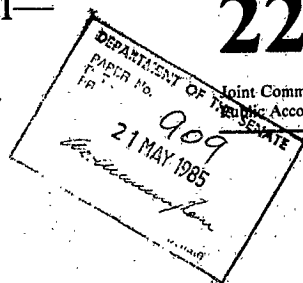


Reports of the  
Auditor-General—  
1981-82 and  
September 1982

Report

**229**



THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

REPORT 229

REPORTS OF THE AUDITOR-GENERAL -  
1981-82 and September 1982

Australian Government Publishing Service  
CANBERRA 1985

JOINT COMMITTEE OF PUBLIC ACCOUNTS

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on Expenditure

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## DUTIES OF THE COMMITTEE

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

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 or payment of public moneys; and
- (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

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

## PREFACE

Each year the Committee examines recently published reports of the Auditor-General. Following the tabling of the Reports of the Auditor-General for the year ended 30 June 1982 and September 1982 the Committee sought written submissions from 15 Departments and Statutory Authorities in respect of 18 items listed in Appendix A.

A further submission was sought from the Department of Industry and Commerce - Cargo Control and Accounting. A copy of all submissions received is included at Appendix B.

The Committee took evidence on 9 May 1984 at a Public Hearing in Parliament House, Canberra, on the following item:

Department of Science and Technology  
- Australian Industrial Research and Development  
Incentives

Details of the hearing are at Appendix C.

The items in respect of the Department of Defence have been referred for consideration by the Committee in its Project Management Inquiry.

This report analyses the responses to the Public Accounts Committee explaining the criticisms raised by the Auditor-General in his Reports.

For and on behalf of the Committee.

Senator G. Georges  
Chairman

M.J. Talberg  
Secretary  
Joint Committee of  
Public Accounts  
Parliament House  
CANBERRA  
22 April 1985

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## CHAPTER 1

### DEPARTMENT OF COMMUNICATIONS

#### INTERNAL AUDIT

##### Background

1.1 The Committee is committed to ensuring the necessary improvements in internal audit are brought about. In its 184th Report<sup>1</sup> the Committee expressed its concern at the lack of internal audit in the Australian Public Service. Other background information on internal audit can be found in Chapter 4, Department of Foreign Affairs, of this Report.

1.2 This Department was established in December 1975 as the Postal and Telecommunications Department and was renamed the Department of Communications in November 1980.

##### Auditor-General's Comments

1.3 The Department of Communications was among those reviewed by the Auditor-General in respect of their internal audit operations. It was found that the Department did not have an active internal audit function. The Auditor-General's Office was also concerned that:

- . staffing and recruitment problems were creating difficulty in filling the established internal audit positions;
- . an internal audit charter had been prepared but had not been approved pending finalisation of some matters concerning its scope; and
- . there were no approved internal audit manual or program of audit.

1.4 The Auditor-General's Reports of September 1983 and September 1984 also reviewed the internal audit function. The September 1983 Report contained the Department's response to the September 1982 Report. A follow-up review of the internal audit function was conducted by the Auditor-General in March 1984 to determine whether the section was meeting its responsibilities under the revised charter and providing effective service and assistance to management.

<sup>1</sup> Joint Committee of Public Accounts, Report 184, Internal Audit in The Australian Public Service - A Discussion Paper, AGPS, 1981.

1.5 The Auditor-General found that:

- the Department had not acted promptly to fill positions created in a revised structure approved by the Public Service Board, thereby restricting the level of service and assistance provided to management;
- due to the staffing situation in the section it was evident that much of the work programmed for 1983-84 was unlikely to be completed; and
- audit planning and performance could be enhanced by:
  - the introduction of preliminary studies, permanent working papers and more detailed field audit plans; and
  - an upgrading of the quality of field audit reports, particularly by requiring that they contain expressions of opinion on the reliability of the systems and procedures reviewed.

Departmental Responses

1.6 The Department was able in May 1983 to report progress on the problems raised by the Auditor-General in his September 1982 Report. After September 1982, the Department, with the assistance of the Public Service Board and the Auditor-General's Office, recruited professionally qualified and experienced personnel to fill vacant positions including that of Chief Internal Auditor for the Department. Previous attempts to recruit key personnel had been unsuccessful. The internal audit unit was fully staffed in January 1983 (three positions). Since then a number of audits have been undertaken using systems-based audit methodology.

1.7 The internal audit section was subsequently expanded to six positions (February 1984) but at the end of April 1985 only three of those positions (including the ADP position) were filled. The Department had stated in its response to the March 1984 review stated that extreme difficulties were encountered with staff ceilings, but action would be taken, subject to the Department's expectations being met with respect to its estimates of expenditure for 1984-85, to have appointments made to the vacant positions as early as possible in the new financial year. The Department's response of May 1983 had outlined proposals to meet audit requirements in relation to ADP programs and services. This position should be filled in late April 1985 (nearly two years later).

1.8 With regard to the internal audit charter, the Department submitted that the charter had now been approved by the Secretary. The charter incorporates guidelines developed by the Public Service Board and endorsed by the Auditor-General's

Office. The Department had also developed appropriate charters for the Special Broadcasting Service and the Australian Broadcasting Tribunal as it provides internal audit support to those two statutory bodies.

1.9 The Department announced the adoption of the Auditor-General's General Audit Manual and the development of a Departmental strategic plan for audit. The Departmental Audit Committee endorsed the Strategic and Tactical Audit Plan at its August 1983 meeting. The Department's Internal Audit Charter requires the Strategic Audit Plan to be reviewed annually and the Tactical Audit Plan and Tactical Work Program to be reviewed semi-annually. A review of the latter was endorsed at the May 1984 meeting of the Departmental Audit Committee.

1.10 With regard to audit coverage (September 1984) the Department indicated that internal audit activity in the Department and client organisations had been restricted by staff shortages and, as a consequence, coverage had been based on needs rather than schedule. The Department anticipated that current recruitment action would alleviate the problem.

1.11 On the Auditor-General's comments (September 1984) on auditing procedures and documentation, the Department advised that:

- preliminary study information would be reviewed and strengthened, and field audit plans prepared in the format recommended by the Interdepartmental Advisory Committee on Internal Audit; and
- field auditors would henceforth be required to provide the Director, Internal Audit, with written opinions on the reliability of systems and procedures.

Conclusions

1.12 The Committee is concerned to note that it has taken the Department many years to develop its internal audit function. While the Department was able to say that it was fully staffed in January 1983, it had not been able to keep its internal audit section fully staffed nor had it been able to commence ADP auditing. The Committee finds this a very unsatisfactory position particularly as the Department of Communications provides internal audit support to two statutory bodies, the Special Broadcasting Service and the Australian Broadcasting Tribunal, as well as its own internal auditing.

1.13 The Committee recommends that the Department of Communications give high priority to fully staffing its internal audit section. The Committee requires six monthly progress reports for the next two years outlining the Department's internal audit activity and staffing. The Committee will continue to monitor closely the internal audit function in all departments.

## AUSTRALIAN TELECOMMUNICATIONS COMMISSION

1.14 Many reports of the Auditor-General (the latest being the March 1984 Report) have referred to the potential for overpayment and administrative difficulties and the need for review of the continuing eligibility of pensioners in receipt of telephone rental concessions.

### Conclusion

1.15 Further details are presented for the three parties concerned in Chapter 8, Department of Social Security.

## CHAPTER 2

### DEPARTMENT OF DEFENCE

#### COCKATOO ISLAND DOCKYARD - REPAIR AND REFIT OF SUBMARINES

2.1 The Auditor-General's Office commented on problems in repair and refit of RAN submarines at Vickers Cockatoo Dockyard (VCD) particularly relating to:

- . contract costs;
- . direct cost allocations;
- . idle time;
- . responsibility for cost of rework; and
- . roles and function of the Department with respect to trade agreement between VCD and the Commonwealth.

### Conclusion

2.2 This report of the Auditor-General highlights perceived shortcomings in the management of Defence projects. The Auditor-General's Report of September 1983 (para 5.2: Project Management Review) covers a general review of the Department's practices in this regard.

2.3 The Committee commenced a Public Inquiry into Project Management within the Department of Defence on 7 March 1984 and has referred this matter including the submission from the Department of Defence for consideration during that Inquiry.



## CHAPTER 3

### DEPARTMENT OF EDUCATION AND YOUTH AFFAIRS

#### SECONDARY ALLOWANCES SCHEMES

3.1 The Auditor-General's Office referred to the results of audits undertaken in the ACT and Victoria which concentrated on legal compliance and financial regularity. The audits were designed to ascertain whether proper procedures were developed and applied and whether there were adequate controls over expenditure. Deficiencies in the ACT were reported as follows:

- . the index card system did not ensure that all recipients of benefits under the various student assistance schemes were recorded to guard against repeated applications by one person;
- . input/output checks on the Departmental ADP system were inadequate; and
- . there was inadequate internal control over procedures to ensure applicants' incomes complied with the means test criteria.

#### Conclusion

3.2 At the time of the preparation of the September 1982 Auditor-General's Report, the Department had not responded to the Auditor-General on these matters. The Auditor-General's May 1983 Report raised the issue again and referred to the Department's response which had been received in time for that Auditor-General's Report.

3.3 More detailed treatment of this topic occurs in the Committee's Report 232.1

#### OVERPAYMENT PROCEDURES

3.4 The Auditor-General commented on the effectiveness and adequacy of controls within the system to identify and recover overpayments of student assistance in the Northern Territory office of the Department. The Report also contained the Department's responses to the Auditor-General's criticisms of overpayments procedures in the Victorian office.

3.5 With regard to the Northern Territory office, the Auditor-General found:

- . a lack of comprehensive and up to date instructions;
- . a lack of evidence of a check of overpayment calculations;
- . delays in commencing recovery action after the discovery of an overpayment;
- . inadequate recovery procedures; and
- . significant increases in the overpayment debt.

#### Conclusion

3.6 At the time of the preparation of the September 1982 Report of the Auditor-General, the Department had not responded to the Auditor-General on those findings. The May 1983 Auditor-General's Report raised the issue again and referred to the Department's response which had been received in time for this Auditor-General's Report.

3.7 More detailed treatment of the topic occurs in the Committee's Report 232.2

#### CURRICULUM DEVELOPMENT CENTRE

3.8 The Curriculum Development Centre functions to devise, develop and make available, school curricula and educational materials.

3.9 The Auditor-General referred to deficiencies in the Centre's accounting and internal control procedures disclosed during the audit of the Centre's accounts and records for the year ended 30 June 1981. Deficiencies were found in the areas of:

- . registration and examination of accounts for payment;
- . procurement of assets and supplies;
- . receipts and inward remittances; and
- . stocks and sales of publication material.

3.10 The Auditor-General noted that it was necessary to return the draft final statements for 1980-81 to the Centre several times before they were in an acceptable form.

2 ibid.

1 Joint Committee of Public Accounts, Report 232, Report of the Auditor-General, May 1983, AGPS, 1985.

### Curriculum Development Centre's Response

3.11 The Centre submitted that the continuing deficiencies in accounting and control procedures were caused by the serious strain on the finance and accounting unit during a period of rapid growth for the Centre. The Centre reported that these problems have been substantially rectified.

3.12 The necessity for the Centre to provide, on several occasions, additional information to support the financial statements for 1980-81 arose from the shortage of suitably experienced accounting personnel. To overcome a repetition of these problems, the Centre engaged a firm of accountants to assist.

### Auditor-General's September 1984 Report

3.13 The Curriculum Development Centre, which was established by the Curriculum Development Centre Act 1975, was abolished from 1 July 1984 when that Act was repealed by the Commonwealth Schools Commission Amendment Act 1984 which re-established the Centre as the Curriculum Development Council, although it still operates as the Curriculum Development Centre. The Centre's principal functions of devising and developing school curricula and educational material and making school curricula and educational materials available became the responsibility of the Commonwealth Schools Commission which delegated these functions to the Centre.

3.14 The accounts and records of financial transactions and records relating to assets of, or in the custody of, the Centre for the year ended 30 June 1983 have been inspected and audited and reports on the audit and the financial statements have been furnished to the Minister as required by the Act.

3.15 Paragraph 35 of the Auditor-General's September 1983 Report stated that, although there had been a general improvement in the Centre's accounting procedures, deficiencies had again been disclosed in a number of areas. The inspection and audit of the accounts and records of the Centre for the year ended 30 June 1983 disclosed a continuing improvement in the accounting procedures. However some deficiencies were again revealed in a number of areas including those related to stocks and sales of publication material, library acquisitions, debtors and fixed assets. The Centre advised that remedial action had been taken in respect of these deficiencies.

3.16 Paragraph 56 of the Auditor-General's March 1984 Report advised that, at the date of the preparation of that Report, the Centre had not submitted for audit its financial statements for the year ended 30 June 1983. Draft statements were submitted for audit on 21 February 1984 but as they contained errors they were returned for amendment. Revised draft statements were submitted on 17 April 1984 but these also were returned to the Centre for amendment. Financial statements in final form were received by the Auditor-General on 30 April 1984.

3.17 The audit report mentioned that, during the period 1 July to 20 October 1982, there was no Director of the Centre as required by section 18 of the Act nor had any person been formally appointed to be acting Director pursuant to the provisions of sub-section 26 (1) of the Act.

### Conclusion

3.18 The Committee believes that a lack of appropriate administrative support to ensure proper use of, and accountability for, scarce resources is a problem in the public sector. This is highlighted by the Centre's experiences. The Committee is pleased to note that the Financial Management Improvement Program<sup>3</sup> currently being implemented by the Department of Finance and the Public Service Board is designed to overcome such shortcomings. The Committee is not satisfied with the former Centre's progress in correcting problems highlighted by the Auditor-General. The Committee notes that there was no administrative break between the abolition of the Centre and its re-establishment as the Curriculum Development Council under the provisions of the Commonwealth Schools Commission Amendment Act, and that the Council still operates under the name Curriculum Development Centre.

3 Financial Management Improvement Program, Diagnostic Study, Australian Public Service Board and Department of Finance, W D Scott, February 1984.

## CHAPTER 4

### DEPARTMENT OF FOREIGN AFFAIRS

#### INTERNAL AUDIT

##### Background

4.1 The Committee, in its 184th Report<sup>1</sup> expressed its full support for the Public Service Board's efforts to upgrade internal audit. The Committee is committed to ensuring the necessary improvements in internal audit are brought about.

4.2 A number of previous Auditor-General's Reports have referred to the standard of internal audit in various departments and statutory authorities, and in particular to measures taken by the Public Service Board to improve that standard.

4.3 The 1982 annual survey of internal audit by the Joint Implementation Committee (JIC) reviewed the progress achieved in internal auditing and the efficacy of the training and other development programs sponsored by the Board.

4.4 Results of the JIC were generally satisfactory. It concluded there had been considerable improvement in the organisation and planning of individual audit activities and an upgrading in the status and training of the internal audit work-force.

4.5 The survey nevertheless revealed evidence of uneven progress in internal audit and very little development of the internal audit function in some of the smaller units. Progress was also reported to be inhibited by staffing problems in some cases. Difficulties in recruiting or developing suitable personnel were reported to be most acute in the ADP auditing area and some organisations stated that it could be several years before they achieved an adequate ADP audit capability.

##### Auditor-General's Comments

4.6 The Auditor-General carried out further reviews of the internal audit function for his September 1982 Report and these included the Department of Foreign Affairs.

4.7 The review acknowledged that the Department of Foreign Affairs had made considerable progress in developing internal audit charters and systems based audit methodology and documentation.

<sup>1</sup> Joint Committee of Public Accounts, Report 184, *op.cit.*

4.8 However, the Auditor-General also referred to and commented on the following unsatisfactory matters:

- . there was a lack of analytical review and follow-up reporting of actual audit resources employed on overseas inspections. The Departmental Audit Committee should provide for this review;
- . although internal audit staff numbers have increased there were some positions unoccupied in 1981-82 for lengthy periods. A departmental rationale statement would assist in outlining internal audit staffing requirements and identify the optimum period that an officer's career path may include working in the Internal Audit Section;
- . there was an absence of effective control over domestic audit times. Such control facilitates future planning. Delays of several months were also evidenced in replies to audit reports; and
- . an internal audit manual had not been prepared and audit working papers were considered inadequate.

##### Departmental Response

4.9 In response the Department advised that machinery now exists by way of the Departmental Audit Committee to approve the annual internal audit program and to receive quarterly reports on the status of the program.

4.10 The internal audit section is staffed by a mix of professionally qualified officers, experienced departmental officers and officers who are undertaking relevant part-time study. In view of the Department's dual overseas and domestic functions it considered it important and useful that there be such a blending. Positions created in October 1980 were not occupied until the end of the first quarter 1981 solely due to delays brought about by promotional procedures and security clearances. An ADP auditing position was not filled until September 1984.

4.11 The methodology preferred by the Department's Internal Audit Section allows for programs to be allocated in mandays rather than manhours as suggested by the Auditor-General's Office. The Department acknowledges the need to include preparatory work and report finalisation in the audit program and has taken steps to include these in future audit programs.

4.12 The Department acknowledged that there had been delays in obtaining replies to reports of internal audits conducted within Australia and overseas. A system has been introduced by the Departmental Audit Section which enables prompt follow-up action to outstanding replies/responses to audit reports to be taken. This system is operating satisfactorily and is monitored regularly by the Departmental Audit Committee.

4.13 The Department has taken steps to improve the quality of working papers and procedures have been introduced to ensure that documentation supporting audit findings is indexed and cross-referenced appropriately. A draft audit manual including an ADP audit section has been prepared and in March 1985 was being developed further prior to printing.

4.14 There is a system in the Departmental Audit Section which provides for a continuous review of audit procedures, including the scope of audit work, general standards and quality assurance, examination and evaluation standards regarding field work and working papers, and reporting. Further work will be undertaken in this area as an officer has been appointed to the Executive Officer, Audit Policy and Development position.

#### Conclusions

4.15 The Committee acknowledges the efforts of the Department in upgrading the standard of its internal audit but is not satisfied that sufficient priority was given to the task. The Committee notes the Department's progress in producing an Audit Manual and expects to receive a copy before 30 June 1985. The appointment of the Executive Officer, Audit Policy and Development, should assist the development of audit procedures.

4.16 The Committee commends to the attention of departments' and authorities' audit sections its Report<sup>2</sup> on internal audit and the follow-up to that report.<sup>3</sup> The recommendations of this Report do not in themselves provide a solution for the problems faced in upgrading internal audit in departments and authorities, but the Committee considers them necessary to create the conditions which must exist.

4.17 The Committee remains concerned that insufficient attention is being given to the internal audit in departments and will continue to closely monitor this function in all departments.

<sup>2</sup> ibid.

<sup>3</sup> Joint Committee of Public Accounts, Report 211, Finance Minute on the Committee's 184th Report - Internal Audit in the Australian Public Service, AGPS, 1983.

## CHAPTER 5

### DEPARTMENT OF INDUSTRY AND COMMERCE

#### CARGO CONTROL AND ACCOUNTING

5.1 The Auditor-General listed weaknesses in Western Australia and Queensland in the cargo control and accounting system applied by the Department of Industry and Commerce. These comments followed audits of the Australian Customs Service cargo control and accounting systems in New South Wales, Western Australia and Queensland.

5.2 The cargo control and accounting system is based on a commodity control approach to monitor and account for cargo imported into Australia. Under the commodity control system companies are required to have effective control over, and documentation for, cargo and this is scrutinised by the Department. The Department's activities in this regard are:

- . responsibility for the movement of cargo discharged from Australian ports (Cargo Control);
- . inspection of firms and their accounting records (Cargo Accounting); and
- . support activities such as internal checks and registration of manifests.

5.3 Within the cargo control activity, the Auditor-General raised the following:

- . the issue and use of cargo container seals - seals had been broken and then replaced by unauthorised parties prior to release of the goods from Customs control;
- . checking seals - seals were not checked or broken seals were ignored;
- . release of consignments - of the permissions given in Queensland to remove goods as considered appropriate, the vast majority allowed the containers to be emptied without supervision. The Auditor-General's Office noted that there had been two instances in which containers subsequently opened contained significantly more items than claimed on the manifest;
- . security over empty containers - insufficient inspections to ensure that containers claimed to be empty actually were so. Containers were often off-loaded in open, low security areas; and

- . tracer action - tracers are mechanisms designed to monitor the movement of goods on which duty is yet to be paid. The issue here was the alleged insufficient number of tracers used and the lack of feedback and follow-up processes.

5.4 Shipping companies and freight agents are required to maintain sound records of cargo under their control. To check this procedure the Bureau of Customs maintains a dossier on the cargo control and accounting performance of each company and, using these dossiers as a guide, also conducts random checks on companies.

5.5 The Auditor-General saw several shortcomings in this area, including:

- . company dossiers were not maintained and this resulted in their usefulness as a guide to the frequency and extent of random checks being diminished; and
- . random checks were found to be conducted less frequently than intended and sometimes a complete set of documents within a batch could not be located.

5.6 The Auditor-General found the services and support functions inadequate in that the internal checks and follow-up action were not carried out.

#### Departmental Responses

5.7 The Auditor-General's Report included the Department's response to these criticisms. In addition, the Department made two submissions outlining the cargo control and accounting system and responding to the Auditor-General's points. These matters are discussed briefly below:

- . issue and use of cargo container seals - the Department pointed out that container seals are used by shipping companies for their own purposes. Seals are not a Customs requirement and indeed it considers the practice could not be justified on a cost benefit basis as a control technique. The Department submitted that, eg, companies' control over the issue of seals may be suspect. This general assessment was supported by the results of a trial involving Customs affixing its own seals. The results of this trial were reported in the Department's second submission to the Committee in February 1984 and are summarised as follows:

- no evidence of any improvement in physical security over cargo;
- seals were recognised by importers and carriers as being Customs seals;
- seals were sufficiently strong for the purposes required;
- sealing process is labour intensive and could not be justified on a cost benefit basis as a control technique; and
- used for specific directed exercises, seals are a valuable aid in the testing of systems. (It could be reasonably concluded that Customs seals have some deterrent value, although this was not part of the trial.)

. release of consignments - the Department provided background information on the two cases cited by the Auditor-General and outlined its approach to the examination of imported goods;<sup>1</sup>

. security over empty containers - additional controls were implemented to ensure that containers were empty and manifested and checks were undertaken onboard to ensure that manifests were accurate;

. tracer action - tracer action was upgraded and a pilot study was conducted involving computerisation of records of movements of undocumented cargo from Melbourne to Adelaide and Hobart. The study was undertaken with a view to the introduction of such a system on a national basis early in 1984-1985 as new ADP equipment became available;

. company dossiers - following the Auditor-General's Report, all Collectors were reminded of the need for regular revision and the updating of dossiers (at least annually). The documents in Queensland had been modified where appropriate; and

. random checks - the Department argued that acceptance sampling in its complete form is of doubtful value given resource cost. The Acceptance Sampling Plan (ASP) tests the overall accuracy of the documentary control of cargo by carriers and adheres to the Australian standards.<sup>2</sup> Customs had found the procedure manpower intensive, not productive of timely information and tending only to detect trivial

1 Appendix B, Department of Industry and Commerce, Supplementary Submission.

2 ibid.

clerical errors. With these points in mind, some areas in Customs had downplayed the acceptance sampling procedure in favour of other documentary check programs. The Department foreshadowed the development of an ADP system as a long term alternative to acceptance sampling to meet automatically both commercial and Customs needs including cargo control and accounting.

5.8 The services and support functions provide for internal checks at various levels and the maintenance of essential registers. The Auditor-General had found internal checks and follow-up action inadequate. The Department has upgraded the internal check instructions and internal audit has taken on the internal check process as a project to increase officer awareness of the importance of the function.

#### Committee Report 224<sup>3</sup>

5.9 The Committee commenced an inquiry in 1982 based on the Auditor-General's Efficiency Audit into the collection of excise duties and deferred customs duties and tabled its report in October 1984. Parts of the Committee's inquiry dealt with cargo control and accounting (Auditor-General's September 1982 Report) and warehousing (Auditor-General's September 1983 Report) and the submissions received were referred to that inquiry. Some of the Committee's findings, conclusions and recommendations from the Report 224<sup>4</sup> are discussed below.

5.10 The submissions<sup>5</sup> received confirmed that the Department had given priority to the control of undocumented cargo rather than the movement of under-bond goods. The Department reported that some trials had been conducted on the use of a computerised 'permissions<sup>6</sup> Profile System' and full computerisation of 'interport movements of cargo from Victoria to South Australia and Tasmania' with a view to introduction on a national basis early in 1984-85. Priority is being given to introducing this system for movement of undocumented cargo before its introduction for documented cargo (ie warehoused goods).

3 Joint Committee of Public Accounts, Report 224, Excise and Deferred Customs Duties, AGPS, 1984.

4 ibid., pp. 79-93.

5 Appendix B, Department of Industry and Commerce.

6 Joint Committee of Public Accounts, Report 224, op. cit. 'Permissions' - movement of under-bond goods from one warehouse to another requires Customs approval; obtained either separately for each transaction or through use of the 'continuing permission' facility whereby approval is given to transfer under-bond goods without notifying Customs beforehand. Licensees who are granted 'continuing permissions' are required to keep documentation on all transfers of goods; this information is not submitted but is available for inspection by Customs officers.

5.11 The submissions on cargo control indicate that the development of the Total Accounting Base System (TABS)<sup>7</sup> concept has been extended to what is now known as an 'integrated cargo control and clearance system'. The original TABS proposal was purely an accounting system for cargo. The new system is intended to integrate the accounting and clearance systems and to use current cargo status information to direct the employment of cargo control resources. As at February 1984, however, Customs was still seeking Departmental commitment to such a system and agreement on the main elements.

5.12 The merging of the ADP systems, which maintain details of entries to and releases from bond, to allow a reconciliation of these data, was also part of the TABS proposal. This recommendation has therefore suffered the same fate as the proposed computerisation of permissions (see above). Presumably the 'integrated cargo control and clearance system' would incorporate such reconciliation, but the intended timing for introduction is not at all clear under the reported developments.

#### Committee Recommendations

5.13 The Committee's recommendations from Report 224 relating to cargo control and accounting are repeated below.<sup>8</sup> The Committee expects to receive the Finance Minute on Report 224 shortly. The Committee will continue to take a close interest in the improvements foreshadowed by the Department.

14. The Committee's recommendations were:

20. The Committee recommends that there be a formal 'entry into bond' for domestically produced excisable goods with documentation and control comparable to that exercised over imported goods under bond.
21. The Committee considers that the Department's control procedures for bonded warehouses lack sophistication and that better use could be made of ADP facilities in this area. The Committee recommends that immediate attention be given to upgrading control systems for bonded warehouses.
22. The Committee recommends that Customs promptly develop and implement a computer system which reconciles bond entries and releases so as to provide sufficient information to allow proper inventory control in bonded warehouses.

7 ibid., pp. 84-85.

8 ibid., pp. 90-92.

23. The Committee endorses the Auditor-General's recommendations that Customs should analyse dwell times of goods under bond and direct investigative efforts to those goods with apparently lengthy dwell times. Similar comments apply to Audit's suggestion that efforts should be concentrated towards those warehouses which yield the greatest revenue.

#### AUSTRALIAN INDUSTRY DEVELOPMENT CORPORATION (AIDC)

5.15 The Auditor-General expressed concern at certain currency contracts and bills of exchange transactions entered into by the Corporation. The Auditor-General observed that those transactions reduced the Corporation's taxable income for the year ended 30 June 1982, involved substantial costs in brokerage and other charges and appeared to lack commercial reality. Having expressed concern at the propriety of the transactions, but receiving assurances as to their legality, the Auditor-General approved the Corporation's financial statements. The Auditor-General, however, exercised what he deemed to be his duty to report transactions which depart from the normal and required functions of the enterprise, even if those transactions are considered not to be illegal.

#### AIDC Response

5.16 The Corporation pointed out that its Act requires it to promote the development and advancement of industry in Australia and participation by Australians in that industry growth through its commercial activities as a development financing business. The Corporation emphasised that in introducing the original legislation in 1970 the Minister for Trade and Industry set the tone for the operations of the AIDC.

It is structured to function in a private enterprise environment and completely in accord with the principles of free enterprise and the free enterprise system ....

Its operations will be subject to the same tests of commercial viability as are ordinarily applied in business planning by the experienced board of any great private enterprise venture.

5.17 With regard to the funding transactions the Corporation advised the Committee of its undertaking to comply with the Treasurer's request not to undertake any further transactions which are, or might be seen as, contrived tax minimisation arrangements.

#### Conclusion

5.18 The Auditor-General mentioned this matter again in his Report of May 1983 which again expressed concern at the types of transactions entered into by the Corporation. More detailed treatment of the general issue of the role of the Auditor-General in reporting on the operations of public enterprises, the Corporation's views, and the Committee's conclusions are found in the Committee's Report 232.<sup>9</sup>

<sup>9</sup> Joint Committee of Public Accounts, Report 232, Report of the Auditor-General, May 1983, AGPS, 1985.

CHAPTER 6  
DEPARTMENT OF PRIMARY INDUSTRY

AUSTRALIAN APPLE AND PEAR CORPORATION

6.1 The Australian Apple and Pear Corporation is a statutory authority set up by the Australian Apple and Pear Corporation Act 1973. The audit report on the accounts and records of financial transactions and records relating to assets of, or in the custody of, the Corporation for the year ended 31 December 1981, referred to payments made to officers of the Corporation contrary to the terms and conditions of service determined by the Corporation and approved by the Public Service Board pursuant to section 24(2) of the Act. The specific instances of non-compliance were:

- . payment of recreation leave to an officer instead of allowing the leave to automatically lapse;
- . leave bonus paid to all officers at beginning of the year rather than, as required, when at least 5 days leave is taken; and
- . travel expenses for staff being reimbursed on the basis of actual costs and not as travelling allowances.

Corporation Response

6.2 The Corporation advised that it has taken the following actions:

- . agreed on a schedule of repayments with the officer who received payment in lieu of recreation leave;
- . adopted normal procedures for paying holiday leave bonus; and
- . implemented a ruling that staff comply with Public Service Board regulations applicable to mode of travel and reimbursement of travelling allowances.

Conclusion

6.3 The Committee acknowledges that the Corporation had taken action to rectify the problems identified in the audit.

AUSTRALIAN DAIRY CORPORATION

6.4 The Australian Dairy Corporation, established by the Dairy Produce Act 1924, has functions relating to the promotion and control of exports of dairy produce and the promotion of commerce in dairy produce within Australia.

6.5 In his 1981-82 Report, the Auditor-General referred to the Australian Dairy Corporation as one of the more vigorous sources of complaints from a number of statutory authorities regarding audit fees charged and the scope of audits.

6.6 The Auditor-General reported that the accounts of the Corporation for the year ended 30 June 1981 had been audited, and reports on the audit and on the financial statements had been provided to the Minister for Primary Industry as required by the Act. The financial statements together with the audit report were included in the Corporation's annual report which was presented to the Parliament on 5 May 1982.

6.7 The Audit report on the financial statements listed the following companies in which the Corporation has a majority interest and/or a majority voting right and for which the Auditor-General is not the auditor:

- . Asia Dairy Industries (HK) Limited; and
- . P.T. Australian Indonesian Milk Industries Inc.

6.8 The Auditor-General noted that the auditors for Asia Dairy Industries (HK) Limited were unable to independently verify that a significant sum of money (\$411 199) was properly chargeable to Asia Dairy Industries (HK) Limited, a subsidiary of the Australian Dairy Corporation and not subject to audit by the Auditor-General. The Company's management had advised that it was continuing discussions with the auditors to avoid a similar disqualification in the future.

6.9 The report also referred to the following matters which arose from audit of the Corporation's financial statements:

- . the Corporation has not maintained seven separate product accounts as required by the Dairy Industry Stabilization Act 1977 and associated regulations. Separate accounts have not been kept as required for processed buttermilk or processed cheese. An amendment to the legislation was proposed to remove the need to maintain separate product accounts for processed butteroil and processed cheese;



- payments of overseas travel expenses to the Chairman and Board members were not in accordance with the determination of the Remuneration Tribunal. The Corporation reimbursed for expenses, payments which were made on economic and administrative cost grounds, but it would review the practice; and
- travelling allowances to Corporation staff were being paid on the basis of actual expenses incurred which is different from the rate approved by the Public Service Board (PSB). Since 1 May 1981 (repeal of Public Service Regulation 75A), the Corporation has not had approved terms and conditions for travelling allowance. As at September 1982, the Corporation had not submitted revised terms and conditions for approval by the PSB and had advised that travelling allowances would continue to be paid on the basis of actual expenses incurred.

6.10 Other matters included:

- production of promotional material involving expenditure of \$182 745 of which only \$125 000 received prior approval of the Minister;
- inconsistency in accounting treatment of direct butteroil allowance compared with other allowances approved under section 17 of the Dairy Industry Stabilization Act; and
- problems of definition of table quality butter which lead to difficulties in administering allowances payable under section 17 of the Dairy Industry Stabilization Act.

6.11 The Auditor-General had received advice that legislative changes were proposed to ratify current practice for the treatment of direct butteroil allowance and that the Corporation had advised that a precise definition of table quality butter had been decided upon and that the new basis for payment of allowances was to be applied with effect from 1 January 1982.

Corporation's Response

6.12 The response outlined the sequence of events leading to the Auditor-General's comments on audit fees in his 1981-82 Report. The Corporation denied most vigorously that at any time did it apply pressure 'to influence the scope of the Audits'. It stated that it sought an explanation as to the basis for the fees charged, together with some indication of the reasons why there

was a significant variation of about 30% between the audit fee estimated and the fee actually charged for 1980-81 and also for subsequent significant increases in fees when, to the Corporation's knowledge, there had been no corresponding increase in the work activity.

6.13 Notification was received from the Department of Finance in July 1980 that fees would be charged for the services of the Commonwealth Auditor-General and that this charge would commence with the 1980-81 year. Considerable correspondence then ensued.<sup>1</sup> The Corporation asked in September to discuss with the Auditor-General the basis of charges as the Corporation had not made budgetary provision for audit fees in the 1980-81 year. In November 1980 the Auditor-General's Office advised that the estimated fee for the year ending 30th June 1981 was to be \$45 000. A letter from the Auditor-General's Office received on 16 June 1981 indicated that the audit fee for 1980-81 was \$58 400 (nearly 30% higher than the estimate).

6.14 Further correspondence and discussions occurred up until 23 November 1982. The Corporation paid the Auditor-General's Office \$45 000 in August 1982 and the remaining fees in November 1982, but the Corporation still had not in June 1983 received explanations on all the points outlined in their letter to the Auditor-General in November 1982.

6.15 The Corporation's response to the Auditor-General's September 1982 Report is outlined below. Procedures had been revised following discussions with the auditors for Asia Dairy Industries (HK) Limited. The current procedure was for Price Waterhouse & Co., Chartered Accountants, to audit expenses paid on behalf of Asia Dairy Industries (HK) Limited by the ultimate holding company, the Australian Dairy Corporation, at the Melbourne Office of that Corporation. This came into force following a resolution of Asia Dairy Industries (HK) Ltd Board members on 29 April 1983.

6.16 The legislation requiring separate accounts for processed butteroil and processed cheese was repealed by Statutory Rule 1983 No. 90 dated 29 June 1983.

6.17 The Corporation advised that travel expenses were paid on the basis of actual costs rather than in accordance with the appropriate Public Service regulation. This decision was based on economic and administrative cost factors, and in the case of the Chairman and Board members had resulted in payments being less than otherwise would have been the case. The Corporation had reviewed the practice and, since 1 December 1983, the Chairman and Board members have been reimbursed for expenses incurred in the course of overseas travel in a manner which conforms with the Remuneration Tribunal's determinations.

<sup>1</sup> Appendix B, Australian Dairy Corporation submission.

6.18 Travelling allowances paid to Corporation staff were now in accordance with Public Service Board regulations relating thereto and have been handled in this manner since 1 December 1983.

6.19 The Corporation is empowered to enter into contracts pursuant to items included in sales promotion budgets. The interpretation of Section 25(a) of the Dairy Produce Act, which deals with the 'Power to purchase and dispose of assets', is where problems have previously arisen. The Corporation at present seeks the approval of the Minister where contracts exceed \$100 000, although it is not clear if this is legally necessary.

