 1980 prices).

1.5 Three funded project definition studies costing \$200,000, were completed in January 1978. In addition a fourth study was carried out without charge by a prospective tenderer. On the basis of these studies and the level of Australian Industry Participation offered, the successful tenderer was chosen and the contract was signed in September 1978.

1.6 The contract provided for the development of production items and the delivery of 5 units for the Hiport function and 24 units for the Medport function. Testing of the initial Medport assemblage began in November 1981 approximately 21 months behind the original schedule.

1.7 In his report the Auditor-General made four main criticisms of the Mobile Radio Terminal Project:

- inadequate review of the proposed contract which led to disputation between the contractor and the Commonwealth over test specifications and design drawing approval procedures.
- significant commitment of expenditure on production items before prototype testing was completed. (The audit referred to the 137th and 150th Reports of the Joint Committee of Public Accounts which concluded that contracts with development content required the production of a prototype which should be subject to exhaustive testing before production proceeded).
- the tender evaluation system could be seen to be inconsistent with stated Government policy.
- a need to strengthen project definition in development/procurement contracts.

Department of Defence Response

1.8 The project required the contractor to intergrade proven commercial equipments into operational systems and install them in transportable military containers. The Department's perception of what was required was the relatively simple integration of commercially proven and tested equipments into a military communication system. Implementation of the project has demonstrated that more consideration should have been given during tender evaluation and contract negotiation to the limited experience of the contractor in this type of Defence project and to the limited time scheduled for testing of the prototypes. As a result of problems experienced during the early stages of the project the local Company sought to exploit the experience of its parent Company in the United Kingdom and made some changes to its internal management structure and procedures to assist the project.

Vibration Testing Omission: Resonance and Dwell Testing

1.9 At the time of contract negotiation it was believed that the US testing standards stipulated in the contract included a specific requirement for resonance search and dwell testing. It was revealed subsequently that this requirement had been deleted from the US specification some time before

the Australian contract was negotiated. The Department acknowledged that there was no justification for its failure to notice that an amendment had been made to the US vibration testing standard. It advised that partly as a result of this incident, the date and issue number of all specifications are now detailed in Defence contracts.

1.10 Resonance search and dwell testing is one element of vibration testing designed to identify those components of a system which may be damaged, particularly when being transported. The test is done by laboratory simulation or prolonged transportation. It was the laboratory simulation testing stage which was omitted from the project. The equipment was still required to be assessed after road movement. A combination of the fact that a form of resonance testing was still a feature of the test program, together with the high cost (\$2 million) for reinstatement of the laboratory test program and the forecast further project delays led the Department to conclude that the remaining level of risk was acceptable to the Commonwealth.

Commitment to Purchase Production Items: Impact of the Prototype Phase

1.11 In its 150th Report, the Committee referred in paragraph 89 to the importance which it attached to the testing of prototype equipment before commitment to the production of new equipment. The Committee said:

'Finally, the Committee would again emphasise the importance of the principle enunciated in its One Hundred and Thirty-Seventh Report, that in contracts with a developmental content that require the production of a prototype unit, the prototype should be subjected to exhaustive testing to prove that the unit is fully capable of performing the tasks for which the units are being procured before authority is given for the rest of the production to proceed.'

Both Reports referred to contracts entered into by the then Department of the Army.

1.12 The Department of Defence was asked to explain, in view of the problem which the project met, why a prototype was not constructed and tested before production began.

1.13 The Department admitted that the use of a separate formal contract for development of a prototype instead of the existing single contract with staged tasks might have reduced some of the problems experienced with the project but pointed out that the development of a prototype without a firmly priced production option would have:

- required a separate and further tendering process for the production items;
- due to the proprietary nature of much of the equipment, only the development contractor could have tendered successfully;
- testing prototypes would have caused long periods of inactivity for the highly skilled project staff of the Australian company involved which could have resulted in the future loss of staff.

1.14 In order to involve Australian industry, many projects are now arranged in a single contract where a point is defined limiting the Commonwealth's commitment pending satisfactory completion and testing of initial items.

1.15 In the Department's opinion the only aspect of the project that a prototype phase may have affected was the dispute that occurred early in the project on the procedures and methods to be used to make alterations to approved drawings.

1.16 The essential issue regarding the development of a prototype is the extent of testing required to prove the equipment satisfactory. In this regard the Department points out that the items being tested are the initial production items of each of the four models and that production of the remaining items cannot proceed until all tests have been satisfactorily made. The Department remains confident that the extensive level of testing specified will give a reasonable assurance that the equipment will perform satisfactorily.

The Role of the Engineering Development Establishment

1.17 The Department advises that it will be standard practice in future projects of this type for the Engineering Development Establishment to be responsible to the Army. In this contract, initially the Engineering Design Establishment was responsible for the review and approval of contractor initiated designs but was not directly responsible to the Army which was the project client.

Project Definition and Project Management

1.18 Audit interpreted 'project definition' as being concerned with *inter alia*, the notion of ensuring that cost, time and technical risks are at an acceptable level. Project management on the other hand, was viewed as providing the means to control these aspects during the respective phases of a project.

1.19 Although project definition studies carried out by contractors addressed many aspects of this project including areas of technical risk, procedural and management aspects were not addressed. Experience gained on this and other projects has led to more emphasis being placed on these aspects and project management generally. Defence now invests large amounts of time and money in expanded project definition studies for its more complex projects which it is hoped will reduce the possibility of similar difficulties arising in the future.

Evaluation of Tenders

1.20 The Audit disclosed that at the request of the tender evaluation group an interdepartmental team was set up to clarify the short list tenderers' cost. After the award of the tender, the successful tenderer (Rocal) was afforded the opportunity to clarify information which led to a substantial increase in the final tender price. In the case of the other tenderer, the tender was adjusted by a significant amount without reference to the firm involved.

1.21 The Department of Administrative Services advised that there was no need to obtain additional information from the other tenderer due to the significant difference in tender price, Australian Industry Participation content, and the in-house availability of information. Nevertheless, Audit concluded that the action taken in this instance did not clearly demonstrate that the procedures employed were evenhanded and consistent.

1.22 The Department advised the Committee that tender proposals for major Defence equipment are usually complex requiring detailed analysis and clarification of the submitted tender in consultation with the tenderer. This may result in adjustments by the Commonwealth to the prices quoted to enable fair and equal comparison of the proposals. In this case the adjustments made by the Commonwealth to the tendered prices did not alter the fact that the Rocal offer was significantly lower in price than the other tender both before and after adjustment.

1.23 The Committee was not satisfied with the Department's initial response and sought further clarification. The Defence Department's second submission stated that the first reply had been provided by the Department of Administrative Services as that Department's Purchasing Division had been responsible for negotiating contracts for Defence procurement at the time the contract for the Mobile Radio Terminals was let. Defence supported the action taken by the Department of Administrative Services.

1.24 The Department of Defence provided a series of additional comments on the tendering process:

to require a tenderer to enter into clarification discussions would involve the tenderer in significant costs and give rise to expectations that its offer was being favourably considered;

in the present case the matters which required clarification were seen to have little or no prospect of changing the provisional preference and therefore to open clarification discussions with both tenderers would have been inappropriate;

a public demonstration of even-handedness is usually not possible without full disclosure of commercial-in-confidence information;

it is often necessary to have clarification discussions with a preferred tenderer to confirm that there exists an adequate basis on which contract negotiations may be commenced - all such discussions are conducted under controlled conditions;

if such discussions called into question the basis of provisional selection, consideration would be given either to handling clarification discussions with other tenderers or inviting new tenders.

1.25 The Department believed that Audit's criticism simply amounted to saying that the procedures followed in the tender evaluation did not clearly demonstrate that the actions taken were even handed and consistent. The Department of Defence considers the basic principle of tendering, that between the closing date for tenders and the date at which the successful tenderer is chosen no tenderer be permitted to have considered further information which would materially alter the basis of the tender, was not compromised in this case.

Conclusions

1.26 The Auditor-General remains of the opinion that the tender procedures did not conform to approved procurement procedures and has not been fully addressed in the Department's responses. The Committee noted that in the September 1983 Auditor-General's Report, this project is one of a number included in the study of Project Management in the Defence Force. The Committee shares the Auditor-General's concern and will be considering this subject in more detail in its forthcoming Project Management Inquiry.

HMAS TOBRUK - AMPHIBIOUS HEAVY LIFT SHIP

1.27 In August 1975 Cabinet approved a project to provide a versatile amphibious ship able to carry and land forces and their equipment including tanks, helicopters, bulldozers etc., if necessary without the use of a port.

1.28 Tenders were called for ship construction in September 1976, and a contract was let in November 1977. The commissioning date was set at 21 June 1980, with the ship to be named HMAS Tobruk and to be classified as a Heavy Lift Ship (LSH).

1.29 The LSH project also included the acquisition of 4 Landing Craft Vehicular and Personnel (LCVP) from funds provided for the project. The acquisition of the LCVPs was not part of the November 1977 shipbuilding contract.

1.30 The contractor handed over the LSH to the Royal Australian Navy (RAN) on 11 April 1981 and the vessel was commissioned on 23 April 1981. The RAN formally accepted HMAS Tobruk for operational service with the Fleet on 23 July 1981.

1.31 Submissions were sought from the Department on matters raised by the Auditor-General in respect of the Amphibious Heavy Lift Ship Acquisition. The Committee considered the submissions received and decided to proceed to public inquiry. The matters raised in respect of this will be the subject of Report 223 of the Joint Committee of Public Accounts.

HELICOPTERS FOR FFG-07 CLASS GUIDED MISSILE FRIGATES

Introduction

1.32 Under Foreign Military Sales (FMS) arrangements with the United States Government, Australia is procuring 4 FFG-07 Class Guided Missile Frigates for the Royal Australian Navy (RAN). The estimated project cost for the 4 FFGs was \$1,062.6 million at January 1981 prices. The cost estimate included \$183.9 million for the purchase of 12 helicopters for the frigates. A decision on the type of helicopter has not yet been made.

1.33 The Auditor-General's Report raised two important matters that can be summarised as follows:

The time taken to agree on the functions or tasks of the armed helicopter and the failure at the date of audit, to agree on the precise level of capability required for each task had:

- delayed the progress of helicopter evaluation and selection;
- impacted on the operational capability of the frigates;
- influenced the planning for necessary modification to the first three frigates if they are to operate helicopters.

Using an intermediate helicopter option as the basis of cost estimates will cause the approved estimates of the helicopter procurement to be understated, if a medium capability helicopter is finally selected.

Department of Defence: Reasons for the Delay

1.34 At January 1981 prices, the cost estimate for the 12 helicopters included in the Guided Missile Frigate Project was \$183.9 million. In late 1977 the first helicopter evaluation mission visited overseas manufacturers. Its initial report was made in April 1978 with updated supplementary reports being completed in November 1978 and April 1979. A second evaluation team visited manufacturers in mid-1981 and its report proposed that definition studies should be undertaken to develop proposals for a system to meet Defence requirements. The Minister for Defence announced on 1 July 1982 that the Government would partially fund definition studies for four of the preferred makes of helicopters.

1.35 It was not until November 1980 that the following tasks were agreed for the FFG helicopter:

- tactical surveillance and reconnaissance;
- targeting for surface to surface weapons;
- extending the FFG anti-submarine warfare capability (ASW) by the carriage of ASW torpedoes and having the capacity for fitting an ASW sensor;
- having the potential for carriage of short range anti-ship capable missiles;
- a limited fleet utility capability.

1.36 No decision to purchase was taken following the overseas visit in late 1977 of the first evaluation team, on the grounds that force structure aspects of related projects needed to be clarified; cost and technical uncertainties related to the early development status of contending aircraft, and a desire to achieve as much commonality of equipment type as feasible amongst all the Service helicopter programs.

1.37 The time taken to agree the helicopter roles and capability levels has been lengthy but very thorough. As stated in paragraph 1.35 the tasks for the helicopters have been agreed. The capability levels to be required are under study and a decision in this regard is expected in about mid 1983.

Effect on the Operational Capability of the FFGs

1.38 HMAS Adelaide and HMAS Canberra have arrived in Australia while HMAS Sydney and HMAS Darwin are expected to arrive in 1983 and 1984. The FFG is a capable escort vessel even without its helicopter, but the provision of a helicopter significantly enhances the ship's capability particularly in relation to surveillance reconnaissance and weapon targeting. The provision of a helicopter will not affect the ship's air defence capabilities.

1.39 Without an organic helicopter fitted with appropriate sensor systems, the ships must rely on their own sensors to detect and identify potentially hostile vessels and to target their surface-to-surface missiles. The ships sensors extend to the radar horizon whereas a helicopter borne-sensor system would significantly extend the range and the ability to provide early warning of possible attack. The use of a light training helicopter to develop and maintain the skills of pilots operating helicopters from small warships will enhance the ships' capability by providing increased visual surveillance and identification, but this enhancement would be of limited benefit.

1.40 The new FFG helicopter will be able to provide limited surveillance in anti-submarine warfare and will be able to carry torpedoes to attack submarines at a greater range than ship launched torpedoes. At the time of the Department's response the decision on helicopter selection was to a degree influenced by decisions not yet taken on whether to acquire an aircraft carrier. The Committee notes that the Department of Defence has recently decided against the acquisition of an aircraft carrier.

Modifications of the FFG to Accept Helicopters

1.41 Modifications to the FFGs will depend to some extent on the weight of the helicopter chosen. Modifications will be required to the ships' stern, helicopter deck, and hangar facility while some form of helicopter securing and traversing system will need to be fitted. It will also be necessary to fit fin stabilisers to the first three ships - the fourth FFG will have them fitted during construction. Indicative cost estimates in August 1982 prices were:

- stabiliser acquisition, fitting and dockyard materials supply about \$5.5 million for three ships;
- ship modifications about \$9.2 million for four ships.

