

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Reports of
Auditor-General
1983-84 and
September 1984

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Reports of the Auditor-General— 1983–84 and September 1984

Report

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Joint Committee of
Public Accounts

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

DEPARTMENT OF THE SENATE
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AND SEPTEMBER 1984



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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.

PREPACE

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 1984 and September 1984, the Committee sought written submissions from 12 Departments in respect of the 20 items listed in Appendix A.

The Committee decided to take evidence at public hearings in Parliament House, Canberra, on the following items:

- Department of Administrative Services
 - Property Directorate; and
- Department of Territories and Local Government
 - Financial Statements Outstanding
 - Industrial Wages Payroll System.

The hearings were held on 15 and 22 May 1985 and details are listed in Appendix C.

Supplementary submissions were sought from the following Departments:

- Department of Education and Youth Affairs
 - Central Administration of Student Assistance Programs
- Department of Housing and Construction
 - General Works Division, ACT
- Department of Industry and Commerce
 - Diesel Fuel Rebate Scheme
 - Coal Excise Duty
- Department of Social Security
 - Invalid Pensions
- Department of Veterans' Affairs
 - Pension Overpayments and Other Debtors

A copy of all submissions received is included at Appendix B.

This Report comments upon the responses of these and other Departments which were required by the Public Accounts Committee to provide explanations of the criticisms raised by the Auditor-General in his Reports.

Following its examination of information supplied by the Department of Administrative Services and Local Government, the Committee decided to examine further (outside the context of this Report) the wider issue of management of the Commonwealth's property holdings.

The Auditor-General once again was critical of internal audit practices in a number of departments. The Committee has maintained a long standing interest in the development of efficient internal audit arrangements in the public sector, and reported to the Parliament on this issue in its 184th Report, Internal Audit in the Australian Public Service - A Discussion Paper.

Consideration of the matters raised in this Report was undertaken by the Sectional Committee - Sub-Committee 'B' which was chaired by Mr A G Cadman, MP.

For and on behalf of the Committee.

Senator G Georges
Chairman

M J Talberg
Secretary
Joint Committee of Public Accounts
Parliament House
CANBERRA ACT 2600

26 September 1985

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CHAPTER 1

DEPARTMENT OF ADMINISTRATIVE SERVICES

PROPERTY DIRECTORATE-PROPERTY MANAGEMENT INFORMATION SYSTEMS

Auditor-General's Report

1.1 The Property Directorate of the Department of Administrative Services (DAS) is responsible for the acquisition, leasing, management and disposal of land and the provision of accommodation for Commonwealth Government purposes in Australia and overseas. The Commonwealth owns and leases approximately 23 000 properties. Properties owned by the Commonwealth were valued by the Department in 1982 at \$5 500 million.

1.2 A Report on an efficiency audit of the Department's Australian Property Function, which was tabled in Parliament in April 1980¹, concluded that DAS could not completely and accurately describe the Commonwealth's property holdings. The absence of an adequate management information system hindered full and effective discharge of the property planning and rationalisation functions.

1.3 A Departmental feasibility study, which was completed in 1978 and accepted by management, proposed systems to satisfy the Property Division's operational and planning requirements. This study of an integrated ADP system identified a potential benefit/cost ratio of 2.32 over the period of nine years after the year in which the major equipment acquisition was proposed (ie 1981-82). Savings over the period 1981-82 to 1983-84 were estimated at \$7.5 million.

1.4 In 1982, the property management information system known as PIMS, an amalgamation of three earlier systems, was implemented as a matter of urgency because of a changeover in computer equipment at that time. The hasty implementation of PIMS caused further problems.

1.5 In May/June 1984, the Auditor-General conducted an audit of the new system at the Central Office of the Property Directorate to review developments in the introduction of an effective property management information system.

1.6 The Auditor-General concluded that progress in responding to the needs identified by the efficiency audit and the ADP feasibility study had been unduly slow. The Department still did not have an adequate property management information

1 Australia, Auditor-General, *Report of the Auditor-General on an Efficiency Audit: Department of Administrative Services - Australian Property Function*, AGPS, Canberra, 1980.

system and the Auditor-General questioned whether it could manage the property function efficiently or effectively. It was also noted that Internal Audit had not been involved in the original development of the system, although it was being consulted on further developments. Internal Audit also had not undertaken a post-implementation review of PIMS.

Conclusions

1.7 The Committee considered information provided by the Department in a written submission and at a public hearing². As well it took into account the findings of the House of Representatives Standing Committee on Expenditure³ when it examined the Efficiency Audit Report. Following this examination, the Committee concluded that many questions continued to remain unanswered concerning the effectiveness of the Commonwealth's management of its extensive property holdings. The Committee is particularly concerned that, despite the creation of the Property Directorate, many of the problems with the property management function identified in earlier reviews and audits still exist.

1.8 For this reason, the Committee has decided to examine the wider issue of property management outside the context of its examination of the Auditor-General's September 1984 report. The information already supplied by the Department of Administrative Services will be taken into account in the preparation of the report of that inquiry.

¹ Appendix B, Department of Administrative Services.

² Joint Committee of Public Accounts, Minutes of Evidence, Reports of the Auditor-General - 1983-84 and September 1984, pp 101-145.

³ House of Representatives Standing Committee on Expenditure, Review of the Auditor-General's Efficiency Audit Report, Department of Administrative Services - Australian Property Function, AGPS, Canberra, 1981.

CHAPTER 2

DEPARTMENT OF DEFENCE

NAVY WEAPONS

2.1 An audit was conducted on aspects of target facilities, weapon performance recording, stores and repairs and maintenance of weapons systems at Navy Office, Canberra and at Fleet Headquarters, Naval Support Command and the Royal Australian Navy Trials and Assessing Unit in Sydney.

2.2 The review indicated that:

- there were problems with the availability of targets and other supporting equipment and with the effectiveness of certain performance-testing equipment:
 - with the withdrawal from service of the A4 Skyhawk aircraft on 30 June 1984, Navy no longer had a realistic low level aerial target for Phalanx (installed in HMAS SYDNEY and to be fitted in three other guided missile frigates). Phalanx could not, therefore, be fully tested;
 - remote control surface targets were not fully operational and, because their use was limited by sea conditions, they could not be deployed to Fleet units;
 - no mobile anti-submarine warfare (ASW) target was available for certain torpedo firings;
 - only one fully serviceable Jindivik aircraft was available for firing practice and only one tow target device for the Jindivik; and
 - cine cameras used for recording and tracking firing runs for Seacat and gunnery performance were inadequate.
- the supply effectiveness formula used in the weapons area included an estimated allowance of 50 per cent for all permanent stores items issued whereas the actual figure was approximately 70 per cent. This understated the measure of supply effectiveness for the weapons equipment depot area;
- there were no progressive quality assurance procedures implemented by Navy at Garden Island Dockyard despite recent (1980) studies revealing shortcomings in reaching Australian design and production standards; and

procedures needed to be established at Garden Island Dockyard to enable Navy to identify costs of rework due to inadequate performance.

2.3 The Auditor-General sought advice on whether the 4 per cent of maintenance work on weapons carried out by Fleet Intermediate Maintenance Activity would be increased.

2.4 The Auditor-General was concerned that the shortcomings in target facilities would have an impact on the effectiveness of Navy to test fully the weapons systems reviewed, and suggested that the Department should ensure that sufficient target facilities were available to meet practice and tactical requirements and that replenishment should be timely.

Departmental Response

2.5 A detailed status report was provided on each of the main points raised by the Auditor-General:

- a low-level height keeping target facility to test the Phalanx system would be fully operational by mid 1986;
- a replacement Hydrofield Remote Controlled Surface Target would be available for Fleet use by early 1986. In the meantime a limited facility would be available;
- a mobile anti-submarine warfare target prototype would be evaluated in late 1985, temporary substitutes had been successfully trialled in late 1984;
- Navy had seven Jindivik target aircraft on site at Jervis Bay in December 1984. Five of these were fully serviceable and two in reserve for future needs. An additional eight aircraft were delivered to Zetland in early 1985
- there were three MKV tow targets at Jervis Bay in December 1984 and orders had been placed for a further fifteen towed target devices for delivery progressively at three month intervals commencing in January 1985;
- contracts were let in May 1985 for new Director Aim Cine Cameras and supporting equipment which would enter service in mid 1987;
- changes had been tested to the Supply Effectiveness formula and implemented in December 1984. The program used monthly data. The Naval Supply Division intended further study in 1985 to determine whether the system could be further developed. The first accurate reports from the revised system were available on 9 April 1985;

existing procedures at Garden Island Dockyard satisfactorily identified rework costs. Before any rework was commenced an investigation was conducted and a report prepared; and

• maintenance and repairs to shipborne weapons systems tended to be carried out on board or required Dockyard capabilities and the balance of work between Fleet Intermediate Maintenance Activity (FIMA) and Garden Island Dockyard would not alter. As new weapons systems were introduced the role of FIMA was reviewed and adjusted as required.

LASER AIRBORNE DEPTH SOUNDERS (LADS)

2.6 LADS is a laser based depth sounder currently being developed for the Royal Australian Navy and evolved from a research and development program conducted by the Defence Research Centre at Salisbury, South Australia.

2.7 An audit of the LADS project at the Defence Science and Technology Organisation (DSTO) and Department of Defence Support revealed significant problems with project management and control:

- much of the documentation produced under contract in Phase 1, including assembly drawings, circuit diagrams, wiring lists and part lists, could have been produced progressively by DSTO with significant time and cost savings. There was no formal DSTO policy outlining documentation standards for experimental projects;
- increases in time and cost of the project arising from major expansion of the on-site computer facility could have been defined before the Request for Tender was issued;
- a Project Management Plan was not available more than two years after letting the contract whereas contract terms specified its delivery within four weeks of acceptance; and
- component procurement procedures were slow and created problems with supply of a critical component only produced overseas.

Department of Defence Support Response

2.8 In a detailed response to the Committee, the Department of Defence Support provided further information on the matters raised by the Auditor-General:

Phase 1, a Project Definition Study, was originally intended to take approximately twelve months. Tenders were called in May 1981 for the production of a detailed design and documentation sufficient to allow Navy to proceed to contract for an operational system. The contract for Phase 1 was let in February 1982. This phase was seen as largely an industry development function and funding was approved from the industry assistance vote. A revised completion date of February 1985 resulted from :

- delays in the contractor forming an experienced project team;
- revised data requirements necessitating development of the Ground Analysis Sub-System (GASS) (costing approximately \$400 000 in an amended contract); and
- delays in providing detailed documentation to the contractor;
- . the additional costs were the result of the terms of the contract, cost-plus, which is normal for development projects where the full scope of the task is not fully defined. The experimental nature of the project was also stated to be the reason for documentation deficiencies;
- . the contractor's performance had been slower than the Department had anticipated and the late development of a project management plan had hindered the identification and achievement of project objectives;
- . the Department agreed that a 'quick reaction' procurement facility was needed. The Navy now had sufficient supplies of the particular component mentioned by the Auditor-General and the Department was investigating prospects for design and manufacture of a substitute unit by local industry; and
- . the delivery of data packages from Phase 1 of the contract had commenced and would be reviewed by a joint DSTO, Navy and Defence Team. The current plan was to proceed to contract for the production version of LADS in 1985-86. Production costs for Phase 2 were estimated at \$18.6 million (in January 1983 prices). A major objective of Phase 1 was to identify and resolve areas of technical risk so that the Phase 2 contract was fixed price.

Department of Defence Response

2.9 The Department of Defence submitted that the main purposes of a Project Definition Study phase are:

- to give private industry an understanding of and responsibility for the project;
- to give the project a more commercial orientation with a view to economic production; and
- to take basic conceptual data arising from the research and development activities and equipment through to the generation of a production data package.

2.10 There was merit in private industry producing as much of the documentation as it could because of the responsibility it would have to bear for producing the equipment. Because not all research activity leads to manufacturing activity, the Department did not consider it necessary to insist on applying documentation standards appropriate to a manufacturing task during a research and development exercise.

2.11 Only one tender was received for Phase 1. Soon after the contractor started work it became apparent the company was short of suitable staff. It seemed more appropriate to apply the limited resources to technical aspects of the project rather than develop a project management plan.

Conclusions

2.12 The Committee commenced a Public Inquiry into Project Management in the Department of Defence on 7 March 1984. The Committee is of the view that the problems experienced in both the projects discussed above derive from a lack of management control. The Committee has therefore decided not to examine these matters further in the context of this Report and has referred them to the Defence Project Management Sectional Committee for further consideration.

CHAPTER 3

DEPARTMENT OF DEFENCE SUPPORT

MUNITIONS PRODUCTION TRUST ACCOUNT (MPTA)

3.1 The Auditor-General carried out an audit of the control and operation of the MPTA at establishments in New South Wales, Victoria and the Australian Capital Territory.

3.2 The purpose of the Munitions Production Trust Account (MPTA), which was established under Section 62A of the Audit Act 1901, is to finance:

- the manufacture of munitions in government factories, annexes and industry for Departments of the Australian Government and other Governments and Authorities; and
- any other approved service of a munitions factory or annex.

3.3 An allocation of the MPTA is made to each Prime Contractor Factory in the Munitions Division for the purpose of reimbursing its Factory Trust Account to maintain liquidity.

3.4 In addition an allocation is made to the Department's Victorian Regional Office to handle overseas and certain other transactions and an allocation is held in the Department's Central Office.

3.5 A prime contractor factory's own expenditure is carried in its Working Capital Trust Account until it is costed. Payments by a prime contractor factory to sub-contractors are recorded in expenditure relating to Defence purchase orders as they occur. All from the MPTA.

3.6 To account for allocations of MPTA each factory, the Victorian Regional Office and the Department's Central Office must maintain a separate control ledger consisting of the following accounts:

- Trust fund provided (moneys provided by appropriation);
- Trust account cash;
- Recoverable expenditure;
- Debtors; and
- Recoveries in progress.

3.7

The audit disclosed that:

- part of moneys received as advances for sales to overseas countries was being used by the Victorian Regional Office as additional working capital; \$1.04 million had been included with MPTA allocations to factories;
- some profit payments to the Commonwealth Aircraft Corporation Limited were made incorrectly from MPTA
 - the Commonwealth Aircraft Corporation Limited is entitled, under a Remuneration Agreement with the Department, to a guaranteed profit each year which is calculated under an agreed formula and is funded from the Maintenance of Production Capacity Appropriation. It is payable in eleven equal instalments in advance. The Auditor-General noted that the first payment each year was made from the Victorian Regional Office's MPTA which may not be within the purposes of the Account. At 31 December 1983 a total of \$268 182 has been paid from the account;
- the Commonwealth Aircraft Corporation had received goods, dating back to 1979, for which debit notes had not been issued. Some vouchers were missing despite search action;
- the Victorian Regional Office had been given no comprehensive, authorised instructions for financial and accounting procedures by the Department. The Auditor-General considered that, due to the complexity of MPTA operations, suitable instructions should be issued and the existing chart of accounts be reviewed for the MPTA control ledger in relation to such items as on costs, research and development levy;
- Central Office management of MPTA was ineffective, for example:
 - no consolidated control accounts or master ledger were used for MPTA in Central Office. The only records consisted of a Register of Warrant Advices and Authorities together with monthly reports (of doubtful value) from various segment holders;
 - Departmental officers were unable to produce for audit examination the Australian Capital Territory segment ledger and related records for 1981-82 and prior years;
 - the Register of Warrant Advices and Authorities was not properly maintained;
 - over-issue of warrant had occurred on a number of occasions; and

- reconciliations of MPTA at the end of each financial year were not always in accordance with the Finance Directions.

3.8 On 11 September 1981, Internal Audit had reported on the unsatisfactory management and control of MPTA at the Central Office level. The situation had not improved.

3.9 The Auditor-General suggested that consideration be given to closing MPTA and transferring funds to specific factory trust accounts as additional working capital. If necessary, a new trust account or Head of Trust could be established for overseas transactions and operated in Central Office.

Departmental Response

3.10 The Department advised that it had been aware of difficulties with the operation of MPTA since its creation in May 1982. A major review of accounting aspects had been commenced but was delayed due to loss of skilled staff. The Department recognised the benefits inherent in the Auditor-General's suggestions on the transfer of MPTA accounts and advised that it was giving priority to investigation of alternative arrangements. The Department's responses to the specific matters described in the report indicated that some remedial action was being initiated.

Conclusions

3.11 The Committee believes that the problems existing with the MPTA have persisted for too long.

3.12 There appears to be a need for a fundamental change in the Trust Account arrangements and the Committee has decided that the matter should be viewed as a separate inquiry outside the context of its examination of this Auditor-General's Report. A report on this matter is expected to be tabled later in the Budget Session 1985.

INTERNAL AUDIT

3.13 The Auditor-General reported on a review of the Department's internal audit function in New South Wales, Victoria and Central Office, which was designed to ascertain whether Internal Audit was operating effectively and in accordance with relevant auditing standards and Public Service Board (PSB) guidelines.

3.14 The major findings of the audit were that:

- the Department did not have an approved internal audit charter;
- the Internal Audit Committee had not met since its inaugural meeting in June 1983;

- audit positions in New South Wales were vacant from late 1982 to early 1984;
- no internal audits, which would conform with acceptable auditing standards had been performed in New South Wales in the previous two to three years;
- staff were operating with an incomplete and unauthorised manual and this was reflected in the adoption of a number of non-standard audit methodologies and practices;
- the Internal Audit Strategic Plan and annual audit program were considered to be deficient as a basis for internal audit operations;
- some aspects of the audit methodology being used by field staff were:
 - Central Office did not provide guidance to field staff on the intended scope of the audits;
 - field audit plans were not prepared and the rationale for testing was not always documented;
 - review by senior internal audit staff and reasons supporting decisions to change the course of an audit were not always documented;
 - permanent files were not always updated at the conclusion of audits; and
 - in Victoria, ADP audit working papers were not being retained and the security of working papers was not adequate; and
- many audits did not reach final report stage and there were no formal procedures to ensure appropriate action followed reports.

Departmental Response

3.15 The Department replied in detail to all the matters raised by the Auditor-General and advised that:

- the Internal Audit Charter was promulgated on 10 October 1984 - a copy was provided to the Committee;
- the Audit Committee Charter was promulgated on 23 August 1984. The Audit Committee met in August and November 1984 and four meetings were planned for 1985;
- recruitment action had been finalised on six of seven vacant positions in New South Wales;

- the Audit Committee had sought a submission on the provision of internal audit resources for consideration at its March 1985 meeting;
- a new manual was being produced. In the meantime staff had access to reliable authorities and training courses. Most staff were members of the Institute of Internal Auditors Inc and had access to its journal and meetings;
- work was underway for the preparation of a Strategic Audit Plan scheduled to be presented to the Audit Committee in June 1985; and
- priority was being given to improving the methodology of audit programs by measures including:
 - more frequent meetings between Central and Regional managers to discuss strategic, program, methodology and staffing matters;
 - more frequent 'on-the-job training' visits by Central Office Directors;
 - reviews of audits by senior audit staff;
 - encouragement of a multi-disciplinary approach to field audits;
 - development of methodologies appropriate to the relatively unique production-oriented activities of the Department; and
 - participation by all audit staff in the development of specific control models and in planning for reviews.

3.16 The Department also stated that particular attention would be given in 1985 to improving the quality of internal audit reports and the time taken to bring them to finality.

Conclusions

3.17 The Committee notes the changes initiated by the Department of Defence Support. In December 1984, that Department was absorbed into the Department of Defence. The Committee will expect to see the improvements maintained within that new administrative environment.

3.18 The Committee is particularly concerned that staffing levels remain sufficient to handle effectively the tasks of auditing those areas previously constituting the Department of Defence Support and that specific expertise in the type of auditing this necessitates is retained.

3.19 The Committee is not satisfied at the frequency with which internal audit within departments attracts critical comment from the Auditor-General. The Committee has maintained a long standing interest in this matter¹ and believes that development of efficient internal audit arrangements is a critical component of efficient public administration and accountability. For this reason, the Committee has decided to conduct a comprehensive review of departmental internal audit practices and expects to table a Report on that matter in 1986.

¹ Joint Committee of Public Accounts, Report 184, Internal Audit in the Australian Public Service - A Discussion Paper, AGPS, Canberra, 1981.

CHAPTER 4

DEPARTMENT OF EDUCATION AND YOUTH AFFAIRS

CENTRAL ADMINISTRATION OF STUDENT ASSISTANCE PROGRAMS

4.1 In his September 1984 Report, the Auditor-General commented on a review of the administration of the Tertiary Education Assistance (TEAS), Secondary Allowances (SAS) and Assistance for Isolated Children (AIC) Schemes.