6.20 The Corporation, with regard to promotion budgets, had adopted the practice of seeking Ministerial approval to promotion budgets without seeking specific approval of particular contracts. This area involved proposed amendments to clarify legislation whereby the Corporation would not need to seek Ministerial approval to enter into promotion contracts exceeding \$100 000. The amendment had been planned since 1979, but it is understood that legislative amendment scheduling difficulties mean that the amendment was unlikely before 1985.

6.21 When the Auditor-General's Office pointed out that a promotion budget of an estimated expenditure of \$125 000 which had been approved by the Minister had become a contract for \$182 745, the Corporation sought approval for the increase. The Ministerial approval was obtained on 21 November 1981.

6.22 The Corporation stated that the inconsistency in accounting treatment of direct butteroil allowances compared with other allowances, derived from what was perceived as a defect in the dairy legislation. Subsequent to the Auditor-General's 1981-82 Report, the Department of Primary Industry had concluded that no legislative change was necessary so long as the butter/butteroil stabilization rate was declared at a commercial butter equivalent (CBE) level each year. This ensured that the direct butteroil manufacturer received a payment equivalent to a butter manufacturer, ie, at a CBE level.

6.23 The problems in definition of table quality butter which lead to difficulties in administering allowances payable was identified by the Corporation, which then took steps to obtain clarification of the matter through the appropriate channels. This matter was resolved on 3 December 1981 at a Corporation Board meeting as follows:

'that table quality butter for the purposes of storage and interest allowances be defined as butter packed as choicest, and scoring not less than 92 points at the initial grade.'

The Corporation management contended that, as it did not breach legislation, was recognised as requiring clarification and was resolved, it would be quite improper for the matter to be reported in any way.

#### Conclusions

6.24 With reference to the Auditor-General's comments on audit fees in his 1981-82 Report and the Australian Dairy Corporation's response, the Committee is not satisfied that both parties understand each other's position. This has led to protracted discussions, resulting in unnecessary delays in clarifying the situation. The Committee is concerned that this situation between the Auditor-General and the Corporation, on the questions of audit fees and the scope of audits, has occurred and is disappointed that the questions raised do not appear to have been satisfactorily resolved.

6.25 The Committee notes the action taken by the Corporation in its attempt to clarify and resolve the problems highlighted by the Auditor-General in his September 1982 Report. The tabling of the Corporation's 1983-84 Annual Report was delayed until 16 April 1985 because of further matters raised by the Auditor-General. However, it is evident that the Corporation still has problems with its subsidiaries. The Senate Committee on Finance and Government Operations is currently examining the proposed sale of the Australian Dairy Corporation shareholding in P.T. Australia Indonesian Milk Industries Inc. (P.T. Indomilk) and anticipates tabling a report on this matter in 1985. The Committee will continue to monitor the Corporation's activities.

CHAPTER 7

DEPARTMENT OF SCIENCE AND TECHNOLOGY

AUSTRALIAN INDUSTRIAL RESEARCH AND DEVELOPMENT INCENTIVES

7.1 The object of the Industrial Research and Development Incentives Act 1976 is to promote the development and improve the efficiency of Australian Industry by encouraging industrial research and development in Australia in matters relating to science and technology.

7.2 Provision is included in the Act for the establishment of the Australian Industrial Research and Development Incentives Board with functions which include the provision of financial assistance for industrial research and development in Australia. In carrying out its functions and exercising its powers the Board may receive directions from the Minister with respect to the policies and practices to be followed and advice from various committees including the Technical Standing Committee and the Australian Industrial Research and Development Incentives Advisory Committee.

7.3 The Act provides for financial assistance in respect of expenditure on industrial research and development by way of:

- (a) commencement grants;
- (b) project grants; and
- (c) public interest proposals.

7.4 Commencement grants and project grants are made to eligible companies and the Minister may authorise the Board to make arrangements for projects of industrial research in a field of science and technology that he is satisfied are in the public interest.

7.5 Expenditure under the Provisions of the Act for several financial years is shown as follows:

	1981-82	1982-83	1983-84
	\$M	\$M	\$M
Commencement grants	9.7	13.1	14.6
Project grants	12.1	34.8	43.2
Public interest proposals	2.4	4.9	8.1
Administrative costs <sup>1</sup>	1.2	1.3	1.5
<b>Total</b>	<b>25.4</b>	<b>54.1</b>	<b>67.4</b>

<sup>1</sup> Administrative costs do not include overheads.

7.6 An audit examination of the operations of the Australian Industrial Research and Development Incentives Board and the financial assistance made available under the provisions of the Act during the year ended 30 June 1981 was completed during October 1981.

7.7 The Auditor-General referred to a general lack of administrative control over grants made under the Act. Specific matters referred to included:

- (a) commencement grants
  - the sampling techniques previously adopted by the Board to check commencement grants have been replaced by judgmental sampling. There was insufficient file evidence to reveal the basis of the decision to change and consequently to determine the adequacy of the sampling and the efficacy of controls over expenditure;
  - the Board has authorised senior officers to interpret eligibility criteria and definitions of eligible expenditure to determine the grant payable and approve within limits the subsequent payments. Meetings are held to discuss interpretations which are based largely on precedent. Records of the decisions are, however, not referenced or consolidated for ready access and guidance of staff; and
  - it was noted that for both commencement and project grants some payments had been made substantially ahead of need without adequate documentation of the reasons.
- (b) project grants
  - instances were noted where the Board has overridden the preliminary technical assessment and not documented its reasons for approving a project grant;
  - prospective applicants are required to nominate two referees for an independent assessment of the merits of their project. Nevertheless in some instances grants were paid prior to obtaining referees' assessments;

- . to ensure that grant moneys are being expended for the purpose intended and in accordance with the provisions of the Act it is considered necessary for periodic and particularly final technical assessments to be made. The Auditor-General noted that review procedures focused more on financial than technical assessment. Intermittent technical investigations are often not completed and, furthermore, a final technical investigation may not be undertaken;
  - . cost checks and reviews are often completed by telephone indicating that the information initially obtained may have been incorrect or insufficient to determine the correct amount payable;
  - . in some cases final payments had been made before obtaining final financial and technical reports;
  - . instances were observed where over a year had elapsed between cost reviews;
  - . shortcomings in documenting cost checks and cost reviews and little or no indication of the reasons for varying recommendations of investigating officers; and
  - . certain firms which were incurring operating losses were approved to receive a grant. Such firms may be unable to benefit commercially from the results of research and development.
- (c) public interest proposals
- . concern was expressed that projects had commenced without adequate planning; and
  - . it appeared that advances had been made to contracting companies ahead of demonstrated need.

7.8 The Auditor-General stated that the action taken or proposed (see below) should improve control over the financial assistance made available under the provisions of the Act. However, the Auditor-General emphasised that the Board had a responsibility to institute without delay effective control over its disbursement of significant amounts of public moneys.

## Departmental Responses

7.9 The Department, in its response in February 1982 to the Auditor-General, attributed many of the problems to limitations of staff and demands of time, that had arisen from the need to make the most effective use of available resources. In the response to the Committee's request for a written submission the Department again stressed staffing limitations and outlined 'reviews in hand' or 'review programs in progress', but did not add significantly to the comments already provided.

7.10 In view of the obligation of the Board and therefore the Department to control effectively the disbursement of significant sums of public money, the Committee decided to proceed to Public Inquiry on this matter.

7.11 The Department and the Board responded in more detail at the public inquiry of 9 May 1984 and to further written questions<sup>2</sup>, as outlined below:

### (a) Commencement grants

- . staff register receipt of applications and check basic eligibility; applications then passed onto Cost Investigation Officers; if a new application, prefer to visit company to sight its records, to do a random check of its records and to verify the expenditures. A Grant Agreement is formulated and is approved under delegation by the Executive Member of the Board. This process takes on average two to three months;
- . applications for those grants close on 30 September following the financial year, or such later date as the Minister declares by regulation under the Act. The Act provides that the company gets an automatic two-month extension if it applies in writing. However, the payment of the grant is held over until the following financial year;
- . a company is entitled to five consecutive years of commencement grant. Up to 1500 applications are received in a year with about 120 of these being found illegal;
- . in 1983-84 officers were able to visit about 78 per cent of the applicants. Judgment is used to select those to be visited based on the knowledge of the company and its records;

<sup>2</sup> Appendix B, Department of Science and Technology Submissions.

- a procedures and precedent manual which records decisions on eligibility definitions and interpretations and defines procedures had been produced. A duty of one of the new staffing positions approved in 1984 is to maintain the manual;
- payments are sometimes made prior to certified statements of expenditure but follows discussion with the company and is based on prior agreed estimates and measures of progress on the project;
- if checks reveal a problem, payments are withheld to the extent represented by the problem and companies are visited or requested to provide additional information. If a prior payment has been made, and further examination determines that the payment was not warranted, a debit note is raised and action is taken to recover the overpayment; and
- there was a backlog of 368 commencement grant applications unprocessed at 30 June 1984. There was a record number of eligible applications received during the year (1379 as against 1181 the previous year) and it was expected that all would be finalised by September 1984, within 12 months of receipt.

(b) Project grants

- a company submits a written application any time; application is registered and passed to technical staff who do a basic technical assessment along guidelines set by the Board and the Minister; referee reports are sought within guidelines set by the Board; application and assessment are placed before a full Board meeting where it can be deferred, rejected or accepted. If accepted, it is passed to Cost Investigation Officers who then negotiate expenditure estimates with the applicant and formulate a Grant Agreement. The Agreement is approved under delegation by the Executive Member of the Board. This process takes on average two to three months but eligibility for expenditure is retrospective to the date on which the application was received by the Board;

- the Board stated that staff prepare the preliminary technical assessments but not the recommendations. As a result they are unable to identify cases instanced by the Auditor-General in which 'the Board has overridden the preliminary technical assessments';
- the Board requires applicant companies to nominate referees. Referees are consulted if a grant is sought in excess of \$400 000, however, below that figure, an initial decision whether to refer to a referee is taken by the Technical Director of the Board's staff. Subsequently, the Board may defer a decision and seek comments from a company-nominated referee or one determined by the Board itself. Referee reports are sought on about one third of applications;
- technical assessments of operating and completed projects are undertaken to the extent that staffing is available. During 1983-84 only 17 assessments were undertaken out of approximately 600 operating projects and 71 assessments out of 220 completed projects. Companies are required to report technical progress on operating projects at six monthly intervals and these reports are briefly scanned by the Technical Director of the Board's staff to identify unusual circumstances. The full assessment reports are prepared on a structured basis after a visit to the company to examine matters such as progress, company capability, results, effect of grant, and problems encountered;
- approved projects are cost checked by discussion with the company and sighting of records, to determine forward estimates of eligible project expenditure against which forward grant commitments are established. The cost checks are documented in standard format against eligible expenditure categories and phased over the life of the project. Copies of these documents together with supporting calculations are provided to the company;

- . cost reviews of ongoing and completed projects are undertaken against six monthly reports on project expenditures by the company. In the majority of cases, detailed reviews are conducted annually. More or less frequent detailed reviews are scheduled dependent upon the knowledge held by Board staff of the records maintained by a company. Reports on the reviews are in standard format against eligible expenditure categories. Copies are provided to the companies;
- . if doubt exists concerning a company's financial resources, the onus is placed on the company to demonstrate a cash flow plan or the Board's assessment officer will be asked to report on this matter. A decision is then taken by the Executive Member of the Board under delegation on whether to proceed to establish a commitment. In any case, all commitments are subject to verification of subsequent actual expenditure and grants, in the main, represent only 50 per cent of expenditure actually incurred. On this basis controlled risk can be taken. Usual practice is to place a limit on progress payments to ensure that the company is not placed in a situation where refund of excess grant is possible;
- . a company with an operating loss is not excluded from receiving a grant. The provision of a grant can at times assist such a company to establish forward plans and recover from the loss situation. The essential aspect is to evaluate the forward viability and capacity of the company to complete the project and carry it to a market situation;
- . information sheets on companies, providing details relevant to commencement and project grant situations, have now been operative since November 1983. They give quick reference to information held on files and assessments of previous Board experience with the companies; and
- . the backlog of project grant applications had been reduced to under three months, which is regarded by the Board as an acceptable continuing level.

(c) Public interest proposals (Section 39)

- . these are not grants. The Board is a contracting authority which places contracts on behalf of the Government for the contracting out of government research and development to industry, tertiary institutions and public funded research institutions. The applications for these proposals flow from the Minister and his Department;
  - . the applications are received in the Department and are assessed against a set of criteria which have been laid down by the Minister. If they are considered to comply with the criteria, they are then forwarded to the Minister recommending advice from an advisory committee which considers the desirability of the Commonwealth undertaking a particular project;
  - . the scheme was initiated in 1978-79 and the Department then played a reactive role. It is now taking a more active role and generating some proposals; and
  - . since the scheme began there have been more than 300 project proposals and as at May 1984 there have been 20 approved projects. These proposals have taken on average about eight months to be approved. A very detailed investigation is required. The technologies covered by these public interest projects are wide and where the Department lacks the expertise, outside assessments must be sought. Referee reports generally have to be obtained.
- 7.12 The Department attributed many of the problems to limitations of staff and demands of time, or having arisen from the need to make the most effective use of available resources. Its written submission to the Committee again stressed these problems. At the public hearing on 9 May 1984 and in written replies to the Committee's questions, the Department outlined the extensive administrative changes which have been progressively introduced over recent years. They include:
- . reduction of technical assessments of applications to summary report status;

- . referral to referees only on major projects or as specifically required by the Board;
- . placement of onus on applicants to provide support for any appeals;
- . reduction of frequency of visits to companies to assess claims and applications;
- . delegation of approvals as far as is possible under the legislation;
- . minimum assessment of requests received to extend time on grant agreements;
- . introduction of quarterly grant claims and payment procedures;
- . reduced attendance at Public Interest Project management meetings;
- . scheduling of assessments to optimise travel and staff utilisation;
- . planned communication with industry towards optimum use of staff, rather than optimum communication;
- . reduction of detail contained in statistical records and the Annual Report of the Board;
- . introduction of test checking of claims instead of full accountability checks;
- . regular follow-up of overdue company reports and claims;
- . use of word processing, form letters and, to a limited extent, computer based systems; and
- . implementation of company history sheets to give quick reference to information required during assessment of claims.

7.13 Staffing of the Branch servicing the Australian Industrial Research and Development Incentives Board had been increased by eight positions to 73 staff. When all positions were filled in 1984-85, this would provide a staffing level sufficient to process all grant applications and to maintain an adequate control of grant expenditure, based on the 1983-84 workload and a minimum sampling procedure.

7.14 The Board has expressed the opinion that this staffing level may not provide sufficient support to undertake all its functions under the Act. Specifically, it is concerned that it will limit the extent of analysis of applications and claims, continual review of effectiveness of the Incentives Scheme, technical review of ongoing projects, timely consideration of appeals, development of policy, and communication with industry and the industrial research and development community.

7.15 Operative dates for the commencement and project grants in the Industrial Research and Development Incentives Act 1976 will result in a 'sunset' on these provisions commencing at 30 June 1986.

7.16 With the exception of studies in the context of the Annual Reports of the Board, no specific studies have been undertaken until recently on the effects of the grants. A pilot study undertaken during 1983-84 had established a base for a major evaluation study. That study on commencement and project grants is now being undertaken by Price, Waterhouse and Associates and is scheduled for completion by September 1985.

#### Conclusions

7.17 The Auditor-General's audit of the Australian Industrial Research and Development Incentives Act was completed in October 1981. The Committee is aware that much has been done to redress the general lack of administrative control over grants made under the Act. The Committee is still concerned, however, that, because it is claimed there is not enough time or resources to carry out all administrative procedures on all applications and reviews of projects, the procedures may have been changed so that only samples of each stage go through the full process. For instance, only 17 of the 600 operating and 71 of the 220 completed project grants in 1983-84 were assessed technically. Staff judgement is used to select those grants to be assessed on either a cost or technical basis. The Committee is critical of this practice because of its subjective basis. The Committee believes that to avoid bias a statistically random selection process, coupled with other predetermined criteria would be more appropriate.

7.18 This again highlights what the Committee believes is a major problem faced within the public sector - a lack of appropriate administrative support to ensure proper use of, and accountability for, scarce resources. Senior management of organisations should provide a balanced approach to a changing function. The Committee is pleased to note that the Financial Management Improvement Program<sup>3</sup> currently being implemented by the Department of Finance and the Public Service Board is designed to overcome such shortcomings.

<sup>3</sup> Financial Management Improvement Program, Diagnostic Study op.cit.

7.19 One of the most time consuming tasks is verifying that expenditures were made in accordance with the requirements of the Act. A verifying statement from a professional accountant (who is a member of the Australian Society of Accountants or the Institute of Chartered Accountants in Australia) certifying that the moneys have been expended in accordance with the provisions of the Act would assist the Board. The Board had raised the concern that an accountant may not know the requirements of the Act and that the company may not be subject to audit. However, the Committee does not accept this argument as professional accountants are required to be conversant with the law and a company which accepts public funds should be subject to regular audit.

7.20 The Committee recommends that a verifying statement from a professional accountant certifying that grant moneys have been expended in accordance with the requirements of the Act be provided. A proforma of what is required by the Act would assist auditors and could minimise the problems raised by the Department.

7.21 The Board has expressed the opinion that the increase in staffing for 1984-85 may not provide sufficient support to undertake all its functions under the Act. The Committee is still concerned that, if staffing limitations continue, the scheme may not work effectively particularly if applications continue to increase.

7.22 The Committee is also concerned that no specific studies have yet been completed on the effectiveness of the grants, given that there is a sunset clause on commencement and project grants of 30 June 1986. The Committee understands that an evaluation study on commencement and project grants is being undertaken by Price, Waterhouse and Associates and is scheduled for completion by September 1985. The Committee trusts that this study is also evaluating the administration of the grants and wishes to receive a copy of the study's findings.

7.23 The Committee notes the administrative changes and the staff increase for 1984-85. The Committee remains concerned that these changes may not be adequate to effectively control the disbursement of significant sums of public money. The Committee will continue to keep this area under strict surveillance.

## CHAPTER 8

### DEPARTMENT OF SOCIAL SECURITY

#### INTERNAL AUDIT

8.1 The Department of Social Security had a follow-up review by the Auditor-General on its internal audit operations. Other Departments, whose internal audit operations were reviewed and which are discussed in this Report, are the Departments of Communications (Chapter 1) and Foreign Affairs (Chapter 4).

8.2 The Department's internal audit activities were discussed in paragraph 15.7 of the Auditor-General's March 1982 Report. Further reviews were conducted in June 1982 at the Department's Central Office and in Victoria, South Australia and Western Australia covering the planning and co-ordination of audits, the adequacy of working papers, the effectiveness of the quality assurance program and the implementation/follow-up by management of internal audit recommendations.

8.3 No major deficiencies were found but the review identified a need to refine the strategic planning process of internal audit. The Department advised that its internal audit function was being restructured and when that process was finalised it would have the opportunity to adopt a more precise form of resource planning and management.

8.4 The review also indicated that the Department had implemented a systems based audit approach to internal audit.

#### Departmental Response

8.5 The aspects examined in the Auditor-General's March 1982 Report concerned the content of working papers, planning, methodology, and training. The Department states that guidelines on the composition of working papers have been issued to audit staff and that document includes reference to the Practice of Modern Internal Auditing (Sawyer) and the General Audit Manual (Auditor-General's Office). The principles outlined in the guidelines and the texts are borne in mind when senior staff in each audit section are reviewing work from a quality assurance point of view. The quality of internal audit work in each state is periodically reviewed by staff at Central Office to ensure that appropriate documentation standards are being followed.

8.6 The Department uses training material developed by the Public Service Board to help meet audit training needs and other Departmental officers provide substantial assistance in the development and presentation of such material. External courses have also been used where appropriate and membership of Auditing groups is maintained. Staff rotation of audit officers on other tasks has also occurred.



8.7 The review conducted for the September 1982 Auditor-General's Report identified a need to refine the strategic planning process of internal audit. The Department responded to the Committee in June 1983. The Committee also had discussions with the Performance Monitoring Branch in June 1984 and this information is included where this updates the earlier response.

8.8 Internal audit, which forms part of the responsibilities of the Performance Monitoring Branch, set up in early 1983, is under the direction and control of an Assistant Secretary. In Central Office these responsibilities include policy, methodology, planning and co-ordination matters. ADP auditing expertise and a research and development facility seeking improved auditing methods are also included. General administrative aspects are the responsibility of each State's local management.

8.9 The methodology for auditing national systems had, until mid 1984, involved the conduct of an 'initial' audit in one State which was subsequently refined to enable 'secondary' audits in each other State. Forward planning of national audit activities is based upon a dynamic Strategic Audit Plan which to date has aimed to cover all auditable areas over a three year cycle. Until mid 1984 the Plan had comprised 75 auditable areas; however, a recent review has resulted in a new listing of 110 auditable areas of which 44 (40 per cent) are categorised as 'high-risk'. 'High risk' categories can include, for instance, areas which are new and not previously audited, areas which are changing and areas which involve very substantial amounts of money. These assessments can be changed as audits are completed.

8.10 Regional Office operational reviews have been undertaken by State audit cells on the basis of an informal policy that each regional office should be reviewed annually. Local (State) issues of an emergent or one-off nature are dealt with on an 'as-required' basis.

8.11 Coincident with the implementation of STRATPLAN a comprehensive program of computer-oriented audit tasks has been formulated and incorporated into the Strategic Audit Plan. The present program will operate over the next few years. There was an establishment of eight ADP auditors in June 1984. One significant recent development has been the planning of an 'integrated audit facility' to operate in the context of STRATPLAN and provide the Department's auditors with the capacity to trace individual transactions at any stage of the computer process. The Department is planning for STRATPLAN to be fully implemented by 1988. The integrated audit facility will be progressively introduced in the lead up to its implementation.

8.12 The Departmental Audit Committee was restructured and strengthened in early 1984. In April 1985 it was headed by a Deputy Secretary and its members included the First Assistant Secretaries for the Benefits Delivery Division and the Operations Support Division, one State Director (in April 1985 the South Australian State Director), the Senior Assistant Secretary Performance Monitoring and the Assistant Secretary Internal Audit.

8.13 Following a detailed review in early 1984 by Departmental senior management and audit managers, work is underway to enhance the efficiency of the audit operation by moving from the State-based 'initial' and 'secondary' audit approach to a national approach which is expected to be more rational, thorough and cost-effective.

8.14 Other aspects of this move include :

- a significant up-grade in the frequency (every three years with an interim audit every 18 months) of 'high risk' audits and overall coordination of audit activities in conjunction with State Administrations;
- a clear recognition that line management should have primary responsibility for the quality of regional office operational performance; and
- a capacity to realise the Department's commitment to the use of a systems based methodology for all internal audit tasks.

8.15 On 6 June 1984 at its hearing on the Auditor-General's Reports September 1982 and May 1983: Performance Monitoring Branch, the Committee questioned the Department on the independence of Internal Audit as it appeared on the Department's Organisation Chart. It appears that the Internal Audit Group reports to the head of the Performance Monitoring Branch and then to a Deputy Director-General (now called a Deputy Secretary). The Department stated that for the purposes of day to day management the Internal Audit Group reports to the head of the Performance Monitoring Branch, but where it is necessary and desirable the Assistant Secretary in charge of the Internal Audit Group is able and does report directly to the Director-General (now Deputy Secretary). The Internal Audit Group still reports to the Departmental Audit Committee where it has its forward program approved, its reports accepted, endorsed and so on.

## Conclusions

8.16 The Committee is satisfied that the issues raised in the March and September 1982 Auditor-General's Reports have been addressed and will continue to be monitored. The Committee will maintain an on-going interest in the Performance Monitoring Branch and the continuing autonomy of the Internal Audit Group.

### TELEPHONE RENTAL CONCESSIONS TO PENSIONERS

8.17 Many reports of the Auditor-General (the latest being the March 1984 Report) have referred to the potential for overpayments and administrative difficulties and the need for review of the continuing eligibility of pensioners in receipt of telephone rental concessions. The telephone rental concession was introduced on 1 October 1964.

8.18 During 1982-83 \$26.3m was expended on telephone rental concessions by the Department of Social Security and \$5.2m by the Department of Veterans' Affairs. Estimated expenditure by the two Departments in 1983-84 was \$34.6m.

8.19 An audit was carried out in Victoria for the September 1982 Report to review the procedures of the Department of Social Security for processing the concession, and receiving monthly claims by Telecom for reimbursement of rental concessions allowed to pensioners. Progress on reviews of eligibility by the Department of Veterans' Affairs was outlined. It was noted that the Australian Telecommunications Commission (Telecom) was still not in a position to provide accounts in suitable magnetic tape form to enable a 100 per cent check of eligibility for telephone rental concessions to pensioners. Both Departments (Social Security and Veterans' Affairs) carry out manual sample checks on 10 per cent of items included in the monthly claims for reimbursement from Telecom.

8.20 It was stated in the Auditor-General's March 1984 Report that following earlier Auditor-General's Office representations regarding eligibility of those receiving the concession, individual reviews were made by the Departments in all States resulting in progressive withdrawal of concessions through loss of eligibility - 46 000 in the case of the Department of Social Security and 14 000 in the case of the Department of Veterans' Affairs with annual savings of \$1.3m and \$0.5m respectively.<sup>1</sup>

8.21 The Auditor-General's March 1984 raised similar problems as in past Reports particularly for the Department of Social Security. However, a significant difference between the administration of the concession by the two Departments has since

developed. The Department of Veterans' Affairs has operated since November 1983, an ADP payment system allowing a 100 per cent check of the Telecom claims. As a result of the ADP check, many of the problems of ineligible payments should be overcome within the Department of Veterans' Affairs. The difficulty in verifying the household income of recipients of the concession still remains.

8.22 A Working Party has been established comprising representatives from Telecom and the Departments of Social Security and Veterans' Affairs to examine the rationalisation of the administrative arrangements to give effect to the Government's objectives more efficiently and economically. The Department of Social Security was examining its tape formats to determine the feasibility of computer matching.

8.23 The audits in both Departments and Telecom have revealed that under present arrangements effective administration of the scheme is inhibited by:

- . the incompatibility of records maintained by the Department of Social Security and Telecom caused mainly by different systems of file recording;
- . the absence of any realistic enforcement of the household income criterion; and
- . the large volume of relatively low value concessions involved.

8.24 The cost effective administration of the concession is impeded by these factors.

8.25 It is a matter of concern to the Auditor-General that the situation has remained unresolved notwithstanding frequent references to the problem in previous Reports. The Auditor-General expressed the hope that the positive action currently being undertaken by the Working Party will lead to early resolution of this long standing problem.

### Conclusion

8.26 The Committee is concerned that this matter continues to be unresolved. In the response to this Report the Committee expects to be informed by Telecom and the Departments of Social Security and Veterans' Affairs of significant results arising from the Working Party.

<sup>1</sup> Report of the Auditor-General, September 1981, AGPS, 1981, Paragraph 2.19.7; and  
Report of the Auditor-General, September 1983, AGPS, 1983, Paragraph 24.5.

## CHAPTER 9

### DEPARTMENT OF TERRITORIES AND LOCAL GOVERNMENT

#### DARWIN CYCLONE TRACY RELIEF TRUST FUND

9.1 Several reports of the Auditor-General have noted that the distribution of money held in the Trust Fund for victims of the cyclone, which destroyed Darwin in 1974, had not been finalised. As part of the arrangements leading to the establishment of the Fund, the Government undertook to meet the administrative expenses of the Fund and to have the Auditor-General audit the arrangements. The delays in distributing moneys have prevented the Auditor-General from completing the audit of the accounts of the Trust.

#### The Trust Fund

9.2 A single fund, the Darwin Cyclone Tracy Relief Trust Fund, was established in January 1975 to administer the distribution of moneys donated for the relief of cyclone victims. By April 1978 the Trust Fund had distributed in excess of \$7.5m in various forms of assistance to cyclone victims and still held an amount of \$430 000. There were thirteen trustees appointed initially and a quorum of six was required for meetings.

#### Trust Fund's Response

9.3 The Committee was informed that the Trust approached the Northern Territory Supreme Court for guidance on winding up procedure. A procedure was determined and put into effect and, in November 1979, the Trustees met and took decisions on what was thought to be the final distribution of remaining moneys. The receipt of further moneys into the Trust Fund in March 1980 and the inability to arrange a quorum of Trustees for a meeting for finalisation during the remainder of 1980 caused further delays.

9.4 In January 1982 all trustees reached agreement on the final disbursements. An officer from the Auditor-General's Office visited Darwin in April 1982 to undertake the final audit of the Trust Fund. During the audit it was learned that a further cheque for record royalties was to be received. That cheque was not received until January 1983. A final meeting was again arranged but the calling of the Federal Election cancelled that meeting.

9.5 The Committee was assured that a final meeting of Trustees and wind-up of the Trust was expected in late June/early July 1983 (this occurred on 13 July 1983) which would clear the way for the Auditor-General's Office to complete its audit of the

Cyclone Tracy Relief Trust Fund. With regard to the burden of administering the Trust Fund, two letters were prepared responding to public inquiries in the 12 months to May 1983.

#### Conclusions

9.6 The Committee appreciates the Auditor-General's desire to finalise the audit of the Trust Fund, but it considers that all reasonable measures were taken to finalise the distribution of moneys and wind up the Trust Fund. The Committee notes that the final meeting of the Trustees was held on 13 July 1983 and that the Auditor-General's Office submitted its final report to the Minister for Territories and Local Government on 13 October 1983.

## CHAPTER 10

### DEPARTMENT OF TREASURY AUSTRALIAN TAXATION OFFICE

#### POSTINGS AND TRANSFERS

10.1 The Australian Taxation Office operates an extensive computer network where information relating to taxpayers is maintained centrally from input data supplied by Branch Offices. The processing of such information includes lodgement, assessment, account recording of taxpayers returns, and various debit/credit postings and transfers between accounts as well as between States.

10.2 The Auditor-General investigated the adequacy of controls in a number of Branch Offices over the input of transactions relating to the taxpayers' accounts. The more important matters raised by the Auditor-General related to:

##### (a) Authorisation of transactions

- changes in taxpayers' accounts on computer file require the signature of a designated officer as evidence of authorisation for the input of transactions. In view of the volume of transactions, the different types of delegation and the fact that the lists of authorised signatures were incomplete and out of date, it was difficult to ensure that only properly authorised transactions were processed.

##### (b) Delegations

- the audit in Queensland disclosed departures from the approved delegations for some types of transactions.

##### (c) Segregation of duties

- while this has been recognised by the Taxation Office and established in most areas it was noted by the Auditor-General that in two areas the facility existed both to create credit balances on accounts and issue refund cheques. The Auditor-General recommended that the functions should be segregated in those areas as well.

##### (d) Adjustment of credits

- the audit of the procedures relating to adjustments and refunds of credits revealed that, although there were controls over taxpayer accounts in credit, in certain cases some risks of fraudulent credit adjustments existed. The Taxation Office had been aware of the problem although no corrective action had yet been taken.

##### (e) Unauthorised access to information

- the Taxation Office operates an on-line enquiry system to obtain urgently required information from the central computer files. The distribution of information should be on a need-to-know basis, only with proper authorisation; and
- in one State the possibility existed for unauthorised persons, including persons not employed by the Taxation Office to have access to limited information about taxpayers.

##### (f) Control over input documents

- deficiencies were found in the documentation of procedures, control over the issue and storage of input documents, management trail and in other areas relating to the use of input documents.

#### Departmental Response

10.3 While acknowledging the deficiencies identified by the Auditor-General, the Department felt that they were related to procedural breakdowns and therefore isolated to the Branches involved, rather than applying to all Branches throughout Australia.

##### (a) Authorisation of transactions

10.4 The Deputy Commissioner in Queensland advised that the Central Office of the Taxation Office was aware of the problems, and that input authorisation had been the subject of an intensive review since early 1981, with a view to limiting reliance on signature as a control mechanism. It was further advised that there were compensating controls in the system to deter unauthorised input of transactions.

(b) Delegations

10.5 The Deputy Commissioner advised that current and previous organisation restructuring, combined with changes in the roles of staff, had led in part to the problem, and the approved delegations and authorisations were no longer appropriate. All authorisations and delegations were reviewed as part of the re-organisation of the Management Branch. All necessary documentation had been prepared and officers had been provided with written instructions which would allow them to carry out their duties without breaching formal authorities.

(c) Segregation of duties

10.6 Segregation of functions is an important control mechanism in reducing the risk of misappropriation. In the cases in point, the total action of raising a credit on the taxpayer's account and preparing a transaction, which will ultimately produce a cheque, were brought together in the sections responsible. However, the Department points out that within those sections different officers were responsible for preparing and authorising the respective transactions.

10.7 In addition, other processes which were undertaken by different officers were also carried out. Further, checks existed within the system that were designed to identify refunds for scrutiny prior to dispatch.

10.8 The Department felt that a level of control existed which was commensurate with the value of the refund transactions processed (approximately \$100 000 in financial year 1982).

(d) Adjustment of credits

10.9 The Deputy Commissioner in Queensland accepted that the current procedures were not the preferred method of processing and alternative solutions were being considered centrally. The Deputy Commissioner also stated that there were other controls in the system to detect the fraudulent issue of refund cheques.

(e) Unauthorised access to information

10.10 The Deputy Commissioner stated that technical limitations prevented the exclusion of access to the on-line enquiry centre by other Commonwealth employees. But the proper use of password/call back controls should ensure that sensitive information was not passed to unauthorised persons.

10.11 The Department felt that the words used in the Auditor-General's Report were misleading. The test of access to the system was carried out by a person who knew the system, and the general environment, and called from within the building. The Department was of the opinion that the Auditor-General's comments should therefore be qualified to this effect.

10.12 It should also be noted that the information available is limited to, in the main, the processing of returns and not taxpayers' personal financial affairs.

(f) Control over input documents

10.13 The Deputy Commissioner in Tasmania advised that internal audit had recently completed a comprehensive national review of the areas of concern raised by the Auditor-General. Each branch office had reviewed its procedures where necessary and instituted new arrangements to provide an adequate level of control over these documents.

Conclusion

10.14 The Committee notes the action taken by the Australian Taxation Office in its attempts to clarify and resolve the deficiencies highlighted by the Auditor-General. The Committee will maintain an on-going interest in these issues to assess the impact of the changes now in place.

COMPANY TAX INSTALMENTS

10.15 Company tax is collected by quarterly instalments in the year in which the income is derived. The instalment of tax will normally be one quarter of the notional tax of a company at the time of issue of the Notice of Instalment.

10.16 An audit to evaluate control over the collection of company instalments was carried out in the Sydney, Parramatta and Perth Branch Offices of the Taxation Office.

10.17 The results of the audit indicated that generally the system was operating satisfactorily. Certain matters raised by the Auditor-General were referred by the Committee to the Taxation Office for comment. These included:

- Additional tax on variation of tax instalments

The Income Tax Assessment Act provides that, where a company estimates that the amount of income tax payable in respect of the income to which the instalments relate will be different from the original estimate, an application in writing may be made to vary the instalments.

Where the amount of income tax payable on the actual taxable income exceeds the estimated income tax, subject to the provisions of the Act, additional tax is payable.

The Act provides for the variation of company instalments of tax to be paid where the company estimates that the taxable income to be derived will be less than the one used for calculating the instalments. Where the estimated income turns out to be less than the actual taxable income by more than allowed for in the Act, the Act provides for the imposition of additional tax.

It was noted during the audit that for some time the computer system was defective in respect of reporting cases where the variation resulted in the tax instalments being understated. As a result, certain cases where additional tax should have been applied were not reported and additional tax was not imposed.

. Additional tax for late payment

In respect of tax paid after the due date, the Income Tax Assessment Act provides for the imposition of additional tax. Such tax may be imposed automatically by computer process. Alternatively, a listing of potential cases produced by the computer is used as a basis to impose the tax manually.

Inconsistencies in the manual calculation of additional tax for late payment were noted.

In the Parramatta Office it was observed that reports in respect of some potential cases had not been dealt with since approximately December 1980 without formal approval from Head Office.