The work is to be carried out in Australia and the estimated time to complete all necessary ship modifications will be approximately five months, spread over a number of dockyard availabilities. The fitting of stabilisers is expected to be undertaken concurrently with other components of the modification program planned to be undertaken progressively during the ships normal refit cycle.

1.42 As the lead time for the helicopters is greater than for the equipment for the ship modifications, the work associated with the modifications should be completed before the helicopters are available for embarked operations. Fin stabilisers are planned to be fitted to HMAS Adelaide in late 1985, HMAS Canberra in early 1986 and HMAS Sydney in late 1987 (HMAS Darwin is being fitted with stabilisers during construction). Deliveries of the first helicopters, at a rate of one or two per month are not expected before September 1987 with the first five aircraft configured for the surveillance and targeting role available for training early in December 1987. On this basis one aircraft would be embarked in each FFG early in 1988. The remaining aircraft would be used to continue training relief crews ashore with later supplementation by subsequent deliveries. There are no indications at this stage, that any delays will occur in the training, spares and support areas.

FFG Helicopter Cost

1.43 Costs have been progressively refined throughout the process of evaluation and selection. The funded definition studies being undertaken by aircraft manufacturers will further refine costing data. Any increase in the total project costs for the FFG helicopter could be accommodated by:

- a deferral or reduction of other equipment purchase proposals based on overall priorities;
- rephasing of expenditures for the helicopters or other projects;
- variation of allocation of financial guidance between the program components.

Commonality Between Air Force and Navy Helicopter Proposals

1.44 Commonality between Navy and Air Force helicopter proposals is a continuing issue. Depending upon the helicopter selected there could be significant savings in terms of training, operating, support and maintenance costs.

The range of service requirements however, and the time frame (about 10 years) proposed for the introduction of helicopters may mean that further analyses could show that it would not be feasible to seek more than partial commonality between programs.

Conclusions

1.45 The Public Accounts Committee acknowledges the validity of the reasons behind a careful evaluation process to select a helicopter for use with the FFG. The process will greatly enhance the frigate's operational capability and perhaps result in a helicopter selection which would result in significant cost savings through encouraging substantial commonality with the helicopter requirements of the Air Force. The Committee is concerned however, over the period of time taken to arrive at a choice, particularly as the longer the decision is delayed the longer the period for which the FFGs will be operating at a reduced operational efficiency.

1.46 It is a matter of some concern to the Committee that the Department and the Navy did not agree on the operational tasks for the FFG helicopter until November 1980 even though the decision to purchase FFGs including a helicopter component was made some years earlier. Although the RAN would obviously prefer to operate a later generation and presumably more effective helicopter, the long delay is questionable given that the United States Navy has been operating helicopters from its FFGs for some time.

1.47 While it is acknowledged the Department would have wished to take into consideration probable helicopter requirements for a replacement carrier the Committee is of the view that further delay in the selection process would be unwarranted particularly in the light of the recent decision not to purchase one. Similarly, while the Committee is not unsympathetic to the Department's desire to purchase the most technologically up-to-date helicopter for the FFG, it is also aware that technological change in military equipment tends to promise something better just around the corner. The Committee believes that any future postponement of the helicopter selection on the basis of future technological development or capacity does not warrant further delay in the selection process, short of the most extraordinary circumstances.

1.48 The Committee is aware that the present strategic environment does not pose a short term foreseeable threat to Australia's maritime defence forces. Nevertheless, the surveillance capability of the FFG is an important factor in its peace time operating role and, as the Department has admitted, this has been significantly diminished by the lack of a suitable helicopter for the FFGs.

1.49 The Committee is disappointed with the continuing long delays to this program and requests that any cause or reason whatsoever which will delay the embarkation of the helicopters on the FFGs beyond the stated program be reported to the Public Accounts Committee.

CHAPTER 2

DEPARTMENT OF HEALTH

COMMONWEALTH MEDICAL BENEFITS - REIMBURSEMENT TO REGISTERED MEDICAL BENEFITS ORGANISATIONS

2.1 The Auditor-General noted a number of unsatisfactory features of the Department's system for recording and paying Commonwealth medical benefits to registered medical benefits organisations. The Committee concluded that it would be more appropriate to include these items in the Committee's inquiry into medical fraud and overservicing.

2.2 The matters raised by the Auditor-General in respect of this item are therefore not commented upon further in this report. Further comments by the Auditor-General in his September 1982 and May 1983 Reports are included in Appendix C for general information.

CHAPTER 3
DEPARTMENT OF HOME AFFAIRS AND ENVIRONMENT
NORFOLK ISLAND ADMINISTRATION

Introduction

3.1 The Auditor-General drew attention to a number of irregularities in the administration of the financial affairs of Norfolk Island, noting that this was the second successive occasion on which he had found grounds for criticism. Section 8(2) of the Public Accounts Committee Act precludes the Committee from examining matters internal to the administration of Australia's external territories. Accordingly the Committee resolved to write to the Department seeking advice clarifying the relationship between the Department and the Administration of Norfolk Island.

The Department of Home Affairs and Environment

3.2 The Auditor-General in his March Report referred to two areas of concern:

- accounting procedures within the Norfolk Island Administration; and
- legislative deficiencies regarding the audit provisions of certain Norfolk Island legislation.

3.3 The Department advised that the question of accounting procedures within the Island's Administration was a matter for the Auditor-General to pursue as the final decision rests with the Norfolk Island Administration, although the Department was prepared to assist where possible.

3.4 The second point was complicated by the attitude of the Island's Government which was unconvinced that legislative deficiencies existed, but considered that if action was needed then it should be by Commonwealth enactment. The then Minister for Home Affairs and Environment had advised the Auditor-General on 15 February 1982 that, as the Norfolk Island Government had plenary legislative powers under the 1979 Norfolk Island Act in respect of public moneys of the Territory and was financially self-supporting, he was reluctant to introduce Commonwealth legislation to overcome any inadequacies in the Norfolk Island legislation without the agreement of the Island's Government.

3.5 Subsequently, representatives of the Department have met with officers of the Auditor-General's Office and advice has been sought from the Attorney-General's Department concerning possible inadequacies in the audit provisions of Norfolk Island legislation.

Conclusion

3.6 The Committee notes the action taken by the Department of Home Affairs and Environment in its attempt to clarify and resolve any inadequacies in the audit provisions of existing Norfolk Island legislation and it commends the work of the Auditor-General in this regard. It is aware of the reference at paragraph 12.4 of the Auditor-General's Report September, 1982 (see Appendix C) which draws attention to the lack of a response from the Norfolk Island Administration to representations made in December 1981. The limitation of the Committee's own legislative precluded it from making any further examination.

1. Public Accounts Act, 1951 Section 8(2)

CHAPTER 4
DEPARTMENT OF PRIMARY INDUSTRY
LEVIES, TAXES AND CHARGES

Introduction

4.1 Under various Acts and Regulations, the Department administers industry schemes which provide for the collection of levies, taxes and charges. Amounts equivalent to certain items of such revenue collections are appropriated and paid to Commodity Boards and Corporations or to Trust Accounts for stabilisation schemes, research, control or promotional activities and to meet administrative expenses.

4.2 The Auditor-General drew attention to a number of unsatisfactory features of the Department's administration of levies, taxes and charges, particularly in respect of the:

- Dairy Industry Stabilisation Levy;
- Apple and Pear Levy;
- Poultry Industry Levy;
- Wheat Tax;
- Fishing Export Inspection Charges; and
- Fishing Licences.

The 1981-82 revenue collected from levies and other charges under these headings totalled in excess of \$378 million. Specific comments and criticisms made by the Auditor-General in his March 1982 Report were:

- the Department did not appear to have a complete register of all who were liable to pay the charges;
- the Department could not be certain that all charges had been collected;
- there was a multiplicity of legislation covering the charges.

4.3 After a consideration of the response by the Department to audit's criticism the Committee resolved not to go to a formal hearing on the matter but to seek a more detailed reply. The Department provided the Committee with detailed submissions (see Appendix B) on a number of issues raised by the Auditor-General and these are discussed in the following paragraphs.

Documentation of Procedures

4.4 While recognising that there were no formally approved procedures covering the collection of levies and charges, procedures did exist and were complied with by departmental staff. It was pointed out that the audit had been carried out in Canberra and that between 1977 and 1981 the number of industry levies involved had risen from 8 to 18 with collections rising over the same period from \$1.8 million to \$8.6 million. This rapid expansion necessitated frequent amendment to existing collection procedures and extension to these procedures as new levies and taxes were introduced.

4.5 The need to formalise procedures was recognised in January, 1981 when it was decided to revise and expand the existing computer based levy collection system to rationalise and consolidate procedures. The documentation of revised procedures was carried out in parallel with the development system. The Department stated that the procedure would be formally approved when the revised computerized system was finalised and implemented in late 1982. The Department did not regard it a worthwhile use of resources to formalise existing procedures which were being superseded by the introduction of a revised and expanded computer based system.

4.6 The Committee noted further unfavourable comment by the Auditor-General in his September 1983 Report on the slow progress towards implementing a satisfactory computer system in these areas. A separate response has been sought from the Department on this matter.

Identification of Potential Levy Payers

4.7 The Department acknowledged that no firm mechanism existed to positively identify every potential levy payer and seriously doubted that such a system could be devised. It commented that the Auditor-General is not aware of such a system. A number of procedures are employed however, to identify potential levy payers, including:

- continuing contact with relevant industry statutory bodies, grower organisations, State departments and local authorities to update lists of persons liable to pay the levy.
- regular surveillance of the industry by Departmental investigation officers to detect potential levy payers.
- advice received from existing levy payers.

For practical purposes, the Department is confident that potential levy payers have been identified although it constantly works to identify new levy payers through the systems available to it.

Investigations

4.8 The Department agreed that some weaknesses existed in the control and management of investigation arrangements. Action was commenced during 1981 to review and overhaul the investigation function. The review has resulted in the implementation of amended procedures and the drafting of a revised sectional requisition. The revised procedures are intended to:

- increase the emphasis on system based auditing;
- increase the emphasis on the revenue collection, and the enforcement of the provisions of the legislation;
- reduce significantly the time necessary to undertake each individual investigation thereby increasing the overall coverage by available resources;
- increase the responsibility of the section for executing legal action bringing individuals to account for the non-payment of levies;
- increase unscheduled spot check investigations of producers, merchants and traders in rural areas, thereby casting a wider net for the detection of persons evading their responsibility to pay levy.

4.9 It is proposed to re-organise the investigation unit by drawing all the enforcement functions of the Departmental Financial Management Section together. This will facilitate identifying those areas requiring the greatest allocation of resources and provide for continuity in the treatment of delinquent levy payers. The proposal is to be presented to the Public Service Board for approval.

Additional Matters

4.10 The Audit raised queries regarding the collection of Wheat Tax and the ACT Poultry Industry Levy. The Department advised:

Wheat Tax: The Australian Wheat Board is responsible for the collection of Wheat Tax and, contrary to the Auditor-General's Report, tax was collected on both wheat delivered and on wheat sold but not delivered to the Board. The confusion arose at the time of audit because the Wheat Board did not differentiate in its covering documentation to the Department on

wheat delivered to the Board and on that sold but not delivered to the Board. Specific reference is now made to wheat in both categories by the Board when forwarding wheat tax payments to the Department.

ACT Poultry Industry Levy: Legislation in the ACT covering the poultry industry did not require producers to maintain records of hens kept for commercial purposes, which made identification of levy payers and the verification of returns difficult. This has been corrected by the introduction of new regulations under the 'Poultry Industry Levy in the ACT' Act on 1 July 1982. The regulations are administered by the Department of the Capital Territory.

Conclusions

4.11 The Committee endorses the Department's proposal to re-organise its investigations section and the concomitant procedures to improve the efficiency and effectiveness of that section.

4.12 The Committee accepts assurances from the Department that it will continue to keep under review the effectiveness of the systems and procedures used to identify potential levy payers and to investigate individuals who may be avoiding the payment of such levies, charges and taxes.

4.13 The Auditor-General in his September 1983 Report drew attention to the continuing delays in the implementation of an improved accounting system for levies and charges. The Committee views this as a matter of concern and has sought further submissions in this regard.

CHAPTER 5
DEPARTMENT OF SOCIAL SECURITY
COMMONWEALTH REHABILITATION SERVICE

Introduction

5.1 Under Part VIII of the Social Services Act, the Commonwealth Rehabilitation Service (CRS) provides rehabilitation programs to persons who are likely to derive substantial benefit from such treatment and training.

5.2 The objective of the CRS is to provide treatment and training to persons in a broad working age group who are suffering from a physical or mental disability which is a substantial handicap to undertaking employment, undertaking or resuming household duties or leading an independent/semi-independent life in their own home.

5.3 In depth audits of CRS were carried out in 1981 and the audits were generally satisfactory although doubts were expressed regarding some aspects of the scheme following examination of two establishments, one in Queensland and the other in New South Wales. The Auditor-General expressed reservations on whether:

- the best use was being made of available resources;
- the Department's assumptions about the effectiveness of the scheme were too optimistic;
- available data is sufficient for the Government to identify trends for policy planning purposes;
- sufficient information exists to reliably assess the results of training.

5.4 The Committee concluded that the audit findings did not warrant a public hearing, but that additional information on the matters raised by the Auditor-General would be sought from the Department.