4.2 The magnitude of the Schemes is demonstrated in the table below.

DETAILS OF BENEFITS PAID UNDER
STUDENT ASSISTANCE SCHEMES - 1983

	No of students receiving assistance as at 30 June 1983	Expenditure - calendar year 1983
		\$ 000
TEAS	84 347	222 455
SAS	45 558	39 651
AIC	19 318	21 300

4.3 The Auditor-General commented on the need for the Central Office of the Department to exercise greater control and supervision over administration of the Schemes. The Report acknowledged that a consultant engaged by the Department to review its ADP needs in 1983 had also identified certain of the following issues:

- policy manuals which contained guidelines for State and Territorial Offices (STO) lacked appropriate authority for some instructions on eligibility assessment;
- the management information system used primarily to monitor the processing of applications was unsuited to performance measurement. Standards had not been developed for acceptable processing times;
- information was not available to evaluate the effect on resources of reassessments of applications although the Department was aware of the potentially adverse effect on the processing system overall due to the high level of resources used by such reviews;

- quality control procedures were neither comprehensive nor uniform although guidelines were developed in 1980 for TEAS and 1981 for SAS and AIC. The Auditor-General suggested that the Department should introduce a formal quality control system with oversight by Central Office;
- checks of initial or continuing eligibility ranged from a small sample check to an entire check of a population. The majority of checks were performed post-payment and relied on information provided by third parties such as the Australian Taxation Office, educational institutions and other government departments. There was no evidence that the Department had evaluated the cost effectiveness of the techniques used or actively considered alternative approaches;
- income verification procedures were inconsistent between States and Schemes. Given the demonstrated effectiveness of the existing check (based on information provided by the STO) the Auditor-General sought advice as to whether the Department proposed to increase the sample size;
- Central Office monitoring of documentation needed to be increased to rationalise and standardise manuals and instructions which varied considerably among the STO;
- the cross checks program used for detection of duplicate benefits required modification and documentation;
- there had been a reduction in the number of prosecutions from forty seven in 1980 to twelve in 1983. Reports submitted by STO mentioned a number of factors which limited their ability to take prosecution action including:
 - delays in services provided by external agencies;
 - the possible effect of recovery action on prosecution proceedings; and
 - the effect of the existing twelve months limitation period on prosecutions; and
- standard procedures for ADP systems development were not followed for two benefit payment systems instituted on 1 January 1984.

4.4 The Auditor-General concluded that the Central Office should:

- perform a controlling and monitoring role over the more important administrative functions carried out by the STO;
- establish administrative systems to measure the performance of the STO in certain critical areas, particularly the processing of applications; and
- provide greater support to the STO in the implementation of new systems and system modifications.

4.5 In this regard the Auditor-General noted that in a reorganisation submission to the Public Service Board in 1983 the Department indicated its intention to have Central Office assume greater supervisory responsibilities over the operations of the State Offices and the Australian Capital Territory Office. The reorganisation came into effect during the course of the audit.

Departmental Response

4.6 The Department agreed with the Auditor-General's assessment of the need for a greater degree of centralisation of the administration for the Schemes. It stated that it was taking steps, both through the implementation of new systems and through a strengthening of Central Office staffing resources, to achieve this objective. The Operations Section of the Central Office's Student Assistance Programs Branch had been strengthened.

4.7 An ADP system, EDYCOMP, to be introduced in the Department would:

- process student assistance applications;
- produce management information on performance; and
- perform checks of eligibility and entitlement including income verification and cross-checking.

4.8 The specific matters raised in the Auditor-General's Report were addressed. Improvements were cited in many areas as outlined below.

4.9 Changes made to the Income Tax Act in October 1984 relating to Income Equalisation Deposits (IED's) had resulted in consistency between treatment of the IED Scheme between Student Assistance Regulations and taxation legislation. The relevant regulations had been examined in relation to the treatment of lump sum payments under income tests, and instructions for drafting proposed amendments were being prepared for the Attorney-General.

These developments would ensure consistency between authorised policy and the policy guideline manuals.

4.10 The Department had considered the possibility of setting specific standard application processing times but concluded that it was more practicable to monitor the overall processing performance of a State Office on the total body of applications received. There were wide variations in complexity between individual applications. Even at the State level there were variations related to the number and nature of institutions, the nature of student bodies, differing course structures and so on.

4.11 The Department had chosen to monitor the proportion of applications processed by each State Office and the average turnaround time for individual applications as the year progressed. A target was to have three-quarters of applications processed on 1 April ie after the end of March TEAS closing date. Four to eight weeks was regarded as an acceptable turnaround for individual applications. Performance was checked against that of the previous year to detect any deterioration.

4.12 The Department recognised the need to reactivate production of regular statistics on turnaround times and was aiming for fortnightly reports. Under EDYCOMP, information would be provided on the time taken for the various stages of processing, and for different types of applications. At present information was available only on the time between receipt of the application and ADP output. Improvements were being made to the timeliness of the half-yearly reports. Pending the introduction of EDYCOMP, key totals would be produced within one month of each half-year period.

4.13 The need to improve quality control procedures was acknowledged. Uniform procedures were issued to State Offices in December 1984.

4.14 Greater emphasis would be placed on checking student eligibility and on entitlement checks before payments were made once EDYCOMP was implemented. In the meantime, procedures had been reviewed and a number of improvements made including the deletion of some checks which were proven not to be cost-effective given the order of overpayments being discovered. Instructions on checks to apply for 1985 were issued to State Offices in May 1985.

4.15 Income verification procedures were first negotiated with the Australian Taxation Office in 1976; negotiations had since been renewed to determine requirements under EDYCOMP. The recommendations of the Auditor-General regarding consistency between States, adequate definition of requirements and any necessary updating would be observed when implementing the new arrangements. Uniform procedures for dealing with cases of overstatement of income were issued to State Offices in November 1984.

4.16 Pre-assessment verification of income was subject to the negotiations with the Taxation Office. The types of income and deductions to be taken into account for income checking purposes would also be discussed with the Taxation Office.

4.17 The Department considered that differing local conditions required different procedures and, therefore, did not agree that standardised documentation of guidelines was appropriate. Central Office, however, now maintained details of State Office reference material which it examined for consistency with overall policy and procedures.

4.18 Plans were in hand to modify the ADP program for cross-checking of beneficiaries between States and Schemes to avoid 'double dipping'. The States have been asked to comment on their experience in using it. Appropriate documentation would be issued when the changes were made.

4.19 Withdrawal of services by the Australian Federal Police had added to problems in completing effective prosecution action for offences under the Student Assistance Act or the Crimes Act limiting the Department's capacity to locate and prosecute offenders.

4.20 Since the Auditor-General commented on the lack of formalised procedures for ADP systems development, the Department had instituted comprehensive changes including involvement of users at appropriate levels and identification of milestones for critical paths.

Auditor-General's April 1985 Report

4.21 The Auditor-General evaluated Departmental procedures and practices in administering Student Assistance Schemes in the Western Australian State Office. The principal objectives of the audit were to ascertain whether:

- procedures and practices reflected government policy and objectives;
- adequate controls existed to ensure benefit payments were made in accordance with eligibility criteria; and
- reporting and statistical procedures were adequate and serving management effectively.

4.22 The results of the audit were generally satisfactory. Where some unsatisfactory aspects were noted the State Director was able, in most cases, to advise of remedial action taken or to provide suitable explanation.

4.23 In some cases, reference was made to the expected benefits of EDYCOMP in overcoming deficiencies. The Auditor-General considered that, as EDYCOMP was not due to be implemented until 1987, this should not preclude the Department from taking action in the interim to improve systems procedures and controls.

4.24 A number of matters arising from the audit also had national implications and were referred to the Central Office for comment. These were:

- authorisation checks were not always conducted before data was processed;
- for all but two Schemes, there were no input/output checks of computer generated documentation in Western Australia to ensure all applications had been processed;
- instructions for eligibility/entitlement checks were normally received in the Western Australian Office in March or April of the year to which they applied. In May 1984, the current instructions had not been received. The Auditor-General suggested these be issued to State Offices prior to the commencement of the processing of applications; and
- although the cross-checks program had been run at least four times in 1983, there was no evidence of follow-up action. It had not been run in 1984.

4.25 The Auditor-General also reviewed the arrangements introduced from 1 January 1984 in all STO for the processing of benefit payments made under the various Schemes. The review was conducted at Perth, Brisbane and Darwin. It disclosed that certificates for the release of payments were not processed in accord with Finance Regulations. Systems control and accounting procedures, approved at Central Office for these arrangements, had not been issued to STO.

Departmental Response to Auditor-General

4.26 Central Office was not prepared to insist on the introduction of a system of authorisation checks where this would delay processing of applications. Details of a system, which had worked effectively in Queensland, had been circulated to each State Office.

4.27 Central Office had taken remedial action to ensure that a system be introduced in all State Offices to account for computer generated documentation.

4.28 Eligibility check instructions had not been issued for 1984 until August 1984 due to severe staffing difficulties in the Operations Section in Central Office. Most checks were post-payment and so reprocessing would only be necessary if an applicant was found to be ineligible.

4.29 The Department advised that the computer lists produced by the cross-checks program was a valuable means of detecting duplicate payees. In 1984, the first lists were produced in June. Action was in hand to modify the program (as noted in paragraph 4.18 above) to eliminate software problems.

4.30 The Department provided the Auditor-General with details of action taken or proposed to remedy the defects in benefit payment procedures.

Conclusions

4.31 The Committee is extremely concerned by the frequency with which deficiencies in the administration of student assistance programs have been raised in the Auditor-General's Reports.

4.32 Measures taken by the Department will remedy problems in a number of areas. The Committee is not persuaded, however, that substantial improvements must await introduction of the EDYCOMP system. This system should produce many benefits and vastly improve access to information. Nevertheless, the Committee is of the view that the effectiveness of such systems depends to a large extent on the accuracy and integrity of the underlying data, procedures and arrangements.

4.33 The Department should be working continually to improve its performance in relation to its own stated objectives of promptness of payment to eligible clients, equitable access to Schemes and observance of due standards of efficiency and accountability in the expenditure of funds.

4.34 The Committee has previously recommended that departments operating major programs (ie those with a budget of at least ten million dollars and an expected life of at least five years) should ensure that specific legislation is drafted for these programs. Such legislation should be supported by regulations which describe, in detail, administrative arrangements. The magnitude of benefits paid, especially under the TEAS Scheme (\$222 million in 1983) demands a high standard of accountability.

4.35 The Committee is of the view that, while the Department has made many improvements, the situation remains unsatisfactory. State Offices are not in receipt of sufficient or timely information to ensure that all applicants are treated consistently (and hence equitably) and promptly.

¹ Joint Committee of Public Accounts, Report 213, Income Maintenance Programs Volume 1 - A Discussion Paper, AGPS, 1983, p. 65.

CHAPTER 5

DEPARTMENT OF FINANCE

COMMONWEALTH SUPERANNUATION SCHEME - EMPLOYER CONTRIBUTIONS BY APPROVED AUTHORITIES OR OTHER BODIES

5.1 The Superannuation Act 1976 provides for the specification by Regulation of authorities and other bodies as 'approved authorities' for the purposes of the Act. These authorities are expected to contribute to the Commonwealth the cost of pensions paid to their eligible employees from the Consolidated Revenue Fund.

5.2 Sub-section 159(2) of the Act empowers the Minister for Finance to enter into arrangements with authorities for payments in lieu of those mentioned above according to one of the arrangements described below:

5. emerging cost

- the authority pays each year an amount equal to the total amount paid to eligible employees in that year from the Consolidated Revenue Fund. The authority is expected to maintain within its accounts an appropriate provision for future superannuation liabilities.

5. pay-as-you-go

- the authority pays periodically to the Commonwealth a prescribed percentage of its total salaries for superannuation purposes, based on actuarial assessment of superannuation liability. No provision for superannuation has to be maintained.

5.3 The audit was directed at the effectiveness of the Department's administration of payments under the 'emerging cost' and 'pay-as-you-go' arrangements, and the effectiveness of its control and accounting procedures. A number of issues were represented to the Department for consideration in February 1984:

- nine approved authorities had not made required payments to the Commonwealth prior to 1981, and one (the Northern Territory Government) was still not paying

- notional accounts were being prepared showing employer liability commencing from the date of payment. This disadvantaged authorities which had met their commitments in earlier periods;

- guidelines required by the Australian Government Actuary in 1977 to review contribution rates were not supplied until 1983;
- there were no formal procedures to ensure that contributions receivable were received when due;
- there was no monitoring of authorities using the 'emerging cost' basis to ensure they could meet present and future superannuation liabilities;
- there was no formal procedure to ensure amounts were correctly credited to the paying authority nor were they regularly reconciled with the Revenue Ledger;
- contributions from pay-as-you-go authorities often exceeded current pension liability and the Auditor-General suggested that legal opinion be obtained from the Attorney-General's Department as to whether these moneys should be held in trust against future payments;
- problems arose with statutory authorities when unfunded liabilities were disclosed by actuarial review. Legal opinion was needed on the extent to which such unfunded liabilities should be included in accounts as legal liabilities
- no uniform approach had been developed to the disclosure of superannuation liability information in financial statements; and
- provisions of the Act relating to determination of amounts payable by Authorities (section 159(1)) and statutory office holders (section 159(1) and (1A)) were not observed.

5.4 The Auditor-General commented that the importance of the issues raised was such that the Department might wish to accord a high priority to their resolution. At the time of preparation of the report, the Department had not responded to the Auditor-General's request for advice.

Conclusions

5.5 This matter was reported again in the Auditor-General's April 1985 and September 1985 Reports where the Department of Finance's responses to the audit criticisms are outlined. The Committee has sought further information from the Department on the matter as a result of the April 1985 Report. The Committee's conclusions will be given in the context of its Report on that Report of the Auditor-General.

CHAPTER 6

DEPARTMENT OF HEALTH

INTERNAL AUDIT

6.1 A review of the internal audit function at the Department's Central, New South Wales and Queensland Offices revealed deficiencies in planning, monitoring and quality assurance controls, and in the audit of ADP systems. Specific matters included:

- the Strategic Audit Plan (SAP) for 1984-86 had not been approved by the Director-General or by the Audit Committee although it had been presented to the Committee in March 1984. The SAP for 1981-83 had not been updated to allow for changes in organisation, functions and priorities;
- the Annual Work Program was inconsistent with the SAP and had not been approved by the Audit Committee;
- priorities were not established for allocation of scarce resources to jobs. Shortages were dealt with by reducing mandays for jobs;
- coverage of auditable areas was insufficient. Approximately 40 per cent of audits included in the AWP for 1983 (270 mandays) were not commenced;
- increased central co-ordination of internal audit work would allow greater and more timely coverage of the Department's functions and avoid duplication of effort. A centrally approved plan developed by one State and subsequent audits in other States;
- the minutes of the Audit Committee did not indicate that any quality assurance review of internal audit had been undertaken as recommended by the Inter-departmental Advisory Committee on Internal Audit (IDAC);
- the ADP Audit Section had not been included in, and did not apply, the standard internal audit planning processes. Planning documents did not give any allocation of time to ADP jobs; and
- the Internal Audit Manual needed to incorporate ADP audit methodology.

6.2 The Auditor-General was concerned that the Department's Audit Committee had not adopted a more positive role in determining the direction and emphasis of further development of the internal audit function.

Departmental Response

6.3 The Department stated that during discussions with the Auditor-General's Office before the finalisation of the report, it was apparent that there were unresolved differences in philosophy on audit between the Department and the Australian Audit Office. The Department stated that the audits selected for review were only a small unrepresentative sample of audits conducted by the Branch as a whole.

6.4 A number of the recommendations had been of assistance, however, and had been implemented by the Department. In response to specific matters raised in the Report, the Department informed the Committee that:

- the Strategic Audit Plan Program had been approved formally by the Audit Committee in August 1984. It had been approved by consensus in March 1984. Few organisational changes occurred in 1981-83. Priority was given to performing audits. The need for changes to planning documentation was recognised but their implementation would be at a time convenient to the Branch;
- the Annual Work Program was based on expected resources in November 1983. A reorganisation providing five additional staff had been approved from March 1984. In March it was apparent the reorganisation proposal would not be resolved in the short term and the AWP was adjusted in July 1984 during the normal six monthly review;
- the statement relating to reduction in time for jobs arose from a lack of understanding of the planning concepts used. Internal Audit did not reduce the scope of any audit merely to fit resources allocated to it. A standard number of mandays (20) was used for each audit unit. In cases where an audit might otherwise have been given a greater time budget it could be broken into several standard units. In many cases the practical auditable units were larger than standard and budgeted times were exceeded;
- excess time spent on other jobs was only one reason for jobs on the AWP not being commenced. Audits might be rescheduled or replaced if changes in Departmental priorities occurred. The Audit Committee accepted that low priority audits might be reprogrammed a number of times;

• the Auditor-General dealt with the findings of an audit conducted in Central Office (which contains only 30 per cent of general audit staff). The number of audits reviewed represented only 4 per cent of the annual total. The quality assurance program in operation within the Internal Audit Branch consisted of a first review concentrating on detail and subsequent reviews concerned with matters such as format, presentation and the comparison of the report with the supporting papers. The Department considered this a more thorough and flexible review than the questionnaire approach recommended by IDAC.

6.5 The Department acknowledged that planning for ADP audit had previously been deficient but stated it was now integrated into the 1984-86 SAP. It believed a separate methodology was not needed but a section on applicable techniques was being included in the Internal Audit Manual.

6.6 The role of Internal Audit in efficiency and cost-effectiveness was being considered as part of the total of review methods in the Department.

6.7 The Department was aware that some problems existed in high level planning for the internal audit function but believed that these problems would be solved by:

- the revised format and integration of the SAP and AWP;
- the approval by the Departmental Audit Committee of changes to the plan;
- the growing experience of the time taken by audit tasks; and
- the increased review of time taken.

6.8 The Department also pointed out that the Auditor-General's Report did not indicate deficiencies in the quality of Audit work being performed.

Conclusions

6.9 The Committee notes the improvements to the Department's internal audit function. It is concerned, however, that coverage of auditable areas, as proposed by the Annual Work Program, may still be jeopardised by a lack of sufficient staff. The Committee is also concerned about the application of priorities which allowed the frequent rescheduling of planned audits and which caused deferral of necessary improvements to documentation.

6.10 The Committee is disturbed by the Department's comments regarding the approach taken by the Auditor-General in his review. It will be maintaining a close interest in future audits within the Department to assess whether these differences of philosophy have been resolved.

6.11 As noted in the Conclusions to Chapter 3 of this Report, the Committee is concerned at the frequency with which internal audit performance by departments receives critical comment in the Auditor-General's Reports. The Committee, therefore, is planning a comprehensive review of internal audit and expects to table a report on that subject in 1986.

CHAPTER 7

DEPARTMENT OF HOUSING AND CONSTRUCTION

GENERAL WORKS DIVISION, AUSTRALIAN CAPITAL TERRITORY

7.1 The General Works Division is responsible for a number of functions relating to the provision, repair and maintenance of public works. An audit of the General Works Division in the Australian Capital Territory revealed that:

- early in 1984, approximately 20 per cent of Commonwealth buildings had not been inspected and incorporated into the Assets Control System (ACS), a computer based system intended to provide a register of assets, the scheduling and assembling of the results of maintenance inspections and a maintenance history;
- inspections were not recorded using the prescribed form resulting in the lack of a wide range of necessary information;
- initial inspections were still performed by works supervisors and estimators despite a Joint Management Review (JMR) recommendation on professional input by architectural or engineering specialists;
- there was insufficient control over the maintenance program;
- there were duplications of inspections between the Department and other authorities;
- there were control deficiencies in the administration of the plant pool;
- stores stocktaking had not been carried out for three years and the Procedure Manual was out of date; and
- manual cost cards were maintained despite the introduction of a computerised Departmental Accounting and Information System (DAIS) in 1982.

Departmental Response

7.2 The Department advised that it was taking steps to implement progressively the recommendations of a Joint Management Review of General Works Functions conducted in 1982 and requested that account be taken of the workload involved. The changeover to the ACS was a direct result of the JMR.

7.3 A management decision was made to concentrate on the listing of all assets and their maintenance cycle. ACS was fully operational for planning purposes in the Australian Capital

Territory by July 1985. Over 18 000 asset records were registered covering all Commonwealth owned and used assets. The system permitted the programming of specific inspection cycles (commonly five years external or seven years internal) and had the longer term potential to generate information on the economic performance of assets. Complete details would be gathered during normal cyclical inspections and special investigations. The missing data were mainly historical eg date of construction and references to original plans. ACS was being extended to Commonwealth installations in leased premises.

7.4 Guidelines for the preparation of repairs and maintenance programs were issued by the JMR Implementation Team in 1983, and in June 1984 'Australian Government Repairs and Maintenance - Budgeting Administrative Procedures' was issued as a Department of Finance circular. These documents defined responsibilities and set timetables.

7.5 The ACT Region was following the JMR suggestion that only complex assets be inspected annually by a team led by a professional. Much maintenance was capable of assessment by a Works Supervisor with a trade background and previous experience of repairs and maintenance on a particular asset. However, all recommendations were now being reviewed by Area Managers as part of revised operational procedures introduced since the Auditor-General's Report.