Departmental Response

Additional tax on variation of tax instalments

10.18 This matter which was reported to the Auditor-General by the Taxation Office came about as a result of a computer error and applies to the income years 1976-77 to 1980-81. Program changes were effected in April 1982 to correct the problem and since that time all such cases have been reported correctly.

10.19 In its initial submission, the Department suggested that the revenue lost because of this problem may be of the order of \$300 000. However, until more was known about the number of cases and the overall amount involved, the cost effectiveness of any recovery action was still uncertain.

10.20 In a supplementary submission to the Committee in August 1983, the Taxation Office advised that it had decided not to proceed to recover the additional tax involved in these cases. A number of factors including cost-effectiveness of the exercise (maximum net amount of \$327 000) and the reasonableness of recovering the additional tax after so many years, were considered in coming to this decision.

Additional tax for late payment

10.21 The Department advised that the procedures relating to the calculation and imposition of these taxes had been reviewed by Internal Audit. As a result consistent calculation procedures had now been implemented.

10.22 Action on certain reports at the Parramatta Office related to 'non-recovery' cases was discontinued where the amount of penalty involved was generally very small. The decision was based on the results of surveys conducted in 1981 and 1982 which showed it was clearly not cost-effective to continue recovery action.

10.23 The Taxation Office has since formalised the procedure, although at the time of the audit no formal approval had been given. However, during the period April-July each year when the majority of income tax payments are made, all reports of overdue accounts were to be referred to the recovery area.

Conclusion

10.24 The Committee notes the action taken by the Australian Taxation Office in its attempts to clarify and resolve the deficiencies highlighted by the Auditor-General. The Committee will maintain an on-going interest in these issues to assess the impact of the changes now in place.

## CHAPTER 11

## DEPARTMENT OF VETERANS AFFAIRS

## TELEPHONE RENTAL CONCESSIONS TO PENSIONERS

11.1 Many reports of the Auditor-General (the latest being the March 1984 Report) have referred to the potential for overpayments and administrative difficulties and the need for review of the continuing eligibility of pensioners in receipt of telephone rental concessions.

## Conclusion

11.2 Further details are presented for the three parties concerned in Chapter 8, Department of Social Security.

## APPENDIX A

## ITEMS EXAMINED FROM THE REPORTS OF THE AUDITOR-GENERAL FOR THE YEAR ENDED 30 JUNE 1982 AND SEPTEMBER 1982.

DEPARTMENT/AUTHORITY	REFERENCE	SUBJECT
1. Communications	23.1	Internal Audit
2. Defence	6.2	Cockatoo Island Dockyard
3. Education and Youth Affairs	7.1 7.3	Secondary Allowances Scheme Overpayment Procedures
4. Foreign Affairs	23.1	Internal Audit
5. Industry and Commerce	14.1	Cargo Control and Accounting
6. Social Security	23.1 18.5	Internal Audit Telephone Rental Concessions to Pensioners <sup>1</sup>
7. Science and Technology	17.1	Australian Industrial Research and Development Incentives
8. Veterans' Affairs	22.3	Telephone Rental Concessions to Pensioners <sup>1</sup>
9. Australian Taxation Office	21.1 21.2	Postings and Transfers Company Tax Instalments
10. Australian Apple and Pear Corporation	25	Payments to Officers Contrary to Conditions of Service
11. Australian Dairy <sup>2</sup> Corporation	28	Breach of Remuneration Tribunal Provisions; Auditor-General not Auditor of Subsidiaries
12. Australian Industry Development Corporation	29	Artificial Transactions to Avoid Tax

<sup>1</sup> Follow-up to submissions received in connection with inquiry into the Report of the Auditor-General, September 1981.

<sup>2</sup> Reference also to complaints by ADC re audit fees - paragraph 4.3., Report of the Auditor-General, 1981-82.

13.	Australian Telecommunications Commission	18.5 22.3	Telephone Rental Concessions to Pensioners <sup>3</sup>
14.	Curriculum Development Centre	32	Accounting and Control Deficiencies; Delays in Submitting Financial Statements
14.	Darwin Cyclone Tracy Relief Fund Trust	33	Delay in Finalising Distribution of Money

APPENDIX B

SUBMISSIONS FROM DEPARTMENTS AND AUTHORITIES

Department/Authority	Date of submission	Page
• Department of Communications - Internal Audit	31 May 1983	54
• Department of Defence - Cockatoo Island Dockyard, Repair and refit of submarines	14 June 1983	57
• Department of Education and Youth Affairs - Secondary Allowances Scheme	2 June 1983	85
- Overpayment Procedures	2 June 1983	87
- Curriculum Development Centre	31 May 1983	89
• Department of Foreign Affairs - Internal Audit	31 May 1983	94
• Department of Industry and Commerce - Cargo Control and Accounting	(a) 30 June 1983 (b) 28 Feb 1984	98 116
- Australian Industry Development Corporation	3 June 1983	135
• Department of Primary Industry - Australian Apple and Pear Corporation	6 June 1983	143
- Australian Dairy Corporation	6 June 1983	149
• Department of Science and Technology - Australian Industrial Research and Development Incentives	(a) 2 June 1983 (b) 18 June 1984 (c) 20 July 1984	163 166 169
• Department of Social Security - Internal Audit	2 June 1983	176
- Telephone Rental Concessions to pensioners	7 June 1983	184
• Department of Territories and Local Government - Darwin Cyclone Tracey Relief Trust Fund	25 May 1983	186
• Department of the Treasury - Australian Taxation Office : Postings and Transfers : Company Tax Instalments	31 May 1983 31 May 1983 31 Aug 1983	190 197 201
• Department of Veterans' Affairs - Telephone Rental Concessions to Pensioners	2 June 1983	204
• Australian Telecommunications Commission - Telephone Rental Concessions	2 June 1983	219

<sup>3</sup> Follow-up to submissions received in connection with inquiry into the Report of the Auditor-General, September 1981.



JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report, September 1982 - Paragraph 23.1  
Submission by the Department of Communications

1. The Auditor-General's Report of September 1982 provided the following comments on the Department of Communications' Internal Audit activity:-

- "Audit found that the Department did not have an active internal audit function and a number of unsatisfactory matters was referred to the Department for comment. At the date of preparation of this summary, the matters referred for comment were:-

- staffing and recruitment problems were creating difficulty in filling the established internal audit positions;
- an internal audit charter had been prepared but it had not been approved due to the need to finalise certain aspects concerning the scope of the charter; and
- no approved internal audit manual or program of audit existed."

2. In response to the matters raised by the Auditor-General in his September 1982 Report, the Department submits the following comments for consideration.

2.1 Since September 1982 the Department of Communications, with the assistance of the Public Service Board and the Auditor-General's Office, has recruited professionally qualified and experienced personnel to fill vacant positions within the Internal Audit Section. Previous attempts to recruit key personnel had been unsuccessful. While it is important to have an active internal audit unit, the Department was concerned that only officers with appropriate skills and experiences be recruited for this purpose.

2.2 The Department's Chief Internal Auditor commenced duty on 28 October 1982. This officer has worked in internal audit for over ten years. Recruitment action for the other vacant positions was completed on 20 January 1983, and the establishment of three positions is now filled on a permanent basis. An appointee who took up duty with the Department has had over five years' experience in the Auditor-General's Office in responsible areas.

2.3 The Chief Internal Auditor has reviewed the audit charter, which has been approved by the Secretary to the Department. The approved charter incorporates the guidelines developed by the Public Service

2.

Board and endorsed by the Auditor-General's Office. In addition, the review of the Department's internal audit charter identified the need to develop appropriate charters for the Special Broadcasting Service and the Australian Broadcasting Tribunal. The Department of Communications provides internal audit support to those two statutory bodies.

2.4 As the Department's internal audit is a relatively small unit, adoption of the Auditor-General's General Audit Manual has been considered appropriate at this stage. This action is in line with the recommendations of the Public Service Board and the Auditor-General's Office.

2.5 A Departmental strategic and tactical audit plan is at present being developed and is expected to be considered by the Department's Audit Committee in early June 1983.

2.6 In the past four months since the internal audit unit has been fully staffed, it has been actively involved in a number of audits using systems-based audit methodology.

2.7 The Department's management is keeping under scrutiny the adequacy of the internal audit resources and is at present proposing to seek additional resources to meet audit requirements in relation to ADP programs and services.

May 1983

DEPARTMENT OF COMMUNICATIONS

- Letter dated 11 September 1984 may be found on Joint Committee of Public Accounts File 1983/5, Part B.

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

COCKATOO ISLAND DOCKYARD - REPAIR AND REFIT OF SUBMARINES

ITEM 6.2

INTRODUCTION

1. The Auditor-General's Report of September 1982 at paragraph 6.2 refers to repair and refit of RAN submarines at Cockatoo Island Dockyard. The Report made the following observations:

- Cost plus Contracts. Although there is provision for other forms of contracting, it was noted that submarine refitting has always been carried out on a cost plus profit basis.
- Schedule of Conditions. This contractual document has not been signed in all cases by both parties prior to the commencement of the refit. In the case of HMAS ONSLOW, which commenced refit in 1982 and for HMAS OTAMA, due to commence refit in August 1983, this matter has been properly covered.
- Overhead Recovery Rate Formula. Review of the overhead recovery rate for commercial work has not been conducted as provided for in the Substituted Mode of Performance, mainly due to the need to obtain legal opinion, but early finalisation is recommended.
- Direct Cost Allocations. Departmental and Vickers Cockatoo Dockyard (VCD) records were considered insufficient

to allow adequate control over charging. Controls would be improved if procedures similar to those used for submarine mid-term dockings were adopted.

- . Idle Time. There was no evidence of any approvals being sought and granted for short term idle time. The Department should implement a cost control system over such expense.
- . Cost of Rework. Difficulty was evident in establishing the responsibility for rework and segregating the relevant costs. Clarification is necessary at the working level of responsibility for rework arising from defective work.
- . Depreciation. In the year of acquisition of assets the amount of depreciation was calculated from incorrect dates.
- . Roles and Functions of Elements of the Department. There was no Departmental document for guidance in administration of the Trading Agreement and Lease between VCD and the Commonwealth and this appeared necessary.
- . Cost Investigation. Procedural documentation was inadequate.
- . Commonwealth Assets. There were unsatisfactory aspects of the registering, stocktaking and disposal of Commonwealth assets.

Review of Overall Operations.  
The Department was asked to comment on action instituted since 1975 to establish yardsticks to monitor and measure performance.

2. The request from the Joint Committee on Public Accounts for a Departmental submission on this subject also included a requirement for detailed information on the concessions and contract arrangements between the Commonwealth and VCD for both repair and refit work and shipbuilding. Comparable information on contract arrangements with other dockyard contractors was also sought.

BACKGROUND

The Trading Agreement and Lease Between the Commonwealth and the Contractor.

3. In 1913 Cockatoo Island Dockyard was acquired by the Commonwealth from the N.S.W. Government for Naval Defence purposes. Until 1921 control of the dockyard was carried out by the Naval Board. From 1921 until the proclamation of the Commonwealth Shipping Act in 1923, the dockyard was managed by the Ship Construction Branch of the Prime Minister's Department. The 1923 Act established the Australian Commonwealth Shipping Board (ACSB) which administered the dockyard until 1932.
4. In 1932 the ACSB negotiated a lease with the Cockatoo Docks and Engineering Co. Pty. Ltd, and under the Cockatoo Island Dockyard Agreement Act No. 73 of 1933, the dockyard was leased to the Company for 21 years. The Lessee was required to give preference to Naval work, when required, and to ensure the capability of the dockyard for Naval/Defence purposes. In time of war the Commonwealth reserved the right to re-possess and control the yard. The ACSB continued to act as landlord and administer the lease. A Trading Agreement was attached to the lease.

5. In 1947, Vickers Ltd, of London, gained a controlling interest in Cockatoo Docks and Engineering Co. Pty Ltd, having had an interest in the firm since 1938.

6. In 1949 an "Act to Repeal the Commonwealth Shipping Act 1923 and to Provide for the Control and Management of Cockatoo Island and Schnapper Island" was passed. "The Minister" referred to in the Act who was responsible for control and management of the dockyard, was ultimately defined as "The Minister of State for the Navy". As a result the Cockatoo Island Lease Supervisory Board was constituted in September 1950 to administer the properties. The Lease Agreement and Trading Agreement were renewed in 1954 for a period of 20 years. The Company managed the dockyard for a fee, rent was paid based on a percentage of turnover and profits (and losses) were shared in proportion of Naval work to commercial work. Rent was admitted as a charge to the cost of work done. The agreements were due to terminate in October 1974.

7. The new Trading Agreement and Lease became operative in January 1972 for a period of 21 years. The Company changed its name to Vickers Cockatoo Dockyard Pty Limited. The aims of the agreement were to:

- . give the lessee the status of an independent contractor solely responsible for profits and losses with associated freedom in matters such as wage rates and pricing policies, except that specific provisions were made in respect to the pricing of cost plus work for, or on behalf of, the Navy; and

- . provide an incentive for the lessee to seek out commercial work to the maximum extent possible after satisfying priority work for the Navy.

8. Quite deliberately, the new agreement endeavoured to replace the lessee's previous role as a manager by placing it in the position of entrepreneur.

9. The Trading Agreement contains conditions covering the orders placed by Navy. Cost plus work awarded direct to the Company is subject to the Standard Conditions for Determination of the Costs of Contracts, as now set out in the Commonwealth Purchasing Manual, and the profit rate is set at 5% of the costs of direct labour, direct material, direct expense and overhead, the overhead rate chargeable being subject to Commonwealth approval. Rent was commenced at a minimum level of \$500,000 at 1971 prices, to be adjusted annually in accordance with the Consumer Price Index (All Groups) Sydney. There was an alternative rental calculation available but it was never used as it was based on turnover which never reached the operative level. Neither alternative rent represented a true market level. The Company was responsible for maintenance of Commonwealth assets (1971 value of \$30m) except that the Commonwealth could, at its discretion, pay for replacements (other than plant) or partial replacements where the cost exceeded \$500 at 1971 prices. Basically, the Company is responsible for the provision and installation of new and replacement plant except items of non-commercial type required solely for special work for Navy. This was to encourage VCD to invest in readily available plant and equipment in daily use. The Commonwealth was responsible for buildings and works as defined in the agreement. Some of the foregoing aspects have been varied since 1972 as will be described later under "Special Arrangements".

10. Central to the 1972 agreement was the continuing workload for main refits of submarines. There was no guarantee in respect of other work and no preference for naval work other than submarine refits. At the time the agreement was executed VCD had reason to expect that an order for construction of the AOE (Fast Combat Support Ship) would be placed on the Company. The 1972 agreement was

believed to be attractive in that environment and it is understood that cancellation of the project was a severe blow to the workload expectation of VCD.

Selection of Cockatoo Island Dockyard for Submarine Refitting

11. As stated in paragraph 10, VCD has an assurance of submarine refitting work. The decision to establish Cockatoo Island Dockyard as the submarine refitting facility was made in 1966 by the Naval Board after a review of the role of that dockyard. The review looked at the expected workload in future years for Garden Island, Williamstown and Cockatoo Island dockyards, with particular reference to the maintenance facilities required to support an expanding operational Fleet. These three Yards were reviewed as they:

- . are owned by the Commonwealth,
- . were the major Australian dockyards, and
- . were administered then by Navy.

12. The review concluded, inter alia, that "the only corps of engineers, technicians and skilled tradesmen experienced in the refitting of submarines is associated with Cockatoo Island Dockyard. To set up another submarine refitting base inside five years would be extremely difficult and costly due to the lack of experienced men and a suitable dry dock." This conclusion stemmed from the work (including three main refits) that Cockatoo Island Dockyard had undertaken on Royal Navy 'T' Class submarines that had been attached to the RAN for a number of years. Further, there was no capacity at the other two Naval dockyards to undertake submarine work in addition to the surface ship construction, repair and refit tasks planned. The OBERON class submarines were about to be delivered (OXLEY, the first, in 1967) and to operate on a five year cycle i.e. between refits or after acceptance. Thus, OXLEY's first refit was due in 1971.

13. OBERON class submarines are a technologically advanced vessel when compared with the older, wartime designed and constructed 'T' class. It was necessary to construct special facilities, including high security weapons workshops, for their maintenance and an area was

available at Cockatoo Island Dockyard adjacent to existing facilities, including the Fitzroy Dock where the submarine would be located for much of its time under refit. There was no alternative dock of which the activity could make such exclusive use. With the advent of two additional submarines and the introduction of two stream submarine refitting i.e. two simultaneously, a slave dock (a floating dock without individual capability/machinery to be raised and lowered) was built and is located at Cockatoo. A group of consultants was engaged by VCD at its own expense to examine the requirements for the refitting facility and from the recommendations made the present facility was developed. The total project cost of establishing the OBERON submarine refitting facility was approximately \$5.9m. Expenditure on submarine refitting over the past three financial years has been:

	\$m	
1980/81	24.248	
1981/82	28.946	
1982/83	35.271	(estimated)

Modifications to the 1972 Trading Agreement and Lease

14. The Trading Agreement, Clause 12 states:  
"The Commonwealth and the Company will confer with the object of re-arrangement of their joint and respective interests under this agreement and the lease should either party consider that there is a permanent disability to it either by a major permanent change in the Commonwealth's role for the works implicit in clause 2(1) of this agreement or otherwise in the future operation of this agreement and the lease under the present terms."

15. As early as June 1973 VCD put forward proposals to relieve hardships the Company considered were detrimental to its viability. A joint VCD/Commonwealth position paper was prepared and agreed in March 1974. One year later a

meeting of the parties agreed that matters of overhead, rent and profit should be discussed. In July 1975 the Defence (Industrial) Committee (DIC) established a panel to examine and report on a number of aspects concerned with the refitting of Oberon submarines and the operation of the dockyard under the 1972 Agreement.

16. In its report of September 1975 the panel made recommendations in relation to overhead recovery against both Navy and commercial work, rent, maintenance of the facility, temporary surplus capacity and idle time, new and replacement plant, and provision of a shore base and parking facilities. DIC endorsement was given in October 1975 to use the report, subject to Department of Defence endorsement and approval of the Minister for Defence, as a base document to amend the Trading Agreement and Lease.

17. Amendment was accomplished in September-October 1976 after formal negotiations. A legal authorisation to vary provisions in the Trading Agreement and Lease 1972 is contained in a document titled the "Substituted Mode of Performance By Vickers Cockatoo Dockyard Pty Limited Under the Trading Agreement and Lease Between the Commonwealth of Australia and Vickers Cockatoo Dockyard Pty. Limited. Executed on 14 January 1972." It covers overhead recovery and overhead budgets, temporary surplus capacity, rent level for the years 1975 and 1976 and the maintenance of Commonwealth assets covered by the lease. The most important aspect covered was the area of overhead recovery and is described later in this submission under "Special Arrangements".

18. In March 1978, VCD put forward a Position Paper and Plan of Action, expressing grave concern at the decline in the dockyard's capabilities. It came after award of the contracts for construction of HMAS TOBRUK and the follow-on Fremantle Class patrol boats to other Australian ship-builders. The paper placed emphasis on the Company's view that it is in partnership with the Commonwealth and that both share a responsibility for ensuring that Cockatoo

Island Dockyard fulfils its role in shipbuilding and repair. Navy and Defence rejected this concept as it was an accepted condition of the 1972 agreement that workload, other than submarine refitting, was the Company's responsibility and initiative for obtaining commercial work should be exhibited. Further, special arrangements under the Substituted Mode of Performance already assisted the Company. The award of the AOR construction contract in October 1979 more than solved the workload problem; in the event the Company has experienced difficulty in recruiting sufficient labour.

#### SPECIAL ARRANGEMENTS WITH VCD

##### Workload

19. The Trading Agreement enables Navy to place orders direct on VCD without requirement to go to tender. The Company is obliged to carryout the work and in the most economical manner. On the other hand, VCD is free to tender for any Naval work put out to open tender and, if successful, it is regarded as commercial work. VCD has a monopoly on submarine refitting and the Trading Agreement requires that "the Company shall at all times give priority to submarine refitting work being carried out in the submarine refitting facilities."

20. The agreement also requires the Commonwealth to provide VCD with at least six months notice in advance of its priority work. Navy Office advises the Company, on a monthly basis, of all Navy work for the ensuing six months together with a forecast of work for the six months after that i.e. there is monthly advice of twelve months work, the second half of which is not absolutely certain with the exception of major submarine refits which are of two years duration. Subject to the obligation to accept all work allocated by Navy, the Company is to undertake commercial work to the maximum practicable extent.

##### Overhead

21. The 1975 DIC panel that investigated operation of the Trading Agreement proposed introduction of a formula relating to overhead recovery with a view to providing VCD

with an opportunity and an incentive to obtain a greater level of commercial work, thus providing an enlarged labour base against which overheads could be recovered. An increased base of commercial work would result in reduced overhead recovery rates on Naval work. The formula also recognised that one of the major causes contributing to overhead variations at Cockatoo Island Dockyard is the fluctuating annual workload from Navy. Thus, in application of the formula, reduced work loads from Navy increases the Navy overhead recovery rate without affecting commercial rates whilst an increased workload from Navy reduces Navy overhead recovery rates.

22. The overhead recovery rate establishment procedure is laid down in the 1976 Substituted Mode of Performance. It should be noted that VCD's financial year is the calendar year.

23. By 31 October each year an annual overhead budget for the ensuing calendar year is submitted in prescribed format to the Commonwealth, including an analysis of variations from the preceding budget. After investigation and negotiation, if needed, the Commonwealth measures it against planned direct labour manhours of Navy work plus the VCD estimate of commercial work and a tentative manhour rate for Navy cost plus work is struck. Quarterly reviews of the overhead budget are made and the tentative rate may be varied to account for increases/decreases in overhead elements or workload. Approval of the final (actual) rate is subject to rigorous investigation which might result in reduction in amounts sought for individual items eg asset depreciation, insurance, entertainment expense.

24. The overhead recovery rate formula is aimed at assisting VCD to achieve a larger workload, thereby reducing the overhead charged to the Commonwealth. It was based on the premise that for every \$1 of incremental direct labour, variable overhead increased by less than \$1 or 100%. At the

time of agreement to the formula the variable was estimated at 50 cents/\$1 direct labour. The going overhead rate for the industry was said to be 100%.

25. The rules to determine residual overhead, and thereby the rate for Navy cost plus work (mainly submarine refitting) are as follows:

- . VCD is free to quote any overhead and profit rate for commercial work.
  
- . commercial work is all work done by the dockyard other than work for or on behalf of the Department of Defence on a cost plus profit or incentive basis arranged in a single vendor situation.
  
- . VCD is to contribute towards overhead recovery by calculating overhead on commercial work at differential rates according to the level of commercial work achieved. A special, Commercial-in-Confidence statement which shows the action of the formula and values of the elements in it has been forwarded separately to the Secretary of the Committee.

26. This formula approach is aimed at assisting VCD to obtain commercial work but the amount (in manhours) has not increased since introduction of the formula other than through the award of the contract for construction of the AOR for the RAN.

#### Rent

27. The rent charged does not represent an economic or market rental for the facilities in the dockyard. The rent at commencement of operation of the 1972 agreement was \$.500m. It was to be adjusted each year by movement in the Consumer Price Index, All Groups, Sydney. By 1974

the rent was \$.573m. VCD, in 1975, asked the DIC panel to review the rent level as activity in the dockyard had not given the Company adequate reward. It must be stated that rent is not recoverable against Navy cost plus work, which forms the majority of work in the yard.

28. The expectation in 1972 was that the profit rate of 5% on cost plus work would be roughly sufficient to pay the rent but that was not to be the case. The DIC panel, having regard to Company profits between 1972 and 1975 recommended that the rent be frozen at the 1974 level for 1975, 1976 and 1977 until the effects on profit of the other changes, particularly overhead, were established. In the longer term the panel recommended consideration of a VCD favoured option where rent was related to the 'capacity to pay' by adoption of a formula - Base rent plus X% of profit before tax (after paying the base rent).

29. The rent did remain at the 1974 level through to 1977. In 1977 a rental formula was negotiated with the base rent being set at \$.550m to which is added 15% of profit before tax but after paying the base rent. The portion related to profit reacts not only to activity levels but also to inflation. The base rent has not varied since 1976 but is to be re-negotiated in 1983 to take account of erosion due to inflation. However, even the formula approach gives less than a market rental.

30. There are a number of provisions in the agreement which allow for reduction of rent, such as:

- . if there is a major reduction in the submarine refitting programme.
- . if portion of the rented premises is destroyed, damaged or rendered unfit for use.

- . if, due to war or the threat of war, the Commonwealth takes over the dockyard or any portion of it.

31. If the rent, which is payable by 31 March in each year in respect of the preceding calendar year, is in arrear for three calendar months, the Commonwealth can terminate the agreement and lease.

#### Repair and Maintenance of the Facility

32. The Company has always accepted the responsibility for maintenance of Commonwealth assets. In fact, Navy virtually pays for 85% of the maintenance as it is a charge to overhead and Navy provides that level of the total workload. Originally the 1972 agreement required VCD to put into a Repairs Reserve account at least 5% of the annual turnover. VCD did not have to spend the 5% but had to use sufficient of the account to discharge its obligation for maintenance. If the account became too large the parties were to confer.

33. VCD objected to this basis as it did not relate to the utilisation of the facilities. Design contracts, for example, were included in turnover but did not draw on the facility and therefore it was seen as more equitable if a proportion of direct labour was used as the basis. The DIC panel recommended 15% of direct labour as the requirement.

34. The Company is responsible for purchase of new and replacement plant except items of non-commercial type required solely for special work for Navy. The intention of this requirement was to encourage VCD to invest in commercially available plant and equipment in daily use. The Company claims that the low profit margin on Navy cost plus work provides no incentive to invest in new plant and equipment and that it might just as well continue to maintain old, inefficient equipment. This view is particularly supportable



as the Commonwealth pays for most of the maintenance through overhead.

35. The Commonwealth has a discretionary role in supply of plant and equipment and a full responsibility for buildings and other defined assets such as cranes. VCD has invested in some facilities but they are related to commercial activity.

Comment

36. The Commonwealth does not have similar arrangements with any other commercial shipbuilder/repairer; the two other Naval dockyards are owned and operated by the Commonwealth.

CONTRACTS FOR SHIPBUILDING/SHIP REPAIR

Contracts for Shipbuilding

37. Contracts for shipbuilding in Australia are arranged and administered by the Department of Defence Support (previously Administrative Services) as the Contract Authority. The basic contract documents are the same for all shipbuilders though negotiation may change details e.g. the liquidated damages clause for delay in performance, as a result of trade-offs that occur. Each shipbuilder has his own preference for certain aspects of a contract and, within Commonwealth purchasing and financial policies and regulations, negotiation may provide a difference between, say, the contract with North Queensland Engineers and Agents for patrol boat construction and VCD for the AOR.

38. Whilst Defence has the ability to award a ship construction contract direct to VCD per medium of the Trading Agreement, this has not been done in recent years and all contracts have been the subject of tender action. This action maintains the desired competitive environment. However, when contracting with VCD the Trading Agreement always has an effect on certain areas, particularly relating to overhead and priority for submarine refitting.

39. Should the factors in the overhead recovery rate formula described in paragraph 24 above and the separate Commercial-in-Confidence submission be varied as a result of a substantial change in an overhead element e.g. annual leave provisions, or the shorter working week, then the overhead applicable to a ship construction contract that has been awarded as commercial work would vary and then there would be a price adjustment. Similarly, if the rental level altered in respect of the Lease, then a variation in overhead would apply.

40. As stated in paragraph 18 above, the Company must give priority to submarine refitting work and so any commercial work, including that for the Commonwealth, is at risk if production resources are scarce. The shipbuilding contract makes special reference to the priority aspects.

41. Clauses covering the following matters are contained in both the NQEA (Patrol Boat) and VCD (AOR) contracts:

- Ordering Arrangements
- Scope of the Contract
- Materials and Equipment
- Option to Purchase Additional Vessel/Craft
- Australian Industry Participation
- Sub-contracts
- Access (by authorised officers of the Commonwealth)
- Australian Government Furnished Equipment
- Modifications
- Care of the ship/craft and components
- Inspection Tests and Trials
- Acceptance and Delivery
- Payment
- Vesting

Insurance  
Excusable Delay  
Liquidated Damages for Delay  
Default  
Warranty  
Special Jigs, Tools and Patterns  
Confidentiality of Information and Copyright  
Patents and Indemnity  
Assignment of Benefit of Contracts and Policies  
Law Applicable

The above list whilst not exclusive illustrates even handedness in contract coverage. Both contracts have had to be re-negotiated during their course due to problems generally associated with design and production information. Again, neither contractor has received a more favourable response than the other; the Commonwealth has been prepared to examine both cases and negotiate an appropriate settlement.

42. The contracts for construction of the LSH (HMAS TOBRUK), patrol boats (14), AOR and the minehunter catamaran prototypes were all awarded on a fixed price basis. That allows for payment of escalation. The AOR contract is now proposed to be varied to a fixed price incentive fee basis where an incentive is provided for the contractor to increase the profit margin earned by an improvement in performance or, alternatively, to share any over-run of cost by a profit reduction up to the point (a ceiling price) where the contractor has to bear all additional costs to complete the task.

43. With all contractors, arrangements are made to have Navy representatives resident in the shipyard. These field representatives are the initial contact between the contractor and the customer on all matters relating to construction. Their two major functions are -

- . the progressing and general business management of the contract including certification that a milestone has been reached enabling a claim for a progress payment
- . Quality Assurance audit of the Quality Control that is being implemented by the contractor.

44. Thus, the contents/provisions of a shipbuilding contract and its administration are no different for VCD vis-a-vis any other contractor.

#### Contracts for Ship Repair

45. The Trading Agreement contains many of the conditions for orders placed on VCD e.g. 5% profit on cost plus work, overhead rate as calculated in accordance with the Substituted Mode of Performance, and application of the Standard Conditions for the Determination of the Costs of Contracts. However, the agreement is augmented to cover most orders and, in particular, the major refit of a submarine.

46. Orders for major submarine refits are placed on VCD by Navy Office and are accompanied by a contractual document which is signed by both parties. That document is termed the Schedule of Conditions and its present format and contents have evolved over the years since the first refit of HMAS OXLEY which commenced in 1971. The Schedule has been developed with the assistance of legal advice on both sides and contains many clauses that are found in shipbuilding contracts e.g. vesting, insurance and indemnity, tests and trials, acceptance, default, access, sub-contracts.

47. Orders for other refit and repair work are placed by the General Manager, Garden Island Dockyard e.g. for submarine intermediate and mid-cycle survey docking, or for repair of ships for defects that arise on an unplanned basis

e.g. the replacement of a damaged propeller. After obtaining a quotation for the job - which has to state the various price elements such as overhead at the Commonwealth approved rate, the profit at 5% if the job is cost reimbursable, and any contingency (not usual in cost reimbursable work) - an order describing the scope of work is placed to which is attached a set of conditions. The first condition always refers to the overall governing factors - the Trading Agreement and Lease and the Standard Conditions for Determination of the Costs of Contracts. Others that follow are:

- Work Not to Exceed Value of Order
- Additional Work Found Necessary
- Completion Date
- Overtime Approval
- Sub Contracting
- Idle Capacity
- Limit of Expenditure
- Quality Control
- Acceptance of Work
- Progress Reporting
- Payment of Claims
- Access to Information

48. Navy has a Principal Naval Overseer (PNO) resident in the dockyard to act as the progressing officer and Quality Assurance officer for all refitting work. The PNO is Navy's watchdog in overseeing the efficiency of the

contractor and every effort is being made to improve and ensure his ability to control cost-plus contracts.

49. For ship repair/refitting work at other contractors yards there are period contracts established by the Department of Defence Support. In NSW there are 24 contractors listed on the period contract, some being capable of docking or slipping ships e.g. Newcastle State Dockyard, Storey and Kears in Sydney, and others being limited to dealing with specific engineering matters e.g. pumps, electrical equipment. In Queensland there are 15 contractors listed for the repair, overhaul and refit of RAN Amphibious Heavy Lift Ships, Landing Craft (Heavy) and other RAN Ships (Excluding Small craft). Again some can undertake a full refit including docking/slipping e.g. NQEA, United Ship Repair Services, Evans Deakin Industries, whilst others deal with specific engineering equipments e.g. Energy Hydraulics Pty. Ltd., Diesels and Components Pty. Ltd. A period contract has also been placed on NQEA specifically for patrol boat refitting. Each period contract is for two years.

50. A period contract does not guarantee that the listed contractors will be given a certain level or any work. Each contractor has his contract rates listed in his copy of the period contract together with a price variation clause to cover orders subject to escalation i.e. fixed price orders, a list of insurance policies he holds that are applicable, progress payment arrangements and warranty provisions. Attached to all contractors' copy is a list of General Conditions and Special Conditions of Tender and Contract that are common to all period contracts.

51. The General Conditions advise that there is a panel of contractors that can be asked to quote for work, the period of the contract, details of the ordering officer and where claims for payment are to be forwarded.

52. The Special Conditions of Tender and Contract cover the following:

- Scope of the Contract
- Estimated Requirements.
- Access
- Security
- Standard of Work
- Work Specification
- Inspecting Authority
- Special Tools and Gauges and/or Test Equipment
- Materials and/or Components to be Supplied by the Commonwealth
- Handling of Stores and Equipment
- Work Progress and Financial Expenditure Reports
- Sub-Contractors
- Method of Ordering and Basis for Payment
- Claims for Payment
- Indemnity and Insurance
- Precautions for the Safety of RAN Vessels
- Termination
- Warranty.

It can be seen that the above items are similar to those in contracts for ship repair at VCD. The only real difference is the existence of the Trading Agreement with all its provisions and the ability of the Commonwealth to place work direct on VCD without obtaining quotes from other ship repairers.

53. Whilst VCD has a monopoly of submarine refitting due to the establishment of the refit facility at Cockatoo Island Dockyard and the expertise and quality control standard to perform the work, it could be said that NQEA, Cairns, enjoys a similar position with respect to patrol boats because

it has the expertise, quality control and logistic organisation to undertake patrol boat refits efficiently. Allied to this is the know-how that has been developed in the construction of Fremantle class boats, the build up in Cairns of an infrastructure to support the refitting task and the existence of a Naval progressing and quality assurance organisation at Cairns. These elements are important in achieving the required level of control, a timely and cost effective result and the appropriate quality.

DEPARTMENTAL COMMENT ON AUDITOR GENERAL'S REPORT

54. Of the items referred to in paragraph 1 of this submission, the Auditor General included only five in his conclusion where it was stated:

"Monitoring the performance of contracts for the refitting of submarines would be improved if action were taken by the Department in the following unresolved areas:

- . finalisation of review of overhead recovery rate formula
- . implementation of more advanced automated control systems for monitoring direct cost allocations
- . control over short-term idle time
- . clarification at the working level of responsibility for rework arising from defective work by the contractor, and
- . documentation of roles and responsibilities of departmental officers over operations at Cockatoo Island Dockyard."

55. In order to investigate and resolve these matters a senior officer of the Department of Defence (Navy Office) was seconded for three months special duty. A summary of findings and action taken/proposed follows.

Review of Overhead Recovery Rate Formula

56. This formula has been discussed earlier in paragraphs 21-26 and the special, Commercial-in-Confidence submission forwarded separately. The numerical values in the formula require revision but there was a delay in doing so pending legal opinion in relation to provisions in the AOR construction contract. The subject has been discussed with VCD and a recommendation on the Commonwealth position for negotiation has been made in a report provided to the Department of Defence Support which has assumed responsibility for administration of the Trading Agreement.

Implementation of Advanced Automated Control Systems for Monitoring Direct Cost Allocations

57. The Audit report was critical of the records maintained by the Department stating that they were insufficient to allow adequate control over costs charged against refit sub-jobs and to allow follow-up of anomalies. It was suggested that control of costs would be improved if similar procedures to those in use for submarine mid-term dockings were adopted.

58. The manual system used by the PNO for mid-cycle survey and intermediate dockings was effective because only 80-90 cost headings (sub-job) are involved and operation of the system - entering and comparison analysis of details, subsequent investigation of problems, and decisions on solutions - can be readily accomplished. In main refits there are more than 1400 sub-jobs and a manual system, especially if two submarines are under refit, is impractical. A computer based system is necessary and, as the basic data is already held on computer by VCD, it seemed a suitable system could be derived without much difficulty.