5.5 The Department's response to the Committee provided an elaboration of the objectives and functioning of the Commonwealth Rehabilitation Service (CRS). Points made by the Department are summarised below.

Statistical Analysis

5.6 The Department has recently undertaken a complete review of its CRS statistical collections in order to refine and increase their effectiveness for planning and evaluation

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purposes. The revised system will be computerised and was expected to be in operation by the end of September 1982. The new computerised system is expected to dramatically improve the data base available to management. This will enable closer examination of trends and client needs to be undertaken so that programming and the services available to clients can be adjusted to keep abreast of modern rehabilitation practice.

5.7 This new system will enable a much closer analysis of program effectiveness. The long term results (up to six months) after a program has concluded will be analysed to see if the gains made are of long-standing benefit. It will also be possible to look at the effectiveness of a vocationally oriented program in relation to final outcome.

The Department's Philosophy of Rehabilitation

5.8 The concept of rehabilitation treatment is to develop a flexible program for each individual, comprising components from the different facets of centre activity and taking account of changing circumstances during the period of treatment and training. This is reflected in the work of different centres, in that centres tend to develop their own method of operation to allow for local needs including referral sources, residential, housing, transport and other variables. Centres are encouraged to develop in a way which best serves both the needs of individuals and the communities in which they are located.

5.9 Although the setting of unrealistic goals is not encouraged, the client's motivation during the crucial early stages is greatly enhanced if he or she is permitted to set optimistic but achievable goals. Subsequent variations to those goals often are effected by the clients themselves as they come to grips with the reality of their disability. For this reason the service does not attach significance to whether what is achieved ultimately corresponds to the goal initially set. Client programs are monitored and assessed frequently through consultation amongst all caseworkers involved to ensure that as far as possible the client is working towards a realistic goal.

System of Selection Assessment and Evaluation

5.10 There are three elements in the assessment program. The initial or preliminary selection interview of a potential client is conducted by a CRS Medical Consultant and a Vocational Counsellor who will consider any additional clinical information available such as referral advice from the client's doctor, report from hospital or employer. A client will be accepted for CRS assistance only on the basis that reasonable prospects exist for substantial gains to be had from participation in a personalised rehabilitation program. The new computerised statistical system will record the primary objective at that stage under one of three headings:

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- . Vocational
- . Non-vocational
- . Assessment

5.11 Following the preliminary selection assessment a more comprehensive evaluation is made upon the client's admission to the centre. The purpose of the evaluation is to accurately identify the client's problem in order to be able to design a realistic program of remediation.

5.12 This evaluation will result in a more specific or revised objective being identified under the categories of:

- . full-time open employment;
- . part-time open employment;
- . homebound employment;
- . sheltered employment;
- . household duties;
- . independent or semi-independent living.

5.13 A client's development is monitored throughout the progress of the remediation program by various therapists whose observations are recorded on the client's clinical file. These assessments are not stored in any formal record for comparison with similar cases in the future, but they do add to the knowledge and experience of individual therapists. While such individual client's progress is reviewed thoroughly, comparisons between clients is not considered feasible because two clients are seldom at an identifiably identical stage in development and the rate of progress between individuals differs markedly.

5.14 Most rehabilitation centres use standard tests to rate clients against the norm and to assist in determining a client's present level of functioning. Sometimes tests are developed within the centres but universal tests are mostly used. The tests are constantly being improved or replaced and staff training and development has an important role to ensure that staff are kept abreast of modern practice. Casework staff meet regularly to discuss client progress and to exchange information and experience.

5.15 Once a client leaves a centre follow-up action commences. This may or may not involve direct contact with the client depending upon what he or she prefers. Clients are advised in cases where direct contact is refused, to contact the centre if problems or difficulties arise.

Investigation of Non-Achievement

5.16 The CRS does not believe it worthwhile to compare preliminary predictions for clients with the results of remedial treatment. Attention is focused on developing a program for the client to realise his or her maximum potential

so that a comparison of earlier predictions is regarded as largely academic. Attempts to do so using the obsolete manual system proved to be of little value for management purposes. The responsibility for making any comparative analysis lies with the case work team.

5.17 Therefore, no formal investigations are conducted when a client fails to reach expected levels of advancement. Management procedures have not required treatment staff to keep statistics on such matters nor is a record of precedent maintained. The introduction of the new computer based statistical collections will open the way for far more sophisticated statistical analysis than had previously been practicable.

Department of Social Security Central Office Responsibility

5.18 Central Office of the Department is responsible for controlling developmental aspects of the CRS such as capital expenditure on new works, staffing increases, allocation of finance to the States, the introduction of initiatives to broaden the service. Broad policy guidelines are provided by Central Office to ensure a reasonably uniform interpretation of legislation.

5.19 Each State and indeed each centre has a fair degree of autonomy in relation to its method of service delivery at the individual client level within the limits of legislation. Each centre is responsible for its own case work management.

5.20 The Department's submission states that for the three years ending 30 June 1982 an average of 5,299 clients underwent rehabilitation per year with the following result:

- . 37% subsequently gained employment;
- . 2.5% resumed household duties;
- . 53.5% achieved substantial improvement in their capacity to live independently or semi-independently;
- . 5.5% showed no significant benefit from the treatment.

5.21 In the light of those figures the Department believes that the CRS is achieving its overall objectives and that a substantial number of people are gaining employment or having their life-style improved as a result.

Conclusions

5.22 The Committee is appreciative of the work performed by the Commonwealth Rehabilitation Service and generally is satisfied with the information provided to it in the Department's submissions. It notes the improvement in data

collection and statistical analysis available to the Service from the introduction of a new computer based system. The Committee believes that this statistical system should be reviewed by the Auditor-General after it has been in operation for a time sufficient to demonstrate its efficiency.

5.23 The Committee believes that the Commonwealth Rehabilitation Service should seek ways to exploit the new ADP facilities available to it to improve the analytical and reporting capabilities of the case work teams at Commonwealth Rehabilitation Service centres around Australia. Further, the results and experience stemming from casework at the centres should be collated, analysed and made available to appropriate professional and clinical organisations in Australia.

APPENDIX A

LIST OF SUBMISSIONS SOUGHT BY THE PUBLIC ACCOUNTS COMMITTEE

Department	Subject	Auditor-General's March 1982 Report Reference
Defence	Mobile Radio Terminals	5.1
	HMAS Tobruk - Amphibious Heavy Lift Ship	5.3
	Helicopters for FFG-07 Class Guided Missile Frigates	5.6
Health	Commonwealth Medical Benefits - Reimbursement to Registered Medical Benefits Organisations	9.1
Home Affairs and Environment	Norfolk Island Administration	10.2
Primary Industry	Levies, Taxes and Charges	14.1
Social Security	Commonwealth Rehabilitation Service	15.1

JOINT COMMITTEE OF PUBLIC ACCOUNTS
Inquiry into the Auditor-General's Report, March 1982
Submission by the Department of Defence

APPENDIX B

SUBMISSIONS RECEIVED BY THE PUBLIC ACCOUNTS
COMMITTEE

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Department of Defence Submission on Mobile Radio Terminals - 13 August 1982.	27
Department of Defence Supplementary Submission on Mobile Radio Terminals - 15 September 1982.	31
Department of Defence Submission on Helicopters for FFG-07 Class Guided Missile Frigate - 13 August 1982.	36
Department of Defence Supplementary Submission on Helicopters for FFG-07 Class Guided Missile Frigate - 10 September 1982.	40
Department of Home Affairs and Environment Submission on Norfolk Island Administration - 2 August 1982.	44
Department of Primary Industry Submission on Levies, Taxes and Charges - 5 August 1982.	47
Department of Primary Industry Supplementary Submission on Levies, Taxes and Charges - 14 September 1982.	53
Department of Social Security Submission on Commonwealth Rehabilitation Service - 12 August 1982.	55
Department of Social Security Supplementary Submission on Commonwealth Rehabilitation Service - 8 September 1982.	57

MOBILE RADIO TERMINALS

ITEM 5.1

INTRODUCTION

1. The Auditor-General's Report for March 1982 at paragraph 5.1 refers to the acquisition of High Power and Medium Power High Frequency Transportable Radio Terminals, HIPORT/MEDPORT for Army and Air Force. The Auditor-General reported as follows:

- Disputation has arisen between the contractor and the Commonwealth during the performance of the contract, in relation to test specifications and design drawing approval procedures, which suggests inadequate review of the proposed contract.
- The Commonwealth has been committed to significant expenditure on production items before the initial assembly has been tested and accepted.
- The tender evaluation process could be seen to be inconsistent with stated Government policy, and
- there is a need to strengthen project definition in development/procurement contracts.

BACKGROUND

2. The HIPORT/MEDPORT Project is to provide both the Army and Air Force with long and medium range transportable communications capabilities to support a force deployed in the field.
3. The project contract with Racal Electronics Pty Ltd was signed in September 1978 following funded (\$.200m) project definition studies by prospective contractors. At the time of the audit in 1981 the approved total project cost was \$18.7m (June 1980 prices).
4. The project required the contractor to integrate proven commercial equipments into operational systems and install them in transportable military containers. Five high power (HIPORT) and 24 medium power (MEDPORT) systems were required.

26.

/5. Because

5. Because the contract is running some 21 months late, Army has initiated many meetings with the contractor in an endeavour to reduce the delays. All Commonwealth agencies involved in the project are aware of deficiencies in the project and in its management and are continually trying to correct these deficiencies. The contractor's acknowledged lack of performance in respect of some specific requirements of the contract has been a cause of many of the difficulties.

DEPARTMENTAL COMMENT

Contract Difficulties

6. Contract Performance. With hindsight, more consideration should have been given during the tender evaluation and contract negotiation to the limited experience of the contractor in this type of Defence project and to the limited time scheduled for testing in their proposal.

7. It was believed, during the tender evaluation process, that the company would make considerable use of the wealth of military system expertise of its parent UK company. It was not until early 1982 that the company realized that progress with the project was being restricted by their lack of 'local' expertise. There is now a regular movement of managerial and technical experts, normally at company director level, to Australia from the UK parent company.

8. The procedures, established under the contract, for managing the project initially caused some difficulties. However, revised procedures have been adopted to overcome the problems and to progress the project. In addition, the company has come to the realisation that changes to its internal management structure and procedures were necessary, to assist the progress of the project, and these are being effected.

9. Vibration Testing Omission. At the time of contract negotiation it was believed that the US testing standards stipulated in the contract included a specific requirement for resonance search and dwell testing. It was later revealed that this particular requirement had been deleted from the US standard. In the knowledge that an extensive range of other vibration testing is specified, it was decided that the particular requirement for the resonance test could be foregone at an acceptable level of risk. It would have involved an additional \$2m and further delay.

10. Application of Test Requirements. In late 1981 a committee of representatives of the Commonwealth and the contractor formally agreed that, in spite of problems with the detailed interpretations of the test requirements and other

aspects which could be resolved within working procedures, the contract itself did not require amendment. A small committee of relevant working level representatives was established to resolve any further disputes that may arise. Since December 1981, that committee has met fourteen times. All disputes have been resolved to the satisfaction of both parties without the need for reference to higher levels of management.

Commitment to Purchase of Production Items

11. The Department does not accept that the contract called for the ab initio development of a prototype in the accepted meaning of the term. The contract calls for the integration of proven commercial items into transportable systems and has been phased to prove the system integration in the initial production systems. The follow-on production of the required quantity is dependent on acceptance of these initial items. The early financial commitment in terms of the production items relates to the procurement of the long lead time proven items needed for the installations. These items do not fall within the areas of risk in the system design. In addition, the contract makes provision for a Bank Guarantee for all payments in advance of delivery and the UK parent company has underwritten satisfactory performance of the contract by its Australian subsidiary.

Evaluation of Tenders

12. Tender validity was extended to allow for proper Defence Department consideration and clarifying discussions with the tenderers. Tender proposals for major Defence equipment are usually complex requiring detailed analysis and clarification with the tenderer resulting in adjustments by the Commonwealth to the prices quoted to enable fair and equal comparison of the proposals. In no case under Commonwealth purchasing procedures is any tenderer afforded the opportunity to change the substance of its offer after the closing date for lodgement and thereby obtain an advantage. In this case the adjustments made by the Commonwealth to the tendered prices did not alter the fact that the RACAL offer was significantly lower in price than the other tender both before and after the adjustments.

The Need to Strengthen Project Definition

13. This project was one of the first for Army involving the major integration and installation in Australia of a communications system. Project definition studies carried out by contractors addressed many aspects of this project and emphasized the technical risk areas. Procedural and management aspects were in general not addressed during these studies. Experience gained through this project and other similar projects has led to a much greater emphasis being placed on associated aspects, such as project management, which require to be addressed by both potential contractors and the Commonwealth during the project definition phase.

4.

14. Defence now invests large amounts of both time and money in expanded project definition studies for its more complex projects. This has reduced the possibility of unforeseen difficulties, of the type appearing on this project, occurring in future.

Contract Management

15. For this project the Engineering Development Establishment (EDE) was appointed as the design authority with the responsibility to approve all project designs and test specifications. EDE was and is the only source of competent engineering advice available to Army for a project of this technological level. In exercising this responsibility Army considers that EDE (which is now responsible to the Chief of Materiel - Army) has protected the Commonwealth's interest in a most satisfactory manner.

13 August 1982

30.



DEPARTMENT OF DEFENCE

RUSSELL OFFICES
CANBERRA, A.C.T. 2600

IN REPLY QUOTE RFP49/5/167

15 September 1982

The Secretary
Joint Parliamentary Committee of
Public Accounts
Parliament House
CANBERRA ACT 2600

AUDITOR-GENERAL'S REPORT, MARCH 1982 - MOBILE RADIO TERMINALS

1. I refer to your letter of 30 August 1982 in which you sought a response to matters raised by the Committee during examination of the Departmental submission on Mobile Radio Terminals.