7.6 The ACT Schools Authority and the Department of Territories had responsibility for some inspections arising from their delegations for works up to \$750; the Department thus avoided minor inspections, and small straight forward jobs could be completed promptly.

7.7 A concerted effort was made to complete the stocktaking backlog in 1984-85. Stocktakes for stores were completed on a sample basis. With the introduction of the new Supply Manual in February 1985, the Secretary gave approval for stocktakes to be carried out on a biennial basis. A new program for other stocktakes, based on a two year cycle, had been initiated.

7.8 The revised Supply and Plant Manuals issued in February 1985 reflected changes in the Department's operations and incorporated changes recommended by the Regions.

7.9 DAIS could not provide necessary daily costings due to input delays and lack of terminals at all depots. A datel line, terminal and printer had been installed in the Dickson Depot and, in July 1985, plans were in hand for similar facilities in the Fyshwick Depot. Other Australian Capital Territory depots would be equipped during 1985-86.

Conclusions

7.10 The Committee notes the progress the Department has made in improving assets control within the General Works Division in the Australian Capital Territory. It will be looking for evidence of continued improvements in future audits.

CHAPTER 8

DEPARTMENT OF INDUSTRY AND COMMERCE

DIESEL FUEL REBATE SCHEME

Auditor-General's Report

8.1 Under the Diesel Fuel Rebate Scheme, rebates are payable to specified categories of persons who purchase, for off-road purposes, diesel on which duty has been paid. These include persons in agricultural, mining, fishing and forestry industries, nursing and aged persons homes and domestic consumers. At June 1984, there were approximately 130 000 registered claimants. Rebates in 1983-84 totalled \$163.5 million.

8.2 Rebates are paid for fuel purchased as distinct from fuel used. Claimants are required to estimate the percentage of each purchase which will be used for eligible purposes. The estimate which the claimant provides on the initial claim is pre-printed by computer on the subsequent claim form. The onus is on the claimant to alter the figure if the estimated percentage use has changed.

8.3 When claims for rebate are received they are examined, registered (by use of terminals in each State which are linked to a computer in Canberra) and authorised for processing. The computer system generates a tape used by the Department of Finance to credit claimants' bank or other accounts. Collectors of Customs are responsible for eligibility checks of claimants.

8.4 The Auditor-General examined the cycle of registration of claimant information, submission of claims, examination, investigation and approval of claims, computer processing, payment and reconciliation and reported significant weaknesses in the Scheme which included the following:

- no provision was made to ensure that the rebate was adjusted when the actual percentage of fuel used for off-road purposes and on which duty was paid differed from the estimate on which the rebate was paid;
- the practise of pre-printing the percentage estimate used in the claimant's previous claim on subsequent claim forms could discourage re-assessment of the percentage for each new claim;
- there was a significant incidence of claimants registered more than once in the computer record. This occurred mainly as a result of claimants using forms designed for initial claims to make subsequent claims. Unless the claimant's details were identical on each form the duplication was not disclosed by computer edit checks;

- some fishing co-operatives were permitted to lodge claims on behalf of members but in the name of the co-operative. This could facilitate duplicated or fraudulent payments;
- a variety of documents were acceptable as proof of payment, many with inadequate information to ensure that rebates had not already been paid for those purchases;
- an investigations procedures manual had not been issued. Not all doubtful claims were investigated prior to payment. A national system of investigations incorporating refined risk assessment techniques had not been developed as planned;
- controls within the ADP system were inadequate, there were deficiencies in password security and documentation was lacking for database updates; and
- off-site storage was required for back-up tapes.

8.5 The Auditor-General concluded that progress since the Scheme's introduction in 1982 in upgrading investigations and rectifying the computer system was slow.

Departmental Response

8.6 The Department believed that because the legislation was in terms of intended use and claimants had to sign each claim which put the onus on them to make legitimate claims, existing procedures for processing claims were adequate. Such a procedure whereby the onus is placed on the user was a feature of Customs legislation. As a result the Australian Customs Service (ACS) was responsible for verification. Measures to achieve this included:

- pre-processing checks to ascertain that:
 - invoices related to the purchases which were the subject of the claim;
 - the claimant belonged to an eligible category; and
 - claimants did not claim 100 per cent of purchases when they had declared they owned diesel road vehicles;
- computer processing checks involving:
 - cross-editing of invoices to avoid duplication;
 - comparison with previous claim patterns; and
 - computer calculation of rebate; and

- post-processing checks including:
 - pre-investigation analysis of claiming patterns based on variables such as category of claimant and region; and
 - investigation of claimants' documentation and physical operations.

8.7 When the Scheme was introduced, it was the wish of the Government that claimants were to be put to a minimum of inconvenience.

8.8 The possibility of multiple registrations was not considered to be a serious problem. The Department stated that no overpayment had occurred as a result of the multiple registrations discovered during the audit. A comprehensive name matching system would be resource expensive and not necessarily able to detect all possible variations. Instructions had been issued to all State offices prescribing the format for input of name details at the initial registration. Some measures used to detect duplication included computer extraction for States of claimants arranged in postcode and bankcode categories and systematic rechecks of claims. Controls had been tightened on claims by fishing co-operatives.

8.9 Statements were only accepted when they contained full details of the transaction (including date, invoice number, quantity and product description) and it was impracticable for the claimant to produce either delivery dockets or invoices. In such circumstances prior approval had to be obtained from the Collector. The ACS did not keep statistics of claimants who initially provided inadequate documentation but did record details of all claims rejected for processing. Other reasons for rejection included claims not signed, incomplete banking details, etc. A little more than 4 per cent of claims were rejected in total; collectors estimated that less than 1 per cent were due to inadequate documentation.

8.10 Work was under way on an Investigation Manual incorporating eligibility interpretation guidelines which had already been issued to all States. Over 3 000 investigations had been conducted in 1983-84. Claims were referred to the Investigation area when details of claims required further clarification as to eligibility for rebate or when it was considered that claimants may have overestimated eligible usage.

8.11 The ACS had determined two areas where rebate could be erroneously paid. The first involved persons who claimed but were ineligible or who overestimated their entitlements but where there was no intent to defraud. The other case was deliberate fraud. In the latter category thirty three cases involving \$17 000 have been detected from investigations.

8.12 The minimum number of Risk Assessment investigations was 1 per cent of all claimants. As resources permitted other procedures such as processing system rejections, processing system referrals, intelligence and randoms were used. In the years 1982-83, 1983-84 and 1984-85 the numbers of investigations conducted were 2 492, 5 282 and 2 947 (11 months) respectively. In 1984-85 they comprised intelligence 503, randoms 393, Risk Assessment 1 004, follow-ups 149, processing system rejections 91 and processing system referrals 807.

8.13 Of these, 2 017 claimants were found to be legitimate, 910 claimants were inaccurate but no fraud existed, and there were twenty fraudulent claimants. Seven claimants were prosecuted. In 1983-84, 5 286 investigations detected thirteen fraudulent claimants and four claimants were prosecuted.

8.14 The Department disagreed with the thrust of the Auditor-General's findings on investigations. It took twelve months to establish a workable claimant population and its distribution. Even after twelve months new claimants comprised 30 per cent of claims received. A staged development of the investigation system was deemed appropriate and the final enhancements to the National Diesel Fuel Investigation System were completed in July 1985.

8.15 The Department accepted that there were problems with the ADP system. The six week development period was given as the explanation. The Fault/Enhancement Report System had brought to light some problems. However, a number of the reports raised were similar and a number contained requests for enhancements not originally envisaged. Improvements had been made in the area of password security, database updates, back-up, recovery and contingency plans and communication aspects. A formalised system had been implemented to control password usage and ensure regular changes.

8.16 The Department advised that, in view of the Government decision that applicants be required only to estimate eligible usage at the time of making the claim, it had not considered examining alternative methods of assessing the rebate.

Conclusions .

8.17 The Committee is very concerned at the number of serious problems identified in the administration of the Diesel Fuel Rebate Scheme. It notes the Department's comment that many of these resulted from the short time provided for its implementation.

8.18 In view of the changes to the Scheme announced in the recent 1985-86 Budget (whereby currently eligible primary producers will receive a full rebate of the excise on diesel fuel from 1 November 1985) the Committee has sought assurances from the Minister for Industry, Technology and Commerce that adequate resources will be available to ensure the Scheme operates effectively and with proper accountability.

8.19 The Committee is not satisfied with the Department's assertion that many of the weaknesses of the Scheme, especially those relating to self-assessment, derived from the Government's intention to set in place simple procedures. The Department was unable to provide documentary evidence of the previous or present Governments' expressed intention in this regard.

8.20 The Committee frequently observes schemes and programs with implementation problems like those experienced by the Diesel Fuel Rebate Scheme. Such schemes may well be eminently desirable and useful in their objectives. However, on occasions where they have been instituted with little or no preparatory investigation there are subsequent administrative problems. The programs may be capable of efficient and effective implementation provided sufficient attention is given to the development phase. The Committee urges that departments and Ministers take great care to ensure that essential planning has been carried out before a new or revised program is announced and/or begins operation.

COAL EXCISE DUTY

8.21 The Coal Excise Act 1949 provides for the licensing of coal producers, the calculation and payment of coal excise duty and for oversight of these functions by officers of the Department.

8.22 An audit carried out in Queensland and designed to review legal compliance, financial regularity and cost effectiveness of the Department's procedures in collection of the duty revealed that:

- contrary to the provisions of the Act, delays of two to five months were occurring between first sales and the issue of coal producers' licences;
- licences were not regularly reviewed in relation to the currency of mine description and mine lease details;
- duty liability was being assessed on various weight methods, not all in accord with the Act;
- securities based on stockpiles had not been taken in Queensland since 1950 despite changes in the industry's stockpiling practices since that time;
- monthly reconciliations of Queensland Coal Board sales and producers' returns were inadequate. New procedures were needed;
- a comparison between the entry history file for coal produced and the receipts recorded in the Revenue Ledger revealed significant variations for the last five years. The lack of complete reconciliations was raised following a 1981 audit. It had then been expected the problem would be solved by a computerised accounting system;

- few field inspections were being performed;
- penalties under the Act were low and were insufficient to encourage compliance; and
- no national procedures for the collection of coal excise duty, or guidelines to coal producers on Departmental requirements, existed.

Departmental Response

8.23 The Department responded to the matters raised by the Auditor-General and was able to report action on most items as follows:

- formal procedures had been documented for examining applications for production licences; these procedures incorporated a check list. Comprehensive guidelines were now available to applicants. Delays had been reduced;
- all current licences had been reviewed. Amendments to mine details would be taken into account when considering annual renewals;
- the Department accepted payment on 'paid for' weight basis rather than production weight as prescribed in the Act. This practice was considered more equitable as some mines had beneficiation facilities onsite. Action had been instituted to amend the Act accordingly;
- securities had been sought from all producers in terms of Section 10 of the Act. A review of the monetary level of securities was completed on 7 September 1984 and procedures had been established for annual reviews;
- new reconciliation procedures had been instituted for monthly returns of coal produced, duty paid and Queensland Coal Board returns;
- reconciliations to the Revenue Ledger of duties received had been carried out for 1981-82 to 1983-84. The computerised accounting systems were not expected to be implemented until late 1986. In the meantime, collectors were conducting monthly reconciliations;
- risk ratings had been completed on all producers and programmed field testing of the risk rating had begun in October 1984;
- the Bill to amend the prescribed penalties under the Coal Excise Act received the Royal Assent on 30 May 1985 and came into force on 27 June 1985. The Customs and Excise Legislative Amendment Act 1985 amends prescribed penalties under various Acts administered by the Comptroller-General of Customs; and

- guidelines and procedures developed in Queensland following the audit were being reviewed for incorporation in the Customs Service Manual.

8.24 The Department disagreed with the Auditor-General's suggestion to include coal producers in the Department's Inland Services risk assessment program. The Department was examining whether agreements could be made with State Governments for specialist royalty officers to undertake verification of producers' records on behalf of the Department.

Conclusions

8.25 The Committee is satisfied with the progress made by the Department in improving procedures for the collection of the coal excise levy in Queensland.

CHAPTER 9

DEPARTMENT OF RESOURCES AND ENERGY

INTERNAL AUDIT

9.1 The Auditor-General conducted a review of the Department's internal audit function in November 1983:

- to ascertain whether the Internal Audit Section was operating in accordance with Public Service Board (PSB) guidelines and relevant auditing standards; and
- to review progress on dealing with the following deficiencies noted in the Auditor-General's September 1981 Report on the then Department of National Development and Energy:
 - the internal audit charter did not cover the development of ADP audit or the responsibilities of the Chief Internal Auditor;
 - three of five staff positions were vacant;
 - the audit program was inadequate and in arrears;
 - field audit plans, consistent with PSB guidelines, had not been prepared for audits undertaken nor was there an internal audit manual;
 - there was no quality assurance program; and
 - there was no reporting system for occurrences of theft, defalcation or control breakdowns.

9.2 The Auditor-General commented that the deficiencies related to the administration of the internal audit function not to the quality of work performed by internal audit personnel.

9.3 The following improvements were reported by the Department:

- appropriate amendments had been made to the internal audit charter;
- the number of internal audit positions had been increased to seven, one of which was still vacant but had been advertised;
- increased staffing was expected to lead to a more comprehensive coverage of the approved program;
- a draft audit manual had been issued pending consideration by the Internal Audit Committee. Field audit plans were being prepared;

- a quality assurance program had been introduced; and
- an occurrence reporting system had been introduced.

Departmental Response

9.4 In November 1984, the Department advised the Committee that it had adopted a revised Internal Audit Charter and established an Internal Audit Sub-Committee with responsibility for a detailed review of all Internal Audit reports before consideration by the Departmental Internal Audit Committee.

9.5 On the specific matters raised by the Auditor-General, the Department advised that:

- all seven audit positions were currently filled;
- lack of audit staff resources and the need to perform additional audits such as those related to uranium activities (a function acquired from the former Department of Trade and Resources) had contributed to inadequate coverage in the past. While increased staff resources would result in improvements, a decision would be required as to whether the program should be revised or additional staff sought. A consequence of the current comprehensive audit approach is that more audit resources may need to be applied to particular audits than in the past;
- field assignment plans were prepared for each assignment prior to commencement of the audit although they were often modified during the progress of the audit as circumstances dictated. This applied particularly with the initial audit of any particular functional activity;
- a comprehensive audit manual had been developed, which has been approved by the Secretary of the Department. Its primary emphasis was on the application of systems based auditing;
- a quality assurance review program had been introduced and the weakness in documentation had been corrected by the introduction of a formalised system based on the Quality Assurance Checklist Questionnaires promoted by the Interdepartmental Advisory Committee on Internal Audit; and
- where previously occurrence reports were reviewed during audits of functional activity, procedures had been amended so that files on Writeoffs, Waivers and Act of Grace Payments were required to be provided to Internal Audit for information.

Conclusion

9.6 The Committee endorses the improvements instituted by the Department to provide more satisfactory control of the internal audit function. The Committee is concerned, however, that departments continue to report that lack of staffing resources still hampers proper coverage of functional audits.

9.7 As noted in the conclusions to Chapter 3 of this Report, arising from its concern about the frequency of critical comment on internal audit matters by the Auditor-General, the Committee has decided to conduct a comprehensive review of departmental internal audit practices and expects to table a Report on that matter in 1986.

CHAPTER 10

DEPARTMENT OF SOCIAL SECURITY

INVALID PENSIONS

10.1 An audit of the invalid pension system was conducted at selected regional offices of the Department in New South Wales. The associated payments and appeals systems were reviewed at the State Headquarters (SHQ) of the Department.

10.2 Departmental procedures require determining officers to take account of medical impairment, socio-economic and other related factors when assessing an applicant's eligibility for invalid pension. A determining officer also needs to assess the recommendation made by the Commonwealth Medical Officer (CMO) who examined the patient. The Department provides guidelines to CMOs to assist in making recommendations on the level of incapacity.

10.3 The Auditor-General was concerned that the Department should ensure that:

- CMOs and determining officers are adequately instructed on the various criteria for pension eligibility;
- decisions by determining officers which override CMO opinions are subject to some review; and
- there is a consistent application of assessment criteria between regional offices.

10.4 Once granted, an invalid pension could cost the Commonwealth up to \$7 753 a year (1984). The decision might not be reviewed for up to five years. Sound administrative controls were essential.

10.5 At one regional office, statistics for January 1984 showed that the determining officer had granted 76 per cent of applications while the CMO had recommended 57 per cent. For NSW as a whole, CMOs recommended about 70 per cent of cases while about 80 per cent were approved by determining officers.

10.6 The Auditor-General also noted that there were no guidelines to assist staff in the evaluation of an institution's suitability for inclusion in the group payment scheme. There was not a review procedure to ensure that institutions remained suitable for such purposes.

10.7 Other matters noted during the audit included substantial arrears in pensioner entitlement reviews, cases where pensions had been paid to underage applicants because computer warnings were not actioned, and other errors and delays in administrative procedures.

Departmental Response

10.8 The Department explained that the Social Security Act required that a person be deemed to be permanently incapacitated for work if the degree of his permanent incapacity for work is not less than 85 per cent. Permanent incapacity is caused by two elements:

- impairment (physical and/or mental disability); and
- socio-economic factors.

10.9 In determining incapacity, the delegate is guided by a range of data of which the CMO's assessment is of prime importance. That assessment covers both the elements described above. Guidelines are provided on assessment of socio-economic factors, which indicate the relevant socio-economic factors to be taken into account, to assist CMOs in making a decision. The delegate is obliged, nevertheless, to consider whether the CMO has considered those factors and given them an adequate weighting.

10.10 According to the Department, it has not been uncommon for the delegate to conclude that the CMO has not taken these other factors fully into account. This approach was entirely consistent with the responsibility laid upon the delegate by the legislation and with the thrust of many decisions on invalid pensions which have emerged from the Administrative Appeals Tribunal (AAT).

10.11 The Department stated that the AAT had made it clear that the assessment of a person's incapacity for work cannot be based on medical condition alone and that relevant non-medical (or socio-economic) factors such as age, sex, English language skills, education and previous work history need also to be considered. Draft revisions have been prepared on the guidelines in the Pensions Manual to reflect the interpretation of the law as clarified by decisions handed down by the AAT and the Federal Court of Australia. These revisions were being considered by the Minister.

10.12 The revised guidelines indicated that entitlement to an invalid pension should only arise from a medical condition which in itself was significantly affecting a person's capacity for work. It was not sufficient, in the Department's view, that the person's medical condition be just a factor in deciding eligibility for an invalid pension. The medical condition must be of such significance that the incapacity for work could be said to arise from it. This guarded against the possibility of a person who was unlikely to obtain work because of socio-economic factors and who suffered a minor medical condition being considered for an invalid pension.

10.13 In addition to the CMO's assessment of the degree of a claimant's incapacity, the delegate was able to draw upon other advice such as the opinion of a social worker.

10.14 A number of initiatives have been taken to enhance the quality and consistency of decision-making including:

- establishing Invalid Pension Liaison Officers at each State and Territory Headquarters with responsibility for the oversight of processing procedures and decision making. They also contribute to the training of determining officers, Area Management and the Department of Health;
- implementation of a national statistical monitoring system which will provide a measure of consistency; and
- development of training packages for decision makers.

10.15 The Pensions Manual of Instructions contains broad guidelines on acceptance of institutions for group payment. Applications for payment of individual pensions to an institution are carefully considered. The pension remains the property of the pensioner and must be used for his or her benefit and maintenance and the Department is obliged to ensure that both the pensioner and the person receiving the pension are aware of each other's responsibilities. The arrangement can be terminated at any time and is reviewed immediately if there are allegations of misuse of the payment.

10.16 Satisfactory responses were made to the comments on administrative procedures. On the specific matters mentioned above, the Department advised that:

- Regional Office self-monitoring programs should identify arrears in pension entitlement reviews. New South Wales Staff were reminded of the necessity to finalise reviews quickly in an Operations Instruction of 1 June 1984; and
- investigations had revealed that the Pensions System would reject a new claim for invalid pension if the claimant had not turned 16 years of age.

10.17 In response to comments on the other administrative procedures mentioned in the Auditor-General's Report, the Department provided the following information:

- a revised change of address form (SA23A) was introduced in August 1984 to include questions which would assist in evaluating changes in circumstances which might affect the pension;

- new grants would be rejected by the Pensions System if the pension number was the same as that on which there was an outstanding overpayment. The provision of an integrated benefits database under STRATPLAN would assist in other cases;
- guidelines and training had been provided to improve the consistency of field officer reports;
- the error rate for the medical appeals master file had been reduced to 1.8 per cent compared to 24 per cent mentioned by the Auditor-General. Processing arrangements would be streamlined with the introduction of STRATPLAN; and
- delays in processing medical appeals had been reduced. There were 489 unfinalised appeals on hand at 30 November 1984 compared to 952 on 30 March of that year. The average time between Appeals and Representations Section and the Social Security Appeals Tribunal had been substantially reduced. Applicants in most cases continued to receive income maintenance payments during the waiting period.