59. A proposal is now being processed for approval where -

- . VCD provides computer data on a magnetic disc
- . the data is processed by a service bureau
- . the data is also able to be interrogated by PNO or his staff using a computer terminal at Cockatoo Island for ad hoc summaries and exception reports.

The reports that will result from implementation of the proposal will enable early, positive action if a potential problem is indicated. It is a practical and cost effective system with a minimum of input by Navy and a maximum of appropriate output.

Control Over Short Term Idle Time

60. The Audit report stated that idle time was an acceptable contract cost only if approved by the Department of Defence, that no such approvals (or rejections) were evident and that the Department implement a cost control system over 'short term' idle time expense. The Department agreed to investigate the practicality and cost effectiveness of detailed identification of 'short term' idle time.

61. VCD tackle the idle time problem through work planning on a two monthly forward looking basis, with weekly reviews of the plan and, finally, a daily check prior to the next day's operation which can take account of extended sick leave, new compensation cases, delays in necessary prior work and emergency work. Manning in the yard is held to slightly below the mean level required in order to reduce the problems associated with excess labour and is the initial step in planning to reduce idle time.

62. The work force is divided into various areas or shops or tasks. The submarine refitting team requirement does not fluctuate greatly as it caters for main refits, intermediate and mid-cycle survey dockings and 'work afloat' at HMAS PLATYPUS, the submarine base at Neutral Bay. Using the work planning system described in paragraph 61, every arrival each day should have a job somewhere. The work area that is the balancing factor is repairs and maintenance. There is a core force to which is added those men not required on other tasks. All repair and maintenance tasks are listed in priority order and contains work applicable to all categories (trades) of employee.

63. Daily adjustment of the plan is necessary due to unplanned absences or unexpected returns to work. This is done by a computerised system. On 20 September 1982 a new personal identification pass system was introduced for all personnel. It consists of a plastic card on which is punched the identification number of the employee and his/her work area. Upon arrival at the yard the employee inserts the card into a reader that feeds the information to the computer on the Island. The information is compared with the listing of people in each work area and an exception report is printed for each foreman listing the absentees for that day. The foreman, using lists of those on leave, compensation or Accrued Day Off, determines the unplanned absentees. He must then decide whether the gap requires filling, particularly if others are dependent upon the absentee e.g. crane drivers where a non operative crane is critical. It may mean lower priority tasks must be left and the repair and maintenance area is the main reserve used.

64. Use of this system is said to have everybody in the dockyard at a work area by 8.15 am i.e. within 45 minutes of arrival. In excess of 95% of the work force are at their pre-planned task immediately, allowing for change/walking time. Change/walking time is charged to the immediately adjacent

job to start and finish times and the time taken for re-allocation is similarly charged.

65. If advanced planning is properly undertaken and the manning level is correctly maintained there should be no surplus labour. The absentee exception reporting system enables early re-allocation of men to areas dependent on an absentee. Re-allocation time is the only possible contender as idle time and in view of the short period that is involved i.e. less than one hour, it is considered inefficient and unwarranted to identify it as idle time in an accounting sense.

Clarification of Responsibility for Rework Arising from Defective Work

66. The Auditor General's Report expressed interest in the possibility that the Commonwealth may have been meeting costs of rectification of defective work which are the financial responsibility of the contractor and stated, "It is important that the question of responsibility be clear to both the contractor and the Departments' representatives and that the costing system be capable of identifying all rework costs that may be recoverable."

67. The Standard Conditions for the Determination of the Costs of Contracts exclude the following costs -

"Clause 7(r) the cost in excess of a reasonable allowance of faulty materials, faulty workmanship and rejected components;

(s) any cost which could have been avoided or reduced by the exercise of proper standards of skill care and efficiency, to the extent that such could have been avoided or reduced."

In further explanation Clause 38 states -

"Expenses which are due to carelessness, neglect or inefficiency on the part of the contractor, or which are considered to be excessive in amount or unnecessary, are not allowable as costs to the contract."

68. The Department includes in the Schedule of Conditions governing a submarine refit a direct reference to the Standard Conditions and has advised both VCD and the General Overseer and Superintendent of Inspection, East Australia Area, of their responsibilities. However, it is very difficult to detect and prove negligence or carelessness in cases where it may be applicable without one overseer to every one or two tradesmen. Only the gross cases come to notice for investigation. The new cost monitoring system may show up problem areas where an estimate for a particular cost heading indicates a large over-run.

69. The present system for identifying rework costs is in an area termed "Unplanned Work". During the course of a refit unauthorised (at time of discovery), unplanned work for which costs have not been provided in the estimate will arise. The contractor has to seek additional funds giving reasons and a new job number is allocated with an indicator that it is unplanned work and one of ten code numbers to categorise the cause. Two codes can indicate neglect or carelessness:

Code 4 - Incorrect interpretation of Drawings, Specifications

Code 8 - Accidental damage during repair, transport or storage.

However, there is no certainty that other codes do not also contain elements of neglect of cost that could have been avoided:

Code 6 - Rectification of major defects arising from tests and trials.

There is no absolute criterion and each case has to be treated on its merits.

70. Then there is the question posed in paragraph 67 above: what is a reasonable allowance of faulty materials or workmanship? In the last two completed refits, statistics show -

	TOTAL REFIT MANHOURS	NO. OF REWORK JOBS	REWORK MANHOURS	APPROX COST	TOTAL REFIT COST
OTWAY	1.394m	43	18,629	\$ .389m	\$24.643m
OVENS	1.368m	72	14,320	\$ .356m	\$29.552m

It is unknown how much of the above could be proven a contractor responsibility. It is a matter of judgement whether or not an arbitrary amount of the total refit cost is reasonable as a rework cost. There is no certainty that all rework is reported/detected.

71. Presently, PNO checks new rework tasks when they appear at reviews of cost estimates for each submarine. These estimate reviews are at four monthly intervals so it is too late to ensure an adequate investigation of the incidents. The new cost monitoring system will provide a weekly report of all unplanned work and will enable early investigation of new tasks by PNO. The problems of responsibility and reasonableness will still exist. Each job is to be treated on its merits taking into account the work involved, the degree of difficulty encountered and the frequency with which the task occurs. PNO is now involving his staff with unplanned work to a greater degree and will approach the contractor when responsibility lies with it. More attention is being paid to events subsequent to tests and trials and particularly to work leading to the retest.

72. The VCD stance on rework is that as it cannot allow a contingency in a cost plus contract to cover rework as it would do in a fixed or firm price contract, and the 5% profit margin allowed does not cover the situation, it will insure against the risk and the premium will become a legitimate cost against the refits.

Documentation of Roles and Responsibilities of Departmental Officers Over Operations at Cockatoo Island Dockyard.

73. The Audit report considered that sound management practice required that administrative responsibility for approval of overhead rate, annual rental and advice to VCD should be summarised in a single management document. Reliance had been placed on officers duty statements and divisional functional statements and that was considered inadequate.

74. With the transfer of Commonwealth responsibility for administration of the Cockatoo Island Dockyard Trading Agreement and Lease from Defence to the Department of Defence Support, a Guide to Administration of the Trading Agreement and Lease was written by a senior officer. It contained details of what was dealt with, the levels of officers in Defence who had actioned the various matters and recommendations for the way ahead including the proposed Commonwealth stance on outstanding subjects. The Guide has been provided to the Department of Defence Support and a copy was sent to the Auditor General's Office. It is considered that the document, when translated into the organisational environment of Defence Support will satisfy the concern of Audit.

Other Matters.

75. The aspects of Depreciation and Commonwealth Assets, about which observations were made by Audit, have been, or are being, attended to as indicated in the Report.

JOINT COMMITTEE OF PUBLIC ACCOUNTS  
INQUIRY INTO THE AUDITOR-GENERAL'S REPORTS OF SEPTEMBER 1982 AND MAY 1983  
SUBMISSION BY THE DEPARTMENT OF EDUCATION AND YOUTH AFFAIRS

AUDITOR-GENERAL'S REPORT SEPTEMBER 1982

PARAGRAPH 7.1 SECONDARY ALLOWANCES SCHEMES (SAS)

GENERAL

1. The Auditor-General's Report refers to the administration of the Secondary Allowance Scheme by the ACT Office of the Department. That Office is one of the Department's smallest (staff of 16) and was responsible for 450, or less than 2% of the 27025 students assisted under the scheme in 1982.

AUDIT FINDINGS

Index Card System

2. The index card system provides for a manual check of dual applications. For the ACT Office the one index card system is used for all student assistance schemes. Under the Secondary Allowances Scheme, where the parent is the applicant, an index card is raised in respect of each applicant and the student concerned. Following receipt of the Auditor-General's query the index card system was examined in the light of apparent deficiencies listed by the Auditor-General. These deficiencies were reported to be a lack of cards for some applicants, students cards not updated and probable misfiling. The examination involved a check of parental and student cards in relation to 100 applications (22% of total). All cards relating to parents were found to be in order, but two instances were found where student cards had not been raised. Staff were reminded of the necessity to follow correct procedures in relation to the index.

3. The Auditor-General also commented on the lack of physical security for the index card system. The trolley of index cards is now locked away at the end of each working day.

Input/Output Checks

4. The Auditor-General was concerned that there was no provision on the SAS application form for the signature and date of the officer approving the grant. This situation has now been remedied. The SAS application form for 1983 has been redesigned and now includes provision for the assessor's signature and date of assessment. Staff in the ACT Office and other State Offices have been instructed to sign and date the application form once an assessment has been finalised.

5. The Auditor-General was concerned that at the time of the audit V forms (bulk requests to the Department of Finance for the payment of Student Allowances) were certified and authorised by the OIC of the Payment Section unsupported by either the related approved applications or evidence of examination by an authorised officer.



6. Procedures now in operation in the ACT Office require the OIC of the Payments Section to prepare a control sheet, listing all applications authorised for payment by assessors under Finance Reg. 48(c). The control sheet along with the application forms is then sent to the ADP Section for processing. When processing is complete the ADP computer operator notes the control sheet with the number of applications processed and returns the sheet and applications to the OIC Payments Section. Prior to the OIC of the Payments Section signing the V form certifying the payments under Finance Regulation 56AA he checks the contents of the V form against the control sheet to ensure all entries on the V form are supported by an application. This arrangement provides a mechanism whereby the officer who certifies the request for payment checks that they are in respect of applications approved for benefits.

7. The Auditor-General states that the officer signing V forms should be a delegate under regulation 45(2) of the Finance Regulations. On this particular point we have reservations. The Department of Finance Student Allowances Payments Handbook states that officers signing V forms do so under Regulation 56AA of the Finance Regulations; this is what happens now. We will pursue this point further with the Auditor-General's Office.

#### Verification of Income

8. For 1983 an additional step in the verification of income checking procedures has been introduced nationally in the light of the Auditor-General's concern that there were no procedures in existence to ensure that all verification checks of income with the Taxation Office were accounted for. Lists of cases to be checked with the Taxation Office are now produced from the Department's mini-computer, for this purpose.

9. The Auditor-General was also concerned that as one of the eligibility criteria for SAS was that a student must be financially dependent on the applicant (usually the parent) than the student's own income should be means-tested and also subject to checking with the taxation office. The Auditor-General's question was based on an assumption that, if it was intended that students earning substantial income of their own should not attract SAS benefits, then an upper limit of student income should be specified and checks instituted.

10. However, the purpose of the requirement referred to was simply to ensure that applicants were actually responsible for the students on whose behalf they applied and to minimise the possibility of abuse whereby students might be "disowned" so that other persons who satisfied the means test might apply for benefits on their behalf. It had never been intended that students from low-income families should cause their parents to be excluded from benefits by the level of their own part-time earnings.

11. With the agreement of the Minister and of the Auditor-General the situation has been clarified in the Policy Manual for 1983. The revised requirement now relates only to claims from persons other than parents and concentrates on factors such as the degree of support provided by the claimant and whether any contribution is made by the parents themselves.

## AUDITOR-GENERAL'S REPORT SEPTEMBER 1982

### PARAGRAPH 7.3 OVERPAYMENT PROCEDURES

#### GENERAL

12. The Auditor-General's Report refers to the administration of overpayments in the Northern Territory Office of the Department. The total number of overpayments outstanding in that office as at 31 December 1981 was 295 with a value of \$61,350. This represents approximately 2.5% of the total number of cases outstanding nationally.

13. The Northern Territory Office processes applications for the full range of student assistance schemes but with a heavy emphasis, due to its location, on the Aboriginal Secondary Education Grants Scheme (Abseg) and the Aboriginal Study Grants Scheme (Abstudy). A large proportion of payments made under these two schemes are made to persons in remote localities. Accordingly, difficulties arise in effecting recoveries. Prior to the audit of April 1982 the registration and recovery of overpayments was undertaken as staffing resources permitted. In November 1981 the recruitment of a temporary clerk enabled a considerable number of overpayments to be registered and recovery action commenced. This is reflected in the number of overpayments registered between June 1981 and December 1981. In April 1982 a Clerk Class 5 was appointed part-time in the recoveries section and that Officer has been able to oversee and maintain the recoveries system.

14. The Northern Territory Office does not currently have the benefit of the computer assisted recovery system operating in other States due to the small number of cases raised each year.

#### AUDIT FINDINGS

##### A lack of comprehensive and up to date instructions

15. A draft recoveries manual was issued to all States in May 1982. Although the manual was in draft form it was issued to replace all existing procedures and practices in State offices. The part-time recoveries clerk appointed in the Northern Territory Office in April 1982 has implemented the procedures outlined in the manual. A revised version of the manual was issued to State Offices in May 1983.

16. The issue of the recoveries manual is the first stage in a complete revision of the recoveries system within the Department. A review team has been set up to re design the present ADP system, which will encompass the N.T. Office.

##### Lack of evidence of a check of overpayment calculations

17. With the appointment of the part-time recoveries Clerk in the Northern Territory Office procedures for the checking of overpayment calculations have been strengthened. After each overpayment case has been registered, its details are examined by the recoveries clerk to ensure that the registration has been carried out correctly, that the

first letter of demand has been issued and that the amount of the overpayment has been correctly calculated by the assessor. To ensure that each of these steps has been taken, each new overpayment raised is accompanied by an overpayment check list which is noted as each action is completed.

Undue delay in recovery action

18. The Auditor-General was concerned about the delay from the time overpayments are discovered and recorded and the commencement of recovery action.

19. This has been remedied. With the appointment of the part-time recoveries clerk registration and follow-up of overpayment now takes place within two weeks of overpayments being discovered.

Inadequate recovery procedures

20. Procedures for the recovery of overpayment have been extensively revised in accordance with the draft recoveries manual issued in May 1982. Procedures now in use ensure that overpayments are registered and the first letter of demand issued within 1 to 2 weeks of their discovery. Each month the card register of overpayments is culled by the recoveries clerk and cases where there has been no response from the debtor are forwarded to the Deputy Crown Solicitor (Darwin) for a second letter of demand to be issued. Should any letter of demand be returned as "unknown at this address" then "whereabouts investigation" takes place. This normally involve checking with other government bodies to find an alternative address where the debtor may reside. In cases where the debtor does not respond to the letter of demand, prosecution action may be considered.

Increases in Overpayments

21. The Auditor-General has noted the large increase in the number of overpayments registered between June and December 1981. As outlined earlier this increase related to overcoming a back log of overpayments previously not registered. With the appointment of a temporary clerk in November 1981 these cases were subsequently registered and recovery action commenced. Subsequent overpayment statistics are comparable with those of December 1981. As at 30 June 1982 the number of cases outstanding was 296 with a value of \$72,201 and at 31 December 1982 there were 253 cases valued at \$72,043.

AUDITOR-GENERAL'S REPORT MAY 1983

PARAGRAPH 7.2 ADULT SECONDARY EDUCATION ASSISTANCE SCHEME

GENERAL

22. The Auditor-General's report refers to the administration of the Adult Secondary Education Assistance Scheme (ASEAS) in the ACT Office of the Department. The ACT Office of the Department was responsible for 80 or less than 5% of the 2097 students assisted under the scheme in 1982.

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Reports, September  
1982 and May 1983

Submission by the Department of Education and Youth Affairs

Curriculum Development Centre

1. The Auditor-General's reports refer to four major issues namely -
  - . Continuing deficiencies in the Centre's accounting and control procedures which were noted for the year ended 30 June 1980 and for the year ended 30 June 1981.
  - . The submission of draft final statements for the year ended 30 June 1981 which were returned to the Centre on a number of occasions because of inadequate support documentation.
  - . Estimates of cash expenditure for 1980/81 approved by the Minister in accordance with Sub-section 34(2) of the Curriculum Development Centre Act exceeded by \$23,088 in respect of administrative expenses.
  - . Delay in tabling in the Parliament the 1980/81 Annual Report of the Centre.

2. Continuing Deficiencies

During the period in which the Auditor-General drew certain matters to the Centre's attention, the publications program of the Centre was experiencing rapid growth. This caused serious strain on the finance and accounting unit which, at no stage, exceeded three persons in number. The systems in place at the time were obviously deficient and plans were underway to automate a number of systems which would accelerate processing and ensure better controls. At the time of the RCF decision a proposal had been presented to the Public Service Board for the Centre to engage a firm of ADP consultants. The proposal lapsed by mutual agreement with the announcement of the RCF decision.

In a brief to the Minister of 20 August 1982 (Attachment "A") the Director of the Centre advised on the status of the matters raised by the Auditor-General. While some of these matters cited in the Auditor-General's Report for the year ending 30 June 1981 had not been rectified in full, there were others that had been addressed and improved procedures instituted. You will note from point 8 of the briefing to the Minister, that despite the inability to introduce a full ADP system, the Centre was able to arrange for a partial solution for the debtors ledger.

3. Draft final statements for the year ended 30 June 1981

Following the RCF decision, the Centre raised no barriers to the transfer of staff to other areas of the Public Service. A consequence was that the person who had been responsible for the Centre's accounting over a number of years and who was experienced in accrual accounting transferred from the Centre early in the 1981/82 financial year. Less experienced staff were called upon to prepare the financial statements. Staff relied heavily on the advice of the Auditor-General in this matter but were not always able to produce on demand support documentation to his satisfaction. Hence the statements were referred to the Centre for additional information on a number of occasions.

The Centre, faced with a similar situation in respect of the 1981/82 financial statements engaged the services of a firm of accountants to assist in their preparation. We believe this has overcome the problem.

4. Over expenditure of Minister's approved estimates 1980/81

The Centre is required to obtain a specific approval from the Minister in accordance with Sub-section 34(2) of the Curriculum Development Centre Act. This approval is obtained prior to any expenditure in a financial year and may be revised in the light of changes in program priority and expenditure trends. Following the review of estimates of early June 1981, the Minister's approval was obtained for a revised estimate of cash receipts and payments. A copy of the Minister's approval is at Attachment "B".

About this time the Director of the Centre asked finance and accounts staff to review the impact of the RCF decision of May 1981 on the Centre's program. The effect of this diversion was to lessen controls on the monitoring of cash expenditure. Further, there was considerable pressure from creditors for payments of accounts as a direct consequence of the publicity given to the abolition of the Curriculum Development Centre. At that time details of appropriation (if any) for 1981/82 were not clear. The nett effect was that accounts for administrative expenditure were processed without due and complete regard to the Minister's approval for the item Administrative Expenditure and the approved amount was exceeded by \$23,088. Underexpenditure in other areas of the estimate reduced the overexpenditure to \$8,307. This did not, of course, lead to any overexpenditure of the Centre's appropriation; it was funded from receipts for the sale of publications which were higher than estimated.

5. Delay in tabling 1981/82 Annual Report

The difficulties which arose in presenting financial statements to the specification of the Auditor-General are set out in item 3 above. The Curriculum Development Centre Act requires the financial statements, together with the Auditor-General's Report on his inspection of those statements to be incorporated in the Annual Report before it is presented to the Minister for tabling in the Parliament. Once these difficulties were encountered, arrangements were made to prepare and present an interim report which was tabled on 5 May 1982.

The Auditor-General's Report of 1980/81 financial statements in compliance of Sub-section 34(2) of the Curriculum Development Centre Act was presented to the Minister on 24 December 1982 and the final Annual Report prepared for tabling in the Autumn 1983 Session. The announcement and consequence of the 1983 election prevented the Centre tabling the report in February as intended; the report was tabled on 17 May 1983.

Work on the 1981/82 Annual Report is well in hand; the draft financial statements have been presented to the Auditor-General.

6. It is apparent from the foregoing that there were a number of weaknesses in the staffing structure and the accounting procedures of the Centre during the period under review. The Government has announced the reactivation of the Centre and a case will be put for a strengthening of finance and accounting expertise and the application of ADP processes from the outset.
7. The names of possible witnesses to appear before the Joint Parliamentary Committee of Public Accounts are:

Mr David Francis  
Director of the Curriculum Development Centre

Mr Peter Maher  
Assistant Secretary  
Departmental Services Branch  
Department of Education and Youth Affairs.

31 May 1983

DEPARTMENT OF EDUCATION AND YOUTH AFFAIRS

Curriculum Development Centre

- Attachments 'A' and 'B' may be found on Joint Committee of Public Accounts File 1983/5, Part B.

Joint Committee of Public Accounts Inquiry into the Auditor General's Report September 1982 paragraph 23.1 Internal Audit. Submission by the Department of Foreign Affairs.

A review of the Internal Audit function of the Department of Foreign Affairs was conducted by the Auditor General's Office during May 1982. Its conclusions were advised formally to the Department by memorandum dated 9 June 1982.

2. The Department's response to the Auditor General of 5 July 1982 proposed remedial action on the matters raised in the report.

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3. The auditor General acknowledged that machinery existed by way of the Departmental Audit Committee to approve the annual internal audit program, to receive quarterly status reports and to monitor the effectiveness of the audit program. In keeping with the importance that the Department places upon the internal audit function this committee is chaired by the First Assistant Secretary M.F.S.D. (Level 4), who reports directly to the Permanent Head, and includes several Assistant Secretaries. In the context of the operational requirements of the Department, continuous attention is paid to the staffing levels of the Internal Audit Section, to ensure that programs and/or staffing levels accord with the recommendations of the Department's Internal Audit Committee.

4. The Department's response to the Auditor General drew attention to a number of considerations relating to staffing of the Section. Of the 20 positions on the establishment, 19 have a direct audit function which is of relevance to the level of staffing.

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Action had been taken to fill the positions vacant in late 1980, but the successful applicants could not actually commence duty until the first quarter of 1981 because of delays necessitated by protracted promotional procedures and, in one case, obligatory security clearances. The staffing levels of the Internal Audit Section are now within the limits recommended by the Departmental Internal Audit Committee, which were reported to the Joint Committee of Public Accounts following the Auditor General's March 1981 report. Of the 20 positions on the approved establishment 16 are filled currently. One of the vacant positions is a Clerical Assistant Grade 1 position which has no direct audit role. The overall staffing level of the Internal Audit Section compares favourably with other Departments based on the statistics produced by the Interdepartmental Advisory Committee on Internal Audit following a review of the internal audit function throughout the Australian Public Service in November 1982.

5. At a Departmental Audit Committee meeting in December 1982 a staffing policy for the Internal Audit Section was confirmed. Officers recruited to specialist audit positions could be expected to remain in Internal Audit for three years. Generalists i.e. experienced officers transferred to the Section from within the Department would occupy positions in Audit for two years. The objectives of this policy are to ensure that a mix of specialist and generalist officers would be maintained particularly at the senior levels, to facilitate continuity of staffing, and to recognise the dual overseas and domestic functions of the Department.

6. The Auditor General considered that there was an

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absence of effective control over deployment of Audit resources. The methodology preferred by the Department's Internal Audit Section allows for programs to be allocated in mandays rather than manhours as is suggested by the Auditor General's Office. The Departmental Audit Committee acknowledges that it is necessary to have a comparison between the estimated time and actual time spent on an audit, but believes time definition is an internal management matter, particularly when an internal audit review is being carried out for the first time. A further misunderstanding relating to the time frame for carrying out audit reviews was that no account was taken of the time required in preparatory work and the finalisation of the report in drawing up the audit program. These aspects were included in the 1983/84 audit program.

The Auditor General's report referred also to delays occurring in receiving replies to reports of internal audits conducted within Australia and overseas. The Auditor General acknowledged in his memorandum of 9 June 1982 that with one exception all replies had been received at the time of the exit interview in May 1982, preparatory to his report. Acknowledging that there have been delays in obtaining some replies to reports which cross Branch boundaries, or which relate to distant overseas posts, the Departmental Internal Audit Committee introduced procedures recently to ensure reports are actioned promptly. Time of responses has been reviewed regularly by the Audit Committee, which has directed follow-up action.

7. Although an Audit Manual is under consideration, as an interim measure only, the Internal Audit Section operates from

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technical instructions which will be incorporated into the final manual. The Auditor General's Office has noted this intention and considers that the Audit Manual should be produced as soon as practicalities permit.

8. The Department's internal audit procedures are reviewed constantly and updated in the light of experience gained. Steps have been taken to improve the quality of working papers and procedures have been introduced to ensure that documentation supporting audit findings is indexed and cross-referred appropriately.

#### CONCLUSION

9. The Auditor General in his memorandum of 9 June 1982 acknowledged that progress had been made in upgrading the standard of internal audit and considered that attention given to the points raised, which have been actioned where practicable, would lead to further improvement and development of the internal audit function in the Department.

31 May 1983

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

REPORT OF THE AUDITOR-GENERAL - SEPTEMBER 1982

ITEM 14.1 CARGO CONTROL AND ACCOUNTING

SUBMISSION BY THE DEPARTMENT OF INDUSTRY & COMMERCE

2

PART 1: INTRODUCTION

This submission is made by the Department of Industry and Commerce in response to a request from the Joint Parliamentary Committee of Public Accounts.

2. During 1981 the Auditor-General conducted audits on the Australian Customs Service cargo control and accounting systems in New South Wales, Queensland and Western Australia. The audits covered both sea and air cargo operations.
3. The Auditor-General identified a number of instances where established cargo control and accounting procedures had not been adhered to in Queensland and Western Australia. The Auditor-General raised no criticisms in respect of the administration of cargo accounting and control in New South Wales.
4. A glossary of terms is at Appendix 1.

PART 2: OUTLINE OF THE CARGO CONTROL AND ACCOUNTING SYSTEM

5. The cargo control and accounting system is based on both physical and documentary checks by Customs of the operational procedures and records of companies involved in the carriage of goods into Australia and the storage and movement in Australia of those goods while they remain under Customs control.
6. Selective documentary checks of commercial records and physical checks of cargo movements are made based on the following principles:
  - cross checking of information supplied to Customs by the various parties involved in the import transaction (carriers, depot operators, importers etc);

- physical examination by Customs of a small percentage of cargo on the basis of specific intelligence, risk profiles and random selection techniques;

- random and programmed checks, both physical and documentary, to ensure that all parties involved with the import transaction are meeting statutory requirements.

7. The first major element in the documentary accounting chain is the statutory requirement for carriers to report imported cargo to Customs. This report of cargo forms the documentary accounting base.
8. This base is validated by a program of physical checks by Customs cargo control officers. These checks are performed throughout all phases of cargo handling from the time of discharge through to final delivery into home consumption. They are designed to ensure that:
  - all cargo is brought to account;
  - cargo moves only with authority;
  - the documentation accurately reflects the true physical situation at the time the checks are made.
9. The nature and the frequency of these checks takes account of the performance record of the party concerned in the particular phase of movement, storage, or delivery of the cargo, as well as the nature of the transaction.
10. An important feature of cargo control is that prior to the movement of cargo from the wharf or airport, Customs examines all documents produced by the carrier in relation to the cargo and makes an intelligence based assessment of the risk involved in allowing it to move from the point of discharge. This check is designed primarily to identify consignments likely to contain narcotics or other prohibited goods. Where such consignments are identified, special arrangements are made to ensure that the cargo is not unlawfully interfered with.
11. The second major element is the statutory provision for importers to enter goods, that is to declare the nature, quantity and value of the goods for duty assessment. This control

operation is performed in Import Clearance Sections of Customs and occurs before goods are released for home consumption. As part of this process further physical checks may be required by Customs, e.g. the shipment may be selected for examination to verify that the contents are as invoiced and entered, samples may be called for and obtained under Customs supervision to verify that duty has been correctly assessed by the importer.

PART 3: AUDITOR GENERAL'S FINDINGS AND DEPARTMENTAL RESPONSES

Issue and Use of Container Seals

12. The Auditor-General noted instances where:
- . a pest control company resealed a container following fumigation;
  - . broken seals were replaced by shipping companies;
  - . seals were attached with tape to the container door.
13. He commented that if Customs is to place any reliance on the commercial sealing of containers an assessment should be made of the effectiveness of control over seals exercised by the companies and their agents.
14. Container seals are used by shipping companies for their commercial purposes. The sealing is done by company employees in overseas countries on receipt of the containers for shipment. The companies use the seals as an indication as to whether containers have been interfered with en route, and to the possible location of any interference discovered.
15. There is no requirement in Customs legislation for containers to be sealed.
16. Customs considers the practice is of little value as a control device. Although procedures provide for checking of seals in some circumstances, the value of this is seriously questioned against the following considerations:
- the shipping company control over issue and use of seals in many countries is considered to be less than stringent;

- . the seals are relatively fragile and are easily broken with rough handling;
  - . broken seals can be repaired so as to make detection of the breakage difficult;
  - . containers can be breached without breaking the seal and without leaving evidence of such a breach;
  - . Australian Customs cannot, and overseas Government instrumentalities do not, supervise packing or certification of the contents of containers in the overseas countries prior to sealing.
17. Before the sealing of containers could be regarded as a reliable and valuable control over imported goods, it would be necessary for there to be general agreement, internationally, by commercial organisations and Customs or other authorities, that an efficient sealing system could be devised and operated, and that the benefits to be derived from such a system justified the resources that would be required, both at Government level and commercially, to support it.
18. These views are supported by the preliminary results of a study being undertaken, at Australia's instigation, by the Customs Co-operation Council (the international organisation of Customs administrations) which indicates that overseas Customs authorities do not place much reliance on the effectiveness of container seals.
19. The final results of the Council study will be evaluated and to the extent desirable, will be incorporated into Departmental procedures.
20. In the interim the Department will commence a trial involving the affixing of its own seals to selected containers, for example containers going to importer's store for examination or containers targeted for examination following a narcotics screen. The seals used in this trial will be of more robust construction and give greater security than commercial seals.

Release of Consignments

21. In Queensland the Auditor-General checked 1400 permissions to remove goods for examination and found that 1200 allowed the importer to empty the containers without supervision. He pointed to two cases taken from Customs records, one



where containers salvaged from a grounded vessel were found to be heavier than the declared weight and the second where a container was found to contain excess goods. The Auditor-General went on to comment that, while the two cases may not be typical, the number of permissions granted with approval to empty containers without supervision seemed high in view of the potential revenue involved and the risks of imports entering Australia illegally.

22. It is desirable to place the Auditor-General's comments on the weight discrepancies and removal of containers to store for examination into perspective.
25. The overweight container referred to was one of a number removed from the Anro Asia which had run aground. During airlifting of the containers off the vessel and subsequent road transport to Brisbane the discrepancy between the manifested weights and the actual weights came to the attention of the shipping company. On arrival in Brisbane the containers were weighed by the stevedoring company and it was found that some were overweight, one by 1887 kg and some were underweight, one by 1300 kg. The information was not passed to Customs until after the containers had been on forwarded to their destination point. However the contents of some other containers from the ship were checked out by Customs officers and the contents were found to be as invoiced.
24. The other instance mentioned of a container holding surplus goods (sardines) was brought to notice by the shipping company in accordance with established practice which requires companies to report to Customs all cargo landed surplus to that listed on the manifest provided on arrival. In this case the goods were not subject to Customs duty.
25. Customs approach to the control issue raised by the Auditor-General is to select imported goods for examination on three major bases:
- (1) examinations following a positive result in the screen of the cargo report for narcotics or prohibited goods;
  - (2) examinations performed following a random computer selection for a compliance check, which may require examination to determine, for example, contents of the container, marks and numbers of packages,

tariff classification of the goods, detection of prohibited imports, compliance with trademarks or commerce mark regulations;

- (3) examinations arising from invoice room processing of entries, either because of documentary inadequacies or inconsistencies or because of information based on intelligence received or the past record of persons associated with the transaction. The purposes of the examination would be similar to (2) above.
26. The examinations arising from the first source are almost invariably carried out at wharves, depots or terminals before the importer has had access to the goods. In Brisbane in 1981 there were over 200 such examinations performed.
27. Examination selections in the second two classes may cause the importer to request that the examination be carried out at his store. The reasons for this may include the costs of unpacking and repacking of the goods in a depot, the risk of damage to the goods arising from examination at a depot or the fact that facilities for examination do not exist at the depot.
28. Such requests are considered taking into account the reason for examination, the importer's history and the availability of Customs officers to travel to the importer's premises. A further judgement is made as to whether the container should remain sealed intact pending arrival of the Customs officer. This judgement takes account of the foregoing considerations, the cost of holding the containers at store pending examination and whether there are other goods, not subject to impediment, in the container. Approvals are given by senior officers only after the merits of each case have been considered. Where permission is given to unstuff a container, the goods must be held intact until arrival of the Customs officer.
29. The 1200 permissions instanced by the Auditor-General do not give a complete picture of Customs examinations in Brisbane during the period of the audit. In 1981 approximately 5300 examinations of commercial shipments (sea and air) were performed in Brisbane. Of these approximately 1300 were permitted to be moved

to importer's store and unstuffed before examination. The remainder of the examinations were performed in controlled premises such as terminals, depots or the airport.

#### Security during Transfer of Air Cargo

30. The Auditor-General noted that enquiries in Western Australia disclosed that virtually no control existed over air cargo transferred from terminal to depot.
31. Since the Auditor-General's examination specific steps have been taken in Western Australia to upgrade controls in this area. A Customs Officer, working on shift, oversights discharge, movement and receipt of air cargo at the airline freight shed.

#### Security over Empty Containers

32. The Auditor-General considered that control over empty containers was inadequate in that empty containers were not always manifested, it was not evident that checks were made to ensure that the containers were in fact empty, and security over storage areas was considered inadequate.
33. The Department has instituted additional controls over empty containers. Currently random checks are carried out to ensure that empty containers are manifested and that they are empty. A further safeguard against the non-report of empty containers (as well as those holding cargo) is through the introduction of on-board control checks to test the accuracy of the manifest by examining for unreported containers or loose cargo. These checks are performed on the basis of both random and specific selection.

#### Manifest and Gate Checks

34. During the audit it was found that evidence was not available of gate checks having been performed on cargo leaving terminals in Western Australia.
35. The terminal operator, in order to carry out his responsibilities to the parties associated with the importation of the goods, employs a gatekeeper to ensure that containers leave the terminal only with proper authority, i.e. a gate pass authorised by the appropriate company official. Companies accept the legal responsibility that cargo cannot be moved from

terminals until the required Customs approvals have been obtained (i.e. a cleared Customs entry or a movement permission). Independent gate checks, both risk related and random based, have long been a feature of Customs control checks and are directed at establishing that cargo leaving terminals is covered by the appropriate Customs approval. Although not carried out in Western Australia at the time of the audit, the procedures have been re-instituted by the Collector. In addition Customs officers carry out random checks on loose cargo being loaded on trucks in the terminal.

36. The manifest checks referred to by the Auditor-General in this section relate to the acceptance sampling program and this topic is addressed later in this submission.

#### Places for Examination

37. The audit in Western Australia revealed that not all landed cargoes were transported to appointed places for examination, and some places to which cargo was transported had not been gazetted.
38. Under s.17(b) of the Act the Minister may appoint places for examination. However there is no requirement that examination be carried out only at appointed places. The level of examinations at importers' stores has been mentioned previously. Similarly there is no requirement in the Act for all places where cargo is transported to and stored to be appointed under s.17(b). Under s.40AA of the Act a Collector may give permission to remove goods subject to Customs control from one place to another, and may impose requirements necessary for protection of the revenue or to ensure compliance with the Act. The power to examine cargo arises from s.32 and applies to all cargo subject to Customs control, wherever situated.
39. In 1981, independently of the Auditor-General's review of cargo control and accounting, the Department was developing new guidelines for controlling the movement of underbond cargo. These, when promulgated in March 1982, directed that places commonly used for cargo examination and storage, such as container depots, should be appointed under s.17(b). This was done to achieve tighter control over the number of places receiving underbond cargo and the procedures of the operators.