2. With the exception of questions related to the impact of a prototype phase for the project, the response follows the format of your letter. As questions on the value of a prototype phase feature in almost all of the questions, all relevant aspects of this subject are covered under the one heading.

Vibration Testing Omission (Paragraph 9)

3. Omission of Resonance Test from Contract. No justification can be provided for the failure of the Department to notice that an amendment had been made to the US vibration testing standard which deleted the requirement for resonance search and dwell testing. Though it is agreed that the US standard was amended some time before the contract was signed, this does not imply that it was received immediately in Australia. There is frequently a considerable delay between the promulgation of an amendment and its receipt by the appropriate staff members of the Commonwealth engineering organizations. Partly as a result of this incident, the date and issue number of all specifications are now detailed in Defence contracts.

4. Purpose of Resonance Testing. Resonance search and dwell testing is one element of vibration tests designed to identify those components and sub-assemblies of a system which may be damaged, particularly when being transported. Its primary function is to identify items that may be subject to fatigue. The test can be undertaken by a laboratory simulation and/or prolonged transportation.

31.

/5. Risk....

5. Risk Caused by Omission. The type of resonance test omitted from the project testing requirements was the laboratory simulation. The equipments are still required to be assessed after a road movement of 320 kms over various types of surfaces. This distance can be increased to 1600 kms if full laboratory vibration tests cannot be undertaken. Whilst the performance of the equipment during this movement cannot be observed (as is possible during laboratory tests), its effects are identifiable. A combination of the fact that a form of resonance testing was still a feature of the test programme, together with the high cost sought by the contractor for the reinstatement of the test and the forecast further project delays, led the Department to conclude that the remaining level of risk was acceptable to the Commonwealth. This remaining risk would primarily be that components and modules within sub-assemblies may lose proper electrical connections. These faults could be repaired at an appropriate level of the Army's maintenance system.

Prototype Development (Paragraphs 11 and 13)

6. With hindsight it is obvious that the Project required more development effort than was initially envisaged. However, the Department reaffirms its position that as a result of pre-contract discussions both within the Department and with various tenderers, the perception of the Department was that all the contract required was the relatively simple integration of commercially proven and tested equipments into a military communication system. Only one unsuccessful tenderer proposed a technically advanced solution that would have involved considerable development. This confidence in the relative simplicity of the project was reinforced by the fact that all tenderers, Racal, Rockwell-Collins, Siemens and Hawker de Havilland represented company groups with considerable world wide experience in the development and manufacture of similar systems.

Other Matters Relating to Prototypes (Paragraph 7)

7. Impact of Prototype Phase. The Department considers that the use of a separate formal contract for development of a prototype instead of the existing single contract with staged tasks might have reduced some of the problems being experienced with the project but that the overall effect would have been less satisfactory. Development of a prototype without a firmly priced production option would have necessitated a separate and further tendering activity for the production items.

8. Due to the proprietary nature of much of the equipment, only the development contractor could have tendered successfully, resulting in less competitive leverage and possibly a higher price.

9. Testing of prototypes would have taken a significant period and the contractor would have suffered a long period of inactivity for the highly skilled technical staff assembled for the project. While for a major overseas manufacturer this might not be a problem, for an Australian company it would almost certainly result in the loss of staff and consequent inability to undertake the production phase without further recruitment

and retraining. This would be reflected in higher cost and no reduction in technical risk. The duration involved in testing, fresh tendering and contracting would be significant in addition to the contractor's relearning time.

10. In order to promote prime involvement of Australian industry, recognising the need for continuity, many projects are now arranged in a single contract where there is a defined 'break' point or option which limits the Commonwealth's commitment pending satisfactory completion and testing of initial items.

11. Had a separate prototype contract been used in this project:

- a. an almost identical level of documentation would be required (particularly drawings, test specifications and handbooks); and
- b. there would be little variation in the level of equipment testing either sought or accepted by the Commonwealth.

The only aspect of the project that a prototype phase may have affected was the disputes that occurred early in the project on the procedures and methods to be used to make alterations to approved drawings. A prototype phase would have meant that a drawing package would only be raised and submitted to the Commonwealth once the prototype design was accepted. Mutually agreed procedures have, however, been established to ensure that this aspect of the project is no longer a significant issue.

12. Cost of Prototype Phase. It has not been possible to determine the cost impact on this project of a separate prototype development phase. Various arguments can be developed to show that it may have either reduced or increased total project cost though the weight of evidence would suggest that it would have increased total project cost. No tenderer questioned the suitability or appropriateness of a single phase contract.

13. Existing Testing Levels. Though the Department maintains that the original perceptions of the project led to the conclusion that a separate prototype phase was not warranted, it cannot agree with the suggestion that the conclusions of the Committee on testing levels have been ignored. Whilst the items currently being tested are the initial production item of each of the four models, production of the remaining items cannot proceed until all tests have been satisfactorily completed and any necessary modifications have been made. The Department is confident that the extensive level of testing specified will give a reasonable assurance that the equipments will perform satisfactorily.

Tender Evaluation (Paragraph 12)

14. The response to Audit's criticism was provided by the Department of Administrative Services. Contact with tenderers and the negotiation of contracts for Defence procurement at the time of the Mobile Radio Terminals was conducted through that Department's Purchasing Division. The Department

of Defence supports the view given that 'there was no need to obtain additional information from the other tenderer'. Furthermore, the decision taken was a conscious one, based on the knowledge that to require a tenderer to enter into clarification discussions would involve the tenderer in significant costs and give rise to expectations that its offer was being favourably considered and was likely to be accepted. When, as in the present case, the matters which require clarification are seen to have little or no prospect of changing the provisional preference, to conduct such discussions has, on a number of occasions, been regarded by the two Departments as being inappropriate. It could be argued that to have had clarifying discussions with the unsuccessful tenderer would have caused him considerable negative expense and that that would have been improper. Given the confidential nature of tenders and the sensitive position in which evaluators are placed in conducting discussions, it could be further argued that a public demonstration of even-handedness is usually not possible without full disclosure of commercial in confidence information. A finely balanced judgement is therefore required, as it was in this case, as to whether such clarifying discussions should be conducted with other than the provisionally preferred tenderer.

15. It seems to the Department that your statement "the Committee cannot accept that the Department's response is a satisfactory reply to Audit's criticism that the treatment of tenderers by the Commonwealth was not even handed and consistent in this case" does not reflect the intent of the Audit comment. Rather all Audit were saying was that the procedures followed did not clearly demonstrate that the actions taken were even handed and consistent.

16. Purchasing activities are conducted according to the Purchasing Manual issued by the Department of Administrative Services. A basic principle of tendering is that, between the closing date for tenders and the date at which the successful tenderer is chosen, no tenderer is permitted to tender and have considered further information which would materially alter the basis of the tender. The Department considers that this principle was not compromised in this case.

17. It is unusual for tenders to be totally compliant in complex projects. Some adjustments by the Commonwealth to permit comparison on an equal basis are normal. Further, it is often necessary to have clarification discussions with a preferred tenderer to confirm that there exists an adequate basis on which contract negotiations may be commenced.

18. All such discussions with tenderers are conducted under controlled conditions and under the chairmanship of an officer of the Department of Administrative Services (now the Department of Defence Support).

19. If these discussions were to call into question the basis of the provisional selection, consideration would be given either to holding clarification discussions with other tenderers, or inviting new tenders.

20. The Department considered that, in this instance, the discussions with the provisionally preferred tenderer led to no material alteration to his tender and that clarifying discussions with the alternative tenderers were not necessary.

Role of Engineering Development Establishment (Paragraph 15)

21. It will be standard practice in future similar projects for the Engineering Development Establishment to be responsible to Army.



(T.E. SULLIVAN)
First Assistant Secretary
Financial Services and
Internal Audit

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS
Inquiry into the Auditor-General's Report, March 1982
Submission by the Department of Defence

HELICOPTERS FOR FFG-07 CLASS GUIDED MISSILE FRIGATES

ITEM 5.6

INTRODUCTION

1. Provision to acquire 12 helicopters to operate as an integral part of the weapon and sensor system of the Guided Missile Frigates (FFG) was included in the Government's approval to acquire the four FFGs.

2. The Auditor-General's Report for March 1982 at paragraph 5.6 refers to the procurement of these helicopters. The report refers specifically to the following aspects which the Auditor-General believes to be unsatisfactory:

- The time taken to agree the tasks (ie functions) of the armed helicopter and failure to date to agree the precise level of capability required (ie performance requirements for each task) has impacted on the progress of helicopter evaluation and selection and may also impact on the operational capability of the frigates and planning for modifications to the first three vessels, and
- use of an intermediate capability helicopter option as the basis for cost estimates will have the effect that the approved estimates of the helicopter procurement are understated if a medium capability helicopter is selected.

BACKGROUND

3. A helicopter evaluation mission visited overseas manufacturers in late 1977. The initial report of the evaluation was completed in April 1978 with supplementary reports on updated costing, timing and capability issues being completed in November 1978 and April 1979.

4. Departmental consideration of these reports identified three basic courses of action with respect to acquisition timescale, namely:

- a. acquisition of operational helicopters as a matter of urgency; or

/b. selection

- b. selection of a helicopter type as soon as possible from a short list, accepting that all of the role requirements may not have been determined at the time purchase orders are placed; or
- c. deferral of further external evaluation until force structure aspects of related projects have been clarified, to the extent of being able to establish a firm role specification.

5. It was subsequently decided to pursue the last course of action. This decision was influenced inter alia by:

- a. strategic, financial programming, equipment capability and force structure considerations;
- b. the early development status of contending aircraft and aircraft systems and attendant cost and technical uncertainties; and
- c. the desire to achieve as much commonality of equipment type as possible amongst all the helicopter programs and hence improve the prospects for a helicopter production program by Australian industry.

6. Concurrently with these considerations options for replacing Navy's fleet of Wessex 31B helicopters were under examination. In late 1979 it was decided not to pursue the option of refurbishing and re-engining Wessex aircraft and to concentrate on the new helicopter option. It was also agreed that further development of the project should include the option of a common utility/FFG helicopter.

7. In November 1980 the following tasks were agreed for the FFG helicopter:

- a. tactical surveillance and reconnaissance;
- b. targeting for surface to surface weapons;
- c. extending FFG ASW capability/by carriage of ASW torpedoes and having the capacity for fitting an ASW sensor;
- d. having the potential for carriage of short range anti-ship capable missiles; and
- e. a limited fleet utility capability.

8. With these tasks clarified, a Defence Evaluation Team visited manufacturers in mid-1981. The team included Navy, Air Force and Defence members. The purpose of the mission included an examination of the feasibility and implications of

/inter-service

inter-service helicopter commonality and to obtain further cost, technical and capability data on contending helicopters. The Evaluation Report concluded that no helicopter could fully meet the envisaged tasks without considerable system development. The report proposed that definition studies, to develop proposals for a system to meet our specific requirements, should be undertaken. The Minister for Defence subsequently announced on 1 July 1982 that the Government would partially fund these studies for four helicopters.

DEPARTMENTAL COMMENT

Time Taken to Agree Helicopter Roles/Capability Levels

9. The time taken to agree the helicopter roles and capability levels has been lengthy but very thorough vide the background discussion above. The tasks for the helicopters were agreed by the Department in November 1980. The capability levels to be acquired are now under study for four candidate aircraft and decisions in this regard are expected by about mid-1983.

10. Specific conclusions on the level of capability to be acquired for individual tasks cannot be viewed in isolation, but rather must take account of related force structure elements and their contribution to capability, the strategic and program priority of proposals and individual cost/capability options within the total helicopter system. Such judgement can only be reached after detailed analysis and evaluation of options together with their costs. Development of judgements in relation to the FFG helicopter has been influenced by such factors as those outlined in paragraph 5 above and because none of the contending helicopters is appropriately configured to meet the envisaged tasks of the FFG helicopter.

Effect on Interim Operational Capability

11. Two FFG ships (HMAS ADELAIDE and HMAS CANNING) have recently arrived in Australia and two more (HMAS SYDNEY and HMAS DARWIN) are expected to arrive during 1983-84. Existing service helicopters are being used as initial training helicopters for the ships. Following deliveries in 1983/84, the new light utility helicopter will be used as the training helicopter, until the FFG helicopter enters service. The training helicopter will provide a valuable asset and permit the development of operating procedures and skills prior to introduction of the FFG helicopter.

Effect on Ship Modification Planning

12. Whichever helicopter is selected, some ship modification will be necessary, the extent of modification would be more extensive for the heavier contenders. Such modifications would normally be done during a regular ship docking/maintenance period. Planning for these modifications is part of the helicopter selection process.

Accuracy of Cost Estimates

13. The use of an intermediate helicopter as a basis for project estimates was the appropriate decision at that time, as reliable figures were available only for the Westland Lynx, the most expensive of the intermediate types under consideration. Since the 1981 overseas evaluation project estimates have been considerably developed taking account of refinements in helicopter costs, capability, commonality and numbers to be procured in the initial phase.

14. An attribute of the Five Year Defence Program, and the Planning, Programming and Budgeting System of which it is a part, is flexibility to allow progressive refinement of projects in the light of developing financial, technological and strategic factors as the projects approach commitment.

15. The recently announced planned study contracts will provide much of the necessary cost and capability information upon which an aircraft with the desired capabilities may be selected. Until recently, this could not be done because of the unproven nature of the aircraft and aircraft systems sought to satisfy our assessed requirement.