Conclusions

10.18 The Committee notes that at 30 June 1984 there were approximately 240 000 invalid pensioners and during 1983-84 \$1 253 million was expended on invalid pensions. The magnitude of the payments is, of itself, sufficient to demand a high level of efficiency in their administration.

10.19 The Committee is concerned that once a pension is granted, there is a possibility that eligibility may not be reviewed for up to five years. The Committee believes that this may be insufficiently frequent in certain cases, especially given the apparently increased weighting recently given to non-medical factors.

10.20 The Committee accepts the Department's explanation for the discrepancy between the percentage of applications approved by determining officers and that recommended by CMOs. It requests the Department to provide statistics for the years ended 30 June 1985 and 30 June 1986 to ascertain whether the revised guidelines and improved training procedures have assisted in closing the gap.

RECOVERY OF OVERPAYMENTS

10.21 An audit of the South Australian and State Headquarters and three selected regional offices showed that:

- there was a general absence of control over overpayments up to the point of their registration;

- no action was taken to follow-up omissions in sequenced debit control indicators;
- there was no review of reports showing overpayment cases where there had been no automatic withholdings of pensions or benefits. Related reports of cases where no action had been taken for three months were not always reviewed; and
- there were delays in finalising overpayments and processing submissions of waiver.

Departmental Response and Committee's Conclusions

10.22 This issue has been raised by the Auditor-General in a number of recent reports. The Committee coordinated its comments on the matter in Chapter 9 of its 232nd Report.¹ The submission provided by the Department on the matters discussed above was considered in preparing the Committee's recommendations on 'Recovery of Overpayments' published in that Report.

DEPARTMENTAL PROTECTIVE SECURITY

10.23 An audit of Central Office protective security arrangements was designed to review the effectiveness of procedures and practices and of expenditure on associated equipment and services. It revealed an unsatisfactory standard of protective security.

10.24 There was insufficient organisational emphasis on security. Responsibility for security had not been allocated to a senior officer and senior management was not sufficiently involved in security matters. A Protective Security Policy Committee had not been formed.

10.25 Security procedures were inadequate. Written procedures were not issued at Central, State or Regional Offices, there was no formalised recording of security breaches, recommendations from a 1978 security review had not been implemented and there were inadequate staff clearance procedures.

10.26 Unsatisfactory administrative practices included weaknesses in the control over storage of classified material and the failure to clear contract cleaners.

Departmental Response

10.27 A Protective Security Committee was established in 1984 comprising senior Second Division officers. Oversight of national security arrangements and line responsibility for the formation of security policy was performed by the Director (Facilities Planning). Routine tasks had been removed from the daily schedule of the Security Officer enabling him to develop techniques appropriate to the needs of the Department's Central Office.

¹ Joint Committee of Public Accounts, Report 232, Report of the Auditor-General - May 1983, AGPS, Canberra, 1985, pp. 37-38.

10.28 The Department stated that appropriate procedures were being practised for the handling, classification and storage of confidential material and for the security of ADP systems at the time of the audit. In May 1984, work had commenced on a comprehensive security manual for application to Central, State and Regional Offices. The recommendations of a major Records Management Review, commissioned in 1983, would be incorporated into the security manual when finalised.

10.29 Interim procedures had been established for recording security breaches. The 1978 review of security arrangements had lapsed. Due to changes in circumstances and technology, the Department had decided to seek a further review by ASIO.

10.30 Negotiations were being conducted with staff associations on issues relating to personnel security checking.

10.31 Tighter controls had been instituted over the security of containers. There had been no need to obtain clearances for cleaning staff as all sensitive material was locked away at the end of each day.

Conclusions

10.32 The Committee is concerned that this Department has only recently made improvements in the organisational control of security matters and that it has been slow in preparing an appropriate manual. The formation of the Protective Security Committee should ensure a better coordinated and more effective security effort.

10.33 The Committee expects the Department to continue with the progress being made in improving security standards and wishes to be advised of the outcome of the negotiations with the staff associations on personnel security checking and of the results of the proposed review by ASIO.

10.34 The Committee is particularly concerned that appropriate arrangements are in hand to protect the confidentiality of information held within the Department of Social Security with the implementation of STRATPLAN.

CHAPTER 11

DEPARTMENT OF TERRITORIES AND LOCAL GOVERNMENT

FINANCIAL STATEMENTS OUTSTANDING

11.1 In June 1984, despite continued representations from the Auditor-General, a number of financial statements for which the Department was responsible had not been supplied for audit report. Some of these dated back to 1980-81.

11.2 A matter of particular concern to the Auditor-General was that the value of information contained in financial statements is closely related to the timeliness of publication. Discussions had previously been held with Departmental officers on the establishment of Departmental quality control procedures and the preparation of a timetable for the submission of outstanding statements to the Auditor-General.

11.3 In March 1984, the Department advised the Auditor-General that additional resources were being allocated to the preparation of outstanding financial statements. The statements outstanding at 30 June 1984 were:

Statements which had been reported on during 1983-84

11. ACT Rental Housing 1980-81
11. City of Canberra Municipal Accounts . . 1980-81

Statements currently under review by Audit

11. Canberra Public Cemeteries Trust 1980-81
(Reported upon 11 July 1984)

Statements for 1982-83 and previous years yet to be submitted in final form

11. ACT Forestry Trust Account (1981-82
(1982-83)
11. ACT Rental Housing (1981-82
(1982-83)
11. ACT Transport Trust Account (1980-81
(1981-82
(1982-83)
11. Canberra Public Cemeteries Trust (1981-82
(1982-83)
11. City of Canberra Municipal Accounts . . (1981-82
(1982-83)

Some of the 1981-82 statements listed above had been received for audit but had to be returned for necessary amendments.

11.4 The Auditor-General noted the following reasons for the delays:

- the standard of accounts and records maintained was inadequate;
- there was an apparent lack of commitment of Departmental resources to the accounting functions leading to:
 - unsatisfactory Departmental quality control;
 - deficiencies in schedules supporting financial statements and internal work papers;
 - delays in answering the Auditor-General's queries; and
 - the frequent need to return financial statements for correction;
- there was excessive dependence on the availability of particular staff;
- the belated approval of the Minister for Finance to amended forms; and
- an apparent lack of liaison between the Department's Finance and Supply Branch and client bodies.

Departmental Response

11.5 In November 1984, the Department advised the Committee that nine of the eleven statements sought by the Auditor-General had been submitted in final form and the other two in draft form.

11.6 Action had been taken to improve the quality of accounting records, to monitor performance against finalisation targets agreed with the Australian Audit Office and to provide Internal Audit review of statements before submission to the Auditor-General.

11.7 The delays in submission of accounts had occurred for a variety of reasons and, therefore, a number of different remedies had been applied including:

- ACT Forestry Trust Account
 - implementation of consultancy recommendations on improved accounting systems and closer financial administration;

- ACT Rental Housing
 - examination of data collection methods;
- ACT Transport Trust Account
 - consideration of consultancy report on computer system requirements; and
 - a further consultancy had been commissioned dealing with the chart of accounts, 1983-84 financial statements and matters raised by the Auditor-General;
- Canberra Public Cemeteries Trust
 - introduction of timely reporting procedures;
- City of Canberra Municipal Accounts
 - a revised Rates Branch computer system designed to facilitate the collection and processing of information was scheduled for completion in June 1985; and
 - a progressive review of other manual data systems would concentrate on more timely collection of data.

11.8 On the question of tabling financial statements in the House of Assembly, the Department was of the opinion that such a decision should await the determination of financial arrangements for a future ACT government.

11.9 The Committee sought further information from the Department by means of a public hearing on 15 May 1985 during which the Department provided a copy of the timetable agreed with the Audit Office for all accounts prior to those for 1983-84. This showed that all those would be finalised by mid 1985. It also outlined the progress of 1983-84 financial statements, target dates for which are shown below:

ACCOUNT	TARGET DATE- ADVISED MAY 1985	REVISED TARGET-AUGUST 1985
ACT Forestry Trust	September 1985	September 1985
ACT Rental Housing	June 1985	September 1985
ACT Transport Trust	June 1985	September 1985
Canberra Public Cemeteries Trust	May 1985	(June 1985)
City of Canberra Municipal Accounts	August 1985	September 1985

11.10 The Department advised the Committee that it believed that the best way to reduce delays in producing financial statements was to improve the standard of accounts and records maintained. The Department was planning to introduce a comprehensive computer based financial management system to address the underlying problem.

11.11 Line areas had been given the responsibility for preparation of statements following revised guidelines on procedures. The Internal Audit Section would be responsible for quality control of the financial statements. While this would delay initial presentation to the Auditor-General, it was expected to reduce the number of referrals back to the Department.

11.12 The Department's current three year Internal Audit Program contained detailed reviews of the reporting, recording and information systems needed to produce the major financial statements. A review of the Cemeteries Trust had been completed and the next proposed was of the Forestry Trust. In addition, Internal Audit had been made the sole contact point with the Audit Office and this was expected to improve and expedite communications.

11.13 To avoid repetition of a situation where there was excessive reliance on particular individuals, the Internal Audit Section was preparing detailed guidelines to be promulgated in conjunction with discussions with appropriate staff relating to the preparation of the 1984-85 statements.

11.14 The Department's Finance and Supply Branch would, in future, provide advice on policy matters only. Fortnightly reports on outstanding audit queries and financial statements were provided to the Department's management committee which included the Secretary, Deputy Secretary and all Divisional Heads.

11.15 The Department stated that the delays in producing accounts had originally been attributed to staff shortages. It was only recently that the fundamental problems in the accounting systems had been recognised as a major factor.¹

11.16 Preparation of financial statements had not been accorded high priority in the past; it was only one of many duties carried out by the Finance and Supply Branch, which had provided accounting expertise to assist branches in preparing the basic information. The changes, noted above, in the responsibility for preparation and checking of accounts would alleviate this source of delay.

¹ Joint Committee of Public Accounts, Minutes of Evidence, Reports of the Auditor-General - 1983-84 and September 1984, p 65.

11.17 The quality of statements would be improved with the introduction of the computerised system, but in the meantime a number of changes had been made to improve the information available for accounts preparation:

• ACT Rental Housing

- details of applications received, interviews, commitments, interest reviews were now recorded;
- cash flow statements indicated the current status of each account; and
- details of the public housing stock, handovers, waiting lists, allocations of priority housing, expenditure on mortgage and rent relief schemes were recorded and integrated within other branch reporting mechanisms.

11. ACT Transport Trust Account

- the consultancy conducted by a private company in 1983 and 1984 found that the systems needed improvement and that a computer based system should be implemented because the manual system was very slow in, eg, providing balances; and
- a number of the recommendations had been incorporated into the manual system, accounts payable was now being continuously recorded within the ledger system improving information available at the end of the financial year.

City of Canberra Municipal Accounts

11.18 This account provided many problems in its preparation because of the unique nature of the Australian Capital Territory. The Department provided municipal, territorial and national services. A person or an item of equipment might be engaged at various times in any or all of these functions. This required a division of costs to provide a system of notional accounts.

11.19 The system was manually based with dockets and cards coming in from many groups to central operational areas. These were again manually aggregated and referred to the Resource Management Branch. Verification of costings was difficult.

11.20 In 1968, when the Government decided to produce municipal accounts, decisions were made on which expenditures would be regarded as municipal. It was necessary to match the normal municipal functions and the ratepayers' responsibility to pay that element. According to information supplied by the Department, in 1983-84 revenue from rates was \$51.4 million and

represented 37 per cent of the Department's expenditure in the Australian Capital Territory (including Jervis Bay). The estimate for 1984-85 was 33 per cent.

11.21 Changes to the Rates Branch computer system which were needed to provide information for the municipal accounts had been largely implemented. These included the rapid production of end of year balances, faster reconciliations and improved control accounts. Improved management reporting should be available by the end of 1985.

11.22 Work had been done on improvements to the Canberra Public Cemeteries Trust accounts; as this was a small account it was considered a good starting point. This necessitated, though, the cost of the Department's Parks and Gardens staff and equipment being included for the work done by them for the Trust. These components required procedures for obtaining, reconciling and checking basic information. The Department was of the view that satisfactory procedures had been developed.

Conclusions

11.23 The Committee is extremely concerned at the poor performance of the Department of Territories and Local Government in the preparation of the accounts for which it is responsible.

11.24 Although a timetable for the Department to submit outstanding financial statements to Audit was agreed, the Committee notes that there has already been some slippage since its adoption although overall progress has been made in the preparation of more timely financial statements.

11.25 The Committee stresses the importance of good municipal accounts. The Committee notes the improvements made in the provision of management information but is concerned that there still seem to be difficulties in separating data relating to the Department's municipal, territorial and national functions. The decision to produce municipal accounts was made seventeen years ago and it is the Committee's opinion that progress in that time has been unsatisfactory.

11.26 The Committee expects the Department to improve the timeliness and accuracy of its financial statements.

INDUSTRIAL WAGES PAYROLL SYSTEM

11.27 An audit was carried out in 1983 to assess whether internal controls relating to the system were adequate and effective. Wages and allowances totalling \$30 million were paid during the year to about 1 700 employees of the ACT Transport, Forestry, City Parks Administration and other sections of the Department.

The Auditor-General reported that:

- effective action had not been taken to overcome ADP system deficiencies previously reported (some as early as September 1980) by operational officers, Internal Audit and users;
- payroll procedures were inadequate in the areas of employee identification and transport and storage of pay envelopes;
- leave records were unreliable leading to incorrect accruals;
- payments of leave bonus could be made without trace if particular procedures were used. Records and checks were inadequate;
- there was no evidence that some prescribed reconciliations and other checks of the number of employees recorded in the ADP system were being performed;
- there were control weaknesses in the procedures for recording pay details on the Employee History File;
- overpayments had occurred as a result of inadequate controls or breakdowns of controls for compensation and other payments and misinterpretation of Public Service Board determinations; and
- overtime approval for public transit employees was not necessarily granted by the delegated officer.

11.28 The Auditor-General also queried the need for two sets of personnel files.

Departmental Response

11.29 The Department provided the Committee with very detailed responses by written submissions² and by evidence given at a public hearing.³

11.30 The Department acknowledged that there were deficiencies in ADP system development. Although it had improved high priority sections of the operation, it had decided to await the Government's decision on the arrangements for ACT self-government before undertaking a comprehensive review of the payroll system. The industrial payroll computer system was bought as a package and modification to large components would be resource intensive.

² Appendix B, Department of Territories and Local Government.

³ Minutes of Evidence, op cit.

11.31 Special reviews were being undertaken to identify priority system deficiencies and to implement enhancements. In October 1984, procedures associated with the introduction of the 38 hour week were implemented. In November 1984, the Establishments Branch commenced a review on procedures and documentation to ensure their efficiency and effectiveness and on organisational structure. Wages payment and costing functions have been separated.

11.32 That review had been completed. Its findings had been distributed to appropriate staff associations for comment before finalising. Its major recommendations included:

- further development of the COMPANY system to make it more comprehensive and flexible for on-line enquiries on all aspects of conditions of service;
- location of payroll teams in major depots to eliminate duplication of effort, and improve both the enquiry service and industrial relations;
- consideration of the feasibility of a multi-employee timesheet;
- negotiations with the unions for a more realistic cut-off date;
- simplification of procedures and rationalisation of the number of reports;
- the working of overtime to reconcile the leave card and COMPANY balances; and
- changes to the methods of payment and delegations, improvements to the working environment, reorganisation of the Wages Sub-Section, development of procedure manuals and changes in the classification and roles of staff.

11.33 The Department considered the payroll system was an acceptable, accountable system which would be sufficient until decisions were made on self-government.

11.34 On specific matters raised by the Auditor-General the Department provided the following details of improvements to the system:

- payroll procedures would be documented in written instructions. Staff had been instructed on correct procedures for handling and safe storage of moneys. Public Transit employees were required to show their identification cards prior to receiving their pay envelopes while other employees were paid in the presence of supervising officers. An armoured vehicle service was used for the transportation of pays;

• leave recording and processing procedures had been redesigned with the manual and computer systems being reconciled to enable complete transition to the computer system;

• amended procedures had been implemented for the payment of leave bonus including checks of calculations and close monitoring of the process. New procedures were being considered as part of the review of the leave recording system;

• fortnightly and quarterly reconciliations of computer produced payroll to personnel records were now being performed. The emphasis was on prompt reconciliations; reconciliation advices were being sent to line areas to enable the matching of the list of employees paid with those working;

• the Employee History file contained complete data for employee payments for the past five years. This limit was set by availability of computer resources. Prior data was retained in hard copy form;

• the Department recognised the need to improve measures to reduce overpayments. Experienced staff had been reallocated within the Wages and Compensation Cells for this purpose. Changes had been made to the computer system to improve controls. The payroll procedures were such that each person was paid standard pay automatically and only exceptions were input. This replaced a system requiring 100 per cent input for each employee each payday. This was a far less time consuming method but depended for its accuracy on prompt reconciliations. When line areas received the fortnightly pay printout, that provided a double check of whether they had notified the administration of persons ceasing employment. The Department believed that the checks and reconciliations performed in the wages system were at least as strong as those in the Department of Finance Pay System. Branches now provided written certification that fortnightly reconciliations had been performed. In June 1985, there were eighteen overpayments outstanding, totalling \$17 056.62 out of an industrial payroll of approximately 1 700 employees. The corresponding data for salaried staff paid under the Department of Finance Pay System were forty four overpayments totalling \$38 028.09 out of a staff of 1 900. Recovery action was under way in all cases although repayment agreements had been negotiated with only a small proportion of wages cases (39 per cent) compared to salaries cases (86 per cent);

• delegations to approve overtime for Public Transit employees had been at an inappropriately high level. Revised delegations, to officers at lower levels in operational areas, were to be made; and

the Department did not maintain two sets of personnel files as such. There was only one personnel file which was held in the central personnel area. The Public Transit Branch kept additional information on its employees such as records of training and copies of documents relating to allowances, but the Personnel file was the authoritative one. Different parts of the file, relating to personnel and compensation matters which were the responsibility of different areas within the Department, were filed separately.

11.35 The Department had altered the basic structure of the payroll processing philosophy. The wages processing area, previously located in the Finance area, had been moved into Personnel. Wages were seen as primarily a staff management matter. This would allow the development of standard personnel practices and procedures to provide a stronger supervisory structure and to provide for improved staff flexibility and mobility.

11.36 The new philosophy on payments meant that once an employee was on the system, he could be guaranteed basic payment each payday. In the previous system there were many errors and discrepancies arising from the need to process individual pay sheets each fortnight for each employee. The Department considered it proper that industrial employees be treated under similar arrangements to salaried staff.

Conclusions

11.37 The Committee is pleased to note the improvements being made to the Industrial Wages Payroll System. There are areas, though, where controls appear to need strengthening. This is particularly so in the case of the fortnightly reconciliation process. While the Committee agrees that it is an improvement to create a system where employees can be guaranteed to receive their pay each fortnight, this imposes a responsibility to put into place tight controls to ensure that unwarranted overpayments are minimised.

11.38 The Committee does not accept the Department's contention that possible decisions about self-government are a good reason to delay introduction of a more efficient and reliable Industrial Wages Payroll System.

11.39 Whatever arrangements are in place for the administration of the Australian Capital Territory, they must occur in the context of efficient and accurate administrative systems which can provide prompt and precise information on all matters affecting revenues and expenditures involved in the Territory's administration.

CHAPTER 12

DEPARTMENT OF VETERANS' AFFAIRS

ADP SYSTEM DEVELOPMENT

12.1 An audit was conducted of developments to date in the Department's on-line Repatriation Pension Processing System. It revealed a number of significant weaknesses, particularly in relation to planning and the control and monitoring of progress in the development of the system.

12.2 The main conclusion from the audit was that a risk analysis of the All Pensions and Allowances System (APAA) should be prepared and presented to senior Departmental management. This would provide a sound basis for a decision to be made by management either to provide the additional resources necessary to complete the project on schedule, or to divert the Department's limited resources to other tasks.

12.3 It had been estimated that implementation of the new system would require at least thirty manyears; less than six manyears had been expended to the end of 1983. Documentation of management approved plans to compensate for the shortfall in staff had not been produced. It was estimated that at least twenty programmers would be required during the construction phase to achieve the documented completion date of March 1985.

12.4 Although there was a Central Office body called the ADP Steering Committee, it saw priority setting as its major task - not the tasks envisaged in the 'Guidelines on Internal Controls for Computer Based Systems' produced by the Public Service Board, which usually form the basis of a Steering Committee's program.

12.5 Other matters raised by the Auditor-General were that :

- only limited external monitoring functions were being performed;
- users were not involved in monitoring progress and controlling or co-ordinating systems development;
- documentation of APAA development procedures was inadequate;
- the cost-benefit analysis for the new system was incomplete and did not follow PSB guidelines; and
- progress was being seriously impeded by lack of resources and expertise at appropriate levels. Available cost/benefit figures indicated that the Department could be saving more than \$1 million each year after the new system is implemented.