Review of Control Checks

40. The Auditor-General commented that cargo control reports in Western Australia were not always submitted for review or for subsequent revision of the cargo control program.
41. Corrective action has been taken by the Collector to ensure that cargo reports are followed up and that cargo control programs are reviewed in the light of these reports.

Tracer Action

42. The Auditor-General found that, owing to the low incidence of the use of tracers and lack of feedback and follow-up, the tracer system used to control the movement of underbond cargo was ineffective.
43. The comments of the Auditor-General are accepted. Tracer action has been upgraded. However, the Department considers that the present tracer system is an unwieldy and outdated method of cargo control. Accordingly a pilot study is currently in place whereby records of movement of undocumented cargo from Melbourne to Adelaide and Hobart are computerised using a daily batch system. The results of the pilot scheme have been encouraging and it is likely that this system will be implemented nationally. Full development would result in the abandonment of present manual tracing allowing enhanced and more timely Customs control at both the dispatching and receiving ports.

Collectors Permits and Continuing Permissions

44. It was observed in Queensland that a number of companies discharging cargo did not hold Collector's Permits and that companies engaged in cargo movement did not always hold continuing permissions under s.40AA.
45. The audit comments are accepted. The Collector has now issued Collector's Permits to all shipping companies in Brisbane. Guidelines for the issue of continuing permissions under s.40AA had been prepared independently prior to the audit and were issued to all Collectors in March 1982. These guidelines were aimed at strengthening Customs controls over the movement of underbond cargo. All cargo movements nationally are now covered by s.40AA permissions.

Company Dossiers

46. Company dossiers or procedure statements are records of the commercial and accounting procedures of companies having underbond cargo in their charge. They are necessary to ensure that the company systems are sufficient for Customs purposes and to enable Customs officers to design and carry out checks of the system. The Auditor-General noted that procedure statements, particularly in Queensland, were outdated.
47. The audit comments are accepted. Procedure statements have since been updated.

Random Checks

48. The Auditor-General commented that the intended frequency of random checks was not always achieved in accordance with an acceptance sampling program.
49. The acceptance sampling program is a quality control check designed to establish whether the error rate in the records of a particular shipping company is better or worse than a designated level. Depending on the performance of individual companies, the level of check is increased, maintained or reduced.
50. Customs experience with acceptance sampling programs over more than 10 years has led to doubts as to whether the programs are an effective use of Customs resources.
51. This process is manpower intensive and cannot be performed until some months after the importation of the goods. It does not provide timely information to enable the interception of suspect shipments. The majority of errors detected are trivial, such as the misfiling of a document by a shipping company. In addition, the intrinsic nature of the task, i.e. checking after the event, means it is deferrable.
52. In the day to day administration of Customs, Collectors, faced with the resource demands of cargo entry and checking, passenger handling, or examination of goods for revenue or narcotics reasons, must make judgement whether the requirements for staff in these areas shall be given a higher priority for the time, than continuance with acceptance sampling programs at desirable levels.

53. Considerations such as the above have led in some Collectorates to the replacement or modification of acceptance sampling programs by more productive and timely documentary check programs, concentrating mainly on those parties whose past performance has been unsatisfactory.
54. The Department is concerned that the statistical basis for some of these replacement programs may not be as sound as that of the acceptance sampling program. However for the longer term the Department is examining the feasibility of developing ADP systems, either wholly Departmental or in conjunction with commercial systems, to cater for the documentary control needs of Customs. The major attraction of the ADP alternative is that such a system would mean that the majority of the accounting would be performed automatically, allowing resources to be concentrated on irregularities, rather than being devoted to routine checking. A further advantage in such an on line system is that it would provide an excellent information base to support and direct physical control checks.
55. The Auditor-General also raised a continuing problem in relation to accounting for commercial airway bills. The Auditor-General acknowledged that there are difficulties in ensuring that all airway bills are presented to Customs for screening.
56. The major control checks performed in this respect are spot checks of cargo unloaded against airway bills. In addition cargo cannot be cleared until an airway bill, endorsed by Customs as having been screened, is presented.

#### Services and Support Functions

57. The Auditor-General found that internal checks in both States were inadequate and ineffective.
58. Internal check instructions in both States have been upgraded. In addition Internal Audit in all States make comment in their reporting on the effectiveness of internal management controls. The Internal Check process of all areas has been the subject of a project by Internal Audit to increase officer awareness of the importance of the function.

#### PART 4: DEPARTMENTAL INITIATIVES

59. The Auditor-General identified a number of areas where Queensland and Western Australia had failed to adhere to Cargo Control and Accounting procedures. Although the deficiencies noted by the Auditor-General were in some cases of significance, they are not seen, singly or collectively, as a serious breakdown of control. Remedial action has since been taken where required.
60. The concurrent New South Wales audit, where 44.5% of Australia's imports in revenue terms are landed, did not result in any queries at the informal exit interview, nor were there any subsequent formal questions from the Auditor-General.
61. The report made no critical comment on the basic design of the cargo control systems used by Customs. However a combination of factors has led to a Departmental view that a fundamental re-appraisal of these systems is required. The most important of these factors are: the growth in the volume of cargo entering Australia, particularly air cargo; changing commercial needs, practices and attitudes; the narcotics problem; increasing availability and capability of high technology relevant to automated exchange of data between commerce and Customs. A further consideration is the practical limit to Customs manpower resources and the consequent need to develop systems which, while providing an acceptable level of control, are not unduly manpower intensive.
62. Achievement of a satisfactory cargo control system involves the balancing of conflicting interests: the statutory requirement for a Customs barrier; the call on manpower and other resources; and the commercial sector's reasonable expectation of expeditious processing of cargo through Customs.
65. The growth of the problem of illicit narcotics in recent years has produced a need for tighter Customs controls which are reflected in current Departmental procedures. Customs resources applied to the control of cargo were upgraded in June 1982 following the report of the Australian Royal Commission of Inquiry into Drugs (Williams Royal Commission) in 1980. Additional measures have been introduced in consultation with industry which reflect a growing trend towards emphasis on control rather than facilitation.

64. These measures in brief are:

- . increased staff resources to oversight the report and movement of air cargo as well as the screening of airway bills;
- . introduction/enhancement of mobile work groups to supplement port and airport barrier activities including cargo control and accounting;
- . significantly upgraded intelligence facilities - aiding document screening, risk assessment and operational planning;
- . implementation of revised procedures governing the movement of cargo under Customs control involving restrictions on the movement of cargo before screening and increased requirements for the companies involved to report the status and location of cargo to Customs before movement. These procedures are now being reviewed in the light of experience during the last 12 months.

65. Following the Auditor-General's report, the Secretary appointed a working party of experienced senior officers to conduct a comprehensive review of cargo control procedures. The Working Party reported in September 1982 making a series of recommendations which are being developed and implemented progressively by the Department.

66. The Department is negotiating with the Public Service Board to obtain additional resources to carry out the major tasks of the Cargo Control Review. In the interim a small team has been formed to begin the project. To date this team has:

- 1) developed and implemented on a trial basis in Victoria, South Australia and Tasmania a computer based control system over the interstate movement of sea cargo under bond. In brief the system provides:
  - . a check that no intelligence based impediment to movement exists before movement is approved;
  - . a check that the movement is by an authorised permission holder and to an approved place;
  - . an advice of the impending movement to cargo control and accounting staff at the dispatching port;

an advice of the impending movement to the receiving port, i.e. tracer action in advance of the movement.

The initial results of this trial are encouraging and it is expected that the system will be extended to all interstate movements in the near future;

- 2) commenced a feasibility study of a similar system for interstate movement of air cargo under bond;
  - 3) commenced work on strengthening guidelines on departmental procedures for the examination of cargo to detect concealed drugs;
  - 4) initiated discussions with the Customs Co-operation Council in Brussels and with Customs administrations in other countries to identify practices and trends in cargo control and accounting systems.
  - 5) commenced work on the drafting of new regulations, the basis for which was provided by amendments to the Customs Act in 1982, to give effect to revised procedures and systems for the movement and storage of goods under Customs control and the report of cargo.
67. The tasks mentioned in the previous paragraph are the most urgent and hence have been given highest priority. Additional tasks will be commenced progressively in the context of a fundamental redesign of the overall cargo control system. The objective of this redesign is to achieve a system of control appropriate to contemporary commercial and Government needs. It will make fullest possible use of technological aids and be oriented towards allowing concentration of Customs effort on cargo of highest risk, whilst still maintaining control over all cargo to the point where cargo is released from Customs control.

GLOSSARY

Customs/Industry Terms

**Airway Bill** An Airway bill is a document made out by or on behalf of the shipper and evidences the contract between shipper (supplier) and carrier for the carriage of air cargo.

**Break Bulk** The opening of a container so that cargo can be removed and listed. This may be performed at terminals or depots and requires Customs approval under s.73 of the Customs Act where goods have not been entered or where the entry has an impediment.

**Cargo Report** The cargo report for both sea and air cargo is a detailed listing of all goods on board a ship or aircraft on arrival in Australia. The document is also known as a manifest for sea cargo, or a master airway bill for air cargo.

**Clearance** Release of imported goods from Customs control. Import documents are produced to Customs to establish the basis on which duty is assessed. Once clear of all Customs checks and controls, these documents, lodged with a Customs entry, are returned to the importer as his proof of lodgement and payment of duty. At the same time the importer receives a certification that the goods "May be Delivered", which becomes the authority to release the goods.

**Collector's Permit** An ongoing permission to discharge goods from a ship or aircraft. See also s.74.

**Continuing Permission** A standing authority to move goods which remain under the control of Customs, from one approved place to another. The permission holder is responsible for the goods during transit; permissions being conditioned that Customs points, both at dispatch and receipt are advised prior to movement.

**Customs Co-operation Council** The international and technical body of 94 member nations established to study Customs problems and standardise practices

**Depot** Places where cargo is held pending delivery to importer, further movement, break-bulk or examination. Generally appointed under s.17b of the Customs Act.

**Entry** The Customs import entry, prepared by the importer or his agent, bearing arrival details, value, tariff item, rates of duty, total duties payable and identification of the particular goods being imported. It is presented to Customs for import clearance of the goods.

Imported goods are required to be entered in one of the following ways:

- . for home consumption;
- . for warehousing;
- . for transshipment.

**Home Consumption** Goods which have been cleared of Customs control and are free to enter the commerce of Australia (See also Clearance).

Manifest The list of all cargo on board a ship or aircraft on arrival. Generally made up from bills of lading for sea cargo and air way bills for air cargo (See also Cargo Report).

Screening The examination of a ships manifest or an airway bill, prior to or soon after arrival of the vessel or aircraft, to identify cargo suspected to contain prohibited imports.

Terminal The area adjacent to a wharf to which cargo is moved immediately after discharge. Generally owned and operated by a port authority.

Tracers A system of documentary controls over the movement of cargo subject to Customs control. A percentage of cargo lines permitted to move under s.40AA are selected by the dispatching point and the receiving point advised of the details. The receiving point checks the records of the destination place to ensure cargo has arrived

Unstuffing The opening of a container, the emptying and listing of the contents by the depot operator. See also break bulk.

Customs Act

This part of the glossary consists of a brief resume of sections of the Customs Act referred to in the submission.

s.15 Power to appoint ports, airports, wharves and boarding stations.

s.17(b) Power to appoint places for the examination of goods.

s.32 Authority for Customs to examine all goods subject to Customs control

s.40AA Power to give permission to remove specified goods subject to the control of the Customs from a specified place to another specified place.

s.64 Requirement to report imported cargo by delivering to the Collector an inward manifest of goods.

s.73 Prohibits the breaking of bulk cargo of a ship or aircraft except with the permission of the Collector.

s.74 Power to give permission to unship goods. Except as prescribed goods may be unshipped only pursuant to:

(a) a Collector's permit; or

(b) an passed entry.

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

REPORT OF THE AUDITOR-GENERAL - SEPTEMBER 1982

ITEM 14.1 CARGO CONTROL AND ACCOUNTING

SUPPLEMENTARY SUBMISSION BY THE DEPARTMENT OF

INDUSTRY AND COMMERCE

This supplementary submission is made by the Department of Industry and Commerce in response to the request of 20 January 1984 for comprehensive comment on additional questions raised by the Joint Parliamentary Committee of Public Accounts.

PART 1: ISSUE AND USE OF CONTAINER SEALS

Results of Container Sealing Trial

1. A container sealing trial was conducted in Melbourne between 17 October and 18 November 1983 to establish:
  - . whether sealing would improve the security of cargo;
  - . whether seals would be recognised as Customs seals by carriers and importers;
  - . the strength and durability of the seals selected for the trial; and
  - . the manpower and financial costs of container sealing.
2. The trial was directed at cargo on which a risk assessment had already been made. It covered all cargo subject to Customs impediment which had been approved to move to importer's store under section 40AA of the Customs Act for examination.
3. An assessment of the trial shows that:
  - . there was no evidence of any improvement in physical security over the cargo - the incidence of errors detected during the trial showed little variation over the control period (September 1983);
  - . seals were recognised by importers and carriers as being Customs seals;

- . seals were sufficiently strong for the purposes required;
  - . the sealing process is labour intensive and could not be justified on a cost benefit basis as a control technique; and
  - . used for specific directed exercises, seals are a valuable aid in the testing of systems.
4. Although not specifically established by the trial, it can also be reasonably concluded that Customs seals have some deterrent value; particularly as regards casual interference such as by an importer impatient to access his goods. No seal will prevent illicit access to cargo. However, if seals are broken, this provides information useful to future intelligence based risk assessments.
  5. The results will be discussed in detail with all Collectors of Customs with a view to implementation of sealing of selected cargo on a national basis.

International Agreement on Container Sealing

6. The Department is concentrating on using seals for the purpose of detecting interference with cargo once it is under Australian Customs control by placing ACS seals on selected cargo. There is no intention at this stage to pursue proposals for the upgraded sealing of overseas containers by commercial or Government organisations.
7. It is the view of this Department that any system of container sealing requiring general agreement internationally by commercial organisations and Customs or other authorities is not a viable proposition.

Alternative Systems

8. On the basis that the prime purpose of the container seal is not to prevent illicit interference with cargo, but to provide intelligence that such interference has occurred, there is presently no viable alternative to container seals. However potential exists for use of devices such as photo-electric cells or miniature transmitters to indicate illicit interference with cargo. The Department is seeking details of any such devices under development through the Customs Co-Operation Council and by direct contact with other Customs



Administrations. It will then be possible to assess the relative costs and benefits of the present sealing arrangements compared with the more sophisticated technical devices.

#### PART 2: RELEASE OF CONSIGNMENTS

9. Paragraph 25 of our previous submission discussed three major bases for selection of imported goods for examination.
  - . Base 1 - examinations following a positive result in the screen of the cargo report for narcotics or prohibited goods;
  - . Base 2 - random computer selection of entries for a compliance check; and
  - . Base 3 - examinations arising from invoice room processing of entries.
10. Base 1 and Base 3 examinations arise from either intuitive or intelligence based selections and consequently have no statistical basis.
11. The statistical basis for Base (2) examinations arises from a survey which was conducted to determine the error rates in entries lodged.
12. The survey showed an error rate of  $11\% \pm 1.5\%$ . The compliance check system was designed to indicate whether the error rate in the population of entries lodged varies from that range, within a confidence level of 95%.
13. To achieve this result an annual sample of 2700 entries per State is required. This sample size is achieved by random computer generated selection of 1% of entries in Melbourne and Sydney and 2% in the other States.
14. These random checks, also known as compliance checks, are used:
  - . to make an assessment of the number of entries with undetected errors which pass through the Customs control system;
  - . as a method of detecting errors; and
  - . as a deterrent to importers lodging false or inaccurate entries.
15. Physical examinations of the cargo are conducted to verify documentation presented with a Customs entry.

#### PART 3: TRACER ACTION

16. The pilot study referred to in paragraph 43 of the previous Departmental submission was conducted initially for the period from 8 May to 22 July 1983. The results indicated that the system program was operating effectively. However some difficulties were encountered because of the non-availability of suitable terminal facilities and other logistical problems.
17. These difficulties were rectified and a further trial of the system, known as the "Permissions Profile System" commenced on 16 November and is in the final stages. Indications are that the system has met the design specifications.
18. The net effect is that tracer action has been achieved on 100% of interport movements of sea cargo subject to Customs control from Victoria to South Australia and Tasmania. Cargo control has been greatly enhanced because Customs at the receiving port has prior knowledge of movements destined for their areas of control. Subject to confirmation by Collectors at the completion of the trial that the system is satisfactory, the tentative target date for implementation of this scheme on a national basis is early in the 1984/1985 financial year. This date has been chosen as new ADF equipment will then come on line, allowing access to the system by all terminals on the Customs network throughout Australia.

#### PART 4: COMPANY DOSSIERS

19. Following the Auditor-General's report, all Collectors were reminded of the need for regular revision and updating of procedure statements.
20. The report paid particular attention to deficiencies in Queensland and the Department's first submission to the Committee advised that existing procedure statements for Queensland had been updated since the audit.
21. On receipt of the request for further comments, all Collectors have again been contacted. They have confirmed that standing arrangements are that procedure statements are reviewed on each visit to the company concerned, and in all cases at least annually.

PART 5: RANDOM CHECKSStatistical Basis of Random Checks

22. The Acceptance Sampling Plan (ASP) tests the overall accuracy of the documentary control of cargo by carriers and adheres to the Australian standards for acceptance sampling plans (1199-1972 and 1399-1973).
23. As documentary control is continual, the population of manifest lines to be tested is divided into batches. Lines from each batch are selected at random, using the skip interval method.
24. The number of lines to be tested depends on:
  - . the size of the population;
  - . the company's previous error rate; and
  - .. the standard maximum error rate the Department sets for all companies, currently determined to be 1%.
25. These criteria were taken from the standards referred to in paragraph 22.
26. The results of testing selected lines are used to grade the batch as representing an acceptable or unacceptable process.
27. If the batch shows an unacceptable result, testing of future batches is intensified, but will be relaxed where results show acceptable levels over a series of batches.
28. Where results show acceptable levels in the first testing series, whole batches may be deleted from future testing according to a formula set by the standards.
29. Shipping company processing patterns are monitored continually by the above testing together with intuitive sampling.

Alternative Procedures

30. The Department is progressing on two fronts to replace the ASP. Firstly, the Statistical Section is currently examining the ASP and the options available. Completion of this exercise is expected by March 1984 and should satisfy our short term requirements.

31. Secondly the Department is presently working on a long term feasibility study involving the use of ADP systems. The study, among other things, will investigate the options for upgrading the present accounting system. As an initial step in this study the first of a series of saturation exercises is planned for March 1984 which will manually match Customs entry detail with manifest cargo information supplied by the shipping company for a nominated vessel. The exercise will include a complete reconciliation during the discharge and delivery phase of the manifest against Customs entries, bills of lading and commercial invoices. In effect the exercise will achieve, inter alia, 100% cargo accounting for a selected vessel, before cargo is delivered from the place of discharge.
32. The prime objective of the saturation exercise is to provide cargo control officers at the wharf with accurate and current information on the status of all cargo under their control. This knowledge will be used to determine the risk category of shipments and the level of control checks required. When conducting control checks, they will have prior knowledge of whether cargo is:
  - . entered and clear of Customs control;
  - . entered but subject to check of a particular aspect;
  - . entered but subject to physical examination;
  - . subject to Intelligence Section query; or
  - . not entered.
33. The second objective is to gain experience in the practicalities of matching importer produced and carrier produced cargo information. This experience is essential to the development of an ADP based system to achieve the matching on an automated basis.
34. Preliminary work on this system, informally described as the "integrated cargo control and clearance system", commenced in November 1983. This is discussed in more detail in Part 6 of the submission. As performing the matching function by manual methods is extremely labour intensive this type of exercise cannot be sustained. It will, however, continue to be used at random to strengthen cargo control and accounting programs.

PART 6: DEPARTMENTAL INITIATIVESThe need for re-appraisal

35. Prior to the 1960's, cargo control was based on 100% manual manifest acquittal. This was labour intensive and not able to cope with the growing volume of cargo without unrealistic staff increases.
36. The present system was implemented in the late 1960's. It is based on commodity control principles and relies on companies maintaining effective physical and documentary controls over the report, movement and acquittal of cargo. Company systems are monitored by Customs to ensure the procedures followed are adequate.
37. The commodity control approach achieved staff savings when compared to earlier methods. However it remains relatively labour intensive in the documentary accounting phase. ADP based inventory control techniques are now becoming available which can allow this function to be performed more efficiently and economically, thus allowing human resources to be directed more specifically towards cargo that has not been satisfactorily accounted for.

## DEPARTMENT OF INDUSTRY AND COMMERCE

## Cargo Control and Accounting

## Supplementary Submission

- Paragraphs 38 to 55 are not included as they were supplied to the Committee in confidence.

RECOMMENDATIONS OF THE 1982 WORKING PARTYOverall

	<u>ACTION OR REVISED PRIORITY TASK NUMBER AS LISTED IN ATTACHMENT 2</u>
1. Adoption of the charter and objectives set out in Section B1 for the cargo control function.	IMPLEMENTED
2. Declaration that cargo control, both physical and documentary, is an essential and top priority function requiring mandatory allocation of resources sufficient to meet a defined check program.	IMPLEMENTED
3. Adoption of the term "Cargo Control" to embrace both physical and documentary controls.	IMPLEMENTED

Short Term : Physical

4. Initiating a review of physical control checks, based on risk assessments (to be an on-going function).	TASK 17.6(i)
5. Ensuring that the results of this review are implemented nationally.	FUNCTION OF BARRIER POLICY BRANCH
6. Ensuring, by the allocation of sufficient manpower and technological resources, that physical control of cargo is capable of being exercised 24 hours a day, seven days a week.	TASK 17.6(ii)
7. Departmental management continuing to reinforce and encourage the trend towards better physical controls.	TASK 17.6(i)
8. Maintaining management support for firm action against offenders (also applicable to documentary controls).	TASK 13
9. Adoption and maintenance of uniform and relevant management statistics (also applicable to documentary controls).	TASK 17.2
10. Management Advisory Service undertake a feasibility study of the use of effectiveness measurement techniques to evaluate the results of physical control programs.	TASK 17.2

Short Term : Documentary

11. Immediate action by Central Office in consultation with Collectorates to develop risk management and effectiveness measurement techniques and standards for documentary controls.	TASK 17.6(iii)
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12. Sufficient additional resources be made available to complete the above project quickly. TASK 17.6(iii)

13. Collectors be directed to ensure that resources are maintained at a level sufficient to meet the defined check program. TASK 17.2

Long Term

14. A fundamental review of the cargo control function, be undertaken. REVIEW COMPLETED. PROPOSALS FOR INTEGRATED CONTROL AND CLEARANCE SYSTEM BEING CONSIDERED BY DEPARTMENTAL MANAGEMENT

15. The review be finalised by 1 July 1984.

Containers

16. Central Office, in consultation with Collectors and industry, review the physical and documentary control of cargo containers. TASK 9

OBJECTIVES AND PRIORITIES RECOMMENDED BY WORKING PARTYObjectives

The Committee considers the charter of cargo control should be defined as extending:

- from the time of discharge of cargo from a ship or aircraft;
- to the time of release of that cargo from Customs control under S.39, S.71A, S.71B or S.162A; or
- in the case of goods entered for warehousing or consigned to warehouse under S.72, to the time of delivery of the goods to the warehouse.

Within this charter the objectives of cargo control would be to ensure that:

- all cargo discharged is reported to Customs;
- all reported cargo is acquitted in accordance with S.68, S.71A, S.71B or S.162A;
- no cargo under Customs control is illicitly interfered with or removed, or delivered without proper authorisation;

- the physical movement and treatment is in accordance with approved Customs procedures and accurately reflected in the documentation used to account for that cargo; and
- shortlanded and pillaged cargo is documented in accordance with approved Customs procedures.

The Committee RECOMMENDS the adoption of the foregoing charter and objectives.

#### Priorities

The control of imported cargo is fundamental to achieving Departmental objectives of enforcing industry assistance and community protection legislation. Consequently the functions of physical and documentary control of cargo must be considered essential and accorded top priority.

IMPLEMENTED

The Committee RECOMMENDS that cargo control, both physical and documentary, be declared an essential and top priority function requiring mandatory allocation of resources sufficient to meet a defined program.

IMPLEMENTED

#### REVISED PRIORITIES AND TASKS FOR CARGO CONTROL UPGRADING

This attachment lists the work program for the Cargo Review Team in priority order. Where tasks arise from the recommendations of the 1982 working party, these are identified by cross reference to the original recommendation number shown in Attachment 1.

#### Category 1 - High Priority

##### TASK 1 Promulgation of regulations governing cargo depots

- 1.1 Amendments to the Customs Act in 1982 in relation to Cargo Depots were comprehensive allowing scope for new initiatives for control.
- 1.2 The depot licensing provisions cover:
  - the purposes for which a licence may be granted;
  - the information required in an application;
  - the conditions imposed on the licencees;
  - licence renewal procedures; and
  - licence suspension or revocation.
- 1.3 The project of implementing these provisions breaks new ground in Customs Legislation and is critical to Departmental cargo control programs. In some cases regulations need to be drafted to give effect to the Act.
- 1.4 To ensure the correct result is achieved and that industry and Customs administrations are not needlessly inconvenienced this work has necessitated extensive research and consultation with Collectors of Customs, other Branches and concerned sectors of industry.
- 1.5 Promulgation of the regulations to give effect to the 1982 Amendment Act is expected by 1 July 1984.
- 1.6 The Act also provides for a fee structure. The Department has received approval from the Public Service Board to call for tenders from private consultants to set a level of fees to be charged for the licencing of both cargo depots and warehouses.
- 1.7 It is anticipated that the successful tenderer will commence on 1 March 1984 and report to the Department by 1 April 1984.
- 1.8 A paper detailing Departmental requirements for physical security at Depots was forwarded to interested parties from industry in November 1983. Initial discussions with one industry association held in January 1984 revealed that there was no major disagreement on the principles outlined in the paper. Final responses from industry are still to be received.
- 1.9 As depots hold high risk cargo these requirements will raise physical security to an acceptable level.
- 1.10 Unlike cargo depots, where Part VA provides a legislative base, there is no equivalent in the Customs Act for wharves. Work will be undertaken to initiate new legislation to bring the status of wharves in line with cargo depots.

1.11 Changes to physical security at wharves will be costly and discussions will be held with the various State Governments and private companies which control these areas.

#### TASK 2 S.39(3) Stoppers

Draft regulations have been finalized and will come into force in the near future. The regulations provide for delivery of cargo to be withheld for a period of up to seven days by issuance of a notice (stopper). During this period Customs will make a decision on whether to:

- . verify intelligence holdings;
- . examine the goods targetted for narcotics, quarantine or other risks;
- . surveil cargo to establish owner; or
- . withdraw the notice and release the cargo.

#### TASK 3 S.40AA Movement Conditions

This deals with unentered, undocumented or underbond cargo moving from the discharge point. As distinct from the Permissions Profile System which controls this movement, this project focuses on the legislation. Draft papers are currently being prepared, setting conditions on those carriers moving cargo on permissions granted under S.40AA and setting out the responsibilities of carriers where cargo under their control is not accounted for.

#### TASK 4 S.64 Report of Cargo

#### TASK 5 S.74 Collectors Permits

Projects on these subjects have been commenced but are presently at research stage.

#### TASK 6 S.72 Time Up

- 6.1 This project deals with cargo remaining unentered after the statutory period.
- 6.2 Extensive research has been required as varying standards apply between the States. These standards are also different for airports, wharves and cargo depots, within the same State boundary.
- 6.3 Legislation has already been amended and a discussion paper will be forwarded to Collectors for comment by 1 March 1984.
- 6.4 Implementation of the proposals is expected by 1 July 1984.

#### TASK 7 Permissions Profile

#### TASK 8 Sealing of Containers

These projects have been dealt with in Part 1 of the submission.

#### TASK 9 S.162A Containers Working Party Recommendation 16

- 9.1 This Section of the Act allows containers to remain in Australia for up to 12 months subject to certain conditions.
- 9.2 Because of the downturn in economic conditions there are worldwide problems associated with the storage of overtime containers. A survey is currently being undertaken on the holdings of overtime containers by shipping companies in each State. Instructions have been prepared allowing shipping companies three months in which to export containers held in excess of the allowable period. Containers held after this period will be subject to Customs duty at the normal rates.

#### TASK 10 Guidelines for the Examination of Cargo for Drugs

A paper was circulated to Collectors on 19 January 1984 detailing the circumstances under which covert examinations may be undertaken. Responses have been sought from Collectors and after fine tuning the guidelines will be officially adopted.

#### TASK 11 Break Bulk Depots

- 11.1 The break bulk of air cargo consolidations involves serious implications for the Department in terms of the high risk nature of the cargo with associated control and servicing problems. Ideally this activity should take place on airport, but the major expansion of air cargo forwarding in recent years and the shortage of available space on airport have necessitated the approval of off-airport premises.
- 11.2 Extensive discussions have taken place with the Australian Federation of Air Freight Forwarders with a view to development of a new national policy, taking account of the needs and aspirations of the industry as well as those of the Department. Present indications are that the new policy will be finalised during March 1984.
- 11.3 Preliminary talks have also been held with sea cargo break bulk depot operators. By contrast to air cargo there are no pressing difficulties for either the Department or the industry in relation to location and size of such premises. Consequently work on this aspect is not regarded as high priority.

#### TASK 12 Form of Delivery Authority

- 12.1 The current system of delivery authorisation is as follows:
  - . after processing through the invoice room, Customs entries are stamped "May be Delivered";
  - . this stamp effectively releases the goods from Customs control;
  - . the delivery authority is given to the importer; and
  - . once presented to the holder of the cargo (either at wharf or depot) delivery can be effected.

- 12.2 The shortcoming of this system is that the delivery advice passes, not to the person who is bound by Customs legislation, i.e. the carrier, but to the importer who has a vested interest in obtaining early release of the goods.
- 12.3 There have been instances where importers have procured their own "May be Delivered" stamp, and fraudulently obtained release of cargo.
- 12.4 The proposed integrated cargo control and clearance system envisages the delivery authority being generated by the computer. The carrier will have access to delivery instructions through a terminal at his premises. At the same time an advice will be sent from the computer to the importer.
- 12.5 In this way only the carrier will have access to the delivery authority, the importer being advised when the authority has been given.

#### TASK 13 Category 2

Maintaining management support for firm action against offenders. Working Party Recommendation 8.

- 13.1 In the normal course of events, cargo control offences are often not detected until well after the event, making prosecution action difficult because of the problems of identifying the offender and the elements of the offence.
- 13.2 This matter was discussed at a conference of cargo control managers from all Collectorates held in Canberra during June 1983.
- 13.3 Conference reinforced the need for determined action when offences are detected, to clearly establish sufficient elements of the offence to permit a successful prosecution.

#### TASK 14 Examine Movement Trends

- 14.1 Many problems in the current system have arisen because of commercial pressures for an increasing proportion of cargo to move while still under Customs control. This movement leads to an increase in the number of Customs control points, complications in the control system and loss of productivity of Customs officers in travelling to and from control points.
- 14.2 Procedures introduced in 1982/83 have tightened Customs control over cargo movement. Several of the other initiatives outlined in this Attachment (e.g. permissions profile, restrictions on throughput and location of break bulk points) will also result in better control of cargo movement. The procedures and the operating philosophy envisaged under the integrated cargo control and clearance concept will further reinforce control.

#### TASK 15 Responsibilities of Depot Proprietors

- 15.1 The review team is researching the movement of cargo through the various stages of delivery, to determine the responsibility of each person so that claims for duty on cargo lost damaged or pillaged can be properly brought to account.

#### TASK 16 Technical Aids

##### X-Ray equipment

- 16.1 During August/September of 1983 a trial was conducted at the Airport and Parcels Post areas in Sydney using third generation digital storage X-ray machines made available by Philips Australia.
- 16.2 The trial demonstrated that X-ray machines are a valuable tool in detecting concealed items, including narcotics as well as other prohibited goods and revenue items. The equipment allows speedy examination of a large number of packages and has application in passenger, postal, and cargo areas. Where finished items are suspected to contain narcotics, the structure can be examined with no risk of physical damage.
- 16.3 The Department is now proceeding to tender for purchase of suitable machines. Subject to finance being made available in the Budget ten units should be installed nationally in the next financial year, with a further fifteen units being acquired in 1985/86. It is intended to mount some of the machines on vehicles to provide a mobile facility for use in cargo areas.
- 16.4 The British Aerospace Corporation has designed a facility capable of examining, by X-ray and vapour analysis, 20 and 40 foot shipping containers. Preliminary discussions have been held with the company. To date no prototype has been produced and indications are that the device may be prohibitively expensive (15-20 M dollars per unit). However the device has very significant Customs potential and the Department will continue to monitor developments closely.
- 16.5 The review team is also investigating the potential of an "Electronic Tape-Measure" device which may be useful in checking containers for false bulkheads.

##### TASK 17 Category 3 - Deferrable

- 17.1 Tasks were categorised as deferrable based on a number of considerations:
- limitation of resources available to the review team meant that all tasks could not be undertaken at the same time;
  - the risks associated in some processes were less than in others; and
  - certain tasks could not be sensibly addressed until the basic framework of new systems and procedures had been defined.
- 17.2 In the case of:
- management statistics - Working Party Recommendation 9;
  - effectiveness measurement - Working Party Recommendation 10;
  - division of responsibilities;
  - release procedures;

- . maintenance of resource levels - Working Party Recommendation 13;
- . quantification of resource levels; and
- . audits of company systems;

there was no immediate need for remedial action, and work on these tasks will be taken up when higher priority tasks have been completed.

- 17.3 For the other tasks seen as deferrable, value was seen in undertaking a limited study of the need for early remedial action.
- 17.4 The saturation exercise referred to in paragraph 31 is based on the philosophy that the single most important improvement that can be made to cargo control is to provide field officers with current information on the status of cargo under their control.
- 17.5 This enables control checks to be directed towards identified high risk cargo, rather than being spread across the whole population of cargo.
- 17.6 The saturation exercise, in part, is aimed at gathering basic data on the following tasks several of which stem from the original Working Party recommendations:

(i) Physical control checks Working Party Recommendations 4 and 7

The nature and type of physical checks will be based on current information on the status of cargo.

(ii) Level of Resources Working Party Recommendation 6

Information will be gathered on the level of resources necessary to carry out the cargo control function.

(iii) Documentary Control Checks Working Party Recommendation 11

These will be carried out on a complete manifest manually. ADP facilities will take over this 100% verification process when the new system is fully implemented.

(iv) Identification of Low Risk Cargo

This is one of the focal points of the trial and will allow re-allocation of resources under the new concept.

(v) On Line Intelligence for Field Officers

The exercise will, by using manual processes, give insights as to how we may best introduce ADP systems for access by field officers.

(vi) Balance between Physical and Documentary Controls

Currently, cargo accounting activity utilises manpower resources which could be more effectively used for physical control checks.

Although the trial involves 100% manifest and entry reconciliation on a manual basis, ultimately this will be done by the computer, thereby releasing resources for physical control checks.

(vii) TABS (Total Accounting Base System)

The integrated control and clearance system outlined at paragraph 50 of the submission is the development of TABS which was purely an accounting system for cargo. The concept of the new system is to integrate the accounting and clearance systems and to use current cargo status information to direct the employment of cargo control resources.

(viii) Use of ADP Facilities

This subject has been discussed at Part 6.



DEPARTMENT OF INDUSTRY AND COMMERCE

Cargo Control and Accounting

Supplementary Submission

- . Attachment A is not included. It can be found in the Report of the Auditor-General, September 1982, pp.47-51.