13 August 1982



DEPARTMENT OF DEFENCE

RUSSELL OFFICES
CANBERRA, A.C.T. 2600

IN REPLY QUOTE RFP49/5/167

10 September 1982

The Secretary
Joint Parliamentary Committee of
Public Accounts
Parliament House
CANBERRA ACT 2600

AUDITOR-GENERAL'S REPORT, MARCH 1982 - HELICOPTER FOR
FFG-07 CLASS GUIDED MISSILE FRIGATES

1. I refer to your letter of 27 August 1982 in which you sought replies to questions raised by the Committee during examination of the Departmental submission on the FFG helicopter project.
2. Comments on matters raised by the Committee are shown against paragraph numbers used in the Department's submission of 17 August 1982.
3. Paragraph 11. The extent to which the frigates' operational capability is affected is best expressed in two parts:
 - a. Surveillance and Targeting - without an organic helicopter, fitted with appropriate sensor systems, the ships must rely on their own sensors, or those of other platforms, to detect and identify potentially hostile vessels and to target their surface-to-surface missiles. The ship's own sensors would extend to the radar horizon, or possibly beyond if the target vessel has been detected passively by electronic support measures (ESM). The proposed use of a light training helicopter, to develop and maintain the skills of operating helicopters from small warships, will enhance the ship's capability by providing visual surveillance and identification, but this enhancement would be of limited benefit; and
 - b. Anti Submarine Warfare (ASW). Present intentions are that the helicopter will have a minimal ASW capability. It will provide limited surveillance in ASW with its radar and ESM systems and will

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also be able to carry torpedoes to attack submarines at greater range than is possible with ship launched ASW torpedoes. Depending upon the helicopter ultimately selected, there could be capacity available to fit, at a later stage, either sonobuoys and their associated processing equipment and/or dipping sonar. This selection will be influenced by decisions yet to be taken on whether to acquire an aircraft carrier. The light training helicopter has no ASW capability.

4. In summary, the FFG is a capable escort vessel even without its helicopter. However, the provision of a helicopter for the FFG will significantly enhance the ship's capability particularly in relation to surveillance, reconnaissance and weapon targeting. The provision or otherwise of a helicopter will not affect the ship's considerable air defence capabilities.

5. Paragraph 12. It is presently planned that ship modifications associated with the FFG helicopter be undertaken progressively during the ships' normal refit cycles. The nature and scope of modifications will be influenced by the selected helicopter. There is no indication at present to suggest that work associated with modifications will not be completed prior to the helicopters being available for embarked operations. This is because the lead times for the helicopters is greater than for equipments for the ship modifications.

6. It is unlikely that special docking arrangements will need to be made; however, some adjustment to maintenance periods, or their extension for a few days, may be necessary. Such a practice is not unusual and adjustments are often made to planned refit work packages to meet unscheduled maintenance or modification requirements.

7. Fin stabilisers are planned to be fitted to HMAS ADELAIDE in the late 1985, HMAS CANBERRA in early 1986 and HMAS SYDNEY in late 1987. HMAS DARWIN is being fitted with fin stabilisers during construction.

8. The fitting of stabilisers is likely to be undertaken concurrently with other components of the planned modification program.

9. Indicative cost estimates, in August 1982 prices, are:

- a. stabiliser acquisition, fitting and dockyard materials supply about \$5.5m (for 3 ships); and
- b. ship modifications about \$9.2m (for 4 ships).

The work is to be carried out in Australia.

10. The estimated time to complete all necessary ship modifications is approximately five months, spread over a number of dockyard availabilities.

41. / 11. Helicopter

11. Helicopter delivery schedules will depend upon the manufacturer's capacity and the priorities of other orders. Typically, deliveries at a rate of one or two helicopters per month could be expected. It will be necessary to build up a small training nucleus ashore of some 6-8 aircraft, to prepare both air and ground crews for embarkation.

12. It is planned that all FFGs will have been modified and will have embarked their helicopters by early 1988. Deliveries of the first helicopters are not expected before September 1987. The first five aircraft configured for the surveillance and targeting role should be available in Australia for training and work-up early in December 1987. One aircraft would be embarked in each FFG early in 1988, the remainder being used to continue training relief crews ashore with later supplementation by subsequent deliveries.

13. It is intended that nucleus air and ground crews be trained in the country of origin of the selected helicopters. These will form the instructional teams for subsequent training in Australia. It is not expected that any delays will occur in the training, spares and support areas.

14. Paragraphs 13, 14, 15. The FFG helicopter project has undergone considerable development since initially raised by Navy. Part of this process has been the progressive refinement of costs. This process continues, and the funded definition studies, presently being undertaken by aircraft manufacturers, will allow further refinement of costing data.

15. The financial provision for this project in the new major equipment component of the Five Year Defence Program reflects a number of considerations including:

- a. the level of financial guidance allocated to the new major equipment component;
- b. competition for priority from other proposals;
- c. the level of capability to be acquired in the FFG helicopter both initially and in the longer term;
- d. the number of helicopters to be acquired; and
- e. the timing of introduction of new helicopters.

16. If total project costs for the FFG helicopter were to increase then the impact of this, for a given level of financial guidance, could be accommodated by various means, eg:

- a. deferral or reduction of other proposals. This would be assessed on the basis of overall priorities and proposals status of development;

- b. rephasing of expenditures and/or physical progress for the FFG helicopter or other projects; or
- c. variation of allocation of financial guidance between the program components.

17. Commonality both between the Navy and Air Force and within each Service of the various helicopter proposals has been examined in some detail and is a continuing issue. The focus of attention includes the feasibility of commonality, and the cost and other implications of acquiring a common helicopter. Depending upon the helicopter selected, there could be significant savings in terms of training, operating, support and maintenance costs, and other benefits. However, because of the range of Service requirements and the wide timeframe proposed for helicopter introduction (extending over about 10 years), further analysis may show that it is not appropriate to seek more than partial commonality;



(T.E. SULLIVAN)
First Assistant Secretary
Financial Services and
Internal Audit



Ref: 78/3363

2 August 1982

Mr M.J. Talberg,
Secretary,
Joint Parliamentary Committee
of Public Accounts,
Parliament House,
CANBERRA A.C.T. 2600

Auditor-General's Report 1982: Norfolk Island Aspects

I refer to your letter of 15 July 1982 forwarding a request from the Joint Parliamentary Committee of Public Accounts for a submission from this Department concerning its responsibilities to the Administration of Norfolk Island.

The relationship between the Department and the Administration needs to be considered in the context of the Norfolk Island Act 1979 (copy enclosed).

That Act establishes the Administration of Norfolk Island as a body politic and provides for an Administrator to administer the government of the Territory and an elected Legislative Assembly with power to make laws for the peace, order and good government of the Territory.

The executive members of the Legislative Assembly have executive authority in respect of matters specified in Schedules 2 and 3 of the Act.

In exercising the powers and performing the functions of his office, the Administrator is required to act on the advice of the Executive Council in relation to matters in Schedules 2 and 3, except that in relation to Schedule 3 matters (fishing, customs, immigration and education) the Minister may issue instructions to the Administrator which override the advice of the Executive Council.

The Commonwealth Government retains responsibility for all other (non-Schedule) matters and the Department's main responsibilities are in relation to those retained functions.

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The Department does not directly administer these functions because, under the administrative arrangements for the government of Norfolk Island, the Norfolk Island Public Service is responsible to the Administrator for the administration of retained functions. However, the Department advises the Administrator in relation to non-Schedule 2 matters, develops policies on them together with other Departments as appropriate, and provides administrative support to the Administrator through the Office of Administrator (consisting of the Office of Official Secretary and three personal staff of the Administrator).

With regard to the financial affairs of the Island, the Norfolk Island Act provides for a single fiscus (the Public Account of Norfolk Island) to be available for the purposes of the government of the Territory.

All the public moneys of the Territory form the Public Account and their receipt, expenditure and control is regulated by Norfolk Island enactments.

Notwithstanding item 1 of Schedule 2, the Legislative Assembly is empowered to make laws providing for the raising of revenues for purposes of matters not specified in Schedule 2 of the Norfolk Island Act, i.e. Commonwealth retained, as well as Schedule 3 matters.

Where such legislation relates to a retained matter, the Administrator has to reserve it for the Governor-General's pleasure. The Department then has to advise the Minister whether the Governor-General should be advised to assent to the legislation, to refuse assent or to return the legislation to the Legislative Assembly with recommended amendments.

With regard to expenditure Bills, the Administrator is required to act in accord with the advice of the Executive Council by virtue of Item 2 of Schedule 2.

The matters raised by the Auditor-General in his March 1982 Report cover two areas:

- (1) accounting procedures within the Norfolk Island Administration; and
- (2) what the Auditor-General sees as legislative deficiencies in the audit provisions of certain Norfolk Island legislation.

As to (1), this is a matter for the Auditor-General to pursue with the Administration and it is understood that this has been done. This Department stands ready to assist where possible in this matter but final decisions rest with the Island Administration.

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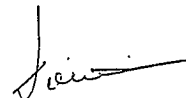
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As to (2), the Island Government is by no means convinced that these legislative deficiencies exist, but considers that if action is needed then it should be by Commonwealth enactment.

The then Minister for Home Affairs and Environment, in a letter of 15 February 1982 to the First Assistant Auditor-General commenting on this matter, said that the Norfolk Island Government has plenary legislative powers in respect of public moneys of the Territory and is financially self-supporting and, therefore, he would be most reluctant to introduce Commonwealth legislation to overcome any inadequacies in the Norfolk Island legislation without the agreement of the Norfolk Island Government. He suggested that the proper course might be to hold discussions at officer level to prepare a case to put to the Norfolk Island Government in support of legislative amendments.

We have since met with representatives of the Auditor-General's office to discuss the matter, and we have also sought advice from the Attorney-General's Department concerning possible inadequacies in the audit provisions of Norfolk Island legislation.

If you require any further information please do not hesitate to contact me on 452717 or Mr F. Brice, Assistant Secretary, Northern Territory and Norfolk Island Branch on 452693.


(T.F. Paterson)
First Assistant Secretary



Reference:

S82/124
6186x

5 August 1982

The Secretary,
Joint Parliamentary Committee
of Public Accounts
Parliament House,
CANBERRA ACT 2600

Report of The Auditor-General, March 1982

Reference is made to your memorandum of 15 July 1982, (reference 1982/18) in which you requested a submission by this Department on the findings of the Auditor-General as reported in his March 1982 Report regarding the:

- . Dairy Industry Stabilisation Levy
- . Apple and Pear Levy
- . Poultry Industry Levy
- . Wheat Tax
- . Fish (Export Inspection Charge) and
- . Fishing Licences.

2. Specific comments were made in relation to these particular levies and charges which have been summarized in your memorandum. A further comment was that a reply to the Audit representations was still awaited at the date of preparation of the Report. In this regard, it is a matter of record that the Departmental response to the Auditor General's memorandum was forwarded on 11 March 1982 (copy attached). The delay in replying was a result of attempting to finalise all matters raised by Audit. However in the event finalisation of some aspects, in particular the matter of tax deductibility of late payment penalties which was raised but was not reported in the Auditor-General's Report to Parliament, took longer to resolve than had been anticipated.

3. Set out below are comments on each of the specific issues raised in your memorandum.

Documentation of Procedures

4. It is recognized that there were no "approved" procedures covering the collection of levies and charges, but it should be emphasised that the Auditor General's criticism related solely to the lack of formal approval. Procedures did exist, and were followed by the staff engaged on this duty. No comments were made which suggested that there had been any departure from these procedures or that they were deficient in any way.

5. In further explanation it should be noted that the audit was carried out in Canberra and the issues raised related only to collections and disbursements by Central Office. In recent years there has been a considerable expansion both in the number of levies and the amount of revenue collected. Prior to 1977 returns lodged in Canberra related to only 8 industry levies (Collections \$m1.8 in 76/77), but by 1981 this number had risen to 18 and revenue collected to \$m86.1 in 81/82. This rapid expansion necessitated frequent amendment to existing collection procedures and extension of these procedures as new levies and taxes were introduced.

6. In January 1981, the need to formally revise and document existing procedures was recognised by the Department. However it was decided to revise and expand the existing computer-based levy collection system to rationalise and consolidate procedures. The update of that system was commenced in March 1981 and included the extensive writing of new programmes and upgrading of equipment. In conjunction, documentation of revised procedures was carried out in parallel with the system development, and these are substantially complete. They will be formally approved when the revised computerized system is finalised and comes into effect in the latter part of 1982.

7. In the circumstances while acknowledging the need for formal approval of procedures, the Department does not consider it warranted to devote resources to formalizing the present satisfactory procedures. These are soon to be superseded by the introduction of a revised and expanded computer based system, procedures for which will, as stated above, be formalized and approved in tandem with their introduction.

Identification of Potential Levy Payers

8. The Department acknowledges that no firm mechanism exists to positively identify every potential levy payer but questions whether such mechanisms are possible. Neither the Auditor-General nor this Department is aware of any such mechanism or the methods by which one could be established. However, the Department has a number of existing procedures by which potential payers are identified. These include:

- (i) Continuing contact with the relevant industry statutory bodies and grower organisations as well as State departments and local authorities, to update lists of persons liable to pay levy.
- (ii) Regular surveillance of the industry by Departmental investigation officers to detect potential levy payers.
- (iii) Advice received from existing levy payers of persons who are attempting to avoid payment of levy.

9. The Department is constantly striving to identify all potential levy payers through the mechanisms listed above, and is confident that for practical purposes potential levy payers have been identified. It is understood that the Auditor-General did not detect any instances of incompleteness in the Department's records of potential payers.