Departmental Response

12.6 The Department accepted the Auditor-General's advice on all aspects raised and took positive remedial action where necessary. A private consultancy firm had conducted a study of the system and made recommendations covering both the management and technical aspects of the project. That study endorsed the priority and systems strategy being followed by the Department but recommended :

- the development of a new and more suitable data processing environment within this and subsequent systems; and
- strengthening of senior management commitment and controls.

12.7 Additional mandatory tasks, a high staff loss rate and delays in approval for and filling of additional positions had severely limited resources committed to the project. No special funding for APAA manpower and software resources could be provided in the 1984-85 Budget; funding was confined to the overall allocation for general systems development.

12.8 Staff were required for systems development for an assets test and they were drawn from the APAA team. Following completion of that task, the APAA project team had increased from four to ten persons in December 1984 and stood at twenty-eight persons in September 1985.

12.9 The project would be implemented in stages. The first module, the Client Registration System, was implemented in July 1985. In March 1985, a decision was made to develop an Interim Disability Pension System. That module was timed for implementation in November 1985.

12.10 The following steps have been taken in relation to other matters raised by the Auditor-General :

- formation of Project Steering Committees each of which is chaired by a senior officer from the user area;
- introduction of external monitoring software packages; and
- maintenance of minutes for Priorities Review meetings.

Conclusions

12.11 The Committee was very concerned at the low level of priority being accorded a project with the potential to produce substantial savings.

12.12 The matter has been referred to the Committee's Sectional Committee on ADP matters for further examination.

PENSION OVERPAYMENTS AND OTHER DEBTORS

12.13 Overpayments and other debtors amounted to \$6.55 million in 1983-84. Of this around half related to pension overpayments. An audit was carried out of the Central Office of the Department and Branch Offices in New South Wales, Victoria and South Australia to assess the reliability and effectiveness of Departmental procedures for the control and recovery of overpayments.

12.14 The role of Central Office in monitoring standards of debtor control in the Branch Offices was considered to be too limited. Problems were identified in Branch accounting and information systems which lead to delays in processing overpayments.

Departmental Response

12.15 The Department submitted that:

- the majority of the problems identified by the Auditor-General had been resolved;
- constraints on staff resources had prevented the establishment of an overpayments control group in Central Office; and
- there was a need to examine the cost effectiveness of detailed monitoring and information services.

Conclusions

12.16 The Department's response in relation to the matters raised in this Report will be taken into account in the Committee's Report on the Auditor-General's April 1985 Report where the issue of Pension Overpayments and Other Debtors was raised again.

PROCUREMENT AND SUPPLY

12.17 Reviews were undertaken at Central Office and in New South Wales, Victoria and Western Australia on procurement of stores and equipment for the Department's medical institutions by purchase, hire, lease or loan. Results of the review in Western Australia were generally satisfactory. The following matters were raised in other areas:

12. Central Office

- an annual forward program was needed for the funding of specialised medical equipment;
- a misinterpretation of sub-section 11 (2) of the Repatriation Act 1920 had caused administrative difficulties for the Procurement and Contracts Board (PCB) in application of financial delegations; and

- a need to review the central procurement program was identified.
- New South Wales
 - there was inadequate control over tenders and lack of compliance with the Departmental Manual of Stores Accounting in some cases;
 - contracts were not always approved prior to scheduled commencement;
 - at one location stockholdings amounted to up to two years equivalent use despite Manual of Stores Accounting specification of a maximum of three months use; and
 - there was poor recording of the disposal of pharmaceutical supplies.
- Victoria
 - there were excess stock holdings of many items with extreme cases of up to twenty years' supply.

12.18 Reliance for stock control tended to be placed on ad hoc reviews initiated by external bodies such as the Department of Administrative Services. The Central Office had no established procedures for identification of obsolete, slow-moving or excess stocks held in bulk store.

Departmental Response

12.19 The Department advised the Auditor-General of a number of measures being taken to reduce the difficulties disclosed by the audit.

Central Office

12.20 Considerable effort had been applied in developing an up-to-date and comprehensive three year forward program of needs. Increased financial delegations were being sought and the central procurement program was under review.

New South Wales and Victoria

12.21 While the scope for disposal action was limited, a further complete review of holdings was planned. A suggestion by the Auditor-General, that an annual report be introduced as a means of achieving regular stock reviews, would be implemented.

Conclusions

12.22 The Committee was concerned that there were still many instances of poor stores management in the Department but noted the improvements being instituted.

12.23 The Committee has noted the Auditor-General's comments on the matter and will be looking for improvements in this area in future audits.

APPENDICES

A: Items examined from the Reports of the Auditor-General for 1983-84 and September 1984 for 1983-84 and September 1984

B: Submissions from Departments

C: Date of hearings, list of witnesses and observers

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ITEMS EXAMINED FROM THE REPORTS OF THE AUDITOR-GENERAL FOR 1983-84 AND SEPTEMBER 1984

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1. Administrative Services	1.1	Property Directorate
2. Defence/Defence Support	5.1 5.5	Navy Weapons Laser Airborne Depth Sounders
3. Defence Support	6.1 6.2	Munitions Production Trust Account Internal Audit
4. Education and Youth Affairs	7.1	Central Administration of Student Assistance Programs
5. Finance	9.1	Commonwealth Superannuation Scheme
6. Health	11.2	Internal Audit
7. Housing and Construction	12.2	General Works Division - ACT
8. Industry and Commerce	14.1 14.2	Diesel Fuel Rebate Scheme Coal Excise Duty
9. Resources and Energy	17.4	Internal Audit
10. Social Security	19.1 19.3 19.6	Invalid Pensions Recovery of Overpayments Departmental Protective Security
11. Territories and Local Government	22.1 22.4	Financial Statements Outstanding Industrial Wages Payroll System
12. Veterans' Affairs	25.1 25.4 25.8	ADP System Development Pension Overpayments and Other Debtors Procurement and Supply

APPENDIX B

SUBMISSIONS FROM DEPARTMENTS

Department	Date of Submission	Page
• Department of Administrative Services - Property Directorate	5 December 1984	63
• Department of Defence - Navy Weapons - Laser Airborne Depth Sounders	15 April 1985 15 April 1985	68 74
• Department of Defence Support - Laser Airborne Depth Sounders - Munitions Production Trust Account - Internal Audit	11 December 1984 12 December 1984 5 December 1984	78 83 88
• Department of Education and Youth Affairs - Central Administration of Student Assistance Programs	(a) 29 November 1984 (b) 6 June 1985	108 116
• Department of Health - Internal Audit	30 November 1984	121
• Department of Housing and Construction - General Works Division ACT	11 December 1984	127
• Department of Industry and Commerce - Diesel Fuel Rebate Scheme - Coal Excise Duty	30 November 1984 29 November 1984	143 163
• Department of Resources and Energy - Internal Audit	30 November 1984	170
• Department of Social Security - Invalid Pensions	(a) 30 November 1984 (b) 26 June 1985	182 187
- Pension Overpayments and Other Debtors - Departmental Protective Security	30 November 1984 30 November 1984	190 194
• Department of Territories and Local Government - Financial Statements Outstanding - Industrial Wages Payroll System	30 November 1984 30 November 1984	199 202
• Department of Veterans' Affairs - ADP Systems Development - Pension Overpayments and Other Debtors	10 December 1984 10 December 1984	207 209

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report, September 1984

Submission by the Department of Administrative Services (DAS)

1. This submission relates to the Auditor-General's comments on the Property Directorate's property information management system.

Background

2. The Directorate first used ADP to record the Commonwealth property portfolio in 1973 with the implementation of a simple batch system running on the Burroughs commercial bureau in Canberra. This system was instigated to enable information to be supplied to the then Government for use in land use planning and policy formulation, but the drawbacks of a card input system in an environment where information was constantly changing soon became apparent and an online system was introduced in 1978. Both of these systems related only to land holdings.

3. A separate system to provide information in respect of office accommodation was introduced in 1978 and enhanced in 1980.

4. A comprehensive study of the feasibility of the wider application of ADP in the Directorate was carried out in 1977/78 with the final report being issued in October 1978.

5. The Feasibility Study, approved by both Departmental and Directorate management, contained an implementation plan which envisaged a phased development, commencing in 1981/82 with the introduction of a register of office accommodation which would enable close monitoring of the usage of floor space, followed in 1981/82-82/83 by support of financial programs and project management, in 1982/83 by a register of land to enable monitoring of land usage, in 1983/84 by a housing register, in 1983/84-84/85 by a system for monitoring building costs and in 1984/85 by a system to monitor revenue.

6. Because the Directorate was able to increase the effectiveness of the then existing systems (Burroughs), a considerable number of the targets set in the Feasibility Study, were able to be achieved well ahead of schedule, eg. Phase One, establishment of land and accommodation registers, was programmed for implementation in 1981/82 but these registers were operational in 1978/79.

7. In 1980, the Department acquired its own computer because the Burroughs facility, then operated by the Department of the Capital Territory, was not capable of meeting its future needs. A plan to transfer all Departmental systems to the new facility was prepared. The plan was based on overall Departmental priorities, staffing resources and the timing for acquisition of hardware and software.

8. In the process of transferring the Land and Accommodation systems to the new facility it was decided to incorporate them in a Property Information Management System (PIMS). This system was developed around a comprehensive inventory but lacked suitable reporting systems and had an interim input system. Additionally, data errors occurred in the transfer.

9. Upgrading of PIMS to remedy these inadequacies and to meet developing user needs is being carried out progressively. The aim is to consolidate the inventory function to

- a. provide a comprehensive reporting facility which is integrated with day to day procedures and source documents used in those procedures
- b. satisfy the Finance Directions requiring the Department to maintain certain assets registers, and
- c. serve as a basis for additional system components to be developed for particular purposes of the Property Directorate.

Present Position

10. As a result of changes in administrative arrangements in March 1983, the Department computer facility was transferred to the Department of the Special Minister of State. A Joint Management Review (JMR) of the Administration and Management of DAS was carried out between August and November in 1983. Following an interim recommendation of the JMR the Department conducted a review of its ADP strategy. The findings of this review form the basis of the present ADP strategy.

11. The strategic planning process is now a continuous one with formal targets and identified priorities and resource requirements. The cycle commences with the Department's Executive Committee defining directions and key issues to be addressed. Each Division drafts operational plans and, from these a draft departmental strategy is developed by the Systems Branch. Users and staff associations are consulted in the development of the strategy which is then reviewed by the Executive Committee, approved by the Secretary and endorsed by the Minister.

12. Co-ordination and control of the ADP strategy operates at three levels, namely,

Executive Committee (as explained above)

Divisional Steering Committees

Divisional Project Control Committees

These arrangements provide the following benefits

- a. ADP issues and priorities are considered in the context of other key issues facing the Department
- b. information flow between the various levels of committees is improved, and
- c. the level of research support for the committees is upgraded

13. The Directorate's ADP Steering Committee oversees its ADP development. The Committee consists of user representatives and officers from the Systems Branch and Internal Audit. It decides programs and priorities and monitors progress. It has adopted the following goal statement as a basis for developing future policies and objectives.

- a. development of an information system which:
 - i. provides comprehensive, accurate and up to date descriptions of the Commonwealth's property holdings
 - ii. facilitates reporting, analysis, planning and policy development of property matters
- b. Development of systems to support operations, planning and review of property functions such as rent, fitout, repairs and maintenance, land planning, property usage, acquisitions and disposals
- c. provision of management systems for asset control, financial programming, performance measurement and training
- d. To ensure that system development takes place within a totally integrated approach to achievement of the Directorate's goals, giving consideration to the requirements of all users, operational procedures, training and other factors in the successful operation of the organisation.

14. All work on the system is being carried out in close consultation with system users, Internal Audit and management, and within very strict guidelines as to simplicity of use, internal controls and functionality. Initial improvements have been progressively implemented since July 1984, with a high degree of user acceptance. Directorate staff are ordering and using in excess of one hundred and fifty printed reports each week and listings of properties are being requested by various departments.

15. The present position is that the aims described in Paragraph 9 above are being met as follows

- a. the comprehensive reporting facility will be completed by the end of 1984
- b. the development of computerised assets registers is planned to be completed by mid 1985
- c. as currently designed and implemented, PIMS will serve as a basis for development of additional system components

Comments on the Auditor-General's Findings

16. The Auditor-General's major observation is that progress in establishing an adequate property information system has been too slow. This observation needs to be considered in the context of

- a. the effect on development work of the transfer of systems from the Burroughs facility to the Department's own computer
- b. the very substantial demands on the Department's resources for development of systems for all Divisions
- c. the development of PIMS, despite its limitations, has already provided the Directorate with significant property management information

17. Mention was also made of the lack of Internal Audit involvement during development of the systems. This was due to the fact that suitable audit resources were not available as the recruitment of the first ADP auditor was not finalised until late in 1982.

18. The Department is of the view that a post implementation review is generally considered to be the last phase of a system development cycle, and that Internal Audit should participate in all critical phases of development of a system (including post implementation review).

19. Deferment of a review of PIMS was sought by the then Director of Property in March 1983, because the need for a review of implementation strategies and production objectives had already been identified and was being addressed.

20. In respect of further developments, the Director Internal Audit is now a member of the Directorate ADP Steering Committee and formal arrangements have been made for review of internal control aspects of design before specifications are finalised.

Future Developments

21. The initial objective in respect of PIMS, as explained above, is to consolidate the inventory aspect in such a way that it becomes an integral part of the day to day operations of the Directorate. This involves inclusion of the necessary internal controls, review of procedures for maintenance of the information being retained in the system and a comprehensive easy to use reporting facility which is related to the needs of Directorate staff and management. The first batch of improvements has been implemented and further input and reporting modules will be introduced as quickly as possible, with completion in 1985. This inventory will serve as a basis for other applications, both within and without the Department.

22. In keeping with the Department's review of its ADP strategy, the Directorate has engaged a firm of consultants to develop an interim system to support its financial programming needs, pending the development of comprehensive long term systems for this purpose. This system will be operational in December 1984.

23. The Directorate recognises the desirability of further application of ADP within its activities, generally in accordance with the thrust of the Feasibility Study and comments made by the Efficiency Audit, but also recognises that successful application of ADP to any area depends upon an integration of statutory requirements, procedures for day to day activities, report requirements, source documents for data collection, procedures for data collection and training.

24. Initial investigations into introduction of ADP into functions outside of the inventory function have highlighted the need to review the way in which those functions are performed. The Directorate's strategy therefore is for each application to be planned, specified and developed by a project team which will include an officer from the user area and which will consider both the procedures for execution of the subject function and the ADP aspects.

25. Future plans for the Directorate's ADP development include systems for financial programming, review of accommodation and land usage, property management, accommodation and land planning and operations management.

JOINT COMMITTEE OF PUBLIC ACCOUNTS
Inquiry into Auditor-General's Report, September 1984
Submission by the Department of Defence

NAVY WEAPONS
Paragraph 5.1

Introduction

1. The Report of the Auditor-General concerning Navy Weapons includes nine observations or recommendations. Each of these matters was discussed at length between officials of the Department of Defence and the Australian Audit Office.

Navy Weapons Policy and Objectives

2. The Policy and Objectives for Navy Weapons and Navy Weapons Training are laid down in Defence Instructions (Navy) and other Defence Publications and documents. The main relevant documents are Regulations and Instructions for the Royal Australian Navy (ABR 5016), the annual CDFPS Joint Training Directive, and resulting from that directive, the Operational Training Directive for the Royal Australian Navy, and Defence Instructions (Navy) OPS 49-2 dated 31 May 1984 (Gun, Missile and Small Arms Ammunition Allowances). Policies and Objectives contained in these documents and pertinent to Navy Weapons are as follows:

- (a) The primary objectives of ADF training are to train the Force-in-Being to be capable of conducting joint and combined operations in accordance with its roles and tasks and to maintain and further develop the operational capabilities of the Force-in-Being as a basis for expansion.
- (b) The maintenance of increased RAAF participation in maritime exercises to replace the capabilities previously provided by Naval Fixed Wing Aviation is important. Particular emphasis should be given to RAAF participation in maritime air defence, strike surveillance and ASW direct support.
- (c) The RAN is to progress individual and collective Fleet operator and weapon training to improve standards.
- (d) The RAN is to conduct operational training to expose equipment capabilities, limitations and shortcomings.

- 2 -

(e) Emphasis is to be placed on the timely analysis of all exercises, including minor tactical exercises conducted during work-up or weapon training periods, to ensure full value is obtained. The conduct and analysis of weapons firings is afforded a high priority. The use of target resources can be maximised by extending the time allowed for firings and by planning multi-ship exercises.

3. Navy's primary objectives in respect to Navy Weapons and Weapons Training are to ensure that ships are provided with adequate operator training, ammunition allowances, target facilities, logistic support and maintenance facilities to be able to maintain operational standards of efficiency.

Audit Conclusions

4. The Audit concern that the collective shortcomings in target facilities impact upon the effectiveness of Navy to fully test weapons systems is noted. Departmental action is taken, within the context of overall budgetary considerations to ensure that sufficient targets are available to meet practice and tactical requirements.

Detailed Status Report

5. Detailed comments on the current status and planned progress of each of the main points made in the Audit are submitted.

Low Level Aerial Target

6. A Low Level Target System is required to assess the effectiveness of the Phalanx Close-in Weapon System and other systems against the Sea-Skimming Anti-Ship missile threat. A suitable alternative target towing system to replace the A4 Skyhawk aircraft and Rushton Low-Level Height Keeping Target (LLHKT) system has been initially indentified as a Learjet aircraft with a Marquardt MTR-101 reel towing the Rushton target.

7. The U.S. Federal Aviation Authority (FAA) certification of the MTR-101 for operation on the Learjet with the Rushton target was issued in the USA in December 1984. Orders have been placed to obtain the necessary documentation and data packages from Gates Aircraft Corporation and Marquardt for presentation to the Australian Department of Aviation (DOFA) seeking certification for operations in Australia. Present indications are that the certification can be completed by 28 February 1985.

8. In order to reduce the delivery lead-time, the Australian representative for Marquardt has placed an order for two MTR-101 reel systems for delivery in Australia by 30 June 1985. This order will be confirmed when the DOFA certification is issued. Following receipt of the two systems, final proving and profile development flights will be conducted. It is currently forecast that an interim, fully certified LLHK target capability will be available for service by November 1985 and the LLHK target facility will be fully operational by mid 1986.

Remote Control Surface Targets

9. The procurement of replacement Remote Control Equipment for the Hydrofield Remote Controlled Surface Targets (RCST) has been given high priority. A funded procurement demand will be available in April 1985, with an equipment order being placed in September 1985. It is forecast that the Hydrofield RCST will again be available for Fleet use by early 1986. A Sea-State limited Haines-Hunter RCST has remained available for Fleet use in the Jervis Bay Area throughout the period.

Mobile ASW Targets

10. The urgent need for mobile ASW targets is recognised. Plans to acquire a number of small expendable targets from overseas sources are being progressed along with investigation into the development of a basic mobile ASW target from indigenous sources. A small expendable ASW target was successfully trialled in late 1984. This target will alleviate problems pertaining to surface ship and helicopter carried lightweight ASW torpedo target facilities.

11. In recognition of budgetary constraints, rapid technology changes in ASW torpedoes and the high cost of advanced mobile ASW targets, Navy has implemented a programme to re-engineer a number of obsolete submarine torpedoes into a basic mobile ASW target configuration suitable for use with all RAN torpedoes. Test and evaluation of a prototype of this target is planned by late 1985.

12. An acceptable level of operational efficiency is being maintained in the short term by making use of less than ideal arrangements such as static targets, own ships and submarines ASW system effectiveness in a tactical scenario is limited because of the deficiencies reported.

Jindivik Target Aircraft

13. The availability of Jindivik target aircraft has improved considerably since the compilation of the Auditor-General's Report. Navy had seven target aircraft on site at Jervis Bay in December 1984. Three of these aircraft are fully serviceable with one for crew training flights and two for operational use. A further two aircraft are undergoing build-up and are forecast to be in full operational status by February 1985. The remaining two aircraft are held in reserve and will be built up to operational status as attrition occurs.

14. A further eight new Jindivik aircraft to be held as reserves at the Naval Stores Complex, Zetland, are in final production at the Government Aircraft Factory (GAF). Two aircraft are complete awaiting delivery, five aircraft are undergoing final inspections and one is awaiting re-painting. All are expected to be delivered to Zetland in early 1985.

Towed Target Devices for Jindivik Aircraft

15. The availability of Mk V Tonic Towed Target devices for Jindivik aircraft has improved considerably. There were three Mk V tow targets at the Jervis Bay Range Facility in December 1984. Orders have been placed for a further 15 new targets to be delivered progressively at three monthly intervals. The first delivery is due in January 1985.