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Reports of September 1982 (paragraph 29) and May 1983 (paragraph 26)

Submission by the Australian Industry Development Corporation

A - STATEMENT OF POLICY AND OBJECTIVES

1. The Australian Industry Development Corporation (AIDC) has the statutory objectives of promoting the development and advancement of industry in Australia and participation by Australians in that industry growth, through its commercial activities as a development financing business.
2. Subject to those objectives, and to certain policy directives contained in the Australian Industry Development Corporation Act (AIDC Act), the Corporation is required by its Act to conduct its affairs according to sound business principles.
3. The content and tenor of the AIDC Act accord closely with the description of the Corporation given to Parliament by the then Minister for Trade and Industry in his second reading speech when he introduced the original AIDC legislation into Parliament in 1970.
4. Some important elements of that description of the Corporation, and of the intent of the legislation, are set out below. The Corporation has always sought to follow, and to preserve, these basic principles.
  - a. "The AIDC, though set up by Government, will be a body entirely set apart from Government and operating only within the charter set down for it in the legislation. It is structured to become entirely a part of the private enterprise scene. Its role will differ from the customary role of statutory corporations ...."
  - b. "The Corporation's role will be to provide a specialised service to Australian industry."

- c. "AIDC will exist not merely to provide funds for Australian industry, but to provide funds to Australian industry to secure or aid a particular result."
- d. "It will help to structure industry on a world competitive basis, and to maximise the Australian ownership. No financial institution exists which is charged with this responsibility."
- e. "There are pressing needs for Australian industry to expand, and in the process to improve its efficiency, and become highly competitive at home and overseas. There is no institution or facility in Australia which has the primary purpose of encouraging and aiding industrial undertakings to achieve a dimension by which they will be capable of competing in world markets, and of competing with imports in the domestic market."
- f. "It is to our national advantage for Australian industry to be able to develop, and grow, with minimum resort to foreign ownership."
- g. "AIDC is completely non-regulatory and non-restrictive in nature. It is structured to function in a private enterprise environment and completely in accord with the principles of free enterprise and the free enterprise system."
- h. "AIDC will be controlled by an independent Board of Directors ... in the main of part-time Directors, drawn from private enterprise."
- i. "Its operations will be subject to the same tests of commercial viability as are ordinarily applied in business planning by the experienced board of any great private enterprise venture."
- j. "It will be subject to taxes on exactly the same footing as any public company."

- k. "Earnings or capital gains from the Corporation's investments will be used as capital reserves, to strengthen its capacity as an international borrower and broaden its assistance to Australian industry, in accordance with its objectives."
- l. "The Bill provides for the AIDC to have the fullest freedom in its administrative and financial arrangements, so that it may conduct its affairs for all practical purposes as if it were a private enterprise company."
- m. "An annual report and accounts of AIDC must be presented to the Government and tabled in the Parliament. If the Government, on receiving an annual report of the corporation, considered the Board was not operating in accordance with the policy principles laid down in the legislation, it - the Government - can meet with and inform the Board to this effect. In that event .... the Government must then table in the Parliament its reasons for so doing."

B - INFORMATION IN RELATION TO AUDITOR-GENERAL'S REPORT  
OF SEPTEMBER 1982 (PARAGRAPH 29)

The Circumstances of the Transactions

5. Governing the circumstances of these transactions is the fact that, in mid 1980, the Corporation was planning and negotiating an overseas borrowing.
6. The AIDC Act prevents the Corporation from borrowing money (other than for temporary purposes) if as a result its total borrowings (other than for temporary purposes) would exceed 8 times its paid capital and reserves. In mid 1980 the stipulated "gearing" (ie. borrowing) limit was 5 times paid capital and reserves.
7. The statutory gearing restriction is an onerous one, which has to be met. The Corporation had previously planned to meet it by making a \$25 million call on capital, to be payable on 3 July 1980.
8. To assist the Government in its monetary policies, the Treasurer pressed the Corporation to withdraw that call. The Corporation agreed.
9. The Corporation was then in the position that, after the planned overseas borrowing, its total borrowings (other than for temporary purposes) would exceed the limit of 5 times capital and reserves.
10. As capital was not to be increased (for the convenience of the Government), the Corporation looked to increasing its reserves.
11. This was done by arranging that A.I.D.C. Securities Limited declare and pay a dividend in July 1980 to the Corporation, much earlier than usual. The gearing problem was then overcome.
12. It was not of course intended that meeting the convenience of monetary policy in this way should cause the Corporation to pay additional company tax.

13. However that possibility loomed towards the close of the 1980/81 year. It then appeared that taxable income for 1980/81 would fall considerably short of that needed to absorb the dividend rebate available to the Corporation. The implication was that, in effect, AIDC would pay tax on dividends declared out of the after-tax profits of its subsidiary.

14. The remedy was to increase the taxable income of the Corporation for 1980/81 to the extent needed to cover the dividend rebate. One method used was to realise profits already earned on part of the Corporation's trading stock of commercial bills. Another was to realise profits on trading in US dollar futures.

The Nature of the Transactions

15. In its day-to-day funds management transactions the Corporation buys and sells short-term securities, including commercial bills of exchange.
16. Its dealings in these securities are part of the management of its overall cash position. It may buy them, for example, as a temporary placement of funds; or to serve as liquidity reserves. It may sell them at any time as funds are needed.
17. The Corporation's holdings of these securities are trading stock, not an investment portfolio. They are not investments intended to be held until maturity. All profits earned are taxable as trading profits.
18. The Corporation sold some of its bills in June 1980, and thereby realised taxable profits in the 1980/81 year which were equal to the accrued accounting profits.

19. The Auditor-General has noted that the bills were sold to a subsidiary, and repurchased. The sale and realisation of profit were effected in this way as a matter of convenience. The same result would have been achieved by selling the bills in the market to realise their accrued earnings, and then buying other bills in the market to hold.
20. The essence of the futures transactions was that the Corporation, which deals extensively in currency futures (and currency "hedging", which is a variant) in its day-to-day activities, operated on both sides of the market - ie. as both a buyer and seller of US dollar futures. By dealing in identical amounts on each side of the market the effect was that, no matter what happened to the exchange rate between the Australian and US dollar, there would be one set of contracts showing a profit and another set showing an identical loss.
21. The futures transactions as a whole had no direct effect on pre-tax accounting income in any year because profits, accrued or realised, were exactly offset by accrued or realised losses. But in calculating taxable income only realised gains and losses are included.
22. By selectively "closing" during 1980/81 the profitable contracts, and thus realising the gains, the Corporation increased its taxable income in that year by \$876,500 less brokerage fees of \$55,520 leaving a net increase in taxable income for the 1980/81 year of \$820,980.
23. Those contracts which involved losses, and would thus reduce taxable income, were left to be closed in the following year, 1981/82.

The Consequences of the Transactions

24. After the transactions described, the Corporation ended the 1980/81 year with sufficient taxable income to absorb all the dividend rebate - and, indeed, with additional taxable income on which tax was paid.

25. The position for 1980/81 was:

	\$
Taxable income	<u>8,335,740</u>
Tax assessed on taxable income	3,834,440
<u>Less</u> rebate in respect of dividend income	<u>3,493,553</u>
Tax paid	<u>340,887</u>

26. The Corporation would have paid no tax at all for 1980/81 except for the transactions described. Instead it paid tax of \$340,887 which would otherwise not have become payable until a year later.
27. The problem of preserving the dividend rebate in 1980/81 had thus been overcome. The problem would never have arisen had the Corporation proceeded with the call up of capital which it had intended to obtain in July 1980.
28. Moreover, it would have earned income from that additional \$25 million of capital funds at the rate of around \$3.5 million a year - or nearly \$2 million a year after tax.

Reactions of the Auditor-General and the Minister

29. The Auditor-General proposed to qualify the Corporation's accounts on the grounds that the transactions were outside the Corporation's powers under its Act. But since the question was a legal one he agreed that, if the Corporation were disposed to seek independent legal advice based on a full disclosure of the facts and the purpose of the transactions, he would be guided by that opinion.

30. The Corporation sought the opinion of a leading Melbourne barrister, Mr Richard Searby QC. Mr Searby concluded that the transactions in question were within power and were a proper exercise of the Corporation's responsibility to manage its operations in accordance with sound business principles.
31. The Auditor-General accordingly signed his audit certificate without any qualification.
32. Given that the transactions were legally undertaken the Auditor-General further accepted that they did not call for action under section 36A(1) of the AIDC Act, which requires him to "draw the attention of the Minister to any irregularity disclosed by the inspection and audit that is, in the opinion of the auditor, of sufficient importance to justify his so doing".
33. The Auditor-General nevertheless took the view that the Minister and the Parliament ought to know about the transactions. He therefore reported and commented upon them in his report to the Minister on the results of his audit of the Corporation, and in his Report to Parliament which is the subject of this submission.
34. In response to the Auditor-General's report to him the then Treasurer, Mr Howard, wrote to the Corporation in the following terms:
- "I ask that the Corporation not undertake any further transactions of the kind drawn to my attention by the Auditor-General or any other transactions which are, or might be seen as, contrived tax minimisation arrangements".
35. The Corporation undertook to comply with the Minister's request. It has so complied, and will continue to do so.

JOINT COMMITTEE OF PUBLIC ACCOUNTSInquiry into the Auditor-General's Report 1981-82SUBMISSION BY THE AUSTRALIAN APPLE AND PEAR CORPORATION

1. STATEMENT OF POLICY AND OBJECTIVES
- 1.1 The Australian Apple and Pear Corporation is a Statutory Authority set up by the Australian Apple and Pear Corporation Act 1973.
- 1.2 The functions of the Corporation are:-
- (a) to promote the export from Australia of apples and pears;
  - (b) to control the export from Australia of apples;
  - (c) to control the export from Australia of pears;
  - (d) to promote trade and commerce in apples and pears among the States, between States and Territories and within the Territories;
  - (e) to improve the production and encourage the consumption of apples and pears in the Territories; and
  - (f) such other functions in connexion with apples and pears as are provided by the regulations.
- 1.3 The matter before the Joint Committee of Public Accounts relates to the comments made by the Auditor-General in paragraph 25 in his 1981-82 report and is not related to Corporation policy.
- 1.4 The paragraph referring to the Corporation in the Auditor-General's report reads:-

"25. AUSTRALIAN APPLE AND PEAR CORPORATION

The Australian Apple and Pear Corporation was established by the Australian Apple and Pear Corporation Act 1973. The Corporation's principal functions are to promote and control the export of Australian apples and pears and to promote trade and commerce in apples and pears within Australia. Under arrangements with the Commonwealth the Corporation also administers the Apple and Pear Stabilization Scheme and the Apple and Pear Export Underwriting Scheme.

The Accounts and records of financial transactions and records relating to assets of, or in the custody of, the Corporation for the year ended 31 December 1981 have been audited and reports on the audit and the financial statements have been forwarded to the Minister for Primary Industry as required by the Act.

The audit report on the financial statements referred to payments made to officers of the Corporation contrary to the terms and conditions of service determined by the Corporation and approved by the Public Service Board pursuant to section 24 (2) of the Act.

The annual report of the Corporation, which includes the financial statements for the year ended 31 December 1981 and the audit report thereon, was presented to the Parliament on 5 May 1982."

1.5 The Auditor-General's Office, Victorian Branch, in a letter to the Corporation dated 15th February 1982, made the following comments in relation to the Corporation's accounts for the year ending 31/12/82.

Auditor-General's Report to the Minister under Section 37(3) of the Apple and Pear Corporation Act (the Public Report)

The recommendation of this Branch would be that the accounts be qualified on the grounds that expenditure during the year has not been in accordance with the Act to the extent that there has been failure to obtain Public Service Board approval to certain terms and conditions of employment of staff as required by section 24 (2) of the Act.

In regard to the confidential report of the Auditor-General (section 35(3) of the Act), the specific instances of non-compliance would be mentioned, namely:

- (a) Payment of recreation leave instead of allowing the leave to automatically lapse (where the officer was unable to take leave because of Corporation requirements, the Chairman approved, the Corporation Board 'noted' the payment at the meeting on 12 January 1982; and, it is understood that the Minister was informed).
- (b) Leave bonus paid to all officers at beginning of year (as a matter of convenience rather than, as required, when at least five days leave taken).
- (c) Travel expenses for staff being reimbursed on basis of actual costs and not as travelling allowances - your officers stated that this long-standing practice had been corrected by the Corporation late in the financial year and before the audit.

1.6 The then Minister for Primary Industry in a letter to the Chairman of the Corporation dated 6th September 1982, confirmed that the Auditor-General had reported to him along the lines set out in 1.5 above.

2. MATTER (a)

Payment of recreation leave instead of allowing the leave to automatically lapse (where the officer was unable to take leave because of Corporation requirements, the Chairman approved, the Corporation 'noted' the payment at the meeting on 12 January 1982; and, it is understood that the Minister was informed).

2.1 Explanation

During the 1982 pre-audit, Mr D.H. Leemon, the Corporation's Administration Officer, was advised that 10 weeks recreation leave would need to be taken prior to April 1st, 1982 or the leave would be forfeited. When the matter was reviewed in November 1981, it was apparent that it would be impractical for Mr Leemon to take the outstanding leave prior to 1st April, 1982 because:

- i) A new General Manager had been appointed in September 1981 and under these circumstances it was considered impractical to release Mr Leemon for 10 weeks.
- ii) In October/November of each year Mr Leemon is heavily involved in underwriting/stabilisation accounting up until the end of November.
- iii) In November/December of each year Mr Leemon, as Executive Officer for the Shipping Committee, is involved in annual shipping negotiations.
- iv) In December/February Mr Leemon is involved in preparing the annual accounts for audit and presentation to Parliament.

Note: The Corporation has a staff of 4 Executives and in view of the circumstances outlined in i) - iv) above it would place an unworkable burden on other staff for an Executive to be on leave for 10 weeks. Employment of temporary staff was not considered to provide a solution as Mr Leemon's work is of a specialised nature.

As it was apparent that the Auditor was unable to extend the leave period beyond April 1st, the Chairman agreed to payment of 8 weeks salary in lieu of leave after considering the following extraordinary circumstances:-

- (a) On the 24th December, 1972, the Apple and Pear Board's Overseas Representative passed away suddenly. The Secretary was requested by the Chairman to proceed to the U.K. at short notice to manage the London Office. Mr Leemon was appointed Acting Secretary and was asked by the Chairman to cancel leave which he had planned to take in early January.
- (b) In 1979 Mr Leemon had arranged to travel to New Zealand on recreation leave. Prior to his departure the Secretary of the Corporation was suddenly hospitalised. The Chairman of the Corporation requested Mr Leemon to cancel his holiday.

Corporation Minute 1281 (b) of 12th January, 1982 refers:

"The Chairman also reported that Mr Leemon was owed 14 weeks in annual leave and had cancelled, arranged leave twice during his employment at the request of the Corporation. The Chairman said as Mr Leemon stood to forfeit back leave he had taken the initiative of having Mr Leemon paid for eight of those weeks in lieu of leave."

2.2 Action Taken

Corporation Minute 1296 (a) of 9th February, 1982 refers:

"The Government Member advised that in the view of the Department the action taken in Mr D.H. Leemon being paid in lieu of leave was incorrect and the matter should be taken up with the Public Service Board.

Resolved: That the Chairman consult with the P.S.B. in an endeavour to obtain approval for the action taken."

The Chairman was advised that the P.S.B. would not approve of the action he had taken.

On September 2nd, 1982 the Standing Committee on Finance and Government Operations wrote to the Chairman of the Corporation seeking advice on the resolution of this matter.

On September 6th, 1982 the Minister for Primary Industry wrote to the Chairman of the Corporation stating that in his view the Corporation should take further action in respect of its error in making payment to an officer in lieu of recreation leave. He advised that the precise action to be taken was a matter for decision by the Corporation. He also commented that the Auditor-General's Office had advised the Corporation had normal powers of a company to write-off debts owed to it, and submitted guidelines for the Corporation to use when considering the matter in further detail.

Following discussions with the Deputy Crown Solicitor's Office, an appeal was made to the Department of Finance in a letter dated 1st October, 1982 for permission to waiver recovery of the over-payment. The Department of Finance advised in their letter of 22nd October, 1982 that it was their understanding that the Corporation was not subject to the provisions of the Audit Act 1901 and accordingly it was not a matter for consideration by the Department.

Following discussions with Mr Leemon, it was agreed that he would repay the debt over a period of five years commencing 1st January, 1983. Corporation Minute 1404 (j) of 14th December, 1982 refers:

"The Chairman advised that following discussions with Departmental Officers it had been mutually agreed with Mr Leemon that he repay the leave pay inadvertently paid to him in December 1981 over a period of 5 years commencing on 1/1/1983.

Resolved: That the above arrangements be approved and implemented."

During discussion of the implementation of this resolution with Mr Leemon, he pointed out that it appeared to bind him to a yearly payment regardless of circumstances beyond his control, such as illness. This factor was taken into account in phrasing the confirming letter to Mr Leemon dated 21st April, 1983.

We also enclose a letter of today's date setting out an agreement for six monthly payments instead of the annual payments inferred in our letter.

3. MATTER (b)

Leave bonus paid to all officers at beginning of year (as a matter of convenience rather than, as required, when at least five days leave taken).

3.1 Explanation

The procedure of paying leave bonus to all officers at the beginning of the year had been adopted as a matter of convenience for the Accounting Staff in making one payment to all staff at the one time.

3.2 Action Taken

As a result of the Auditor-General's staff drawing the matter to the attention of the Corporation, normal procedures of paying holiday leave bonus have been adopted.

4. MATTER (c)

Travel expenses for staff being reimbursed on basis of actual costs and not as travelling allowances - your officers stated that this long-standing practice had been corrected by the Corporation late in the financial year and before the audit.

4.1 Explanation

Senior staff employed by the Australian Apple and Pear Board had for many years travelled "First Class" and recouped expenses "as incurred". The Corporation at its first meeting in September 1974, confirmed these arrangements taking into account Section 25(2) of the Apple and Pear Corporation Act:

"25.(2) The Corporation shall as soon as practicable after the commencement of this Act, appoint as an officer, or engage as an employee, of the Corporation under Section 24 each person referred to in sub-section (1) of this section whose employment under that sub-section has not ceased, and the terms and conditions of employment determined by the Corporation in relation to a person so appointed or engaged shall be not less favourable than the terms and conditions of employment applicable to him immediately before he is so appointed or engaged."

This section of the Act was repealed by an Amendment Act No. 145 of 1981 which was assented to on 21 October 1981.

4.2 Action Taken

When the Corporation became aware in September 1981 of the conflict between the original ruling and Public Service Board regulations applicable to travel by 3rd Division Officers, a ruling was made that staff would comply with Public Service Board regulations applicable to mode of travel and reimbursement of travelling allowances and this has been adhered to by Staff since that time.

5. Witnesses

The witnesses for the Corporation will be:

Mr Robert Tyson BOYNTON - CHAIRMAN  
Mr Kenneth James MCGILLEN - GENERAL MANAGER

..... 6TH JUNE, 1983 .....  
DATED

AUSTRALIAN APPLE AND PEAR CORPORATION

- Letters to Mr D H Leemon from the Australian Apple and Pear Corporation dated 21 April 1983 and 6 June 1983 may be found on Joint Committee of Public Accounts, File 1983/5, Part B.

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

INQUIRY INTO THE

AUDITOR-GENERAL'S REPORT 1981/82 AND SEPTEMBER, 1982

SUBMISSION BY THE AUSTRALIAN DAIRY CORPORATION

- 1.0 In a letter dated 17th May, 1983, the Secretary of the Joint Parliamentary Committee of Public Accounts sought from the Corporation a detailed submission "on the matters referred to at paragraph 28 of the September 1982 Report" of the Commonwealth Auditor-General. This submission has also been asked to "address the circumstances which led the Auditor-General to refer to complaints by the Corporation in connection with audit fees at paragraph 4.3 of the 1981/82 Report".

In response to this request, the Corporation makes the following submission:

- 2.0 September 1982 Report of the Commonwealth Auditor-General
- 2.1 It should be noted that the majority of the matters referred to by the Commonwealth Auditor-General in paragraph 28 of his September 1982 Report to Parliament were also contained in the Auditor-General's Report to the Minister for Primary Industry on the Corporation's accounts for the year ended 30th June, 1981.
- 2.2 This qualification led to a detailed reply being prepared by the Corporation Chairman which, together with the Auditor-General's certification, was contained in the Corporation's 1980/81 Report. For convenience, a copy of the Chairman's letter is attached (Attachment 1). By way of further explanation, attached also is that section of the Corporation's certification of the financial statements which elaborates on the section entitled "Asia Dairy Industries (HK) Ltd. (ADI)." (Attachment 2).
- 2.3 It is believed that the contents of this letter provide the explanations sought by the Committee on the specific comments made by the Auditor-General. Additionally, in respect of the



comment concerning "Travel Expenses - Chairman and Board Members", attached is a copy of a letter dated 6th April, 1982, from the Secretary of the Remuneration Tribunal, the content of which it is believed supports the Corporation's approach in this matter (Attachment 3).

2.4 Those areas on which the Auditor-General made comment which were not included in the Auditor's qualifications of the Corporation's 1980/81 accounts, together with a response by the Corporation, are as follows:

3.0 (a) Promotional Expenditure

3.1 The Auditor-General has suggested that there was "production of promotional material involving expenditure of \$182,745 of which only \$125,000 received prior approval of the Minister".

3.2 This matter touches on a subject area which involves proposed amendments to clarify legislation whereby the Corporation would not need to seek Ministerial approval to enter into promotion contracts exceeding \$100,000. This amendment has been planned since 1979 but it is now understood legislative amendment scheduling difficulties mean that the amendment is unlikely before 1984.

3.3 As the Auditor-General noted in his letter to the Minister for Primary Industry of 11th March, 1982, in the absence of a clear legal opinion, the Corporation had adopted the practice of seeking Ministerial approval to promotion budgets without seeking specific approval of particular contracts.

3.4 The budget items for 1980/81 (approved by the Minister) contained an item entitled: "Advertising - Cheese - Media Expenditure" with an estimated expenditure of \$125,000. This eventually became a contract for \$182,745 and when

Audit pointed out the variation, the Corporation sought approval for the increased expenditure. The Ministerial approval was obtained on 21st November, 1981.

3.5 A specific contract approval system had not been developed because of doubts as to whether the rules relating to contracts over \$100,000 applied to promotional expenditure. The Corporation submits that it is inappropriate for the Auditor-General to draw attention to one item given that approval of the total budget was the main purpose of the system developed with the Minister's knowledge, particularly as it was unclear as to whether Ministerial approval was required. In any event, the total of the budget items, as originally approved by the Minister, was not exceeded.

4.0 (b) Direct Butteroil Allowance

4.1 The Auditor-General comments on:

"inconsistency in accounting treatment of direct butteroil allowance compared with other allowances approved under Section 17 of the Dairy Industry Stabilization Act."

4.2 This matter derives from what was perceived as a defect in dairy legislation and was raised in conjunction with the issue of the number of product accounts that should be maintained within the Dairy Products Stabilisation Trust Fund.

4.3 The "inconsistency" related to paying a special allowance to direct butteroil manufacturers in order to ensure that they received the same stabilization payment as a butter or processed butteroil manufacturer. In doing so, the Corporation was acting in an equitable fashion and in accordance with the legislation, although the method of presentation within the Corporation's accounts may have

suggested this was not the case.

4.4 It is interesting to note now that the Department of Primary Industry has come to the conclusion that no legislative change is necessary so long as the butter/butteroil stabilization rate is declared at a commercial butter equivalent (CBE) level each year.

4.5 This overcomes the problem of not being able to declare two stabilization rates within the butter/butteroil pool and ensures that the direct butteroil manufacturer receives a payment equivalent to a butter manufacturer, i.e. at a CBE level.

4.6 In this context, the following quote from an attachment to the letter from the Corporation's General Manager to the Auditor-General's Office, Melbourne, dated 18th January, 1982, indicates that the Corporation believed at that stage that legislation was not being breached. Subsequent events have proved this to be correct:

"Inconsistent Accounting Treatment of Direct Butteroil Allowance

4.7 This item was reported in 1978/79 as a defect in Section 13 of the Dairy Industry Stabilisation Act, and a similar situation existed to that applicable to the preceding comment on Product Accounts.

4.8 Discussion centred on whether in fact there was a breach of the Act or that expenditure was made in accordance with the Act but disclosure in the published accounts differed from the Minister's determination.

4.9 Corporation Management considered the latter view to be preferred and the Audit officers proposed to further investigate this complexity with the.."

"..Department of Primary Industry.

4.10 It should be noted that the method of treatment in the financial statements is in accordance with the intent of the payment and avoids a possible distortion in the presentation."

4.11 The Corporation's attitude conformed with the accounting standard (AAS6) which emphasises the use of substance over form.

5.0 (c) Definition of Table Quality Butter

5.1 The Auditor-General has noted:

"problems in definition of table quality butter which lead to difficulties in administering allowances payable under Section 17 of the Dairy Industry Stabilization Act."

5.2 It is appropriate here to again quote from an attachment to a letter from the Corporation's General Manager to the Auditor-General's Office, Melbourne, 18th January, 1982:

5.3 "This is a matter about which Corporation Management feel most strongly that it would be quite improper for any report to be made by the Auditor-General on the basis that this was a matter which he regards as unsatisfactory arising from the audit. The difficulty relating to the definition of table quality butter within the allowance system was one that was recognised by Corporation Management itself. Once having identified the problem, Corporation Management then proceeded to obtain clarification of the matter through the appropriate channels - submissions to the Australian Dairy Industry Advisory Committee (ADIAC) and the Corporation Board. This was a matter which was considered by ADIAC at meetings held on 9th April.."

"..1981 and 10th November, 1981 and by the Corporation at a meeting held on 4th June, 1981. The matter was again considered at the Corporation Board meeting held on 3rd December, 1981, when it was resolved as follows:

- 5.4 "that table quality butter for the purposes of storage and interest allowances be defined as butter packed as choicest, and scoring not less than 92 points at the initial grade."
- 5.5 In these circumstances, Corporation Management would contend that, as this was a matter which did not breach legislation, was one which was recognised by Corporation Management as requiring clarification and which was resolved using the proper channels, it would be quite improper for the matter to be reported in any way."
- 5.6 It might be noted that, although this system operated from 1st July, 1977, with the knowledge of the Auditor-General, no report to Parliament was made by the Auditor-General regarding the system's adequacy until after the Corporation itself identified a problem.
- 6.0 (d) Rebates on Sales of Skim Milk Powder and Whole Milk Products
- 6.1 Subsequent to the comments of the Auditor-General, in which he indicated he had reported to the Minister for Primary Industry on the 27th April, 1982, the Minister for Primary Industry made a statement to Parliament on the whole matter on 16th September, 1982. At that time the Minister tabled relevant documents.
- 6.2 Subsequently, a further document which the Corporation believes is relevant has become available and is attached for reference. (Attachment 4).

7.0 Auditor-General's Comments - 1981/82 Report

- 7.1 The Auditor-General's comments in his 1981/82 Report relate to "the role of the Auditor-General in relation to Statutory Authorities". In this, the Auditor-General has commented that "some Authorities were tending to take the view that payment of a fee entitled them to influence the scope of proposed audits, the manpower to be employed and the overall costs". The Auditor-General also commented "The pressure to influence the scope of audits has been evidenced even by refusals to pay the audit fee until I provided full details of its composition".
- 7.2 The Australian Dairy Corporation was named by the Auditor-General as being amongst "the most vigorous complainants in the last year.." and the Auditor-General then proceeded to quote selectively from correspondence that had been received by him from the Corporation on the subject.
- 7.3 The Corporation denies most vigorously that at any time did it endeavour to apply pressure "to influence the scope of the audits" and it is believed that this is evidenced by the sequence of events which has occurred in this matter.
- 7.4 What the Corporation endeavoured to do was to seek an explanation as to the basis for the fees charged, together with some indication of the reasons why there was a significant variation of about 30% between the audit fee estimated and the fee actually charged for 1980/81 and also for subsequent significant increases in fees when, to the knowledge of the Corporation, there had been no corresponding increase in the work activity.
- For Members' information, a precis of the events which occurred is as follows:
- 7.5 On 25th July, 1980, the Corporation received advice from the Department of Finance to the effect that the Government had decided that fees should be charged for the services of the Commonwealth Auditor-General and this charge would

commence with the 1980/81 year.

- 7.6 . In August, 1980, correspondence ensued between the Corporation and the Department of Finance as to the background to this decision and the likely charge to be made.
- 7.7 . On 13th August, 1980, the Department of Finance responded to certain of the queries of the Corporation and in this indicated that "as to the matter of the way in which fees are to be calculated I did say in my earlier letter to you that the Auditor-General's Office would be writing to you about this in due course". (Attachment 5).
- 7.8 . On 28th August, 1980, the Corporation wrote to the Office of the Auditor-General seeking advice on the likely structure of fees to be charged and concluded by saying "Would you please let me know as a matter of urgency when it would be convenient to meet to discuss this matter. As you will appreciate the Corporation has made no budgetary provision for Audit fees for the 1980/81 year and will naturally wish to discuss with you the basis of the charges that were made for this compulsory audit service." (Attachment 6).
- 7.9 . On 26th September, 1980, the Auditor-General's Office advised the Corporation as to the basis for setting fees and indicated that "Work on the calculation of the fees is proceeding and as soon as this is finalised you will be advised of the estimated amount of the charge for budgetary purposes". (Attachment 7).
- 7.10 . On 3rd November, 1980, when no further advice had been received from the Auditor-General as to the likely fee, a further enquiry was sent. (Attachment 8).
- 7.11 . On 7th November, 1980, the Auditor-General's Office advised that the estimated fee for the year ending 30th June, 1981 "is \$45,000". (Attachment 9).

- 7.12 . On 31st March, 1981, following a decision of the Corporation Board, the Corporation Chairman wrote to the Minister for Primary Industry expressing concern at the Government's decision to impose audit fees. (Attachment 10).
- 7.13 . On 28th April, 1981, the Minister for Primary Industry replied, outlining the basis for the Government's policy decision in this matter. (Attachment 11).
- 7.14 . An undated letter received 16th June, 1981, from the Auditor-General's Office indicated that the Audit fee for 1980/81 was \$58,400 compared with the estimate of \$45,000 given on 7th November, 1980. (Attachment 12).
- 7.15 . On 2nd July, 1981, a further letter from the Auditor-General's Office repeated the advice as to the 1980/81 fee and also indicated that the fee for the year ended 1982 would be \$72,750 and that "This figure of course may be subject to adjustment in the light of actual costs incurred". (Attachment 13).
- 7.16 . On 10th July, 1981, a letter was forwarded from the Corporation to the Auditor-General's Office in which it was indicated that the Corporation looked forward "to receiving the detailed statement of account and also would ask if you could provide some explanation as to how the amount to be charged differs by some 30% from the figure of \$45,000 originally quoted for the period in question on the 7th November, 1980".
- 7.17 . On 31st July, 1981, the Auditor-General's Office replied indicating that the fee was based on actual work hours expended and also that "The actual work undertaken during the period included a greater proportion of the audit coverage than was originally anticipated". (Attachment 14).
- 7.18 . On 13th August, 1981, by way of telex, the Corporation asked the Auditor-General's Office for additional information as

- to the calculation of the fee. (Attachment 15).
- 7.19 . On 5th October, 1981, contrary to the advice of 31st July, 1981, the Auditor-General's Office (Victorian Branch) advised the Corporation that "The original estimated audit fee had been incorrectly calculated by my Central Office due to a clerical error in the Victorian Branch". (Attachment 16).
- 7.20 . On 8th December, 1981, a letter from the Chairman of the Corporation to the Minister for Primary Industry again questioned the Government's policy decision on the charging of fees. (Attachment 17).
- 7.21 . On 4th January, 1982, a letter from the Minister of Primary Industry to the Corporation indicated that he saw no reason to question the Government's basic policy decision on the payment of audit fees. However, it might be noted that in his letter, the Minister also indicated he concurred "with a further approach being made to the Auditor-General on such issues as the method of setting fees and time to complete audits". (Attachment 18).
- 7.22 . On 5th August, 1982, the Corporation Board agreed to take up with the Auditor-General the whole basis of the assessment of the fees to be placed on the Corporation - extract from Board Minutes attached. (Attachment 19).
- 7.23 . On 11th August, 1982, the Corporation Chairman wrote to the Auditor-General a detailed letter outlining the areas of concern to the Corporation in the matter. A cheque for \$45,000 relating to the first estimate for 1980/81 was also forwarded. (Attachment 20).
- 7.24 . On 8th October, 1982, the Auditor-General replied to the Corporation's letter of 11th August, 1982, but it was felt by the Corporation that the answers did not fully address

- the questions posed. (Attachment 21).
- 7.25 . On 13th October, 1982, a meeting was held between the Auditor-General, the Corporation Chairman, Mr. Vawser, and Mr. I.D. Saulwick, Corporation Board Member. During the meeting the Auditor-General gave Messrs. Vawser and Saulwick to understand that he would provide a written outline to the Corporation of the principal factors influencing the scope of the Audit and the procedures involved in its conduct.
- 7.26 . On 18th October, 1982, the Corporation Chairman wrote to the Auditor-General, Mr. Brigden, confirming the matters discussed on 13th October, 1982. (Attachment 22).
- 7.27 . On 18th October, 1982, in a letter to the Minister for Primary Industry, the Corporation Chairman reported on his discussions with the Auditor-General on 13th October, 1982. (Attachment 23).
- 7.28 . In a meeting of 3rd November, 1982, between Mr. Brigden, other representatives of his office, the Corporation Chairman, Mr. Vawser, two other ADC Board Members and certain ADC senior Management, Mr. Brigden indicated he did not understand how Messrs. Vawser and Saulwick could have understood from the 13th October meeting that he would be providing further details on audit fees as that was not the case.
- 7.29 . On 23rd November, 1982, following a Corporation Board meeting, and taking into account the Auditor-General's comments on fees in his Report to Parliament, the Chairman wrote to Mr. Brigden detailing the outstanding points of concern and sought explanations on the basis that the Auditor-General's letter of 11th August did not answer the questions posed. (Attachment 24). Attached to this letter was a cheque for the outstanding audit fees.

7.30 It might be noted that to date no reply has been received to this letter.

8.0 Summary

8.1 The foregoing provides the Corporation's response to issues raised by the Committee. Members of the Corporation Management are available to provide additional information should this be required.

8.2 In the event it is decided by the Committee that this matter should become one for public inquiry, then the Corporation witnesses would be:

- . Mr. M.L. Vawser - Chairman
- . Mr. B.A. Norwood - General Manager
- . Mr. N.C. Armour - Finance Manager

AUSTRALIAN DAIRY CORPORATION

- . Attachments 1 to 24 may be found on Joint Committee of Public Accounts file 1983/5, Part B.

6th June, 1983

AUSTRALIAN DAIRY CORPORATION

- Letter dated 19 March 1985 may be found on Joint Committee of Public Accounts File 1983/5, Part B.

"Joint Parliamentary Committee of Public Accounts  
Inquiry into the Auditor-General's Report - September 1982  
Submission by Department of Science and Technology"

- 1 The Auditor-General's Report tabled on 7 September 1982 included reference to the results of an audit of the Australian Industrial Research and Development Incentives Scheme.
- 2 The report reference contains audit findings concerning commencement grants, project grants and public interest projects and includes a Departmental response to the observations outlining the action taken or proposed. The details set out in that response reflect the views of the Department at that time.
- 3 Faced with staffing limitations the Department is endeavouring to implement the remedial measures outlined in the Report to streamline and modify practices to assist in meeting the heavy demands placed upon the operations of the scheme. During 1981 amendments to the Industrial Research and Development Incentives Act 1976 varied some management arrangements of the Scheme which had been the subject of criticism by the Auditor-General.
- 4 The following information is provided to supplement the comments included in the Departmental response to the Audit findings.

Commencement Grants

- 5 The current program is still restricted because of staffing limitations. However a number of officers have been seconded to the office assisting the Incentives Board in an attempt to overcome difficulties and to expedite investigations of applications. A recent Government decision increased the grant funds available to clear some of the backlog. The submission related to this identified the need for an additional three officers to cope with the consequent workload. Action to fill these positions is in hand. This should allow the Board to implement an investigation program which is more acceptable to the Auditor-General.
- 6 Consolidation of precedent Board Decisions: The consolidation of precedent Board decisions has not been further progressed beyond 1978. Some further operational instructions have been issued recently. Collation of other criteria has not progressed. It is anticipated that clearance of other priority tasks will permit work to be undertaken in this area during the latter half of this year.