Wheat Tax

10. The Australian Wheat Board is responsible for the payment of Wheat Tax and is subject to audit by the Auditor-General. Contrary to the Auditor-General's Report, Wheat Tax was collected on both wheat delivered and on wheat sold but not delivered to the Board. However, at the time of the Report, no differentiation in the Board's covering documentation was made between payments of tax on wheat delivered to the Board and wheat sold but not delivered to the Board. Specific reference is now made to wheat in both categories by the Board when forwarding wheat tax payments to this Department.

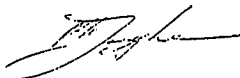
Poultry Industry Levy

11. The verification of returns from ACT producers has been difficult in the past as under ACT legislation administered by the Department of the Capital Territory which was in effect up to 1 July 1982, producers were not required to maintain records of hens kept for commercial purposes. This made identification of levy payers and verification of returns difficult. However, on 1 July 1982 new legislation became operative requiring producers to maintain records. The Department is hopeful that problems with verification will be overcome under the new legislation.

Investigations

12. The Department acknowledges that some weaknesses have existed in the control and management of investigation arrangements. However, action was commenced during 1981 to totally review and overhaul the investigation function. The aim of the review is to upgrade the effectiveness of investigation programmes through a review of methodology and the scope of investigation activities, with the objective of streamlining procedures by measures such as adapting modern audit and investigatory techniques. One officer is engaged full-time on the task. Completion is expected in late 1982.

13. Your agreement to extend the time for submission of this statement is greatly appreciated.



(P.H. LANGHORNE)
Assistant Secretary
Management Services Branch

S80/256
7455y

C O P Y

11 March 1982

Chief Auditor,
Auditor-General's Office,
A.C.T. Branch,
CANBERRA ACT 2600

Levies Taxes and Charges
Your Reference A78/455

The following comments are made in response to your memorandum of 14 December 1981 relating to an audit conducted on levies, taxes and charges

Identification of Potential Payers

This Department's understandings in this respect accord with those set out in your memorandum. This Department however further understands that the audit did not disclose any instances of incompleteness in the Departments records of potential payers.

Penalties for Non-Payment

Contact has been made with the Australian Taxation Office in this respect. Relevant debtors will be made aware of the real cost of non-payment once confirmation is received of this Departments view that penalty is not an allowable tax deduction.

Wheat Tax

It was pointed out during discussions with your officers on this matter that The Australian Wheat Board, which is responsible for the payment of Wheat Tax is subject to audit by your office. It is considered therefore that any check by this Department to ensure that tax is paid correctly would be an unnecessary duplication of work. However, a letter has been forwarded to the Australian Wheat Board seeking confirmation that that organisation fully understands the implications of the Wheat Tax Act 1979 which imposes the tax on wheat sold by the Board as opposed to wheat delivered to the Board. The letter also requested reference be made to any such payments when forwarding wheat tax payments to this Department.

Poultry Industry Levy

It should be noted that the Department of the Capital Territory has the responsibility for preparation of legislation to require producers to keep records of hens kept for commercial purposes.

Investigations

The understanding set out in this respect is in accord with those of this Department.

Documentation of Procedures

Action in this respect is proposed as part of the adoption of the revised levies computer system which is currently under development and due for implementation in April/May 1982. As the new system will significantly change current operational procedures it is not practical to fully document present procedures at this time. The new system will also allow for the computerisation of poultry levy collections which are currently maintained manually. This will bring this levy into line with other levies and greatly assist in regular follow up of outstanding levies and returns.

(sgd) P.H. Langhorne

(P.H. LANGHORNE)
Assistant Secretary
Management Services Branch



Reference:

S82/124

14 SEP 1982

3,199
The Secretary,
Joint Parliamentary Committee
of Public Accounts,
Parliament House,
CANBERRA ACT 2600

Report of the Auditor-General, March 1982
Levies, Taxes and Charges
Your Reference: 1982/17

In respect to your further query in the above matter, dated 26 August 1982, you are advised as follows:

the legislation "covering the Poultry Industry Levy in the ACT" refers to regulations promulgated under the Egg Industry Ordinance 1975. It should be noted that these regulations are administered by the Department of the Capital Territory. Nonetheless, this Department can confirm that those regulations were promulgated on 1 July 1982.

the review of the Investigation Section has, to date, resulted in the implementation of amended procedures, coupled with the drafting of a revised sectional organisation which embodies the principles inherent in those procedures. The revised procedures aim to

- increase the emphasis on system based auditing, reducing tedious attention to peripheral detail
- increase the emphasis on the revenue collection, and, the enforcement of the provisions of the various pieces of legislation rather than the 'audit service' approach which previously existed
- significantly reduce the time necessary to undertake each individual investigation thereby increasing the overall coverage by available resources
- increase the responsibility of the section for the execution of legal action designed to bring individuals who are liable to levy to account while serving to enhance industry's awareness of the operations of the section

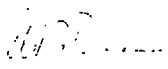
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- increase the emphasis on the unscheduled spot check type investigation of producers, merchants and traders in rural areas, thereby casting a wider net for the detection of person evading their responsibility to pay levy.

A proposal has been drafted for the re-organisation of the unit, drawing all the enforcement functions of the Departmental Financial Management Section together into a single composite unit. It is anticipated that such a structure will both facilitate the identification of those areas requiring the greatest allocation of resources while providing for continuity and regularity of purpose in the treatment of delinquent levy payers.

It is expected that the organisation proposal will be submitted to the Public Service Board shortly.

In order to assess the effect of these changes a conference of Investigation Officers is to be held in early November. At that time, it should be possible to establish methods to further enhance the service.


(D.D.R. PEARSON)
Acting Assistant Secretary
Management Services Branch

54.



Department of Social Security
PO Box 1, Woden, ACT 2606 Telephone: 89 1444 Telex: 62143

12 AUG 1982

'lease quote 82/1932

The Secretary
Joint Parliamentary Committee
of Public Accounts
Parliament House
CANBERRA ACT 2600

COMMENTS ON REPORT OF THE AUDITOR-GENERAL, MARCH 1982
Your Memo 1982/18 of 9/7/82 refers

The above memorandum sought this Department's comments on the Auditor-General's findings in relation to the Commonwealth Rehabilitation Service (CRS).

2 It should be stressed at the outset that in recognition of some inadequacy in the manual statistics collected in relation to the CRS, the Department has recently undertaken a complete review of its CRS collections with a view to their refinement and increased effectiveness for planning and evaluation purposes. The revised system, which will be computerised, is expected to be fully operational by the end of September.

3 In commenting on objectives of the CRS it must be said that the Service expects to assist the vast majority of acceptances in varying degrees, some of whom will be regarded as employable and others who will only improve their capacity for independent living. However, in every case the client will be assisted to maximise his or her residual abilities, within the limits that are possible, by attending a rehabilitation centre or by utilising all means and resources available to the CRS within the context of modern rehabilitation practice.

4 A comparison of initial and final objectives is not regarded as an appropriate measure of results achieved by the rehabilitation process as a multi-disciplinary team continually monitors the client's progress and redefines the rehabilitation objective. Consequently, there is a continual reassessment of that objective throughout the client's program. The initial assessment of the client's objective takes place at a screening interview and at that stage there is a tendency to set optimistic goals and expectations for the client. This is however only a preliminary assessment which is followed by a much more comprehensive assessment on admission to the centre.

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5. The new computerised statistical system will record the objective at the preliminary stage under:

- (a) Vocational
- (b) Non-Vocational
- (c) Assessment

Then after further evaluation has taken place the revised objective will be recorded under the more detailed categories of:

- (a) Full-time open employment
- (b) Part-time open employment
- (c) Homebound employment
- (d) Sheltered employment
- (e) Household duties
- (f) Independent or Semi-Independent Living

6. The figures on length of stay at various centres cannot be directly compared or related to efficiency without considering the many factors influencing them. As mentioned in our comments to the Auditor-General the figures on length of stay do not have the same degree of significance as a measure of efficiency in the rehabilitation process as they have in the operation of acute hospitals. Some factors which influence such figures are the bias caused by the type and characteristics of the centre's client population and the bias caused by the facilities, resources and types of programs that have evolved at the different centres over the years.

7. There is no doubt in our minds that the services provided by CRS are achieving very satisfactory results despite the fact that inherent difficulties in defining a person's functional capabilities and well-being in comparative and meaningful terms renders most statistical techniques unreliable. There is, however, ample evidence from community comment and the political arena, from outside professional comment and from the comments of CRS clients themselves that the objectives stated in Part VIII of the Social Security Act are being met. In support of this claim, in 1980/81, 28% of clients accepted for CRS services were placed in full-time open employment and an additional 8.7% in sheltered, part-time or homebound employment. In addition 58% of accepted clients were assisted to maximise their independence and to settle or resettle in the community. Most of these clients make substantial gains despite not being able to seek employment. Since the amendment to the Social Security Act in 1977 a much wider range of disabled people with a variety of goals are able to be assisted by the CRS and therefore the results indicated above are considered satisfactory.



Department of Social Security
PO Box 1, Woden, ACT 2606 Telephone: 89 1444 Telex: 62143

Please quote 82/4928

Secretary,
Joint Parliamentary Committee
of Public Accounts,
Parliament House,
CANBERRA. ACT. 2600.

REPORT OF AUDITOR-GENERAL, MARCH 1982, COMMONWEALTH
REHABILITATION SERVICE.

I refer to your memorandum of 25 August, 1982, seeking further comment on the selection and assessment processes of the Commonwealth Rehabilitation Service (CRS).

2. The Committee's main area of concern appears to be the accuracy of the CRS assessment procedure and in particular whether initial assessments prove to be accurate based on a comparison with final results.
3. It should be appreciated that prospective clients present to the CRS with a variety of physical, emotional and psychological problems, all of which change to a greater or lesser degree during the period of rehabilitation. Whilst it is usually possible to give a fairly accurate medical prognosis, other factors initially present can fluctuate markedly and, in doing so, may have a marked and often unpredictable effect on the client's progress; as a consequence, some may exceed initial expectations and others fall short of them.
4. Nevertheless, clients' programs are being constantly monitored and assessed through consultation amongst all the caseworkers involved to ensure that as far as possible, the client is working towards a realistic goal.
5. Although setting unrealistic goals is never encouraged, it is firmly believed that the client's motivation during the crucial early stages of treatment is greatly enhanced if he or she is permitted to set optimistic but still achievable goals. Subsequent variations to those goals are often effected by the clients themselves as they come to grips with their disability. No great significance is attached therefore to whether the ultimate goal corresponds to the initially assessed goal.

6. Programs are not graded into advanced or less advanced categories; nor are there set programs into which clients are slotted. It is not valid therefore to talk of transfer to more or less advanced programs. The whole concept of rehabilitation treatment is to 'develop a flexible program' for each individual, comprising components from the different facets of centre activity and taking account of changing circumstances during the period of treatment and training.

7. No statistics are kept to compare final goals with those set during the initial assessment for the reason mentioned.

8. The Department would be concerned, however, if it were to be demonstrated that the CRS was not achieving its overall objectives and was accepting for treatment significant numbers of people who subsequently failed to gain employment or to have their lifestyle (e.g. independence, the range of activities in which they can participate) substantially improved. This is clearly not the case.

9. For the three years ending 30 June, 1982, an average of 5,299 clients underwent rehabilitation per year, of which 37% subsequently gained employment, 2.5% resumed household duties and 53.5% achieved substantial improvement in their capacity to live independently or semi-independently at home. Only 5.5% were judged as having shown no significant benefit from the rehabilitation treatment or training they received.

10. The Committee has asked for comment on aspects of the three-stage assessment. The three-stage assessment program referred to is seen as a continuum rather than being broken up into stages.

11. There is an initial selection interview of each potential client, conducted by a CRS Medical Consultant and a Vocational Counsellor, each of whom makes a recommendation as to the person's suitability for CRS services. Depending on where the referral came from there could be a mass of clinical evidence for the doctor and the Vocational Counsellor to consider in addition to that gleaned at the interview, or there may be very little recorded detail, as in the case of a sickness beneficiary who has been referred to the CRS through internal departmental procedures. Sometimes further information is called for before a recommendation is made. Clinical notes from a hospital, a report from CES or a former employer or a copy of a vocational guidance test held at school are examples of the evidence the doctor or Vocational Counsellor may request before making a recommendation. If the client is deemed to be acceptable for CRS assistance, it is on the basis that there are reasonable prospects that substantial gains will be possible through the provision of a personalised rehabilitation program. Engagement in employment, however, may or may not be capable of determination as a goal at this early stage.

12. The program on admission to a centre has an early flavour of intensive assessment in all departments. This is essential as before a program of remediation can be designed, the casework team has to accurately define the problem. This program of assessment moves smoothly into a program of remediation.

13. Follow-up commences as soon as a client leaves a centre, sometimes seeking employment, other times attempting to live independently using new found skills. Follow-up is also provided for those who return to work. In some cases follow-up does not involve active contact, with the clients as they prefer not to be approached by the Department once they feel they have achieved independence. In such cases, their wishes are respected and the clients are asked to contact the CRS if they have problems.

Review of Progress

14. Observations made by various therapists during a treatment phase are recorded on the clients clinical file but are not stored in any formal record for comparison with similar cases in the future. It could only be said that they add to the store of knowledge and professional ability of individual therapists.

15. Reviews are undertaken regularly by the casework team and progress is evaluated in all areas as a comprehensive rehabilitation program is concerned with the whole person and his/her resettlement in the community. Comparisons between clients, even those with similar problems, are seen as rather pointless, firstly, as there are not equal "stages" of evaluation that could be compared and, secondly, clients' progress (or regress at times) at differing rates for both clinical and motivational reasons.