Cine-Cameras for Recording and Gunnery Practices

16. Tenders have been received and evaluated for the supply of new Director Aim Cine-Cameras and supporting equipment. Approval for additional funding will be sought early in 1985 and a contract should be placed late 1985. The first units should enter service in mid 1987.

Supply Effectiveness Statistics

17. Improvements in the Supply Effectiveness formula were proposed for inclusion in the Univac Navsup system from its inception in December 1983, but were deferred due to higher priorities for programming resources. Initial program changes were not successful. A revised program change has been tested successfully and was implemented on 14 December 1984. This program uses monthly data and the first reports are due on 10 January 1985. This program is not considered the final development in Supply Effectiveness measurement, but further developments may not be possible outside the scope of the Supply System Redevelopment Project (SSRP). The Naval Supply Division intends to study this subject further in 1985.

Repairs and Maintenance - Garden Island Dockyard (GID)

18. Although no overall formal arrangement exists to define the rights and obligations of individual parties for work carried out on Navy's behalf at GID, a Refit Letter is prepared prior to any refit being commenced. It is considered that this document constitutes an agreement as to which work will be carried out at GID and which work will be performed by outside contractors. Funds are therefore allocated according to this document, thus indicating the obligations of each party.

19. Before any rework is commenced at GID an investigation is conducted and a report prepared prior to the rework being authorized by the Leading Trade Engineer. This information is available to Navy as also are the job numbers which are allocated to each rework prior to the rework being charged to GID overheads. It is considered that these procedures satisfactorily identify rework costs.

Fleet Intermediate Maintenance Activity (FIMA)

20. It is not intended to alter the balance of work between FIMA and GID. The nature of modern shipborne weapon systems is such that maintenance and repairs tend to either be carried out onboard, or to require the facilities and capability of the Dockyard. FFG 7 Class ships do not have sufficient technical resources onboard to accomplish all the repair and maintenance required on the shipboard level. FIMA therefore assists the Ship's company by providing the technical manpower to facilitate onboard repairs without prejudice to the Ship's operating cycle. As new weapon's systems are introduced into service, the role of FIMA is reviewed and adjusted as required.

April 1985

DEPARTMENT OF DEFENCE

- A letter from the Department of Defence, dated 29 August 1985, providing updated information may be found on Joint Committee of Public Accounts File 1984/6, Part A.

LASER AIRBORNE DEPTH SOUNDER (LADS)
Paragraph 5.5

Introduction

1. The Report of the Auditor-General concerning the Laser Airborne Depth Sounder (LADS) includes 4 observations or recommendations. Each of these matters was discussed at length between officials of the Departments of Defence and the then Defence Support and the Office of the Auditor-General.

2. Prior to providing amplification of the details contained in the Report of the Auditor-General it is considered useful to provide a brief background to the LADS project.

3. LADS was developed from experimental work commenced at Defence Research Centre Salisbury (DRCS) (then Weapons Research Establishment) in 1972 to investigate the application of laser techniques to hydrography. This work titled WRELADS was based on the concept of using reflected pulses of laser light originating from equipment carried in aircraft to measure ocean depth. The concept was to use red light pulses reflected from the ocean surface and green light pulses reflected from the ocean floor together with an accurate navigation system and an automatic system of signal processing to rapidly survey large areas of the Australian continental shelf and subsequently produce hydrographic charts. The concept offered the prospect of greatly speeding up the survey of shallow ocean areas of commercial and strategic interest to Australia.

4. As with other projects which have their genesis in a Defence research establishment, the main purposes of a Project Definition Study phase are:

- (a) to give private industry an understanding of and responsibility for the project;
- (b) to give the project a more commercial orientation with a view to economic production; and
- (c) to take basic conceptual data arising from the research and development activities and use this to define the design of an operational equipment through the generation of a production data package.

2.

The difficulty of these actions should not be underestimated. Furthermore the handing over from the Defence research establishments to private industry cannot be executed over a short period, indeed it is beneficial for industry to be kept briefed from early research days and for the research establishment to be available for advice well into the engineering development and production phases. In the case of the LADS project the actions above were seen as a means of allowing Navy to identify problems and shortcomings in the system while the project was in an early design stage, and hence allow the production phase to be entered at much reduced technical and financial risk.

Documentation

5. While additional documentation could have been produced by DSTO, there is merit in private industry producing as much of the documentation as it can itself because of the responsibility it will have to bear for producing the equipment.

6. The question of drawing standards has been a matter of top management consideration at the DSTO establishments for some time. It is not considered necessary to insist on applying documentation standards appropriate to a manufacturing task during a research and development exercise because not all research activity leads to a manufacturing activity. The drawings and associated documentation are produced to Research and Development (R&D) needs and are considered appropriate for that purpose.

7. Where an R&D activity proceeds towards commercial exploitation, additional expenditure may be incurred to bring documentation to a production standard appropriate to a manufacturing activity. However because of the initial uncertainty of the R&D activity, it is not considered necessary to expend resources on this during R&D when uncertainty exists as to the future of the activity. Drafting standard DRCS 1 Part 4 has been followed for all manufacture associated with the WRELADS program. This standard is adequate for rapidly changing R&D equipment and corresponds to DEF AUST 5085 Level 1. The progressive phase change of WRELADS documentation to a more detailed level was not undertaken for the following reasons:

- (a) Such a task would constitute new work which was more appropriate for industry to undertake.
- (b) DSTO did not have the manpower resources for this extra work. The required documentation standard DEF AUST 5085 Level 3 for fullscale production activity more than doubles drafting workload.
- (c) There was uncertainty as to which WRELADS design solutions would be incorporated into LADS.

8. Notwithstanding the above comments, there is a widespread move, in view of the growing level of technology, to improve documentation standards, for example Advanced Engineering Laboratory (AEL) is proceeding towards the introduction of Australian Quality Assurance Standard AS 1821 (Design) which entails raised levels of quality and cost of documentation. This standard would not find general use in other DSTO Laboratories because of its high cost. It is the DSTO's view that if it were to embark again on a similar program to WRELADS it would employ these same standards for documentation.

Changes in Requirement

9. At the time that the RFT was released, advice from the RAN Hydrographer was the hydrographic data recorded by the LADS system on the aircraft could be forwarded to the Hydrographic Office in Sydney for processing. As a result of discussions between the Hydrographer, the contractor and DSTO during the first six months of the PDS contract it became apparent that this was not a practical procedure.

10. The broad readout from a day's airborne information gathering would be needed prior to the next day's flying to ensure that the information was sound and that the planned next sortie was still appropriate. This concept had been foreseen prior to release of the RFT, but the 'quick-look' capability to do this had not been practically defined. By June 1982 it was appreciated by all concerned that a full processing facility on-site was required; and the Ground Analysis Sub-System (GASS) was added to the contract.

11. A change of this nature was not allowed for in the cost and timing of this PDS. It is considered better to identify shortfalls in the concept well before the manufacturing activity is firmly established.

Project Management Plan

12. The PDS contractor, Thorne EMI Australia, was the only tenderer for the task. Soon after the contractor started work, the Department judged that the company was short of suitable staff. The contractor did take steps to improve the situation, but during this initial period it seemed more appropriate to use the limited resources to technically progress the project rather than develop a project management plan.

13. The Department agrees with Audit that the project management plan should have been produced earlier. Although Audit is correct to note that the first formal approach to the contractor to enforce delivery of the Project Management Plan was December 1983, DSTO officers had in their day-to-day liaison with the contractor previously sought early delivery.

Component Availability

14. The two to three months taken to place the order for a component, for which there was no substitute and of which there were limited number available, was not due to lack of departmental 'quick-reaction' procedures. The Department advises that procedures to accommodate acquisition of urgent items in a short time frame do exist. For example, if this component had been required to meet an operational need it would have been acquired in a matter of days through the Office of the Naval Attaché in Washington.

15. In this instance the placing of the order was delayed because of parallel negotiations being undertaken by the US supplier and because of other considerations within the Department. These considerations included questioning the viability of continuing with a design that was dependent on a component no longer in production.

April 1985

JOINT COMMITTEE OF PUBLIC ACCOUNTS
 INQUIRY INTO THE AUDITOR-GENERAL'S REPORT -
 SEPTEMBER 1984 - LASER AIRBORNE DEPTH SOUNDER

SUBMISSION BY THE DEPARTMENT OF DEFENCE SUPPORT

Reference A. Joint Parliamentary Committee of Public Accounts letter dated 26 October 1984.

Introduction

1. This paper provides the background to the Laser Airborne Depth Sounder Project and provides an overview of the various phases of the project, the management arrangements, progress to date, problems encountered and the current status of the project with an emphasis on the points raised by the Auditor General in his report of September 1984. The paper has been prepared in the format requested in the attachment to Reference A.
2. The Laser Airborne Depth Sounder (LADS) developed from experimental work commenced at Defence Research Centre Salisbury (then Weapons Research Establishment) in 1972 to investigate the application of laser techniques to hydrography. This work was based on the concept of using reflected pulses of laser light originating from equipment carried in aircraft to measure ocean depth. The concept was to use red light pulses reflected from the ocean surface and green light pulses reflected from the ocean floor together with an accurate navigation system and an automatic system of signal processing to rapidly survey large areas of the Australian continental shelf and subsequently produce hydrographic charts. The concept offered the prospect of greatly speeding up the survey of shallow ocean areas of commercial and strategic interest to Australia.
3. The work at DRCS developed to a stage where an experimental system was fitted to a RAAF C47 aircraft. Trials with this experimental system demonstrated that the concept of laser depth sounding was feasible and capable of meeting the hydrographer's requirements for depth and accuracy. The system as fitted in the C47 aircraft whilst suitable for experimental purposes was not suitable for operational use. Firstly additional hardware and software was necessary to readily use the data for the production of charts and secondly the C47 aircraft lacked the endurance and range necessary to undertake the survey missions in the areas of interest to the RAN hydrographic office.

4. Whilst the experimental system has been successful in proving the concepts of laser bathymetry it did not provide sufficient information for Navy to proceed to contract for the production of an operational system without a considerable degree of technical and financial risk. A Project Definition study (PDS) was therefore proposed as phase 1 of the project in which industry would be contracted to take the DRCS technology and data relating to the experimental system and produce a detailed design and documentation sufficient to allow Navy to proceed to contract for an operational system.
5. It was proposed that the second phase of the project would involve the manufacture of two airborne systems, one for fitment to either a leased, chartered or purchased F27 aircraft, suitably modified, and one as a spare system. This would be followed by trials and modification, if necessary, prior to handover to the RAN Hydrographer for operational use.
6. Project approval was received in March 1981. In May 1981 tenders were called from industry to carry out phase 1 of the project. In February 1982 the phase 1 contract was awarded to Thorn EMI Electronics as prime contractor with Fairey Australasia, Quentron Optics and Commonwealth Aircraft Corporation as sub contractors.

Management Arrangements

7. Phase 1, the Project Definition Study, was seen as largely an industry development function and funding was approved from the industry assistance vote. Industry Strategy Branch of Department of Defence Support undertook to co-ordinate the management of the project.
8. Day to day management of the phase 1 contract is overseen by a technical co-ordination committee meeting in Adelaide with representation from Navy, (including the hydrographer's office), the Defence Science and Technology Organisation (DSTO) and Defence Support. The purpose of this Committee is to monitor and review technical progress and ensure that the RAN operational requirements are met.
9. Overall project control is vested in the Project Committee which meets in Canberra, reviews progress, provides reports to the relevant Defence Committees and ensures the programming of funds in accord with the approved programme. This Committee is chaired by the Assistant Secretary Industry Strategy Branch, Department of Defence Support and includes representatives from Navy and DSTO central office organisations.

10. At the completion of phase 1 the lead role in project management will pass to the Chief of Naval Materiel, who will be responsible for the acquisition of systems for Navy use. Defence Support will have a continuing responsibility for marketing the system to other customers.

Progress to Date and Problems

11. Initially the Project Definition Study was planned to take approximately twelve months. A number of problems have occurred which now mean that the phase 1 output will not be completed until February 1985. The output of this study will then be reviewed, a task likely to take from two to three months. Corrections and changes may then be necessary prior to proceeding to tender for phase 2 towards the end of the 1985 calendar year. The major problems that have been encountered are summarized as follows.

12. Delay in Commencement.

At the award of the contract Thorn EMI commenced to assemble a project team. The task required engineers with broad experience in a range of disciplines and took some time to complete the team that was eventually assembled was, in the opinion of some Defence Research Centre Salisbury officers, lacking in experience.

13. Changes in Requirements.

Initially it had been considered by the RAN hydrographer that hydrographic data recorded on board the LADS aircraft could be forwarded to the hydrographic office for processing and reduction.

14. As the phase 1 work progressed and as WRELADS trials continued in parallel, it became apparent that this concept would not be ideal. Firstly the facilities at the hydrographer's office would have difficulty in handling the quantity of raw data coming from LADS and secondly, there was a need to verify data against previous and existing hydrographic data during the conduct of a survey. Such a procedure would be necessary to ensure that data collected was valid and usable. Failure to carry out this verification could result in rejection of data collected from many flying hours in remote locations. As set up and flying time was the most expensive component of survey operations involving LADS such rejection would be extremely expensive.

15. To overcome this problem a requirement for an enhanced field analysis facility, called the Ground Analysis Sub-System (GASS), was identified and included into an amended phase 1 contract. The GASS enables a high level of data reduction to take place in the field and allows the results of each survey flight to be checked and verified for consistency before proceeding with further survey operations. Whilst the requirement for inclusion of the GASS caused some delay in the early part of the contract the GASS task has largely been completed and delays in other areas of the have proved to be more significant. An additional sub-contractor, Computer Sciences of Australia, was contracted to undertake design of the GASS.

16. In Phase 1 the GASS has been responsible for an additional cost of approximately \$400,000.

17. Documentation and Transfer of Information

During the progress of the contract it was noted that at times some of the detailed information relating to the experimental system was not readily available in a suitably documented form for the contractor. These delays applied in particular to the information needed by the contractor to develop the design concepts for the GASS. Throughout the contract a number of such delays occurred.

18. The standard of documentation was commented on by the Auditor General in his report. It should be noted that, in many cases experimental projects are not documented to a full standard until a late stage of development. One of the uncompleted tasks of the PDS is to take the relatively coarse documentation relating to experimental systems and produce documentation of a standard suitable for subsequent production.

19. Contractor Performance

The contract for Phase 1 of the project is of a cost-plus nature. Such contracts are normal for development projects where the full scope of the task is not fully defined.

20. In general the contractor's performance has been slower than anticipated and the late development of a project management plan has hindered the identification and achievement of project objectives.

Other Problems

21. The Auditor General's report mentions the problems encountered in the long lead procurement of a particular critical component of the system which is no longer readily available and comments on the delay by Navy in raising a procurement demand. Whilst this matter is a Navy problem relating to phase 2 this Department supports the Auditor's opinion that a 'quick reaction' facility to enable procurement of such critical items to take place with a minimum of delay is needed.
22. It is noted that Navy has now procured sufficient supplies of this item to support phase 2 of this project. In slower time this Department is investigating prospects for design and manufacture of a substitute unit by local industry.

Current Status

23. Delivery of data packages from phase 1 of the contract has now commenced and will proceed through to at least February 1985. These data packages will be reviewed by a joint DSTO, Navy and Defence Support team. The current plan is to proceed to contract for the production version of LADS in the 1985/86 financial year. Production costs for phase 2 were estimated, (in January 1983 prices), at \$18.6m. This cost increase is explained by the preliminary nature of the early estimates and an increase in the scope of Phase 2 to include the GASS, aircraft costs and a number of other costs including training.
24. It is important to appreciate that a major objective of Phase 1 is to identify and resolve areas of technical risk so that the Phase 2 contract is fixed price. Australia continues to hold a lead in the hydrographic application of laser technology and Defence Support, in conjunction with Thorn EMI, will be pursuing market opportunities as the LADS concept is progressively developed to a commercial standard.

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS
EXAMINATION OF THE AUDITOR-GENERAL'S REPORT OF SEPTEMBER 1984

SUBMISSION BY THE DEPARTMENT OF DEFENCE SUPPORT IN RELATION TO
PARAGRAPH 6.1 - MUNITIONS PRODUCTION TRUST ACCOUNT (MPTA)

Background

1. The purpose of the MPTA, which was established under Section 62A of the Audit Act 1901, is to finance
 - the manufacture of munitions in government factories annexes and industry for Departments of the Australian Government and other Governments and Authorities; and
 - any other approved service of a munitions factory or annex.
2. The Account dates back to the early 1940's, operating in the first instance as the Manufacture of Munitions Trust Account. While the operating mechanisms of the Account have changed considerably over time, it has continued to operate as a centrally domiciled working account to support the production of munitions.
3. MPTA is presently being used primarily in the Department's Munitions Division whose objectives can be stated thus:
 - To assess, plan, develop and maintain Australian industry capability for the production of munitions, so as to optimise national self sufficiency and meet defence requirements for current and future local production of munitions.
 - To plan the development of the Australian munitions industry in the public and private sectors.
 - To oversee the performance of government owned defence production factories to satisfy the customers' requirements for quality, quantity and delivery at an acceptable price.
4. An allocation of the MPTA has been made to each of the Munitions factories with the exception of the following:
 - Australian Government Clothing Factory, Coburg
 - Explosives Factory Albion
 - Explosives Factory Mulwala
5. Each of the munitions factories operates a working capital trust account. These trust accounts fund establishments' production operations and funding levels are maintained at minimum levels. Funds are not transferrable between factory working capital accounts.

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Because of this minimum level of funding and to accommodate peaks in the establishments' cash flows, the MPTA was established to provide a centrally operated funding source with segments available to certain establishments. Funding arrangements allow transfers between segments thus enabling a lower aggregate level of funding to the Department.

6. The MPTA is currently used in respect of these factories as a mechanism to facilitate the prompt reimbursement of factory expenditure on a regular basis as progress payments against Department of Defence orders. Where appropriate, consolidated claims for each respective service order are prepared.

- overseas purchases are initially funded from Factory Trust Accounts which are reimbursed by MPTA when debit notes are issued on the Department of Defence.

7. A procurement demand is raised by the Department of Defence on the Department of Defence Support for the supply of munitions. The order may be placed either:

- directly on the factory performing all of the work, in which case that factory will recover direct from the Department of Defence to reimburse its segment of the MPTA or
- where a particular factory has been nominated as the prime contractor for the order. In this case all other factories providing components or services, including private industry and other Government Departments become 'sub-contractors'. A prime contractor factory's own expenditure is carried in its working capital trust account until it is costed. Payments by a prime contractor factory to 'sub-contractors' are recorded in its normal accounting and costing system as they occur. All expenditure relating to Defence munitions purchase orders is then recouped from the MPTA. This maintains the prime contractor factory's liquidity enabling operations to continue during the time taken for receipt of a progress payment from the Department of Defence. MPTA is reimbursed upon receipt of the progress payment.

8. The Defence Aerospace Division of the Department has responsibility for the development and maintenance, subject to approved Defence policy, of an industrial capability in the fields of aircraft, guided weapons and electronics.

9. The Defence Aerospace Division presently utilises MPTA to receive the proceeds of overseas sales from which production costs are met. The Division provides in its prices for the supply of goods to overseas customers on costs, levies and allowances to accommodate amortisation of costs previously incurred and to cover costs which may be incurred during production in later years. These 'add-ons', primarily

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destined for payment to Revenue during the course of, or at completion of a project or order, have accrued in the Account and have been used to meet additional working capital requirements for other projects.

10. An allocation is also held by the Victorian Regional Office of the Department to provide for overseas transactions, e.g. payment to Defence Aerospace private industry sub contractors.
11. The Central Office of the former Department of Industry and Commerce in Canberra also had an allocation to be used in relation to overseas procurement transactions. However, due to accounting problems which arose in its operation, this segment has been inoperative since 1982 and will be withdrawn upon finalisation of outstanding matters.
12. Finally allocations are used by Department of Finance Accounting Offices in London and Washington to process overseas payments and receipts arising from the Trust Account operations.

Auditor General's Comments

13. In his Report of September 1984, the Auditor-General has made a number of comments in relation to procedural and operational aspects of the account, as well as certain policy considerations. The Report also suggested that consideration be given to closing MPTA and establishing a more suitable mechanism.
14. Since its creation in May 1982, the Department has been conscious of difficulties with the operation of MPTA. Aspects of underlying problems have been addressed in recent years and some modifications to procedure and arrangements have been introduced. A major review of accounting aspects commenced some time prior to the audit but has been delayed due to the departure of key staff with the requisite skills. Against this background, the Auditor-General's comments are both timely and helpful in complementing the Department's endeavours to overcome difficulties being experienced. His comments have also assisted in focussing on areas where added effort is required.
15. The Auditor-General was particularly concerned with the following aspects of MPTA.

Regional Office, Victoria

16. Composition of Trust Account Balance - Advances received from certain overseas countries in relation to various sales have been credited to the MPTA over a period of several years. The audit report stated that a portion of these moneys was being used by the Victorian regional Office as additional working capital and \$1.04 million had been included with allocations of MPTA to some of the factories. Department should discuss the efficacy of this procedure with the Department of Finance.