Project Grants

- 7 Procedures for Board Decision: Improved procedures related to Board decisions have been implemented. These provide for the ranking of projects by the Board member in accordance with criteria as directed by the Minister. These procedures provide a more meaningful basis for analysis of project grant applications.
- 8 Cost Checks, Cost Reviews and Payments: The matters referred to in the departmental response to the Auditor-General's report on cost checks, cost reviews and payments are in hand. Cost checks are currently being undertaken approximately 20% by desk assessment and 80% by visit.
- 9 A cost review program is in progress to ensure every grant agreement held is examined by visit for the purposes of verification of cost at least once during the life of the agreement.
- 10 Prompt quarterly payments based on certified statements of company expenditure are proceeding.
- 11 Documentation: Staff were directed to ensure that documentation is neat and presentable and provides a clear audit trail. The reasons for decisions contrary to recommendations are being recorded.
- 12 Information Sheet: Action to build up an information sheet on each company is still in the development stage.
- 13 Financial Resources: During the initial visit to a company, its capability to proceed in accordance with the agreement is considered. In cases where there may be doubt as to a company's financial resources the situation is referred to the Board or an appropriate delegate for consideration.
- 14 Referees Reports: A paragraph to prompt applicants to expedite referees responses was included in the standard letter acknowledging applications. However to expedite processing of applications the referee requirements have now been relaxed, and referee reports are now only sought at the discretion of the Director, Technical Section or if the Board after its first examination requests them.

Public Interest Proposals

- 15 Planning: Under Section 21 (5AB) of the Act the Minister is obliged to seek advice from the Advisory Committee prior to approval of projects in the public interest. That Committee has met on two occasions since September 1982 and considered departmental assessments of four projects. It has advised the Minister that two of these merit consideration under section 39 as projects in the public interest.
- 16 Funding: The Department has amended the clause for payment in the standard agreement on public interest projects. Advances to contracting parties are now limited to 3 months and subsequent payments are assessed in accordance with expenditure incurred by the contracting party.





COMMONWEALTH OF AUSTRALIA  
JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

PARLIAMENT HOUSE  
CANBERRA, A.C.T.  
TEL. 72 7455

Our reference: 1983/5

The Secretary  
Department of Science and Technology  
PO Box 65  
BELCONNEN ACT 2616

Attention: Mr J A Clark

AUDITOR-GENERAL'S REPORT - SEPTEMBER 1982

I refer to the public hearing on Australian Industrial Research and Development Incentives with Dr K Foley, Mr J Clark and Mr G Montgomery on Wednesday 9 May 1984. Due to time constraints the Committee did not conclude its questioning of the witnesses and it was agreed that answers to further questions would be supplied in writing.

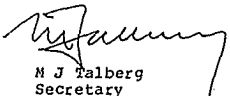
The Committee's questions are provided below. It would be appreciated if responses could be provided by 6 July 1984.

Questions

1. Is the general staffing level of the Branch which services the Australian Industrial Research and Development Incentives Board now adequate?
2. What is the structure and how many staff support the Board? How many staff service each type of grant?
3. What amendments have been made to the Industrial Research and Development Incentives Act 1976 in response to the Auditor-General's comments and what are the effects of these amendments?
4. When does the sunset clause in the Act come into effect? Has there been any internal and/or external examination of the grants covered by this Act? What, if any, are the results of these studies?

5. What administrative changes have been introduced to streamline and modify practices to assist in meeting the heavy demands placed upon the operations of the Australian Industrial Research and Development Incentives Scheme?
6. Could you explain the average approval and planning phase? How long does it usually take?
7. Have records of the decisions on eligibility criteria, definitions of eligible expenditure and subsequent payments within limits been consolidated and referenced for ready access and guidance of staff? If not, when will they be?
8. What are some examples of the reasons for Board decisions which have been contrary to recommendations?  
- How are these decisions recorded?
9. What was the nature of the operational instructions for the assessment of Commencement Grants, referred to in the Departmental submission, issued to the staff of the Board?
10. What guidelines exist to assist staff in their assessment of grant applications?
11. What were the improved procedures related to decisions of the Board and how do these procedures provide a more meaningful basis for analysis of Project Grant applications?
12. What cost checks and technical assessments are undertaken of proposed and operating projects? How are these performed and how are they documented?
13. How often are checks carried out in the life of an agreement? What is the average life of an agreement?
14. What checks are made to ensure that payments are not made in excess of needs? Are payments to companies only made after certified statements of expenditure are received? What action is taken if the checks reveal a problem?
15. What determines the need for financial and technical assessments?
16. If there is doubt concerning a company's financial resources, what action is taken in relation to assessment for a grant? Is it not considered that a company with an operating loss may still be suitable for a grant? Why?
17. What is the progress to date in developing information sheets on companies?

18. Are referees' reports necessary to the assessment of a project grant? Have grants been paid before referees' assessments are received? If so, why?
19. On average, how often is it necessary to seek referee reports during assessments of projects?
20. Has the backlog of applications and investigations now been cleared?

  
M J Talberg  
Secretary  
18 June 1984



## Department of Science and Technology

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

20 JUL 1984

### AUDITOR-GENERAL'S REPORT - SEPTEMBER 1982 YOUR REFERENCE 1983/5

The following information is provided in response to the Committee's questions advised in your minute of 18 June 1984.

#### QUESTION 1

Staffing of the Branch servicing the Australian Industrial Research and Development Incentives Board has recently been increased by eight positions. When all positions are filled, this will provide a staffing level sufficient to process all grant applications and to maintain an adequate control of grant expenditure, based on 1983/84 workload and a minimum sampling procedure.

The Incentives Board has expressed opinion that this staffing may not provide sufficient support to undertake all its functions under the Act. Specifically, it is concerned that it will limit the extent of analysis of applications and claims, continual review of effectiveness of the Incentives Scheme, technical review of ongoing projects, timely consideration of appeals, development of policy, and communication with industry and the industrial research and development community.

#### QUESTION 2

Staff directly supporting the Board are established in a Branch of the Department headed by a Senior Assistant Secretary, Level 2. The Branch has four sections concerned with:

- Assessment of eligibility, financial and legal aspects of applications.
- Technical support and promotion of the achievements of the program.
- Policy overview and development.
- Administrative support.

Staffing of the Branch is currently 43 including 5 short-term temporary and two part-time staff. Provision has been made for an average staffing level of 44.5 during 1984/85.

Additionally, staff in the Sydney and Melbourne offices of the Department provide further evaluation, financial and technical support, on both a permanent and part-time basis, and limited part-time technical support is provided by other State Offices.

In total, the equivalent of 64 full time staff are currently available and this will be increased to 73 during 1984/85.

Of the proposed 73 staff, approximately 17 equivalent staff will directly or indirectly service Commencement Grants, 33 Project Grants and 2 Public Interest Projects. General administration and technical management of Public Interest Projects is handled otherwise within the Department of Science and Technology. The remainder provide support to other functions of the Board and general administration of the Branch.

#### QUESTION 3

The comments of the Auditor-General have not necessitated any changes to the Industrial Research and Development Incentives Act 1976.

#### QUESTION 4

The Act does not have a specific sunset clause. However, operative dates specified in the Act for Commencement and Project Grants will result in a sunset on these provisions commencing at 30 June 1986.

Apart from Annual Reports of the Board, no specific studies have been undertaken on the effects of the grants. A pilot study undertaken during 1983/84 has established a base on which a major evaluation study will now be undertaken.

#### QUESTION 5

Very extensive administrative changes have been progressively introduced over recent years. These include:

- Reduction of technical assessments of applications to summary report status.
- Referral to referees only on major projects or as specifically required by the Board.
- Placement of onus on applicants to provide support for any appeals.
- Reduction of frequency of visits to companies to assess claims and applications.
- Delegation of approvals as far as is possible under the legislation.

- Minimum assessment of requests received to extend time on grant agreements.
- Introduction of quarterly grant claims and payment procedures.
- Reduced attendance at Public Interest Project management meetings.
- Scheduling of assessments to optimise travel and staff utilisation.
- Planned communication with industry towards optimum use of staff, rather than optimum communication.
- Reduction of detail contained in statistical records and the Annual Report of the Board.
- Introduction of test checking of claims instead of full accountability checks.
- Regular follow up of overdue company reports and claims.
- Use of word processing, form letters and, to a limited extent, computer based systems.
- Implementation of Company history sheets to give quick reference to information required during assessment of claims.

#### QUESTION 6

A closing date exists for submission of Commencement Grant claims. Unless otherwise gazetted, this is 30 September following the end of the grant year with provision for extension to 30 November in special circumstances. Applications are allocated to staff for assessment generally in order of receipt. As the majority of applications arrive late in September, a bulking occurs. Staff initially undertake an assessment based on the information supplied. Where it is necessary to further verify claims, additional information is requested from the applicants or visits are made to their premises. An average application requires of the order of two days assessment plus time associated with recording, processing of payment and other administrative functions.

Project Grant applications can be submitted at any time. After recording they are assessed by technical staff and an evaluation report is provided for the Board. Referee reports are sought within guidelines set by the Board. On average, an application is submitted to the Board for consideration within 3 months of its receipt. The Board may then approve, reject or defer decision on the application. A deferred decision on average results in a further two months delay before the additional information requested can be obtained.

If the Board approves a project, it is allocated to a Cost Investigation Officer to negotiate expenditure estimates with the applicant and to formulate a Grant Agreement. The Agreement is approved under delegation by the Executive Member of the Board. This process on average takes two to three months. Eligibility of expenditure is however retrospective to the date on which the application was received by the Board.

Claims for grant payments against approved projects are received from the companies on either a 3 or 6 monthly basis. The majority of these are assessed against information provided with more detailed assessment, usually involving a visit to the applicant company, being undertaken on an annual basis, or more frequently if doubt exists on major aspects of a claim. Final claims are subjected to detailed investigation before payment unless clearly eligible. On average, payment is made within 6 weeks of receipt of a standard claim. Where claims are subjected to more detailed assessment, up to 4 months can elapse before payment is made.

Arrangements are in hand to introduce automatic quarterly payments against agreed schedules. Annual or more frequent verification of expenditures will be undertaken and schedules will be adjusted if appropriate.

#### QUESTION 7

A Procedures and Precedent manual which records decisions on eligibility, definitions and interpretations and defines procedures has now been produced. A duty of one of the new staffing positions recently approved will be to maintain the manual.

#### QUESTION 8

The Auditor-General did not report that the Board had made decisions contrary to recommendations. He reported that "instances were noted where the Board has overridden the preliminary technical assessments". Preliminary technical assessments do not contain recommendations. Staff preparing these assessments are required to provide analyses, not recommendations. We are therefore unable to identify the instances to which the Auditor-General has referred, and can only assume that the Auditor viewed Board decisions in isolation from a knowledge of all information available to the Board.

#### QUESTION 9

The operational instructions issued to staff of the Board and referred to in the Department submission to the Committee, are formal instructions advising details of new decisions, operational policies, interpretations, actions to be taken, and the like. A total of 43 such documents have been issued since February 1982. Where appropriate, they are incorporated in the manual referred to in reply to Question 7.

#### QUESTION 10

Guidelines available to assist staff in their assessment of grant applications are contained in the Industrial Research and Development Incentives Act 1976, Regulations and Directions (from the Minister) under that Act, Board policies, precedents, and accountancy and technical practices. Precedents and procedures, interpretations and the like are contained in the manual and documents mentioned in reply to Questions 7 and 9 above, as well as other documents such as application forms and explanatory notes issued to guide applicants.

#### QUESTION 11

The improved procedures referred to in paragraph 11 of the Department's submission to the Committee are criteria based on a structured analysis by the Board of directions given to the Board by the Minister under Section 19 of the Act, relative to the assessment of project grant applications. They draw out points against which the Board requires applications to be assessed by technical supporting staff. These assessments and the criteria are used by Board Members to assist them in undertaking individual analyses of applications. They form a basis for Board discussion and for evaluation of the applications against the Minister's directions.

#### QUESTION 12

Full details of assessment procedures are documented in the manual referred to in answer to Question 7 above.

All proposed projects are technically assessed as set out in answer to Question 11 above. These assessments are documented in a standard format against the criteria specified by the Board.

Technical assessments of operating and completed projects are undertaken to the extent that staffing is available. During 1983/84 only 17 assessments were undertaken out of approximately 600 operating projects and 71 assessments out of 220 completed projects. However, companies are required to report technical progress on operating projects at 6 monthly intervals and these reports are briefly scanned by the Technical Director of the Board's staff to identify if any unusual circumstances have arisen. The full assessment reports are prepared on a structured basis after a visit to the company to examine matters such as progress, company capability, results, effect of grant, and problems encountered.

Approved projects are cost checked by discussion with the company and sighting of records, to determine forward estimates of eligible project expenditure against which forward grant commitments are established. The cost checks are documented in standard format against eligible expenditure categories and phased over the life of the project. Copies of these documents together with supporting calculations are provided to the company.

Cost reviews of ongoing and completed projects are undertaken against 6 monthly reports on project expenditures by the company. In the majority of cases, detailed reviews are conducted annually. More or less frequent detailed reviews will be scheduled dependent upon the knowledge held by Board staff of the records maintained by a company. Reports on the reviews are in standard format against eligible expenditure categories. Copies are provided to the companies.

#### QUESTION 13

See answer to Question 12.

QUESTION 14

See answer to Question 12.

Payments are at times made prior to certified statements of expenditure but following discussion with the company and based on prior agreed estimates and measures of progress on the project.

If checks reveal a problem, payments are withheld to the extent represented by the problem and companies are visited or requested to provide additional information. If a prior payment has been made, and further examination determines that the payment was not warranted, a debit note is raised and action is taken to recover the overpayment.

QUESTION 15

See answer to Question 12. In addition, the Board will at times specify need for a special assessment.

QUESTION 16

If doubt exists concerning a company's financial resources, the onus is placed on the company to demonstrate a cash flow plan or the Board's assessment officer will be asked to report on this matter. A decision is then taken by the Executive Member of the Board under delegation whether to proceed to establish a commitment. In any case, all commitments are subject to verification of subsequent actual expenditure and grants, in the main, represent only 50% of expenditure actually incurred. On this basis controlled risk can be taken. Usual practice is to place a limitation on progress payments to ensure that the company is not placed in a situation where refund of excess grant is possible.

A company with an operating loss is not excluded from receiving grant. The provision of a grant can at times assist such a company to establish forward plans and recover from the loss situation. The essential aspect is to evaluate the forward viability and capacity of the company to complete the project and carry it to a market situation.

QUESTION 17

Information sheets on companies, providing details relevant to commencement and project grant situations, have now been operative for approximately 9 months. They give quick reference to information held on files and assessments of previous Board experience with the companies.

QUESTION 18

Referee reports are not necessarily required in the assessment of project grant applications.

Currently, the Board requires applicant companies to nominate referees. Reference is made to them on all occasions where a grant is sought in excess of \$400,000. Below that figure, an initial decision whether to refer to a referee is taken by the Technical Director of the Board's staff. Subsequently, the Board may defer a decision and seek comments from a company nominated referee or one determined by the Board itself.

QUESTION 19

Referee reports are sought on about one third of applications.

QUESTION 20

The backlog of project grant applications has been reduced to less than three months, an acceptable continuing level. A commencement grant backlog remains. A total of 368 commencement grant applications remained unprocessed at 30 June 1984. In large part however, this resulted from the record number of applications received in this area during the year (1,379 as against 1181 the previous year). The bulk of these would have been received during September 1983 and are expected to be finalised during the first quarter of this current year, that is, within 12 months of receipt.



for (W J McG Tegart)  
Secretary

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Report of the Auditor-General -  
September 1982

Submission by the Department of Social Security  
on paragraph 23.1 - Internal Audit

The Auditor-General commented on certain aspects of internal auditing work in his September 1982 Report (Paragraph 23.1). Before dealing with the specific matters raised it is appropriate to provide some background information.

2 The Internal Audit function in the Department of Social Security comprises 106 staff located in Central Office in Canberra and each of the six states. Audits of Regional Offices within the Australian Capital Territory and all audits within the Northern Territory are undertaken by staff from New South Wales and South Australia respectively. Details of staff numbers and classifications in each office are shown on Attachment 1 to this submission.

3 Audit work forms part of the responsibilities of the recently created Performance Monitoring Branch and is under the direction and control of an Assistant Director-General in Central Office with respect to policy, methodology, planning and co-ordination matters. ADP auditing expertise and a research and development facility seeking improved auditing methods are included. General administrative aspects are the responsibility of each state's local management. The other responsibilities of the Performance Monitoring Branch are discussed later in this submission.

4 As was the case with most other internal audit units in the Australian Public Service the function was restructured following an external consultancy review. In broad terms the principles and practices now being followed accord with those outlined by the Public Service Board's Office, the Auditor-General's Office and the Joint Parliamentary Committee of Public Accounts 184th Report. A more detailed prescription for its activities is contained in a formal Statement of Purpose, Authority, Objectives and Responsibility issued by the Permanent Head throughout the Department in September 1981. A copy can be made available to the Committee for examination if required.

5 The Statement sets out (inter alia) that:

- the purposes of internal audit reviews are to ascertain
  - whether internal controls provide reasonable assurance that the Department's objectives

2

- and goals will be met efficiently and economically. This task includes establishing that legislative requirements (eg Finance Regulations and Directions) and departmental directives form part of the control framework;
- whether the internal controls are functioning as intended;
- whether the Department's objectives and goals are being achieved.
- the objectives are:
  - to evaluate the adequacy of internal controls
  - to evaluate the efficiency and economy of processing arrangements
  - to review the results of activities which have been chosen as a means of implementing particular policies.
- the Audit Committee is responsible for oversighting all operations from an auditing viewpoint.
- the Department is committed to the use of systems-based methodology for all internal audit tasks without exception.

6 These principles are applied using a national strategic audit plan with departmental-wide coverage. The plan is managed in Central Office and is complemented by detailed task plans in the various states. Projects allocated from it are undertaken in one state as primary projects, reported on and the particular activities then evaluated in each other state as secondary projects using the results of the original audit task as reference material. Many of the projects drawn from the strategic plan are now in the secondary phase.

7 In addition to this work, auditing staff in each state have two responsibilities. Firstly to review regional office operations. Secondly to undertake tasks in response to state management requirements.

8 Reports on the results of audits are dealt with variously at Central Office or state level. Audit managers also summarise their activities on a monthly basis and draw the attention of the Internal Audit area in Central Office to significant findings so that action can be taken at that level if appropriate.

9 Chapter 2 of the 184th Report of the Joint Parliamentary Committee of Public Accounts "Internal Audit in the Australian Public Service" outlines a number of recommendations. The Department has given effect to those principles as follows:

### Audit Committees

10 An Audit Committee has functioned since 1978. Its objectives and composition are being reviewed at present so as to reflect the recent changes in Central Office organisational responsibilities and the creation of the Performance Monitoring Branch.

### ADP Auditing

11 A unit of four officers (1 x Class 10; 3 x Class 9) is located within the internal audit group in Central Office to provide the necessary technical expertise for ADP auditing work. The unit is involved to a significant extent with the development phase for the proposed computing changes within the Department (STRATPLAN). It is providing an independent assurance by way of analysis and evaluation that objectives with respect to internal controls are being achieved.

12 A training course in basic ADP Auditing concepts has been developed and is being progressively delivered by staff from the unit to all internal audit staff in the respective states.

13 Those staff are also responsible for providing liaison on technical matters for the Auditor-General's Office. The latter is participating (on the Department's invitation) in the design phase for the new computing arrangements.

### Systems Auditability and Control (SAC) Study

14 The contents of this publication along with a number of others has formed the basis of the approach to ADP Auditing. In particular the training for all auditors referred to above is being preceded by a course of study provided by the Canadian Institute of Chartered Accountants (CICA).

### Career Structure and Development

#### Classification

15 Action was taken in 1979 by the Public Service Board to upgrade the status of internal auditing work and to elevate the position responsible for directing and controlling the function to Level 1 in the Second Division. The necessary restructuring of sections in each state is now complete. Numbers and classifications are set out on Attachment 1.

#### Training and Education

16 Material developed by the Public Service Board is used to help meet audit training needs. Departmental officers provided substantial assistance to the Office in the

development and presentation of such material. External courses have also been used where appropriate. Audit managers maintain membership of Government Internal Auditing Groups where these exist. The Department is a member of the Institute of Internal Auditors.

### Staff Rotation

15 In the eleven months to the end of May 1983 thirty-five officers spent periods of time on other tasks, or were transferred or promoted out of the internal audit section to other duties within Social Security or other departments. When appropriate occupancy by other officers was arranged for the positions vacated in this way.

### Internal Audit and Other Management Advisory Services

16 Recent organisational restructuring of Central Office included the creation of a Performance Monitoring Branch. It has responsibility for identifying opportunities for improvement in all aspects of the Department's operations and for undertaking the necessary work to bring that about. The Branch includes -

- . the Internal Audit group;
- . the Monitoring and Control group responsible for the design and maintenance of a management information system; and
- . the Management Consultancy group responsible for undertaking major reviews of the Department's processing arrangements, recommending changes where necessary and overseeing their implementation.

A fundamental principle incorporated in the setting up of the Performance Monitoring Branch was that it assembled in one major organisational unit, groups with a prime responsibility for detecting and correcting matters which impair achievement of the Department's objectives. One aspect of this arrangement is the use of audit resources in association with the other groups within the Branch on management improvement projects. Internal Audit independence is maintained by a direct reporting link to the Director-General to be used when considered necessary and desirable.

### Organisational Structure

17 As has been mentioned earlier the organisational changes envisaged in para 2.17 of the Committee's 184th Report have been completed. Paragraph 2.18 of the Report refers to the viability of small audit groups and it is relevant to mention in this context that Social Security provides internal audit services for the Department of Resources and Energy in Darwin.

General

18 The Department's response to the survey by the Interdepartmental Advisory Committee on Internal Audit (IDAC) is included at Attachment 2. That document provided information on various aspects of the function as at November 1982 and some of the figures included would now have altered, eg those dealing with staff training. The Assistant Director-General Internal Audit is a member of IDAC and Chairman of its sub-committee on internal audit standards.

THE AUDITOR-GENERAL'S COMMENTS

19 The reference in paragraph 23.1 of the September 1982 Report acknowledges that after an examination in Central Office and three states no major deficiencies were found in the Department's approach to internal auditing. Adoption of the systems-based methodology was also confirmed. The paragraph did mention however a need to refine the strategic audit planning process.

20 The planning process separates work into two categories:

- . a long-term scheduling of all departmental auditable areas for examination according to objectives and priorities
- . the short-term programming of reviews to be undertaken in a particular period.

Measures have been introduced to enable monitoring of resource usage on various tasks so that short-term allocations will accurately reflect expectations relative to capacity.

21 Paragraph 6 above mentions that projects drawn from the strategic audit plan are currently being undertaken in each state. Those reviews have been allocated in accordance with a six-month programme which appears to be an appropriate timeframe since it provides the necessary flexibility for Audit Managers to incorporate Regional Office operational audits and locally generated reviews into their own work schedules.

22 The September 1982 Auditor-General's Report also mentions the earlier examination of internal audit work which was reported on in March 1982. The aspects referred to then concerned the content of working papers, planning, methodology, and training. The latter matters are dealt with elsewhere in this submission. So far as working papers are concerned the specific points raised were:

- . absence of adequate systems documentation

- . failure to document assessments of the reliability of the system
- . absence of an evaluation of system weaknesses and strengths prior to testing.
- . absence of documented rationale in respect of sample size or selection.

23 Guidelines on the composition of working papers have been issued to audit staff and that document includes reference to two important texts on the subject viz:

- . the Practice of Modern Internal Auditing (Sawyer)
- . the General Audit Manual (Auditor-General's Office).

24 The principles outlined in the guidelines and the texts are borne in mind when senior staff in each audit section are reviewing work from a quality assurance point of view. The quality of Internal Audit work in each state is also periodically reviewed by staff from Central Office to ensure that appropriate documentation standards are being followed.

SUMMARY

25 There is increasing evidence of the progress which has been made in developing the skills and professionalism of the Department's internal audit staff. Their work is regarded by senior managers as an effective contribution to the management team effort.

2 June 1983



DEPARTMENT OF SOCIAL SECURITY  
ESTABLISHMENT AS AT 27 MAY 1983

CLASSIFICATION	INTERNAL AUDIT										TOTAL	
	CENTRAL OFFICE	NSW	VIC	QLD	SA	WA	TAS					
LEVEL 1	1											1
CLASS 10	2											2
CLASS 9	4	1	1									6
CLASS 8	2	4	3	1	1	1						12
CLASS 7		2	2	3	2	2				1		12
CLASS 6	2	8	6	7	5	5				2		35
CLASS 5		5	5	3	5	3				4		25
CLASS 4		3	2	2	1	1						9
4th DIVISION	1	1	1		1							4
TOTAL	12	24	20	16	15	12				7		106

ATTACHMENT 1

DEPARTMENT OF SOCIAL SECURITY

. Attachment 2 may be found on Joint Committee of Public Accounts File 1983/5, Part B.

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's September 1982 Report  
Submission by Department of Social Security on Telephone  
Rental Concessions to Pensioners - Paragraph 22.3

In its examination of the Auditor-General's Report for 1980/81, the Committee considered submissions from the Departments of Social Security and Veterans Affairs and from the Australian Telecommunications Commission (Telecom) in relation to telephone rental concessions to pensioners. The matter was again referred to in the Auditor-General's September 1982 Report and the Committee has requested further submissions from the three bodies concerned.

2. The original Telecom submission indicated that it was expected that Telecom would be supporting its claims on the Departments by magnetic tapes which would enable 100% computer based checks of the claims to be effected by about April 1982. However, because of competing priorities for programming resources within Telecom this target date was not met. The first test tape from Telecom was received by the Department of Social Security in August 1982.

3. Testing of this tape was carried out after practical difficulties, stemming from differences in computing equipment, were resolved. The test confirmed the ability of Social Security computers to read Telecom tapes.

4. A sample production tape was received in November 1982. This was a tape of complex format which was a copy of a data set which Telecom already produced within its billing system. While detailed specifications of the system were not supplied with the tape, a printout of the tape was provided with it. However, examination of the printout indicated that any attempt at automatic matching would be wasteful. It was not considered appropriate then for the Department to apply programming resources to attempt to read and match this sample production tape. At the time the Department was implementing an unprecedented number of changes to its ADP systems arising from the 1982 Budget.

2.

5. Telecom have now advised that specifications will be provided to enable the Department to write a program to read and match against the Telecom production tape. Programming resources will be made available to complete this exercise. However given that the matching exercise is effective and arrangements can be made to accept the Telecom production tape on a continuing basis, difficulties have been identified because of the difference in regions. Telecom boundaries are conditioned by their District regions which overlap State Boarders, and their processing relates to five geographic areas as follows:

- . Sydney Metropolitan
- . Melbourne Metropolitan
- . Queensland
- . West Australia, South Australia, Tasmania and Victorian Country
- . NSW Country (including ACT) and part of Victoria.

This means that the Department will be required to merge States' pension data in order to effectively match to a Telecom payment tape. With the introduction of a National index within the Department in approximately two years these difficulties will be reduced.

6. It is also proposed to introduce an inter-departmental working party of officials from Telecom, Veterans Affairs and Social Security to review the current Telephone Rental Concessions Scheme and to make recommendations relating to its future direction.

Department of Social Security  
June 1983

# DARWIN CYCLONE TRACY RELIEF

## TRUST FUND

Telephone: 81 6775

P.O. Box 461,  
DARWIN, N.T. 5794

25 May, 1983.

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

Dear Mr Talberg,

RE: REPORT OF AUDITOR-GENERAL - SEPTEMBER, 1982

I refer to your 1983/5 of 17 May, 1983.

The Darwin Relief Trust Fund was established in January, 1975 following agreement between the then Minister for the Northern Territory and certain citizens of Darwin that there should be a single fund to administer the distribution of moneys donated for the relief of cyclone victims. Prior to this agreement having been reached, there were in fact two funds operating. One of these had been established by the Australian Government and the other by the Mayor of Darwin.

As part of the arrangements leading to the establishment of a single fund, the Government undertook to meet the administrative expenses of the Fund and to have the Auditor-General audit its books.

By April, 1978 the Trust had distributed in excess of \$7.5m. in various forms of assistance to cyclone victims and it was still holding an amount of \$430,000. The Trust made an approach to the Northern Territory Supreme Court for guidance as to the powers of the Trustees in disposing of this latter sum and the steps to be taken to wind up the Fund.

On 5 April, 1979 Mr Justice Forster delivered a Judgement which, among other things, suggested a procedure to be followed in calling for final applications for assistance. The procedure suggested by the Court was put into effect and on 22 November, 1979 the Trustees met and took decisions on what they then thought would be the final distribution of the Fund. At that time it was recognised that a further meeting would need to be held to receive audited financial statements and to pass a formal resolution terminating the Trust. The date of that meeting would largely depend upon the speed with which the several hundred cheques to be issued were negotiated and returned to the bank and thus enable a satisfactory audit to be carried out.

In March 1980 a payment of \$88,000 was received by the Fund from the Darwin City Council. It is understood that this sum had been received into the Mayor of Darwin's Trust Fund from various donors and was discovered as a result of an audit of that Fund. This payment meant, of course, that it would be necessary for the Trustees to give further consideration to a final distribution.

I should, perhaps, interpose here that as a result of resignations and departures from Darwin, the number of members of the Trust had reduced to eight. This included the Hon. Evan Adermann who continued as Chairman as the representative of the then Minister of Home Affairs.

Because of the extended absence overseas of two of the Trustees (Dr E.M. Stack and Bishop J.P. O'Loughlin) and as a result of conflicting commitments by the other members, it proved impossible during the remainder of 1980 to arrange a date on which a quorum of six Trustees could be brought together for a meeting.

Following the 1980 elections, Mr Adermann was not reappointed to the Ministry but it is my understanding that he was asked to remain as Chairman of the Trust. At Attachment A are copies of correspondence pertaining to the matter which are held in this Office. You will note that questions raised by Mr Adermann in relation to his continuing as Chairman were not resolved until 9 November, 1981.

On 11 December, 1981, Mr Adermann wrote to the Trustees seeking their agreement to a proposed distribution of the amount received from the Darwin City Council which would be ratified at a final meeting of the Trust. By 28 January, 1982 each Trustee indicated agreement to the proposal and disbursements were made which reduced the balance in the Trusts bank account to nil.

The Auditor-General's Office was notified of this action and an officer visited Darwin from 20 to 28 April, 1982 to undertake the final audit of the Trust Fund. During the course of the audit, the auditor made inquiries of the Department of Foreign Affairs and learned that a cheque for \$21.38 for record royalties from London was being forwarded to the Fund. The auditor advised that the (bank) account will have to remain open to receive the small cheque from the Department of Foreign Affairs and to enable the final distribution of moneys to be made."

In the event, the payment from Foreign Affairs amounted to \$56.39 but it was not received until January, 1983. Once this payment was received, steps were taken to hold a final meeting of the Trust and this was arranged for 25 February, 1983. That meeting was not held because of the calling of the Federal Election.

All of the Trustees are extremely anxious to have a final meeting and wind-up the Trust. It is now expected that this will be held in late June/early July and the way will then be clear for the Auditor-General's Office to complete its audit.

DARWIN CYCLONE TRACY RELIEF TRUST FUND

- Attachments A, B and C may be found on Joint Committee of Public Accounts File 1983/5, Part B.

I now turn to the specific comments included in the Auditor-General's report. It is true that the Commonwealth Government continues to bear the cost of administering the Trust. During the past twelve months that administration has involved the preparation of two letters in response to inquiries from members of the public. That correspondence would have required a reply regardless of whether or not the Trust was still in existence.

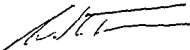
At the date of the Auditor-General's report there was no money held in the Trust Fund (please see copy of bank statement at Attachment B). As indicated above, an amount of \$56.39 was subsequently received in January, 1983. All transactions prior to that have been the subject of Audit.

The completion of the audit is dependant upon the forthcoming meeting of Trustees confirming the minutes of the meeting of 22 November, 1979, formally ratifying the distribution they had agreed to in writing in January, 1982 and determining the disposal of the \$56.39 now held in credit.

In conclusion, I attach for your consideration (Attachment C) a copy of the Trust Deed under which the Trust was constituted. Having regard to the terms of that Deed and also to the background leading up to the formation of the Trust, the question arises as to whether the Trust is an authority of the Commonwealth. In my experience with the Trustees since mid-1979 they have always acted in the belief that they were a non-governmental body which derives its charter from the Deed of Trust entered into by them as private individuals.

Should you require any additional information or amplification of the foregoing, I would be happy to provide it.

Yours sincerely,



(G. STEPHENS)  
Administrative Officer  
Darwin Relief Trust Fund

Enquiry into the Auditor-General's Report  
September 1982

Submission by the Australian Taxation Office

POSTING AND TRANSFERS (PARAGRAPH 21.1)

The objective of the audit conducted by the Auditor-General's Office was to test the adequacy of control exercised within the Australian Taxation Office over the various transactions used to adjust accounting details held on taxpayers' computer based records. The audit was conducted in branch offices at Melbourne, Hobart, Adelaide and Brisbane during the second half of 1981 and early in 1982.

2. The Auditor-General's report correctly states that computer systems and procedures used by the Taxation Office are generally common throughout Australia. However, the statement that the defects noted during the audit would therefore normally apply throughout all Branches is quite misleading. All the deficiencies identified by the Auditor-General's officers were procedural breakdowns and generally isolated to the branches involved.

3. Whilst procedures are common between offices, to a large extent it is left to the Deputy Commissioner in each branch to implement those procedures in the way that best suits his office. This flexibility is essential to allow for the differences that exist between offices in size of taxpayer population, the different mixes of taxpayers, the number of staff and accommodation constraints. In implementing procedures in their offices Deputy Commissioners are required to ensure that the control measures incorporated into the procedures are carried into operation.

Authorisation of Transactions

4. Authorisation of documents giving rise to changes in taxpayer's accounts is designed to ensure that the change being requested is valid and correct. The policy within the office is that all documents which are prepared for the purpose of changing a taxpayer's account are signed by the preparing officer and checked/authorised by a more senior officer who must sight the supporting documentation. Other controls associated with computer input documents are that they are serially numbered and their issue is strictly controlled, once signed by an authorising officer they must not pass back to the preparing officer, all alterations must be initialled by both the preparer and authoriser and the forms must be completed by the preparing officer in such a way that additions cannot be made to the forms. The validity of signatures should be checked prior to acceptance of documents for further action.

5. The matter reported by the Auditor-General related to requests received for adjustment of taxpayer's accounts. Our internal arrangements are such that if an account adjustment is found to be necessary the action area will prepare a submission which is signed by the preparer and authorised by an officer with appropriate authority, and forward it to the accounting area where the necessary accounting transaction is prepared and processed. The auditor found that requests had been signed by one person in some cases and that no list of authorised signatories was held within the accounting area.

6. The matter raised by the Auditor-General was rectified shortly after the audit was completed. A full up-to-date listing of officers, the level of their authority and their specimen signatures is maintained in appropriate areas within the Brisbane Office. Although at the time of the audit these lists were not up-to-date sampling of transactions did not identify any transactions which should not have been processed.

7. It was mentioned in the reply by the Deputy Commissioner in Brisbane that signature verification as a control mechanism has never been regarded as a totally satisfactory means of ensuring only valid transactions are accepted for processing. Recognising this a number of other controls have been incorporated into our systems and procedures to provide a measure of protection against attempts to defraud the Taxation Office by dishonest staff members. Such protections include:

- (a) the security of input forms mentioned earlier;
- (b) normal computer edit checks on the validity of input form preparation;
- (c) routine checks carried out on refund transactions in the general course of processing;
- (d) additional checks carried out on large refunds before they are allowed to issue; and
- (e) special criteria incorporated into our computer system which reports certain refund transactions for scrutiny by internal audit officers.