The System of Assessment

16. The system used for assessment varies from one discipline to another but in all cases the program is tailored to meet the needs of each client. Most rehabilitation centre departments use standardised tests to rate clients against the norm and to assist in determining a client's present level of functioning. These tests used by the various professions are sometimes developed on the centres but are more often universal tests used in all such rehabilitation agencies. The tests are constantly being improved or replaced and staff training and development plays an important role to ensure staff are abreast of modern practice. In addition, regular meetings of casework staff, during which client progress is discussed, provide continual feedback on the effectiveness of all the elements of the rehabilitation process.

Are Final Results Compared?

17. As mentioned earlier, a direct comparison of early predictions of goal achievement and final outcome is not regarded as a worthwhile measure of results achieved. The main concern of a casework team is that a program has

been made available to enable the client to realise as far as possible his/her maximum potential. If this is achieved it is of somewhat academic interest only as to whether early predictions were higher or lower than the final outcome. Crude indicators comparing early predictions with final outcome had been collected under the now obsolete manual system but these proved to be of little value for management purposes. Any comparison of final results with assessments undertaken earlier would only be done by casework teams if they saw this to be of value.

Investigation of Non-Achievement

18. No formal investigations are conducted when a client fails to reach expected levels of achievement. Perhaps a casework team may see some advantage in analysing certain stages of a program and relevant aspects may be recorded on the client's file. These aspects may also be passed on to other staff at regular staff meetings of the discipline involved. Hitherto, management procedures have not required treatment staff to keep statistics on any such matters nor do they require that any record of precedents be kept. However, the introduction of the new computer-based statistical collections will now open the way for more sophisticated statistical analyses than had previously been practicable.

Use of Statistical Analysis

19. The manual statistics provided by the States for management use only provided information on numbers being assisted and, through a comparison with costs, some measure of cost effectiveness of the service was possible. However, whilst such statistics permitted management to monitor the utilisation of facilities, the system gave no indication of quality of service.

20. As mentioned above, the more comprehensive computer-based statistical system now in operation will enable a more sophisticated use of statistical analysis, the full scope of which is still being developed.

What is Meant by "Bias"

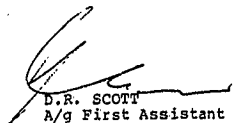
21. Use of the word "bias" is merely meant to indicate that centres located in different States (and in different locations in the same State) have developed their own "modus operandi" which simply illustrates that there is more than one way of handling a particular problem and that the centres, being sensitive to local needs, including referral sources, as well as local vocational, residential, transport, housing and many other variables, have developed in a way which best serves both the needs of individuals and the communities in which they are located.

22. The fact that all centres do not offer identical types of programs is to be expected as programs change over the years; firstly, to serve the changing needs of the client population and secondly to accommodate new techniques and

philosophies of rehabilitation. Such evolution can only be influenced by the Central Office of the department to a certain degree. Whilst broad policy guidelines are provided to ensure a reasonably uniform interpretation of legislation, it is not possible to dictate individual details of casework management. Each centre develops its own local characteristics in this regard.

23. Central Office naturally has tight control over developmental aspects such as capital expenditure on new works, increased staffing, allocation of finance to States and the introduction of new initiatives which may broaden the service provided, but each State, and indeed each centre, has a fair degree of autonomy in relation to its method of service delivery at the individual client level within the limits of the legislation.

24. As mentioned earlier, the new computer-based statistical system will enable a much closer analysis of program effectiveness. The long term results (up to 6 months) after a program has concluded will be analysed to see if the gains made are of long-standing benefit. It will also be possible to look at the effectiveness of a vocationally oriented program in relation to final outcome.


D.R. SCOTT
A/g First Assistant
Director-General
Rehabilitation & Subsidies.

8/9/72

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11. DEPARTMENT OF HEALTH

11.2 Reference continued from Previous Report

Commonwealth Medical Benefits—Reimbursements to Registered Medical Benefits Organisations

Paragraph 9.1 of the March 1982 Report referred to an indepth audit of the ADP and other systems which control reimbursements to registered medical benefits organisations (MBOs) for Commonwealth medical benefits paid on behalf of the Commonwealth. As mentioned in that paragraph some aspects of the Department's reply, concerning adherence to the requirements of Finance Regulations and the *Health Insurance Act 1973* in regard to the acceptance of computer reports as a basis for reimbursement and adjustment of advances, were still under consideration by this Office at the date of preparation of that Report.

Following subsequent Audit representations in March 1982, the Department recently advised that action will be taken to obtain Ministerial approval under section 20F of the Health Insurance Act to certain changes that have occurred in the financial arrangements for payments to MBOs since they were approved by the then Minister on 1 November 1978. In addition the Department advised that the Delegate of the Minister for Finance had approved on 29 June 1982 new system controls and accounting procedures pursuant to Finance Regulation 45a which deals with certification of accounts for payment when supporting documentation is computer produced data.

In referring to previous representations by this Office concerning inconsistencies between divisional offices of the Department in the adjustment of advances to MBOs to take account of stale cheques and the lag in presentation of benefit cheques by members of the organisations, the Department stated that it had referred this matter to the Joint Management Review on Medical and Hospitals Claims (mentioned in paragraph 9.1 of the March 1982 Report). In response to a further question by this Office whether, in view of the significant amounts involved in advances to MBOs, the advances should be made at more frequent intervals than monthly, the Department stated that it has sought advice from the Department of Finance on certain aspects.

APPENDIX C

EXTRACTS FROM AUDITOR-GENERAL'S REPORTS

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11. DEPARTMENT OF HEALTH

11.1 Commonwealth Medical Benefits—Reimbursements to Registered Medical Benefits Organisations

Paragraph 9.1 of the March 1982 Report referred to an indepth audit of the ADP and other systems which control reimbursements to registered medical benefits organisations (MBOs) for Commonwealth medical benefits (CMB) paid on behalf of the Commonwealth. Paragraph 11.2 of the September 1982 Report referred to those aspects of the Department's reply which were under consideration at the date of preparation of the March 1982 Report and to subsequent Audit representations.

In August 1982 the Joint Committee of Public Accounts (JCPA) advised the Department that the Committee had decided to treat paragraph 9.1 of the Auditor-General's March 1982 Report as part of its inquiry into medical fraud and overservicing and sought a departmental submission on the audit findings. The Department's submission to the Committee was provided on 2 September 1982 with a copy to this Office.

Following a review of the Department's submission to the Committee and a discussion with senior officers of the Department, this Office made further representations to the Department in November 1982 on various matters relating to the reimbursement of CMB to MBOs. The matters raised together with the Department's reply of 31 December 1982 are summarised hereunder.

System controls and accounting and inspection procedures

This Office again advised the Department that, to a significant extent, the procedures followed by it did not meet requirements prescribed in or determined under the provisions of section 34 (2) of the *Audit Act* 1901, Finance Regulation 45A and section 20F of the *Health Insurance Act* 1973. In August 1982 this Office had identified and advised the Department of specific deficiencies which existed in the guidelines, approved in June 1982 by the departmental delegate of the Minister for Finance under Finance Regulation 45A, which specified system controls and accounting procedures to be employed in processing claims by the MBOs for reimbursement of CMB.

Audit suggested to the Department in November 1982 that remedial action, taken by it following the earlier Audit representations referred to in the Auditor-General's March 1982 Report, had been both inadequate and slow. It also appeared to this Office that it should be practicable for greater use to be made of the ADP system in checking claims from MBOs. This would require such action as amendments to computer programs, restructuring of the Item Fee Data Base, amendments to the Medical Benefits Schedule and the provision by the MBOs of data in more suitable form in some instances. Further reference is made hereunder to suggestions by this Office for specific action in regard to certain items.

This Office understood that it would not be practicable, either in the short or longer term, for the Department to perform 100% checks, either by the ADP system or by supplementary checks by clerical or inspection staff, of all items included in claims submitted by MBOs. Accordingly it was suggested that the Department should take urgent action to seek approval from both the Minister for Finance (under Finance Regulation 45A (3) (d)) and the Minister for Health (under section 20F of the Health Insurance Act) for the adoption of methods of sample checking, by clerical or inspection staff as appropriate, of aspects of claims which cannot be fully checked by the ADP system or by other means. The sample checks could be made by utilising computer produced reports.

In regard to this Office's suggestion that remedial action taken had been inadequate and slow the Department stated it did not consider these comments recognised the difficulties and problems involved and the overall lack of resources. Even though staffing pressures on key areas of the Department arising from a Joint Management Review and the JCPA inquiry have had to be accommodated, the Department had still been able to proceed with introducing recommendations raised in the Auditor-General's Report.

The Department also advised in December 1982 that the procedures for the CMB Advances Systems were being revised and it was anticipated that they would be approved in January 1983. The Audit comments would be taken into account. In its reply the Department also advised that it had proposed a Joint Management Review of its inspection activities at Health funds and that preliminary discussions had been held with the Public Service Board on this Review. It was intended that the terms of reference of the Review would include matters raised by Audit and a copy of the draft Terms of Reference would be forwarded to this Office for comment.

Derived fees

The Medical Benefits Schedule (MBS) sets out fees determined for various medical services. CMB payable are at a percentage of the schedule fees. In certain cases, however, for example, where more than one medical procedure is rendered in conjunction (i.e. aggregate items) and for assistance at operations it is necessary to calculate a 'derived fee' in accordance with rules specified in the MBS against relevant items. The Department had previously advised this Office in February 1982 that it would require a major revision of the MBS to enable a majority of aggregate items and assistant surgeon items to be assessed by the ADP system in the same manner as other items. This Office had also been advised that the MBOs may not be able to supply additional information required except in the longer term and that these items would be included on a new report as from 1 July 1982 for manual monitoring.

Following the discussions mentioned above it appeared to this Office, however, that it should be practicable to reduce the extent of the checks, which would otherwise have to be made by clerical or inspectorial staff, by substantially increasing the percentage of 'derived fees' checked by the ADP system through amendment to the MBS and/or by requiring the MBOs to provide additional data.

The Department advised that the automatic calculation of CMB in respect of assistant surgeon items required the identification of the relevant surgical procedure. It estimated that approximately 75% of assistant surgeon items would relate to single service operations and the remainder to multiple procedures. Where a single surgical procedure was involved, the item could be included in line-by-line data in a similar manner to the base item for aggregates to allow for the automatic checking of the benefit levels. It considered that there was no feasible mechanism which could be introduced to allow for the automatic checking of the CMB where the assistant surgeon item related to a multiple procedure. It also advised that interim procedures had been prepared outlining the use of a computer-produced report. The Department stated that, as this will involve checking to source documents, the procedures are to be included in the Fund Inspection Manual and will be revised when sampling techniques are established.

Following the Audit suggestions mentioned above the Department advised that a comprehensive study of aggregate items had identified a number of areas where controls could be improved immediately or in the longer term by giving consideration to:

- replacing aggregate services relating to radiotherapy (which comprise 90% of aggregate services) with 45 individual item numbers which would allow automatic computer checking
- inclusion in the programs used in assessing Fund claims of an upper limit on the CMB payable for each aggregate item (The Department advised that this action had already been taken.)
- refinement of the interim procedures used in checking CMB claimed by MBOs. These procedures are to be included in the Fund Inspection Manual when correct sampling techniques have been established, and
- requiring line-by-line data for non-radiotherapy aggregate items to include a provision for the 'base' item in relation to aggregate services as a separate field on relevant item lines. The Department stated that some 12 months may elapse before this change could be implemented as complex decisions would be required before new instructions could be issued to the MBOs, with a minimum of six months lead time, to change their programs.

Special rulings

Special rulings by the Department in regard to benefits payable are given either for individual cases or as blanket approvals to cover particular medical treatments. This Office suggested that, if all special rulings were given serial numbers, the Funds could be required to quote the serial numbers for each item included in a claim where a special ruling was involved. This would enable 100% clerical checks to be made from a computer-produced report to the record of the individual special rulings.

The Department advised that action was currently underway to identify all instances of blanket approvals, individual approvals and cases of incorrect use of the special rulings provisions. It expected, as a result of this exercise, that a number of alternative methods would be used to improve controls in determining correct CMB payments.

Speciality items

This Office was advised that it would be necessary for enhancements to be made to the Item Fee Data Base before all speciality items could be checked by the ADP system. Audit expressed the view that progress by the Department in making the necessary enhancements had been slow and suggested that high priority should be given to this task having regard especially to the significant expenditure involved in the speciality items not presently being checked. This Office understood that the Central Register of Medical Practitioners (CROMP) data base presently included particulars of specialities for which providers are accredited for purposes of the MBS. It was suggested to the Department that, pending an ADP solution, it was essential for some alternative method of verifying the correctness of claims by MBOs in respect of these items to be determined and implemented following approval by competent authority.

The Department explained that the checking of individual provider specialities to items appropriate to those specialities requires that the codes, currently included in the CROMP file, be matched to a code against each item in the Item Fee file. It would be a significant task to allocate speciality and category codes to each item in the Item Fee file and this could not be implemented in less than 12 months. The Department further advised that, in addition to the tests on provider categories referred to in previous correspondence and in the March 1982 Report, the following additional restrictions would apply by February 1983:

- rejection of specialist items claimed by general practitioners
- payment of consultant items only for consultant physicians, and
- payment of consultant psychiatry items only for that speciality.

The Department also stated that, as no determination had been made on appropriate specialities for each item, there was no method by which sample checks could be used for these cases not already subject to automatic computer checks. MBOs have been advised of the speciality/category checks identified to date to enable them to monitor claims received.