17. The Department was of the view that crediting of funds to the Trust Account is inherent in Section 62A of the Audit Act. The Department of Finance has confirmed this view.
 - the Department is currently discussing the Auditor-General's comments on the use of funds with the Department of Finance.
18. Outstanding amounts due to the Commonwealth - On 9 June 1982 the Commonwealth Aircraft Corporation advised that some 90 instances dating back to 1979 had occurred where it had received goods but had not been issued with appropriate debit notes. The necessary debit notes could not be raised as the relevant vouchers were missing.
19. A determined effort is being made by the Department's Central Office to locate the missing vouchers. A small number of vouchers have so far been located and the related transactions finalised. Action to retrieve those remaining is continuing.
20. Instructions - No comprehensive, authorised instructions in respect of financial policies and accounting requirements have been issued by the Department for the Victorian Regional Office segment of the Department.
21. Comprehensive Accounting Instructions for MPTA - Overseas Transactions were issued by the former Department of Industry and Commerce to all MPTA segment holders on 19 January 1982. Accounting Instructions for MPTA segments held by the production factories are included in the Department's Accounting Manuals. Amendments to these manuals are issued periodically.

Central Office

22. Control Procedures - The Central Office had appeared to exercise little management and control over MPTA.
23. The Department acknowledges the Auditor-General's comments. From an accounting point of view, the MPTA is complex to administer because of sectionalisation and from an administrative viewpoint it has proven difficult to maintain control and adherence to procedures.
24. Reconciliations - Audit reported that reconciliations were based on the Department of Finance statement of balances only, which Audit considers an inadequate method.
25. Departmental Accounting Instructions require the Control Ledgerkeeper to effect each accounting period, reconciliations between Control Ledger Accounts and subsidiary records.

- Trust Account Cash balance to be reconciled with the balance for the MPTA Segment in the Appropriation Ledger.
- Recoverable Expenditure Account balance to be reconciled with amounts unclaimed as per Service Order Summary Cards.
- Debtors Accounts balance to be reconciled with the control total maintained by the OIC, Debtors Accounts.
26. Internal Audit Audit noted that internal audit findings concerning MPTA had not been pursued.
27. Arrangements for follow up of all matters raised in audits have been revised. The revised arrangements ensure that internal audit findings are effectively pursued by the Department. Progress in these matters is monitored by the Department's Audit Committee.
28. Need for MPTA - Audit suggested that consideration be given to closing MPTA and transferring the amounts currently credited to factory segments to specific factory trust accounts as additional working capital. If necessary, a new trust account or Head of Trust could be established for overseas transactions and operated in Central Office. In Audit's view this action would:
 - save administrative costs presently incurred in maintaining the double accounting which now exists in each factory (one complete set of accounts could be eliminated), and
 - result in the financial statements of specific factories showing more accurate financial information in respect of departmental factory operations. That is, all debtors would be included in each factory balance sheet (currently the factory statements contain a minimum value of debtors as the bulk of them is eliminated by reimbursement from the Munitions Production Trust Account. The debts are then held by the Department in the Munitions Production Trust Account until payment is received).
29. The Department recognises the benefits of simplified administrative arrangements which could flow from the Auditor-General suggestions.

The Department is giving priority to investigation of alternative arrangements to an MPTA having regard to administrative simplicity, improved control, funding and cost implications.

JOINT COMMITTEE OF PUBLIC ACCOUNTS
Inquiry into the Auditor-General's Report, September 1984
Submission by the Department of Defence Support
on Para 6.2 - Internal Audit

Statement of Policy and Objectives

- 1 Within the Department of Defence Support, internal auditing is an independent appraisal activity for reviewing operations as a service to management. It has a broad scope embracing, where necessary, all Departmental activities from a variety of standpoints including not only compliance and regularity but also efficiency and effectiveness.
 - 1.1 To carry out this activity an Internal Audit Branch has been created within the Personnel and Management Coordination Division and
 - 1.2 A Departmental Audit Committee has been established at Senior level to monitor the content, priorities and effectiveness of the Audit Program.
- 2 The objective of internal auditing in the Department is to assist all members of management in the efficient and effective discharge of their responsibilities by furnishing them with independent and objective analyses, appraisals and recommendations concerning auditable activities reviewed.
- 3 The Department has recognised that it must pursue an audit philosophy and methodology that is appropriate for a large geographically dispersed, semi-commercial manufacturing organisation with a diversity of technical and administrative functions. It has therefore adopted an operational auditing approach which focuses on the economical and efficient use of resources and the achievement of objectives and goals.
- 4 Operational Auditing is a systematic examination of records and other sources of information by a competent, independent 'authority' for the purpose of obtaining evidence to support an evaluation and judgement concerning five fundamentals:
 - Adequacy and reliability of information in control systems;
 - Effectiveness of programs to accomplish their intended objectives;
 - Efficiency and economy of operations;
 - Faithfulness of administrators and operating personnel in adhering to prescribed rules and policies, and complying with legislative requirements; and
 - Fairness of financial statements in performance reports issued by managers with the intent of disclosing present conditions or past results.

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- 5 This is not to suggest that all Department of Defence Support (DDS) internal audits are full scale operational audits but that they are being encouraged to adopt that wider approach which reflects a concern for operational as well as financial controls - and with due regard for the economy, efficiency and effectiveness aspects of management systems.
- 6 The Department has taken a number of steps in recent months to upgrade the internal audit function. Of particular importance is the reactivation of the Departmental Audit Committee and the raising of the status of the function from section to branch level with the appointment of an Assistant Secretary (Internal Audit) in May 1984.
- 7 The matters raised by the Auditor-General are being addressed and progressively remedied. The following summarises action taken or to be taken as resources permit.
 - The Auditor-General's comments appear in bold type and are followed by the Department's response.

Internal Audit Charter

- 8 Although it was created in May 1982, the Department had yet to approve an internal audit charter. A draft charter was provided for comment to this office in November 1983.
- 9 The Department advised that the charter has been redrafted in the light of Audit and other comments and would now be submitted to the departmental Audit Committee for endorsement prior to seeking the Secretary's approval. The Charter would provide for preparation of a strategic audit plan, use of a systems based approach and a program of quality assurance. A separate charter document defines the membership and role of the departmental Audit Committee.
- 10 The Internal Audit Charter was cleared by the departmental Audit Committee at its August 1984 meeting and subsequently approved by the Secretary. It was promulgated on 10 October 1984.

10.1 A copy of the Charter is attached at Appendix A.

Internal Audit Committee

- 11 An audit committee had been established but had not met since its inaugural meeting on 20 June 1983.
- 12 The Department advised that the Committee had been reformed and a program of meetings for 1984-85 had been arranged.
- 13 The Audit Committee Charter was approved by the Secretary and promulgated on 23 August 1984.
 - 13.1 A copy of the Charter is attached at Appendix B.
- 14 The membership includes both Deputy Secretaries of the Department and provides for participation by all Divisional Heads and one establishment General Manager. The Committee is chaired by Deputy Secretary (Materiel and Resources) and has met twice this year (August and November). Four meetings are programmed for 1985.
- 15 The Committee is taking an active and positive role in relation to the internal audit function and is addressing a number of strategic and operational issues.

Resources

- 16 Audit noted that the internal audit positions in New South Wales had not been staffed from late 1982 until early 1984.
- 17 Although the Department advised that there had been considerable audit presence in the New South Wales establishment areas during the past two or three years this Office is concerned that no internal audits, which would conform with acceptable auditing standards, had been performed during that period. The Department advised that recruitment action in New South Wales was proceeding.
- 18 The Auditor-General commented particularly on the staffing situation in New South Wales. A significant improvement in staffing levels and audit activity in that region has been achieved.
 - 18.1 Recruitment action has now been finalised in respect of six of the seven internal audit positions available. The remaining position is unlikely to be filled this financial year because of Departmental staffing priorities.

- 19 As to the broader issue of resources for the internal audit function generally, the Audit Committee has sought a submission on the matter for consideration of its March 1985 meeting.

Internal Audit Manual

- 20 Internal audit staff were operating with an incomplete and unauthorised manual and this was reflected in the adoption of a number of non-standard audit methodologies and practices. It was also noted that ADP audit procedures, which has been developed at considerable resource cost, had not been incorporated into the Internal Audit Manual.
- 21 The Department agreed with the necessity to update the Audit Manual. It said that considerable progress had been made and revised sections of the Manual would be issued progressively. Provision had been made for the inclusion of a section on ADP audit methodologies.
- 22 The need to develop and issue an Internal Audit Manual is recognised and much work has already been done towards that end.
- 23 In respect of non-ADP Sections of the Manual, all members of the Internal Audit Branch are supplied with, or have ready access to, and are informed on practices embodied in:
 - 23.1 Internal Audit Manuals Parts I, II, III Department of Supply variously updated but covering most statutory compliance matters. These manuals form the basis for the development of control models and field plans for an acceptable Systems-Based Audit (SBA) approach to many auditing assignments.
 - 23.2 The Auditor-General's General Audit Manual Volumes I and II.
 - 23.3 Inter-Departmental Advisory Committee on Internal Audit Training Documents.
- 24 Most staff are members of the Institute of Internal Auditors Inc. and receive or have access to its journal - The Internal Auditor dating back to April 1979. They are also regular attendees at presentations arranged by the respective local Chapters.

25 Draft Sections for a new manual have been produced covering:

- A Methodology for Efficiency Audits
- Reporting the Internal Audit
- Building Control Models
- Preliminary Surveys
- The Scope of Internal Auditing
- Strategic Planning
- The Audit Program Preparation
- Audit Definitions and Operational Auditing
- Production and Operations Management
- Controlling and Control Systems
- Financial Accounting
- Managerial Accounting
- Accuracy of Financial Data
- US Government requirements for Cost and Schedule Performance Measuring Systems.

26 Members of the staff have attended many training courses and the manuals and other exhibits gathered from these become generally available.

26.1 There are also on permanent loan to the Branch standard text books on accounting, management, production, auditing, EDP and other associated matters, for staff guidance and reference.

26.2 Control models and other audit plans developed for numerous Systems-Based Audit and other assignments are made available to staff on an 'as required' basis.

27 In respect of EDP auditing, the Department has carried out its own research, and officers have attended many advanced training courses, to enable it to produce its own EDP auditing manuals suited to manufacturing and online systems.

28 Major and comprehensive drafts have been prepared on:

- ADP Audit Methodology
- Network Security
- Personal Computers
- Fourth Generation Languages.

Planning

29 The Internal Audit Strategic Plan and annual audit program were considered to be deficient as a basis for internal audit operations in that:

- the strategic plan did not adequately define the areas and activities of the Department that were to be subject to audit

- due to a lack of coordination, audits in the ADP strategic plan were duplicated in the non-ADP strategic plan
- some tasks were considered to be unmanageable in terms of time and skill required and needed to be divided into smaller identifiable audits
- priorities which should be revised each year in the light of actual performance, should have been assigned to tasks within the strategic plan
- the strategic plan was not endorsed by the Audit Committee and annual programs were not issued to audit managers by Central Office Internal Audit, and
- the strategic plan was not reviewed regularly to take account of changes in departmental activities.

30 It was noted that internal audit was conducting an exercise to define auditable areas within the Department and the results of the exercise would form the basis for the preparation of strategic audit plans for the future.

31 No formal time-recording system existed for internal audit staff to enable a comparison against budgeted hours and to facilitate Central Office forward planning including an effective allocation of available resources.

32 The Department advised that although the Internal Audit Strategic Plan was still in the formative stage, it was working towards presenting a draft plan to the Audit Committee in March 1985. There would be no duplication of audits in the ADP and non-ADP strategic plans. It agreed that the use of a system to record actual times taken on audits is an objective to be pursued.

33 The Annual Audit Program for 1984/5 has been presented to the Departmental Audit Committee and issued to Directors and Regional Audit Managers of the Internal Audit Branch. That Program was developed following a consideration of:

- Major departmental production projects and the potential for internal audit support in the identification of management control requirements
- Discussions with line management and any requests for attention or assistance in particular areas

- Recent audits or reviews
- Availability of audit resources and the extensive training and development needs of audit staff.

34 The preparation of a Strategic Audit Plan covering all elements and activities of this Department involves the identification, documentation and assessment of auditable areas within each office and establishment. It is a major exercise which has been delayed by the (not uncommon) problem of obtaining and retaining suitably skilled and experienced staff in the internal audit area. It is nevertheless proceeding and additional staff are expected to be available to be allocated to this task in the new year with a view to presentation to the Departmental Audit Committee at its meeting in June 1985.

34.1 The particular comments made by the Auditor-General have been noted and will be taken into account.

35 In the meantime and because of the high priority attached to the F/A-18 and Australian Frigate Projects, a Strategic Audit Plan has been drafted for the Government Aircraft Factories and for Williamstown Dockyard - that draft has been presented to the Departmental Audit Committee and is being further refined to provide a basis for internal audit coverage in those establishments in the next three years.

Audit Methodology

36 It was apparent that internal audit field staff used a systems based approach with emphasis given to the preparation of positive and descriptive audit reports. Audit was concerned to note, however, that:

- Central Office did not provide adequate guidance to field staff on the intended scope of the audits
- field audit plans were not prepared and the rationale for testing was not always documented
- review by senior internal audit staff and reasons supporting decisions to change the course of an audit were not always documented
- permanent files were not always updated at the conclusion of audits, and
- in Victoria, ADP audit working papers were not being retained and the security of working papers was not adequate.

37 The Department advised that consultation with senior Central Office audit staff did occur at the planning stages and during audits. However, where a previously acceptable audit plan had been developed, the field auditor was expected to evaluate it for purposes of his audit. The Department advised of remedial action in respect of the other matters raised.

38 Steps are being taken to improve the documentation and monitoring of the Annual Audit Program including, where appropriate, the comparison of actual and allocated time/resources for particular audits.

39 The Auditor-General's comments have been noted. Improvements in methodology documentation and review will be pursued and achieved progressively in line with improvements in staffing and skills levels of the Branch. (Six of the seven senior operational positions in the Internal Audit Branch have been the subject of staffing changes and recruitment action in recent months). Steps being taken to improve audit methodology include:

- 39.1 More frequent meetings between Central and Regional Managers to discuss strategic, program, methodology and staffing matters;
- 39.2 Conduct of more frequent "on-the-job training" visits by Central Office Directors;
- 39.3 Review of audits by senior audit staff;
- 39.4 Conduct of in-house Systems Based Auditing Courses and the nomination of staff to attend a range of external courses and seminars;
- 39.5 Encouragement of a multi-disciplinary approach to field audits i.e. involving, where possible, a mix of management, financial, industrial engineering and data processing skills;
- 39.6 Development of methodologies that are appropriate to the size and relatively unique production oriented activities of the Department - noting that the essentially developmental nature of this activity affects the number and type of audits carried out as well as the ability of management to set performance standards and monitor output in the manner that applies to the more traditional financial and compliance audits;
- 39.7 Planned presentations and discussions with the Departmental Audit Committee in March 1985 on the subject of audit methodology.

40 The Department's approach at this stage is that all audit staff participate in the development of specific control models and in audit planning for reviews in which they are involved. In this way they become practising auditors as opposed to processors of static, stereotyped checklists. There is no substitute to this process for achieving "coal face" experience and reality among the Department's internal auditors in tackling the complexities of management systems efficiency and effectiveness in the diverse and dynamic manufacturing environments of the Department of Defence Support. In our view it is only by a total involvement in the full cycle of planning development, and conducting the ongoing processes of an assignment that our audit staff can be fully effective in the operational auditing processes being developed in DDS.

Review and Reporting

41 The number of audits which did not reach the final report stage was concern. In several cases Audit could not establish whether the audits had been completed to the satisfaction of the Assistant Secretary, Internal Audit. There was also no formal procedure operating at senior management level to ensure that matters raised in internal audit reports were addressed and appropriate action taken.

42 The Department advised that mechanisms for reporting to its Audit Committee on matters associated with ongoing internal audit management activities are being addressed within the draft Internal Audit Charter. Those arrangements will be established following the Secretary's approval of the Charters for the Audit Committee and Internal Audit.

43 Specific guidance has been issued to audit staff on the preparation, clearance and issue of internal audit reports - including the detailed review and clearance of all audit reports at Director level before use, as a draft, at the exit interview stage and at Branch head level before issue as a final report.

43.1 Particular attention will be given in 1985 to improving the quality of internal audit reports and the time taken to bring them to finality.

44 The follow up of matters raised in internal audit reports has been considered by the Departmental Audit Committee and responsibility allocated (per medium of the Internal Audit Charter) to the Budgets, Accounting and Supply Branch of the Resources Division.

44.1 Procedures have been developed and the Branch is now actively monitoring internal audit reports/recommendations and advising the Audit Committee on a regular basis.

45 Possible witnesses are:

Mr P Kennedy
Deputy Secretary (Material and Resources)
(Chairman of Departmental Audit Committee)

Mr W J Henderson
First Assistant Secretary
Personnel and Management Coordination Division

Mr S J Lewis
Assistant Secretary
Internal Audit Branch

DEPARTMENT OF DEFENCE SUPPORT
INTERNAL AUDIT CHARTER

APPENDIX A

1 Introduction

1.1 Within the Department of Defence Support internal auditing is an independent appraisal activity for reviewing operations as a service to management. It has a broad scope embracing, where necessary, all Departmental activites from a variety of standpoints including not only compliance and regularity but also efficiency and effectiveness.

- To carry out this activity an Internal Audit Branch has been created within the Personnel and Management Coordination Division and
- A Departmental Audit Committee has been established at Senior level to monitor the content, priorities and effectiveness of the Audit Program.

1.2 The evolution of internal auditing in recent years has seen managements concern for internal controls broadened to include operating controls as well as financial controls - and has given rise to the term "operational auditing". From this concern for operating controls has emerged the emphasis that has become the focus of operational auditing - "the economical and efficient use of resources and the accomplishment of organisational objectives and goals related to operations and programs" (Howard F Stettler on Auditing Principles - A Systems Based Approach, Fifth Edition 1982).

1.3 The Department has adopted an operational auditing approach to its internal audit activites and in so doing recognises that the internal auditor is in a real sense a part of the management team.

Operational audits will be selected and performed not only as a service to management but from a manager's point of view.

2 Objective and Scope

2.1 The objective of internal auditing in the Department is to assist all members of management in the efficient and effective discharge of their responsibilities by furnishing them with independent and objective analyses, appraisals and recommendations concerning auditable activities reviewed.

2.2 In recent years there has been an increasing emphasis on accountability and public scrutiny of government departments and instrumentalities. This has arisen from a number of factors including changing social attitudes and community change. As a result, attention is being focused increasingly on standards of performance and the quality of decisions taken in managing government functions.

-2-

2.3 Internal Audit has a major role to play in assisting the Department to reach and to maintain a standard of performance that will withstand the most rigorous external review. Its prime function is to provide a protective and constructive service by making systematic appraisals of the Department's operational and management systems or of particular aspects of those systems. Essentially it is an instrument which is to be used by the Department as an aid to efficient management.

2.4 The internal auditor aims to obtain a full understanding of the operations under review in the context of the Department's objectives and the pursuit of those objectives through its policies and its organisation, strategic and annual operating plans.

2.5 The internal audit process involves activities such as:

- reviewing and appraising the soundness, adequacy, and application of operating and other management controls and promoting effective control at reasonable cost;
- appraising the efficiency of implementation and the effectiveness of programs in accomplishing their intended objectives;
- ascertaining the adequacy and reliability of management data and its use within the Department;
- ascertaining the extent of adherence to prescribed rules, policies, plans and procedures and compliance with legislative requirements;
- ascertaining the extent to which departmental assets (including data and other resources), are controlled and safeguarded from loss or misuse of all kinds;
- reporting findings to management and recommending operating and other improvements;

2.6 Objectivity is essential to the audit function. Therefore, the role of Internal Audit does not extend to developing and installing procedures, preparing records, or engaging in any other activity which it would normally review and appraise and which could reasonably be construed to compromise its independence.

3 Responsibility and Authority

3.1 The Internal Audit Branch is responsible for:

- reviewing Departmental operations;
- informing and advising management through the use of modern internal auditing techniques;
- coordinating internal audit activities with others to most efficiently and effectively achieve the objectives of the Department.

3.2 In carrying out its responsibilities the Internal Audit Branch is to be provided with full cooperation and unrestricted access to all of the Department's records, properties, personnel and other sources of information, including those of a confidential nature, relevant to the subject under review. The Internal Audit Branch is free to review and appraise policies, plans, procedures and records. There might be matters and information to which audit should not be privy and these will be determined by the Secretary as appropriate.

3.3 Internal Audit shall be provided with prompt written responses to requests for information or reports recommending corrective action.