8. Signature verification has many faults as a control mechanism, not the least of which is the fact that a reasonable attempt to forge a signature will usually escape undetected in circumstances where a high volume of forms may be being handled and the persons handling the forms are not trained as hand-writing experts. As mentioned in the Auditor-General's report we have been aware of the problem and are looking for ways to overcome it. With a batch processing system like our present one techniques to totally overcome the

problem would be very resource intensive and would become counter-productive in the longer term. Given that we are looking in the not-to-distant future to moving many of the types of transactions where the problem is greatest to on-line processing, plans are at an advanced stage to use the more powerful control techniques available with this method of processing to provide the control that signature verification cannot give. Techniques available include unique identification by way of coded keys and passwords limiting officers to carrying out functions within their official duties and limiting those transactions to values within their authority.

#### Delegations

9. Certain officers are authorised by Deputy Commissioners to carry out powers and functions delegated to the Deputy Commissioner by the Commissioner of Taxation. The purpose of this action is to empower officers at appropriate levels to make decisions in relation to taxpayers' requests and claims. The delegations and authorisations are formal instruments signed by the Commissioner and the Deputy Commissioner as appropriate. As well as these delegations and authorisations other restrictions apply in a procedural sense in relation to the type and/or value of transactions which officers at various levels may authorise or approve. These procedural restrictions are laid down in procedural instructions and are issued under the authority of the Deputy Commissioner or other senior management officers in the branch offices. It was these procedural restrictions which the auditors found were not being followed.

10. At the time the audit was conducted in Brisbane a major reorganisation of the office was in progress. Part of that reorganisation involved altering the lines of responsibility of some positions with the result that in order to allow work to continue uninterrupted some officers may have authorised procedural action for which they had no written authority. However, to put the matter in its true light the officers were authorising actions in the normal course of what their duties now were; the documentation had not been completed.

11. As indicated in the Auditor-General's report a review of the authority of the occupants of various positions was being undertaken as part of the re-organisation of the Management Branch to put this right. This has now been completed and all necessary documentation has been prepared and officers have been provided with written instructions allowing them to carry out the full range of their duties without breaching formal authorities.

#### Segregation of duties

12. Segregation of duties is a control technique used commonly to ensure that fraud through falsification of internal documents can only succeed if two or more persons collude together. This technique has been adopted by the Taxation Office and applies to all processes where some undue value could be obtained by a staff member, either for him/herself or another person, by simply completing a form. In many cases the technique is extended beyond simply having two different persons within an area responsible for different parts of an action, instead an action is broken into more than one part and separate areas then became responsible for processing the different parts of the process.

13. The auditor criticised two separate processes where instead of breaking the process into separate parts they have been brought together to facilitate processing. In particular the processes being criticised involved situations where taxpayers claim refunds in respect of:

- (a) cheques previously issued and which have become stale or have been previously returned unclaimed; and
- (b) where dividend or interest withholding tax has been withheld incorrectly.

In both these cases the total action of raising a credit on the taxpayer's account and preparing a transaction which will ultimately produce a cheque have been brought together in the sections responsible for handling these requests. However, within those sections different officers are responsible for preparing and authorising the respective transactions.

14. In addition to having separate officers prepare and authorise these transactions other processes which are undertaken by different officers are also carried out. Further, as indicated in the first matter, checks exist within our system that are designed to identify refunds for scrutiny prior to despatch.

15. The value of refunds in these areas is by relative standards quite small, viz. in Brisbane in 1981-82 year the value of stale cheques re-issued was \$99,653 and withholding tax refunds was \$13,555. Overall it is considered that a level of control exists which is commensurate with the value of transactions processed.

#### Adjustment of credits

16. Internal controls have been incorporated into all procedures, particularly those involving credit adjustments to taxpayer accounts. The controls have been mentioned in earlier paragraphs and include security of transaction forms, segregation of duties, signature verification, and criteria incorporated into the computer system to report cases for scrutiny prior to despatch of refunds. Another control that is ever present is supervisory control of all officers; this in itself is a strong deterrent to malpractice.

17. In raising this particular matter the auditor drew on the facts of an internal fraud that occurred within the Brisbane Office in 1980. In that case one officer completed five input documents by forging another officer's signature. In doing this he created credit balances or reduced existing debit balances on the accounts of four relatives and friends. One of the routine checks mentioned earlier brought the irregularity to light and the officer was subsequently prosecuted for the offences. The total amount the officer obtained in this case was \$1,992.82 of which \$500 remains outstanding. Arrangements for payment of this amount have been made with the person involved.

18. As indicated in the Auditor-General's report this office is not totally happy with some of the underlying concepts incorporated in our computer accounting system. When we have an opportunity to build a completely new system some things will be done differently. However, given that the deficiencies are known it is considered that reasonable measures at reasonable cost have been instituted to overcome the recognised system shortcomings.

19. By way of clarification of this particular matter it should be noted that an accounting system for the Taxation Office is quite different to one that would be found in a commercial organisation. Taxes arise as a result of an assessment, generally values included in our accounts cannot be verified by reference to other factors like, for instance, a retail store can verify sales figures by reference to stock figures and mark-up percentages. The figures that enter our system, whether they be tax, additional tax, remission of additional tax, etc. come about because of the provisions of the various taxing laws and decisions of officers in applying those laws. Controls exist to ensure that various processes which lead to account adjustments take place, e.g. controls over lodgment of returns and issue of assessments, and controls exist to ensure the accuracy of these processes. It is considered that sufficient controls exist within our total operation to have a very high degree of confidence in the accuracy of our accounts.

#### Unauthorised access to information

20. Certain taxpayer information is available for access through on-line enquiry terminals which are located in all branch offices and connected to the National Taxpayer File maintained at the central computer installations in Canberra. From the initial setting up of these terminals strict rules applied to their use. At first all terminals were housed in a secure environment. To facilitate enquiry responses dedicated telephone lines from some operational areas within the office to the on-line enquiry centre were installed. Where dedicated lines were not available enquiries were made by using normal telephone extensions and quoting a "pass-word" unique to the type of enquiry being made. Where ordinary telephones were used the information was provided by calling the enquirer back.

21. In the case in question an officer from the Auditor-General's office in Hobart "tested" the call back and password system by telephoning from an extension in another part of the Government Offices (we share the Commonwealth Government Centre in Hobart with several other departments). Prior to making the enquiry the auditor had discussed the security procedures at length with Taxation Officers. He was therefore in a position to know the routine to be followed to obtain information. Although he did not quote a password he convinced the operator that he was entitled to the information he sought and that he should be given it without the operator calling back. The operator erred in not following the laid down procedures. In saying the operator erred it must be put in the context that the auditor had been in the enquiry terminal area for a time discussing the procedures with Taxation Officers; when he telephoned the operator requesting the information he imposed on her by stating that as an auditor he was entitled to the information he sought. The operator had seen him in the area recently and was misled into accepting his statements.

22. The words used in the Auditor-General's report can easily lead to wrong conclusions being drawn. The test was carried out by a person who knew the system, had some familiarity with the area and the people there, knew the telephone extension number and he called from within the building. To say "the possibility existed for unauthorised persons, including persons not employed by the Taxation Office to have access to limited information about taxpayers" is misleading, this statement is true only if qualified by saying that it applies if the enquirer is aware of the office procedures for making an enquiry; is calling from within a building which houses a Taxation Office and the terminal operator fails to follow laid down procedures.

23. The reference to technical limitations mentioned in the report and attributed to the Deputy Commissioner in Hobart relates to the telephone arrangements within the Commonwealth Government Centre. All the occupants of the building share a common telephone system and it is not possible to isolate Taxation Office telephone extensions from others in the building. However, manual procedures have been put in place to stop on-line enquiry terminal operators calling back extensions in non-Taxation parts of the building. The extensions within the on-line enquiry centre cannot be dialed direct from, nor operator connected to, phones outside the building.

24. It should also be noted that the Auditor-General quite rightly said the information available is limited. Computer records contain much of the information relative to the processing of returns, for example, details of when returns have been lodged and assessed, when assessments have issued, accounting information and certain indicators and notations. Information about a taxpayer's personal financial affairs is not included in these records.

#### Control over input documents

25. Input documents are the means by which accounting adjustments are made to taxpayer's accounts which are maintained on computer records. These documents form the trail to the authority for the action and are maintained under secure conditions after processing.

26. In the case of the audit reported, the auditor criticised procedures in the Hobart Office whereby in some cases input transactions did not have housed with them the source document that gave rise to the transaction. In carrying out the audit the auditor sought the source verification of 300 input transactions. Of these the source documentation for 298 were found readily, the other 2 could not be located although there was nothing untoward about the transactions. It was agreed that source documents should be housed with input documents where practical, but in cases where source documents are integral to other papers, e.g. income tax returns, which are more properly housed in other areas of the office, it is considered sufficient for the purposes of an adequate trail that clear reference to the source of the transaction be noted on the input document.

27. Mention was made of deficiencies in procedural documentation, control of issue and storage of input documents and management trails. All these matters were addressed in a major review of the area carried out by our internal audit unit recently. Since the review each branch office has reviewed its procedures where necessary and instituted new arrangements to provide an adequate level of control over these documents.

#### COMPANY TAX INSTALMENTS (Paragraph 21.2)

28. This audit was carried out in Sydney, Parramatta and Perth branch offices in the first quarter of 1982. The objective of the audit was to evaluate the internal control over collections of company instalments of tax. Under the Income Tax Assessment Act most companies are required to pay one quarter of their tax in August, November and February calculated by reference to the tax payable in the previous year. The balance of tax payable for the current year becomes due in April/May. Provision exists in the law to allow companies whose income has reduced to vary the amount of instalments they pay so that they equate with the amount of tax due for the current year. Penalty provisions exist to ensure that the variation provisions of the Act are not abused.

#### Additional Tax on variation of tax instalments

29. The variation of company instalments provisions allow a company to vary once its estimate of the amount that is likely to be due in the current year. This estimate is to be made in writing and must be lodged before the due date for payment of the instalment, or such further time as the Commissioner allows. Additional tax at the rate of 20% per annum (10% at the time of the audit) is imposed in situations where an estimate of the tax is less than the tax that will ultimately be payable. The additional tax is calculated by reference to the date the instalment(s) of tax was due, the date that the tax was ultimately due and the difference between the amount that was paid and the amount that should have been paid. In appropriate circumstances the Commissioner has power to remit this additional tax and this power of remission has been delegated to Deputy Commissioners in all branch offices.

30. The matter reported by the auditors was drawn to their attention by taxation officers. It came about as a result of a computer program error which had existed in the system for a number of years without detection. The error had the effect, in some cases, of not reporting for scrutiny cases where potential under-estimation of company instalments had been made on applications to vary these instalments.

31. Program changes were effected in April 1982 to correct this problem and since that time all cases involved are being reported correctly. An exercise to determine the effect of this program error was commenced shortly after the error was corrected. This project is still continuing as the identification of companies likely to have been affected is quite difficult and time consuming. At this stage, based on estimates derived from samples of cases in one office the revenue involved is unlikely to exceed \$320,000. However, as investigations are continuing that figure could not be taken as final.



32. If the figure of \$320,000 proves to be a reasonable estimate then recovery of this amount from the companies affected could be a cost effective exercise. However, until more is known about the number of cases and the overall amount involved the cost effectiveness of any recovery action is uncertain. As further details come to hand these will be provided.

#### Microfiche

33. Like many large organisations which process paper records, retention of information provides significant problems by way of storage and retrieval. Considerable advantage has been gained by using microfiche to store records which otherwise would have been on paper.

34. It is quite true that problems with quality of microfiche do occur from time to time but this does not put any of our records at risk. The problems almost invariably occur in generating the copies of the fiche which are sent to Branch Offices. These copies are made from a master copy which is retained for all time at one of our central computer installations.

35. During microfiche processing quality control checks are made to ensure that fiche copies are of good, readable standard. However, given the quantity of fiche produced (over 1.2 million plates per year) it is not surprising that some poor quality plates will be missed and despatched to branch offices. As a further safeguard branch office personnel are required to check the quality of microfiche received immediately on receipt and any faulty plates are to be returned for replacement.

36. The problem of microfiche quality is not new and is one that has been receiving consideration for some time. Whilst it is not foreseen that microfiche will be eliminated in the near future it is expected that as the office expands its use of on-line processing reliance on microfiche as a source of reference will decrease and the numbers will reduce with a resultant improvement in quality control. However, it must be said that quality control checking of microfiche is a particularly loathsome and labour intensive task and as long as microfiche is used it is likely that these problems will continue to some extent.

#### Additional tax for late payment

37. Although reported under the heading of company instalments the matter touched upon relates to payments for all taxes. Additional tax for late payment at the rate of 20% per annum (10% at the time of audit) is imposed by law where payments are received after the due date for payment. The Commissioner has power in certain circumstances to remit this

additional tax, and this power has been delegated to all Deputy Commissioners in branch offices. Under this power additional tax for late payment is remitted if payments are received very shortly after the due date.

38. In the audit report the auditors noted two matters. First was an apparent inconsistency in the calculation of some amounts of additional tax and the second was that some computer reports identifying potential cases for imposition of the additional tax were not being actioned.

39. In relation to the inconsistent calculation this was detected in the Sydney Office. Where a debt has not been paid within a certain time after the due date for payment (this varies depending on the amount of the debt) the case is referred to the "recovery" area where legal processes to secure payment are set in train. Additional tax for late payment may be applicable in both "recovery" and "non-recovery" cases but the calculation is made in different areas depending on the case. The auditor found that the calculation routines used in the two areas were different. However, in the report to the Deputy Commissioner in Sydney the auditor said that the different calculations should give the same result. The matter had also been identified by our internal audit area and as a result consistent calculation procedures were being formulated at the time of the audit. These procedures were implemented shortly after the audit was completed.

40. Discontinuing the actioning of certain reports of potential cases for imposition of additional tax occurred in the Parramatta Branch Office. The reports related to "non-recovery" cases where the amount of penalty involved was generally very small because the period involved in the calculation was small.

41. Two surveys had been undertaken in 1981 and 1982 of 317 cases of potential additional tax in "non-recovery" cases. Of this number only 7 warranted penalty and the total involved was \$172. The survey showed that the imposition of additional tax in these cases was clearly not cost effective given the time taken to calculate it in all cases and the costs of producing and despatching notices. Although formal approval had not been given the manager of the area involved took it on himself to cease actioning these reports. Formal approval was given to this approach shortly after the audit.

42. Formal approval to this approach was qualified to the extent that during the months of April to July each year the lists were to be actioned. This qualification was made because the vast majority of income tax payments are made during these months.

43. By way of explanation, accounts which are in arrears are automatically referred to the "recovery" area where payment is outstanding for more than a set number of days governed by the size of the debt. The larger the debt, the shorter the period of time allowed for late payment before legal action is commenced. Two other features of our system are that where a taxpayer has a poor payment history the time allowed for late payment before "recovery" action is commenced is shorter than normal, and Branch Offices are able to select shorter periods for selected types of cases.

44. Under the automatic referral arrangements incorporated into our computer system the maximum amount of additional tax that would have accrued in most cases was of the order of \$40. By averaging the payments and the time the additional tax fell below \$10 in the vast majority of cases. It is mentioned that additional tax for late payment of income tax is remitted if less than \$10. Of course since the increase in the rate of additional tax to 20% the previous decision has been reviewed in Parramatta and additional tax is no longer remitted in these cases as a general rule.

31 May 1983

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Enquiry into the Auditor-General's Report

September 1982

ADDITIONAL

Submission by the Australian Taxation Office

COMPANY TAX INSTALMENTS

The original submission on this matter indicated that a decision on whether this office would attempt to recover the additional tax that had not been notified to companies because of a computer system error had not been made and that further advice would be provided when additional information was available. A decision has now been made and the following information is supplied to complete our submission on this matter.

2. Following examination of this matter it has been decided not to proceed to recover additional tax that should have been notified to companies in respect of income years ended 30 June 1977 to 1981. The amount of additional tax that it is estimated would have been involved is \$463,000 and the estimated costs of identifying, notifying and recovering this additional tax would have been of the order of \$136,000 giving a maximum potential gain of \$327,000.

3. A number of factors had to be considered in coming to the decision not to proceed in this matter. These included the cost-effectiveness of the exercise, the reasonableness of recovering the additional tax after so many years, how such action would fit in with our overall compliance approaches and the relative priorities of other activities within the office. By way of background it is mentioned that guidelines for remission of this additional tax were formulated when the company instalment scheme was introduced and these provide that it should not be remitted unless the amount would be small, less than \$50, the additional tax became due as a result of an adjustment made by the Taxation Office at the time the annual return was assessed and the company would not have anticipated that adjustment, or the company can demonstrate that due care was exercised in making the estimate.

4. Whilst an exercise to recover this additional tax would appear to be clearly cost effective, it was considered that the following factors had a greater bearing on the matter and resulted in the decision to remit the additional tax in this instance:

2.

- (a) The additional tax relates to income years that are well past and in this regard:
- (i) It could be argued by the companies that they are no longer in a position to explain why estimates were incorrect.
  - (ii) Some companies may no longer be owned by the same proprietors and therefore they would not be in a position to know on what basis estimates were made.
  - (iii) Reactions by companies upon receiving such a notice are likely to be highly emotional resulting in long and protracted arguments.
- (b) A government decision was taken to not impose this additional tax in cases involving companies which are subject to "bottom-of-the-harbour" legislation. This would mean that only those companies which did not resort to the most blatant forms of tax avoidance would have been subject to this additional tax.

It was concluded, for the above reasons that seeking recovery of the additional tax could be quite unreasonable in many cases.

- (c) In determining projects on which resources are to be devoted it is essential that account be taken of the effects on normal work routines. Resources for this project would be diverted from law enforcement activities which yield revenue of the order of up to ten times the cost of resources employed. This project at best would yield three and one half times potential revenue to the cost of resources employed. It was concluded that the diversion of resources from more highly productive areas would not be in line with normal priorities.
- (c) From a compliance point of view little value can be seen in seeking to recover what is in fact a penalty tax when the "offence" occurred some time ago. The recovery of the additional tax now would not, it is believed, be seen as a penalty for the original "offence", but rather as another tax raising project. It is the view of this office that for notification of liability to additional tax to have greatest compliance effect it should occur as near as possible to the "offence" to which it relates.

3.

5. As indicated in the original submission the error was corrected in April 1982 and all cases where additional tax for under-estimation might be due have been reported and decisions made or are in course of being made. These decisions are made in accordance with the guidelines mentioned earlier.

31 August 1983

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report, September 1982  
Submission by the Department of Veterans' Affairs on Computer  
Checking of Claims on Magnetic Tape from the Australian  
Telecommunications Commission Concerning the Pensioner Telephone  
Rental Concession Scheme

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1 NATURE OF CONCESSION AND TO WHOM AVAILABLE

1.1 The Telecommunications Act 1975 (Schedule 1) provides that the telephone rental payable by an applicant or a subscriber who is a pensioner, as defined in Schedule 3 of the Act, shall be at an annual rate equal to two-thirds of the annual rate that would otherwise be payable.

1.2 The definition of a pensioner is provided in Schedule 3 of the Act and, insofar as it relates to Veterans' Affairs pensioners, the relevant provisions relate to, in effect:-

- (a) a war or defence widow (including a defacto widow) pensioner; or
- (b) a veteran who is permanently blind; or
- (c) a member of the forces who is a service pensioner under the Repatriation Act 1920 and who qualifies for "fringe benefits" under that Act; or
- (d) a pensioner in respect of total and permanent incapacity under the:-
  - . Repatriation Act 1920;
  - . Repatriation (Far East Strategic Reserve) Act 1956;
  - . Repatriation (Special Overseas Service) Act 1962;
  - . Seamen's War Pensions and Allowances Act, 1940.

1.3 In the case of (c) and (d) above, there is a further requirement in Schedule 3 of the Act. To be eligible for the concession, a pensioner in either of these categories must live alone or, if not living alone, must live with a person who, or with other persons each of whom, is a prescribed person. For this purpose a prescribed person is defined as a pensioner as

defined above or a pensioner within the meaning of Section 83A of the Social Security Act 1947 or a person whose annual rate of income does not exceed a certain amount. This amount is specified as being the maximum standard rate of age or invalid pension as defined in Section 28(1A) of the Social Security Act 1947, plus \$2,184 (last adjusted in November 1982). Currently, this annual amount is \$6,466.20 (\$124.35 per week). This special provision is referred to as the Household Income Test.

1.4 Under the Telecommunications Act, eligibility for the concession is not extended to a spouse or a separated spouse receiving a service pension, or to the widow of a service pensioner (if the widow elects to continue receiving the service pension from this Department), unless such pensioners themselves are classed as 'Members of the forces' as defined in any provision of the Repatriation Act 1920 or related Acts. If these pensioners elected to receive a pension under the Social Security Act 1947 and were entitled to fringe benefits under that Act and complied with the conditions of the Household Income Test, they would be eligible for the concession.

2 SPIRIT OF THE LEGISLATION

2.1 The concession was introduced on 1 October 1964. Prior to its introduction, there had been ministerial representations from individuals and organisations seeking relief from telephone rental costs for persons on limited income.

2.2 The arguments advanced for the introduction of the concession included the provision of some relief to enable persons on low income to have a telephone service installed so that aid could be summoned quickly in emergency situations.

3 ADMINISTRATION OF THE SCHEME - HISTORICAL

3.1 The implementation arrangements provided that where a pensioner had been granted the concession, the pensioner would be billed for the amount of the telephone rental payable, less the one-third concession, and the amount of the concession would be debited to the Department from which the pensioner received the pension. A monthly account was to be forwarded to each Department giving details of those debits that had been applied during the month.

3.2 However, from the commencement of the scheme there was considerable discussion between the (then) Departments of Repatriation, Social Services and Postmaster-General to determine which Departments would assume responsibility for the administration of other aspects of the scheme. While the grant of the concession and the Household Income Test provisions were embodied in the Post and Telegraph Act, it was recognised that advice on the basic eligibility of an applicant for the concession and the monitoring of the continuing (basic) eligibility of the pensioner, once the concession was granted, would have to be provided by the two welfare Departments.

3.3 In April 1968 the Treasury Department, in response to a submission from the Postmaster-General, ruled that the responsibilities of the Departments involved would be:

- (a) all applications for the concession would be directed to the Department of Repatriation or Social Services, as appropriate, for advice on basic eligibility.
- (b) these Departments would also advise the Postmaster-General of any changes affecting a pensioner's basic eligibility of which they became aware and including such events as:-

- (i) death of a pensioner in receipt of the concession;
- (ii) change in marital status of a person in receipt of the concession;
- (iii) change of address;
- (iv) attainment of 16 years of age of a child of a concessionaire and student child status had not been claimed;
- (v) a student child (over 16 years) of a concessionaire leaving school or attaining 21 years of age; and
- (vi) a concessionaire receiving income from boarders or paying board or receiving free board and/or lodging.

On receipt of this information, the Postmaster-General would take action to obtain re-affirmation of the pensioner's eligibility and continue or cancel the concession as appropriate.

- (c) where the Postmaster-General received advice in respect of the removal of a service to which a concession had been applied or in regard to a change of name for a service, re-affirmation of continuing eligibility would be sought by that organisation.

4 ADMINISTRATION OF THE SCHEME - Current

4.1 A pensioner makes application for a telephone rental concession on a prescribed form issued by Telecom. The forms are available at Telecom business offices and Australia Post Offices. The form, when completed, is lodged with Telecom which forwards it to the respective Welfare Department for endorsement that the pensioner has basic eligibility for the concession.

4.2 There is provision on the application form for an applicant to identify the basic eligibility provision (as in para 1.2) under which he or she is claiming the concession. There is also provision on the form for an applicant to declare that the provisions of the Household Income Test are met.

4.3 The Department of Veterans' Affairs has no statutory right to request, from its pensioners, details of the income of other persons with whom the pensioner may be residing (except the spouse of a pensioner) and therefore is not in a position to advise on fulfilment of the Household Income Test. The advice from this Department to Telecom in respect of the application is thus restricted to the basic eligibility of the applicant.

4.4 The application form is endorsed with the Veterans' Affairs file reference number and returned to Telecom with advice of the eligibility status of the applicant.

4.5 The applicant's pension file and computer record are endorsed that a telephone rental concession has been granted.

4.6 Telecom bulk bill each State Office of the Department each month.

4.7 The rental payable to Telecom has been for a six months' period. For a residential (or non-business) connection the concession for this period is currently \$17.50. Increasingly

Telecom is converting its accounts to a three monthly billing cycle. This increases the number of concession accounts being presented to the Department each month.

4.8 The accounts as received by the Department are examined and those entries which show an invalid Veterans' Affairs file reference number are reduced from the account total. A ten percent eligibility check of the remaining entries is made and where an entry is shown to be ineligible as far as basic eligibility is concerned, an advice is sent to Telecom that eligibility has been lost. However, the account is paid in full (subject to any invalid reference numbers found).

4.9 Currently, the average numbers of entries on the monthly accounts received from Telecom on a State by State basis are:-

	SIX MONTHLY BILLING ACCOUNT	THREE MONTHLY BILLING ACCOUNT	TOTAL
N.S.W.	4,481	4,411	8,892
VIC.	2,708	5,653	8,361
QLD.	2,440	3,963	6,403
S.A.	1,293	3,345	4,638
W.A.	1,498	1,546	3,044
TAS.	811	780	1,591
	13,231	19,698	32,929

The individual entries total some 105,000 annually and this figure will increase as the conversion to three-monthly billing proceeds.

5. PROBLEMS WITH CHECKING ELIGIBILITY IN THE EXISTING SYSTEM

5.1 Technically, the authority to grant or reject a concession rests with Telecom (it is Telecom's enactment), but payment for the concession allowed is made by the Departments of Social Security and Veterans' Affairs.

5.2 In respect of the Household Income Test provision, there is no facility for policing this aspect. The Department of Veterans' Affairs does not have the authority to assess the income of third parties and Telecom does not exercise the legislative authority they have in this regard.

5.3 Printed monthly accounts are received from Telecom and it is impossible with existing staff resources to check each individual entry for basic eligibility. As Telecom progresses with the conversion of its accounts to a three monthly billing cycle and more concession accounts are presented to the Department each month, this situation worsens.

5.4 Telecom accounts are prepared on the basis of the interstate boundaries for Telecom purposes. An account relating to a subscriber in a Telecom region which spans two States can, therefore, be sent to the D.V.A. Branch Office in an adjoining State. This means that there can be a number of debits on a monthly account of which the D.V.A. Branch Office receiving the account has no knowledge.

5.5 Advices of variations (that is new 'ons' and 'offs') are key-punch entered into Telecom's computer system from the application forms endorsed by and cancellation/variation advices prepared by this Department. This means that there is potential for error in the Veterans' Affairs file reference number on Telecom files and, therefore, on the monthly accounts. Names are not provided on the monthly accounts - thus the Departmental reference number is the sole means of identifying the pensioner.

6 AUDITOR-GENERAL'S INVOLVEMENT

6.1 As a result of a survey in the Victorian Branch Office of the Department of Social Security undertaken by Auditor-General's staff in early 1977, the Auditor-General expressed concern at the potential for overpayments by this Department in respect of concessions allowed to pensioners who did not meet the requirements of the Household Income Test provision. He stated, inter alia, that "there appears to be no provision for periodic review by your Department to ensure that beneficiaries are still entitled to the concession on account of the household income provisions".

6.2 Similar comment was made to the Department of Social Security and the matter has been the subject of reports on this Department and the Department of Social Security in the Auditor-General's reports since 1976/77.



7 SUBMISSION OF TELECOM CLAIMS ON MAGNETIC TAPE  
- ACTION SO FAR

7.1 Improvement of the extent and quality of the checking of basic eligibility for the concession through the provision by Telecom of claims data on computer-readable magnetic media has been one of the objectives behind the Department's efforts to computerise Telephone Rental Concession processing over the past few years. However, the interchange of claims data between Telecom and the Department in computer-readable form, although simple in concept, has required in practice the solution of a number of difficult problems.

7.2 The Departments of Social Security and Veterans' Affairs have both been involved in discussions and negotiations with Telecom on this and other aspects of the administration of the scheme for some years now. In the early stages there were problems arising from the extent of manual billing by Telecom and the lack of a computer based concession processing and recording system in this Department. It has only been through the expenditure of significant resources in both organisations that these major initial problems have been largely overcome. This Department developed and implemented a basic computer-based Telephone Rental Concession processing and recording system in 1981-1982 in conjunction with an all States joint review with Telecom of pensioners' eligibility for the concession.

7.3 As an integral part of this review, the Department not only purified its own data holdings concerning eligible concessionaires but also provided information to Telecom to enable the purification of their data holdings. This exchange of information was directed especially towards the cleansing of Veterans' Affairs file reference numbers recorded by Telecom which, because of the basically manual procedure for notification of new concessions, had tended to be of inadequate quality for

automatic checking of accounts. Telecom undertook to update its records with the clean data thus apparently resolving another major hurdle in computer checking of the accounts.

7.4 Early advice from Telecom was that existing automatic account details could not be supplied on magnetic tape before February 1982 at the earliest and comprehensive account details in a compatible format on magnetic tape could not be provided before 1985 at the earliest. Consequently, in response to a request by the Auditor-General in 1981, the Department advised that the magnetic tapes were essential for implementing a cost-effective system for a 100% check of accounts and that, therefore, it appeared that the present manual checking system would have to continue until at least 1985.

7.5 Following further discussions with Telecom, the Department was advised in early August 1982 that Telecom could, by October 1982, provide magnetic tapes containing the same information as was currently provided on the hard copy accounts. The Department undertook immediately to develop a simple system to read such tapes and attempt to perform a 100% check of the basic eligibility for the concession (using the Veterans' Affairs file reference numbers provided) for all entries (including new concessions, continuations, adjustments and withdrawals) contained therein. At the same time Telecom provided a "test" tape for the Department to run on its own computer system to verify that, in general terms, such a tape could be read by the Department's IBM compatible equipment. This preliminary test proved successful and, following the provision by Telecom of (what proved to be imprecise) specifications of the proper tape in late August 1982, a sample tape containing actual account data was provided in late October 1982. By this time the Department had completed the development of the computer programs which were to perform the eligibility check except for that portion which related to the definition of the format of the Telecom tape which was to be finalised after analysis of the sample production tape.

7.6 Analysis of the tape, however, revealed several further problems including:

- (a) tape records contained a high incidence of incorrect Veterans' Affairs file reference numbers and benefit number formats which would significantly reduce the effectiveness of any comparison with Departmental records;
- (b) tape records were an exact reflection of the hard copy accounts including header pages and messages, page headings etc which were found to be difficult to identify from the specifications provided by Telecom;
- (c) spurious information was found in data areas on the tape which raised doubts as to whether the format of the data as outlined in the specifications could be relied upon;
- (d) accounting information (i.e. total debits, total credits etc) was missing from the tape so that no check could be made that all entries on the tape had been read successfully; and
- (e) each line record on the tape contained two data entries (in most cases) reflecting the manner in which the hard copy accounts are printed 2-up across the page.

These problems were notified to Telecom.

7.7 Further work on the system has been delayed due to staffing difficulties and the pressures of other high priority and urgent work in the Systems area of the Department. The technical problems of compatibility of magnetic tapes between the two computer systems appear to have been solved and further

discussions with Telecom recently resulted in agreement on improved specification and clarification of tape formats and data content. It is felt, however, that the difficulty which both this Department and the Department of Social Security have in extracting, with some degree of reliability, the correct data from the interim measure "print tapes" provided by Telecom has been underestimated and that additional effort will be required to finalise the 100% check system under these circumstances. In addition, in the process of developing the checking system it has become apparent that the State boundary differences between Telecom and the Department will cause problems in matching data as the Department's Telephone Rental Concession records are held on six separate State data bases.

7.8 In discussions, Telecom has assured the Department that all amendments to beneficiary identification details submitted by the Department have been applied to their records so that the quality of data provided on magnetic tape should now be improved. Telecom has advised the Department that the "irregular" data appearing on the tape results from the misuse of certain data fields when manual adjustments are recorded in their system and that they will again take steps to notify relevant staff of the correct procedures to be followed in these cases. Telecom have also undertaken to investigate the possibility of providing the accounting information on the tape.

8 PROPOSED ACTION TO FINALISE 100% CHECK SYSTEM

8.1 Further discussions at a detailed technical level will be conducted with Telecom. With the improved specifications of the tape and assurances from Telecom that steps will be taken to correct the other problems identified, the Department is now proceeding to finalise the 100% check system using as input the "print-tapes" to be provided by Telecom. Finalisation of the system, however, still requires considerable effort within the Department to complete the specifications and develop, test and implement the system and associated procedures in the six state branches. Nevertheless, provided sufficient resources can be made available, it is anticipated that the system should be ready for implementation by the end of 1983.

8.2 In the meantime the Department is continuing with sample checks of 10% of the monthly accounts from Telecom, as outlined in paragraph 4.8.

2 June 1983

JOINT COMMITTEE OF PUBLIC ACCOUNTS

INQUIRY INTO THE AUDITOR-GENERAL'S REPORT OF SEPTEMBER 1982

SUBMISSION BY THE AUSTRALIAN TELECOMMUNICATIONS COMMISSION (TELECOM) CONCERNING THE MATTER OF PRESENTING ITS PENSIONER RENTALS CONCESSION CLAIMS ON THE DEPARTMENTS OF SOCIAL SECURITY AND VETERANS' AFFAIRS IN MAGNETIC TAPE FORM.

1. In its December 1981 submission to the Public Accounts Committee in relation to the Auditor-General's Report for 1980/81, Telecom indicated that it planned to make magnetic tapes available by April 1982 to enable automatic checks of its claim to be undertaken within the two Departments.

2. The necessary programming work required to achieve that date commenced in January 1982 but, due to a priority requirement arising to finalise other development work related to the computerised telephone billing system, programming resources were diverted with the result that the planned April 1982 target was not met. The first test tapes were forwarded to the two Departments in August 1982 and sample production tapes were forwarded in late October/early November 1982.

3. At the time that Telecom's earlier submission was prepared, it was expected that quite some time and effort would probably be required in the two Departments to analyse the data content of the Telecom tapes and to develop a processing strategy to compare the data with the pensioner concession details recorded within their own computer-based systems. This recognised the fact that the tapes concerned are extracts from a tape used in the telephone billing process which, although related to transactions affecting the Departments concerned, contains data additional to that specifically related to individual pensioner/beneficiary concessions. Also, the geographical areas covered by Telecom's tapes do not conform with discrete State boundaries and do not coincide exactly with the areas covered by Social Security's or Veterans Affairs' master files.

4. Added to the complexity of the operation, it is understood that activities relating to tape processing did not continue uninterrupted within the two Departments, due to certain other urgent matters requiring the attention of specialised staff; the situation has not yet been reached where Telecom's tapes are able to be processed against pensioner/beneficiary records.

5. Within Telecom the current situation is that all programming work associated with the production of the magnetic tapes to meet known requirements was finalised in late 1982. For the tapes to be available on an ongoing production basis, data processing documentation needs to be formulated and operational staff at Telecom's two Data Processing Centres trained in the new procedures. This is proceeding with the intention that production tapes be available from July 1983 onwards and Telecom understands that, in the interim, work will proceed within the two Departments to continue to develop a system to enable the data contained on the tapes to be automatically checked for validity against their records. To assist in this regard Telecom is providing the Departments with additional documentation relating to tape formats.

2 June 1983

## DATE OF HEARING, LIST OF WITNESSES AND OBSERVERS

The Auditor-General's Report - September 1982, Paragraph 17.1: Australian Industrial Research and Development Incentives was made the subject of a public inquiry at Parliament House, Canberra, on 9 May 1984.

The following witnesses were sworn or made an affirmation and were examined by the Committee at the public hearing:

Dr K J Foley	Chairman Australian Industrial Research and Development Incentives Board
Mr J A Clark	Executive Member Australian Industrial Research and Development Incentives Board; and Senior Assistant Secretary Department of Science and Technology
Mr G F Montgomery	Acting Assistant Secretary Innovation Development Branch Department of Science and Technology

During the public inquiry the Committee was assisted by the following observers:

Mr T B Jambrich	Australian Audit Office
Mr C J Louttit	Department of Finance
Mr P J Chivers	Public Service Board