Negative lines (Adjustment entries)

As previously reported on page 78 of the March 1982 Report, negative lines (adjustment entries) included in claims by MBOs to cancel items on claims previously processed were not being checked by the computer to confirm that the adjustments were correct.

Discussions with departmental officers disclosed that:

- the Department did not consider it would be practicable to adopt a suggestion in the 1982 Joint Management Review Report for the creation of a Fund member history record which would, among other things, have facilitated the checking of the adjustment entries
- it would not be practicable for checks to be made from negative lines back to data presently accumulated in the ADP system prior to its incorporation in the Investigatory Statistics System
- MBOs could be required to submit positive lines (replacement claims) immediately after the related negative line on a claim and thus facilitate the matching and checking by the ADP system, and
- positive lines associated with negative lines are currently checked by the ADP system to the extent that is practicable for any similar item initially claimed.

It was suggested to the Department that, pending the possible identification of some solution by use of the ADP system, checks by manual means should be made to confirm that each negative line is for the equivalent of an amount allowed on an earlier claim. If necessary, due to the volume of these transactions, it was suggested that approval should be sought to a method of sample checking.

The Department advised it would shortly be possible to introduce a quarterly listing of:

- all negative lines where the matching original service contained a different CMB claimed
- all negative lines with no related positive record, and
- all possible duplicates.

This information is to be obtained by comparing the current quarterly file to all preceding quarterly files. The criteria for matching is to be based on same patient identification/same provider/same date of service. Procedures were being prepared.

Payments of CMB in respect of pensioners and disadvantaged persons

Concern had been expressed previously by this Office in relation to CMB paid by the Department of Health on the basis of authorisations issued by the Department of Social Security (DSS) to pensioners and disadvantaged persons. From the review of the Department's submission to the JCPA and subsequent discussion with departmental officers, this Office considered the position to be particularly unsatisfactory. It was also understood that:

- data in relation to disadvantaged persons was being received from DSS and being used by the Department in checking claims from the MBOs and from those bulk-billed by doctors
- the data supplied by DSS in respect of disadvantaged persons was deficient in respect of dependants, and
- similar data was not being supplied in respect of pensioners.

This Office advised the Department it was essential that further action be taken by the two Departments:

- as an interim measure to develop, and seek approval for, some method of sample checking to enable the Department to be satisfied that CMB, reimbursed to the MBOs or paid to doctors who bulk-billed, is correct, and
- to consider a longer-term solution which will facilitate the performance of all necessary checks by use of the ADP systems of both departments.

The Department advised that:

- the checking of eligibility for cardholders and their dependants was currently restricted to health care cardholder cases only
- arrangements were in hand to incorporate available data on health care cardholders from DSS on Health's data base
- from March 1983 checks will be made of all direct bill claims from doctors which arise from entitlements authorised by the DSS for pensioner health beneficiaries, sickness beneficiaries and disadvantaged persons as well as for those arising from pensioner health benefit entitlements authorised by the Department of Veterans' Affairs, and
- this checking will extend to CMB claims from July 1983.

Measures to detect any duplicate claims submitted by MBOs

Following a review of the Department's submission to the JCPA and the subsequent discussions with departmental officers concerning the reasons why the Department did not consider it practicable for computer or manual checks to detect previously paid claims, this Office advised the Department that the Audit understanding was that:

- checks made at the time of merging each quarter's accumulated data into the investigatory statistics ADP archive should detect items claimed twice in a quarter

- checks are not made to MBOs records to confirm the validity of the screening out, from the quarterly computer produced list of apparent duplicates, of these which appear to have been properly paid
- a very light check of the residue from the list of apparent duplicates is carried out by the Department's Central Office
- competent approval (as envisaged by Finance Regulation 45A (3) (d)) had not been obtained for the above procedures, which involve sample checking, and
- the Department did not consider practicable a proposal made by the Joint Management Review with a view to assisting in detecting duplicate claims.

This Office suggested that, if the position as outlined above was correct, it was evident that, in the absence of an appropriate ADP system check, early action was necessary by the Department to determine and implement with competent approval a scientifically based clerical method of checking to ensure that claims which included duplication of items previously reimbursed were detected.

The Department advised that quarterly listings will be produced of cases where the number of services with matching patient identification, provider number, item number and date of service indicates possible duplicate payments. Procedures, which had been prepared for the checking of these listings, would be revised when the volume of records is available and the sampling techniques established.

Checking of doctors' accounts marked duplicate or copy

In response to earlier Audit observations that doctors' accounts marked duplicate or copy were not tested by departmental inspectors during checks at MBOs, the Department had advised that a proposed Joint Management Review of the departmental inspection function would examine the Audit comments when determining whether a more satisfactory method for accounting compliance is required.

This Office suggested to the Department that, while the above action was appropriate in the longer term, as an interim measure checks should be made of doctors' accounts marked duplicate.

The Department advised that procedures would be prepared for use where accounts marked duplicate are identified at cash payment centres or as unpaid cheque claims.

Members' claims held by MBOs

During the discussion with senior officers of the Department it was confirmed that the MBOs are not required to file members' claims in a manner which would facilitate departmental checking that is necessary to meet legislative requirements. Notwithstanding difficulties referred to during the discussion this Office expressed the view that:

- it would not be unreasonable to require a MBO to file members' claims in batches associated with the organisation's claims on the Department for a period sufficient to enable necessary departmental checks to be carried out
- checks by the Department, either from computer-produced reports relating to specific items which could not be checked by the ADP system or as a part of its general claim verification, should be made from departmental records back to claim records maintained by the MBOs, and
- it would significantly increase the departmental resources required to perform these checks if MBOs do not file members' claims in the manner suggested by this Office.

In earlier correspondence, this Office had also referred to the fact that MBOs were not being required to retain doctors' receipts/accounts attached to members' claims once those claims had been verified by the MBO. This Office indicated it was not clear whether this practice:

- complies with the provision of the Financial Arrangements approved by the Minister for Health under section 20F of the Health Insurance Act, or
- results in the Department being able to perform adequate checks of the validity of claims submitted by the Funds.

This Office suggested that the present procedures concerning doctors' receipts/accounts needed to be considered further. To justify the adequacy of the existing requirements it was suggested the Department needed to demonstrate that it is able to meet its statutory obligations and be assured, without access to doctors' accounts/receipts, that it is able to validate MBOs' claims and confirm that the amount claimed against each item is correct and has not previously been paid.

The Department advised that:

- all Funds are required to retain claim forms in a manner which allows ready identification and extraction of documents by use of the patient identification and source document locator fields in each service record
- as many larger Funds use their computer to allocate batch numbers to the claim data it is not possible for the claims to be held physically in the same sequence
- where departmental inspection staff experience any problems in locating claim documents, a listing should be provided to the Fund and a reasonable period allowed for the production of the required claims. This procedure should avoid the possible increased staff required to obtain documents for sample checks, and
- the question of the retention of doctors' receipts/accounts by the Funds in order to provide identification by the Fund Inspectors is to be considered by the proposed Joint Management Review. Because of the strong impact on the Funds' systems the Department wished to examine this question in detail.

Internal audit

The Auditor-General's Report for March 1982 referred to advice received from the Department following Audit representations concerning the lack of evidence of a co-ordinated internal audit of the ADP and other elements of the overall system. Advice was sought from the Department on progress achieved in 1982 on the internal audit of this system.

The Department advised that the internal audit review of the CMB advances/inspection areas within the State Divisional Offices had been programmed as a two-part audit. The first part, which had been completed, involved a co-ordinated review of the clerical processes involved within each Divisional Office. The second part, involving a review of the ADP processing system and the related reporting system, had commenced in its Central Office and would involve the State internal audit sections in January 1983. The review was expected to be completed by March 1983.

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12. DEPARTMENT OF HOME AFFAIRS AND ENVIRONMENT

12.4 References continued from Previous Reports

Norfolk Island Administration

Paragraph 10.2 of the March 1982 Report referred to continuing unsatisfactory issues represented to the Norfolk Island Administration and the inadequacies of the audit provisions contained in the Norfolk Island legislation represented to the Department of Home Affairs and Environment.

The Department of Home Affairs and Environment recently advised that a legal opinion is being sought from the Attorney-General's Department on the adequacy of the audit provisions.

At the date of preparation of this Report no response had been received from the Norfolk Island Administration in relation to representations made in December 1981.

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16. DEPARTMENT OF PRIMARY INDUSTRY

16.3 Reference continued from Previous Reports

Levies, taxes and charges

Paragraph 14.1 of the March 1982 Report referred to audit representations relating to several unsatisfactory findings concerning the collection of levies, taxes and charges by the Department.

The Department's response referred to the following matters.

Documentation of procedures—Action to issue documented procedures for collection of all levies, taxes and charges was proposed with the adoption of a revised levies computer system currently under development.

Identification of potential payers—The Department agreed with Audit concerning the lack of a formal mechanism for validation for completeness of the Department's records of potential payers and advised of action it proposed.

Wheat Tax—The Department had sought confirmation from the Wheat Board that it was fully aware of the implications of the *Wheat Tax Acts 1957 and 1979* which imposes the tax on wheat sold but not delivered to the Board as well as on wheat delivered to the Board.

Poultry Industry Levy—In the Australian Capital Territory the Department of the Capital Territory is responsible for collection of levies. Legislative deficiencies have prevented any useful verification of levy returns. It is understood that the Department is preparing draft legislation which would require producers to keep records of the numbers of hens kept for commercial purposes.

Investigations—The Department advised that it had commenced action to upgrade the effectiveness of its investigation programs.

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16. DEPARTMENT OF PRIMARY INDUSTRY

16.1 References Continued from Previous Reports

Computerised Accounting System

Paragraph 2.17.1 of the September 1980 Report referred to significant deficiencies in the Department's computerised accounting system which provides the major control in the management of and accounting for levies collections, creditors register and recording the transactions, including investments, of the various trust accounts established under section 62A of the *Audit Act 1901* that are within the Department's responsibility. Paragraph 14.3 of the March 1982 Report advised that the Department had taken action to overcome system shortcomings.

The Department's computerised accounting system records the collection and disbursement of levies and other charges. In 1981-82 revenue from levies and other charges totalled in excess of \$379.8 million. The Department invests funds surplus to the immediate requirements of the trust accounts under its control. At 30 June 1982, investments of the balances of trust accounts controlled by the Department exceeded \$150 million.

In view of the deficiencies previously noted by Audit and because of its importance in adequately controlling levies, charges and investments, this Office conducted a further review of the Department's computerised accounting system.

Representations were made to the Department regarding the following unsatisfactory matters:

- there were continuing delays in the implementation of an improved accounting system for levies and charges on primary products which precluded the rationalisation of levy and debt collection procedures, and
 - reporting and other user requirements of the Investment Section required enhancement
- In response, the Department advised that:
- delays in the development of the new levies systems were due to secondment of staff to other duties, and
 - the Department had contracted with private consultants to undertake a systems analysis study encompassing all areas within the Department. It was considered unwise to enhance the current investment system in the meantime.

Audit comment

In view of the monetary value associated with the collection and disbursement of levies and charges and the investments of funds, effective computer support is regarded as essential. The slow progress towards implementing a satisfactory computer system in these areas is a matter of concern.

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19. DEPARTMENT OF SOCIAL SECURITY

19.5 Commonwealth Rehabilitation Service

Background

Under Part VIII of the *Social Security Act 1947*, the Commonwealth Rehabilitation Service (CRS) provides rehabilitation programs to persons who are likely to derive substantial benefit from such treatment and training.

The objective of the CRS is to provide treatment and training to persons in a broad working age group who are suffering from a physical or mental disability which is a substantial handicap to undertaking employment, undertaking or resuming household duties or leading an independent/semi-independent life in their own home.

According to departmental statistics, 3658 people were undergoing rehabilitation at 30 June 1983. Expenditure on the CRS in 1982-83 amounted to \$36 million.

An audit in South Australia, to evaluate whether the objectives of the CRS were being achieved and to evaluate the effectiveness of the administrative and financial controls within the Service, was completed in May 1983.

Audit findings

Although the audit disclosed a generally satisfactory position, the following matters were referred to the State Director, South Australia:

- contrary to CRS instructions, sessional medical staff had been re-appointed without positions being advertised, and
- the sessional times for a medical officer were permanently extended with retrospective effect (resulting in additional remuneration of \$1 117) without the approval of the Department's Central Office as required by CRS instructions.

Comments were also sought from the Director regarding the outcome of management initiated enquiries into the following matters:

- development and implementation of a policy for the use of St Margaret's Rehabilitation Centre facilities by outside organisations, and
 - a review of problems experienced in regard to the timeliness of information produced by the national ADP casework recording and statistical information system for the CRS. (Paragraph 15.1 of the March 1982 Report referred to action being taken by the Department to introduce a computerised statistical system)
- In response the Director advised that:

- the practice had been to dispense with the requirement to readvertise sessional positions on occasions where the continued engagement of particular consultants was clearly in the best interests of the CRS. A proposal had been made to the Central Office of the Department to amend the wording of the instructions to provide greater flexibility and to be more consistent with current practice
- the failure to seek Central Office approval for variations in sessional times was an error and action had been taken to advise staff of correct procedures to ensure this situation did not recur
- the formulation of a policy to cover the use of St Margaret's Rehabilitation Centre and other establishments is a complex matter and the Department had sought advice from a number of sources to ensure that the policy, when developed, was equitable and manageable and took into account the need for proper security and adequate cover for the Commonwealth, and
- the investigation undertaken into the computer based statistics in South Australia had been completed and its recommendations were being examined and would be implemented as appropriate. Issues arising from the review were under discussion with the Central Office of the Department.