3.4 The Assistant Secretary (Internal Audit) is functionally responsible to the Secretary but for administrative purposes reports to the First Assistant Secretary (Personnel and Management Coordination). The Assistant Secretary (Internal Audit) has access to the Secretary and the Deputy Secretaries in respect of any matter or circumstance which he considers to warrant direct communication.

4 Responsibilities of other management units

4.1 The Internal Audit Branch has no direct responsibilities for, nor authority over any of the activities reviewed. Therefore, the internal audit review does not in any way relieve other officers in the Department of responsibilities assigned to them.

4.2 Responsibility for any remedial or other action deemed to be necessary as a result of Audit recommendations rests with line management in the area concerned. At the central level the Assistant Secretary (Budgets, Accounting and Supply) is responsible for

- Monitoring Internal Audit recommendations and liaising with line management as necessary concerning any further action to be taken.

- Coordinating Departmental action and/or responses arising from reports of the Australian Audit Office.

5 Internal Auditing Standards

5.1 In carrying out audits, internal auditors shall adopt the highest standards of professional conduct giving full cognisance to the Statement of Interim Internal Auditing Standards set out by the Public Service Board in its Attachment "A" to PSB Circular No 1979/8 and any subsequent amendments. They shall also have regard to the "Standards for the Professional Practice of Internal Auditing" issued by The Institute of Internal Auditors, Inc, in October 1978, and the standards set out in "General Audit Manual" Vol 1 issued by the Commonwealth Auditor-General, and any subsequent amendments to these publications as far as they are applicable and not in conflict with those issued by the Public Service Board. These standards concur in principle with those promulgated by the professional accounting bodies in Australia.

6 Audit Committee

6.1 A Departmental Audit Committee has been established and its membership and role are dealt with in a separate charter document.

6.2 The Assistant Secretary (Internal Audit) is responsible for servicing the Audit Committee and for advising the Committee of the resources necessary to carry out the audit program.

7 Assistant Secretary Internal Audit

7.1 The Assistant Secretary (Internal Audit) has overall control of internal audit activities throughout the Department in relation to;

- achievement and maintenance of high standards of internal auditing practice;
- development, implementation and oversight of internal audit methods and procedures;
- development and control of the internal audit program;
- scope of audits.

7.2 He may be required by the Secretary (or the Audit Committee) to conduct or arrange special investigations into any matter affecting the interests of the Department.

7.3 The Assistant Secretary (Internal Audit) may authorise special (non-programmed) audit investigations or reviews and his agreement shall be obtained to any extension of programmed audits which involve projects of a major nature.

7.4 He is functionally and administratively responsible for outposted internal auditors.

7.5 The Assistant Secretary (Internal Audit) shall prepare a Strategic Audit Plan which takes account of the Department's major projects and activities, assessed priorities and risk areas and internal audit resources and responsibilities.

Prior to the commencement of each fiscal year, he shall prepare an annual work program as part of that strategic plan for presentation to the Audit Committee.

7.6 The Assistant Secretary (Internal Audit) shall keep abreast of current developments in the internal audit field and be conversant with up to date professional practice pronouncements. He shall institute a program of quality assurance which shall include, *inter alia*:

- Supervision and/or guidance of audit staff in the performance of their duties;
- Training and development of audit staff - on the job and through attendance at seminars and courses;
- Development and review of Training/Reference Manuals;
- Review of audit reports and methodologies including control models.

7.7 The Assistant Secretary (Internal Audit) shall furnish to the First Assistant Secretary (Personnel and Management Coordination) such reports as may be required, in addition to periodic reports to the Audit Committee, concerning administration of the internal audit function. An annual review of audit activities will be produced by 14 July each year.

8 Audits and Audit Reports

8.1 Prior to the commencement of an audit, a representative of the Assistant Secretary (Internal Audit) - usually the Area Audit Manager or the Director concerned - shall discuss the objectives and scope of the audit with the appropriate senior officers in the area to be audited who may request that attention be given to particular matters of their interest. Consultation shall continue as necessary during the audit and the results discussed on completion with the head of the area responsible for the function audited.

8.2 The auditor responsible for an audit shall prepare a draft report immediately the field work is completed and submit it to the Area Audit Manager or Director concerned for editing and review with the appropriate representatives of line management as soon as practicable. The level of discussion should be adequate to ensure timely and effective remedial action is taken in respect of deficiency findings or to obtain an authoritative response where no action is proposed.

8.3 The Area Audit Manager or Director concerned shall be responsible for the preparation of the final report which he will counter-sign and submit immediately to the Assistant Secretary (Internal Audit). All senior officers with responsibility in the area audited should receive a copy of the final report.

8.4 The Audit Committee will be provided with an "Executive Summary" of all final Audit Reports.

9 Relationship with Auditor-General's Office

9.1 Under the Audit Act the Auditor-General is entitled to access to all records and material maintained by the Internal Audit Branch. Such materials and records should therefore be made available for examination on the basis of specific requests. The Auditor-General has no direct control over Internal Audit but the Branch shall afford full cooperation at all times to his officers.

October 1984

DEPARTMENT OF DEFENCE SUPPORTAUDIT COMMITTEE CHARTERPREAMBLE

In recent years there has been an increasing emphasis on accountability of government departments and instrumentalities. Attention is being focussed increasingly on standards of performance and the quality of decisions taken in managing government functions. These changes have been necessitated inter alia by advancing technologies and particularly those associated with management information and data processing systems. The employment of such systems, without adequate inbuilt safeguards, can lead to losses of management control and ultimately result in inappropriate or wrong decisions being made. The more complex the systems the greater the requirement for specially designed safeguards such as modern internal auditing practices.

In this context the Auditor-General of Canada has described soundly based internal auditing as "..... one of the sharpest and most effective tools available to management to ensure that it manages the resources for which it is accountable economically, efficiently and effectively." (Conspectus of the 100th Annual Report of the Auditor-General of Canada: Resource Management, 1978, Supply and Services, Ottawa, Canada).

The Public Accounts Committee in its 184th report, - "Internal Audit in the Australian Public Service - A Discussion Paper", recommended:

"All departments and authorities should establish an Audit Committee as a high priority. Such a Committee should be appointed by the head of the organisation and chaired by him or his deputy. It should also comprise three or four other members chosen from divisional heads whose operations are subject to audit and who have the experience and approach which will enable the Committee to work effectively." (para 4.22 refers).

An Audit Committee has been therefore established in the Department of Defence Support and its membership, objectives and responsibilities are described below.

MEMBERSHIP

The composition of the Audit Committee will be:

Chairman - Deputy Secretary (Materiel and Resources)

Members - Deputy Secretary (Manufacturing)

- PAS (P & MC)
- PAS (Resources)
- A manager of an Establishment for a yearly term on rotation
- Other Divisional Heads as invited by the Chairman

Executive Officer - Assistant Secretary (Internal Audit)

OBJECTIVE

On behalf of the Minister and the Secretary, the Audit Committee will aim to ensure that the Internal Audit Function within the Department assists all levels of management by furnishing them with independent and objective analyses, appraisals and recommendations concerning management controls and auditable activities reviewed.

RESPONSIBILITIES

The Audit Committee shall be responsible for:

- (i) monitoring the work program and the standard of performance of the Internal Audit Branch
- (ii) resolving problems highlighted by audit (including by the Auditor-General) in the best interests of the Department, and
- (iii) keeping the Secretary informed of those matters coming before the Committee which warrant the attention of the Executive.

In carrying out its responsibilities, the Audit Committee shall:

- (a) evaluate the adequacy and effectiveness of strategic and annual audit programs developed by the Assistant Secretary (Internal Audit) examining the degree of coverage of Departmental activities and the priorities reflected in these plans and programs;
- (b) suggest changes to the programs, reflecting the current priorities of senior Departmental management;
- (c) assess the degree of cooperation between Internal Audit and management and identify reasons for delayed or unsatisfactory responses to audit representations or other difficulties;

- (d) consider reports from the Assistant Secretary (Internal Audit) covering activities of the Internal Audit Branch;
- (e) review identified deficiencies in operating controls and review findings of internal and external audit reviews, and the appropriateness of action taken to remedy any deficiencies;
- (f) mediate on unresolved audit findings in the best interests of the Department;
- (g) review developments in the field of internal auditing and the standards issued by the Institute of Internal Auditors, Inc., Public Service Board, accounting bodies and other regulatory organisations, and encourage the application of the best techniques and audit standards;
- (h) where appropriate, recommend to the Secretary follow-up action on any matter relating to the audit function.

The Audit Committee does not have authority to vary the Internal Audit Charter, but it has the responsibility for recommending amendment as and where considered necessary.

STANDING ORDERS

Standing Orders dealing with the Agenda and other administrative matters relating to the meetings of the Audit Committee are attached.

ATTACHMENT

DEPARTMENT OF DEFENCE SUPPORT

AUDIT COMMITTEE

STANDING ORDERS

1 Dates of Meeting

These shall be determined for the ensuing year at the June Meeting

2 Agenda

These shall be prepared by the Assistant Secretary (Internal Audit) in consultation with the Chairman

The order of business shall be:

- (a) Approval of the Minutes of the previous meeting
- (b) Matters arising from the Minutes
- (c) Items put forward by the members of the Committee
- (d) Items put forward by other than Committee members
- (e) Items put forward by the Assistant Secretary (Internal Audit)
- (f) Other business

(Items put forward will be covered by a brief resume, where necessary, and it will be indicated whether they are for action or information. Where action is required the proponent should indicate the decision required.

3 Notice to Members of Business to be Considered

The agenda shall be sent to all members at least ten days before a meeting. A supplementary agenda may be issued up to four days prior to a meeting.

4 Minutes

A copy of the draft minutes shall be sent to members no later than fourteen days after the meeting.

5 Records

A complete set of all papers and materials submitted to the Audit Committee Meetings will be maintained within the Internal Audit Branch.

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report, September 1984

Submission by the Department of Education and Youth Affairs

Paragraph 7.1 - Central Administration of Student Assistance Programs

This submission deals with the Auditor-General's comments on the central administration of student assistance programs, and his finding that there was a need for the Central Office of the Department to exercise greater control and supervision over the administration of the student assistance schemes under review, ie the Tertiary Education Assistance Scheme (TEAS), Secondary Allowances Scheme (SAS) and Assistance for Isolated Children's Scheme (AIC).

2 To some extent, Departmental reactions to the Audit findings are included in the Auditor-General's Report itself. The present submission expands on some aspects, updates others and presents a consolidated Departmental response to the Report as a whole.

Background on Scheme Objectives etc

3 The objectives of the schemes are:

- TEAS - To help students and their families who are less able to afford the costs of a tertiary education by providing assistance on an income-tested but academically non-competitive basis for students undertaking approved full-time post-secondary courses.
- SAS - To help parents with a limited income to keep their children at school for the final two years of secondary education through the provision of assistance on an income-tested but academically non-competitive basis for students in those two years.
- AIC - To provide assistance for the parents of children who, because of the geographic isolation of their homes, are denied reasonable daily access to a Government school providing courses of the appropriate level. (The scheme covers both primary and secondary levels of education and in addition includes certain special provisions for pre-school correspondence pupils, handicapped pupils and pupils attending certain specialised educational institutions.)

2

4 The Department's internal objectives in administering the schemes are to ensure that benefits are promptly paid to all eligible clients, to ensure that scheme policies and rules are applied consistently throughout the country so that clients everywhere have equitable access to the schemes and their benefits, and to observe due standards of efficiency and accountability in the expenditure of funds.

5 The receipt of applications from scheme clients, and the payment of benefits to clients, are functions performed in the Department's State Offices; the Department's Central Office monitors the operation of the schemes by State Offices, issues guidelines and directions for procedures, gives directions on problem cases which may arise, co-ordinates State Office activities where necessary, collects scheme statistics, and of course advises the Minister on policy development as well as matters relating to the national administration of the schemes.

6 Scheme statistics (updated from p.38 of the Auditor-General's Report) are:

	Student Numbers Receiving Assistance as at 30 June 1984	Expenditure (Est.) Calendar Year 1984 (\$,000)
TEAS	85,893	243,756
SAS	55,527	54,838
AIC	19,365	22,697

General Comment on Auditor-General's Findings

7 Essentially the Auditor-General has recommended a greater degree of centralisation in the management of day-to-day scheme operations. The Department agrees with this assessment of the situation and is taking steps, both through the implementation of new systems and through a strengthening of Central Office staffing resources, to achieve this objective.

8 In particular, since the publication of the Auditor-General's report additional staffing resources have in fact been approved, for this purpose, for the Operations Section of the Central Office's Student Assistance Programs Branch. (Para. 7.1.7 of the Auditor-General's report of necessity reflected a degree of uncertainty as to whether this would in fact happen.)

9 Another point of particular importance, affecting as it does almost all the areas of administration commented on by the Auditor-General, is that the Department is now gearing up for the introduction of "EDYCOMP" - an ADP system under which the processing of student assistance applications and the implementation of related management information and control systems will be much more fully computerised than they are under the

present mixture of manual systems and a limited ADP capacity. When EDYCOMP becomes operational, it is expected that many of the specific deficiencies identified by the Auditor-General in the areas of assessment and re-assessment of applications, provision of management information on performance, checks on aspects of eligibility and entitlement including income verification, and cross-check of applications between schemes will be addressed as an intrinsic part of the design of EDYCOMP itself. (At the same time, action is also being taken to improve existing systems to the extent possible in the meantime.)

10 Comments on the specific matters raised by the Auditor-General follow. In most cases it will be seen that the Department accepts the Auditor-General's finding and is taking appropriate action to improve systems and controls. Where we disagree, we give the reason and indicate what we are doing to ensure appropriate standards of control and supervision.

11 As a general comment on the substance of the specific matters raised in the Auditor-General's Report, it should be noted that the underlying concern in most cases is over the adequacy or otherwise of procedures rather than over any evidence of actual error or financial loss to the Commonwealth.

Comment on Specific Issues

12 In para. 7.1.2, the Auditor-General drew attention to two instances where the policy guidelines manuals issued to State Offices did not reflect the properly authorised policy on particular points. These were:

- In treating Income Equalisation Deposits under scheme income tests, the manuals allowed a particular concession that was not provided for in scheme regulations. Comment: The Audit criticism was correct at the time. However, this anomaly no longer exists, because of a recent change to IED legislation. We will ensure that in future the guidelines reflect the regulations.
- In treating lump sum payments under scheme income tests, the manuals specified a wider range of such payments than was specified in scheme regulations. Comment: Again, Audit are quite right. A 1981 amendment to the regulations, intended to cover this matter, was inadequate. Action is now under way to bring the regulations and manuals into line on this point.

13 In para. 7.1.3, the Auditor-General raised a number of questions relating to standards of performance in the processing of applications and the monitoring and review of those standards. The specific points raised and our comment on each, are:

- the Department did not lay down specific standards for acceptable processing times. Comment: This is correct, but, we believe, justifiable. The Department has in the past looked at the possibility of

setting a specific standard time for the processing of an individual application, but has concluded that, given the limits on resources, it is much more practicable to monitor the overall processing performance of a State Office on the total body of applications received - especially having in mind the wide variations between individual applications with regard to such factors as nature and complexity of the course being undertaken, the income, employment and family circumstances of the individual applicant and other variables affecting individual eligibility and entitlement. Even in regard to the performance of a State Office as a whole, it is not possible to lay down hard and fast processing standards, given the many factors that affect the rate at which which applications are lodged and the timing of peak workloads, the incidence of particularly complex applications, and other variables such as those mentioned by the Auditor-General himself (policy changes, system modifications, industrial disputes etc.). Again, there are variations between the different States with regard to the number and nature of institutions, the nature of student bodies, differing course structures and term dates etc.

The Department has therefore chosen to monitor performance in fairly broad terms, by watching the proportion of applications processed by each State Office, and the average turnaround time for individual applications, as the year progresses. With regard to overall processing rates, we would hope that by the beginning of April (ie after the end-of-March TEAS closing date), something like three-quarters of all applications received would have been processed. With regard to turnaround time for individual applications, we have regarded four weeks as a reasonable maximum, stretching to six or even eight weeks at times of peak work load, and we have regarded any reports of longer turnaround times as a matter for concern and for remedial action if at all possible. However, for the reasons given above, we have never felt that these broad yardsticks could be formally laid down for hard and fast implementation.

The Department's practice of comparing processing rates with those of the previous year pre-supposed that the results of the previous year were satisfactory. Comment: Not so. Our reason for comparing each year's performance with that of the previous year is simply to know whether or not our performance is improving. This seems to us to be an eminently sensible thing to do. Any deterioration in performance is examined to see whether the State Office should be required to provide an explanation and remedial measures instituted.

- Reports on turnaround times were irregular. Comment: This is correct. We recognise that we need to take action to reactivate the regular production of statistics on turnaround times for the processing of applications. Our aim is to have fortnightly reports, and we have taken steps for this to be implemented as soon as possible through the existing ADD system.
- The half-yearly statistical reports were taking up to seven months to produce. Comment: This is correct. Pending the introduction of EDYCOMP, there are limitations upon the capacity of the present system to produce the half-yearly reports in full detail as quickly as we would like; however, we are taking steps to achieve some reduction in the recent level of delays and in addition we are arranging for a set of key statistics, in broad total form, to be produced within one month of each half-year period.
- State Offices were not being provided with adequate feedback on processing statistics. Comment: This is correct. Action is now being taken to ensure that adequate feedback is provided in future.
- Better management information about factors which make reassessments necessary is desirable. Comment: We agree with this and will inject this requirement into the development of the management information systems that will form part of EDYCOMP.

14 In para. 7.1.4, the Auditor-General drew attention to the fact that there was no uniform system of quality control checks on the processing of applications by all State Offices. Comment: This is correct, and we accept the need to remedy this. As reported by the Auditor-General, an attempt was made some years ago to develop a uniform system but this was not followed through, and present practice is for each State Office to apply its own quality control measures. The fact that Central Office did not impose a uniform system on State Offices was largely due to the tightened staff ceiling situation at the time and the recognition that State Offices could maintain a substantial quality control effort only at the expense of delaying the delivery of services to clients. However, we recognise the need for a consistent base of quality control procedures throughout the States and we are now taking steps to develop and implement such a set of procedures. As a first step, information has been obtained from State Offices about their existing procedures, and a uniform national system is now being drawn up.

15 In para. 7.1.5, the Auditor-General raised two matters relating to the checking procedures applied by the Department to income and other claims made in clients' applications. The two matters are:

- Insufficient evaluation by Central Office of the sample checks that are carried out by State Offices on student eligibility and entitlement. (These sample checks cover such aspects as whether the applicant is in receipt of another Commonwealth award and what the applicant's citizenship status is.) A particular criticism was that Central Office did not assess in a systematic and comprehensive way the cost-effectiveness of the checks that had been undertaken. Comment: The Department accepts the importance of maintaining a series of checks of this kind and of evaluating the effectiveness of the checks. Since the Auditor-General's report was written, a number of improvements have already been made, including the deletion of some checks which were not proving cost effective in terms of the order of over-payments being discovered. In addition, with the coming of EDYCOMP, greater emphasis will be placed on carrying out these checks before payments are made to clients.

- Inadequate definition by the Department of its requirements of the Tax Office, by way of verifying a sample of income claims by applicants; and a failure to update those requirements. Comment: We do not entirely accept the criticisms. The present arrangements for income verification were defined in negotiation with the Tax Office in 1976; for all practical intents and purposes, the requirements then defined were adequate, and they have not required up-dating since that time because the nature of the income test under the schemes has not significantly changed. In any event, all this is now being overtaken by events, in that the Department is currently negotiating with the Tax Office to define the income verification requirements that can apply under EDYCOMP. In implementing the new arrangements we will observe the recommendations of the Auditor-General with regard to consistency between States, adequate definition of requirements and any necessary up-dating.

16 In para. 7.1.6 the Auditor-General raised four aspects of general administration, as follows:

- A need for Central Office to standardise the range of documentation used in State Offices to provide detailed guidance to staff in the day-to-day administration of schemes. Comment: The Department does not agree that complete standardisation is practicable or desirable. Differing local conditions require differing local procedures. (To give just one example, the differing supply/demand situation for tutors under the Aboriginal Secondary Grants Scheme between, say, WA and ACT, calls for different recruitment procedures and different rates of pay.) However, we accept that Central Office needs to be aware of variations between States in local documentation; and Central Office now maintains details of

State Office reference material and examines them to ensure consistency with overall policy and procedures.

- Some deficiencies in documentation and in follow-up action in relation to an ADP program that had recently been developed for the cross-checking of beneficiaries between States and schemes as a protection against "double-dipping". Comment: We do not entirely agree with Audit that the original documentation was inadequate. However, this has been overtaken by events, in that action is now under way to obtain further comments from State Offices on their experience in using the program, after which action will be taken to modify the system for future use and issue appropriate documentation.
- Limitations upon the capacity of State Offices to take effective prosecution action when offences are committed under the Student Assistance Act or the Crimes Act. Comment: We acknowledge the problem and will continue to work for improvements in this area. However, some of the causes are beyond departmental control. (For example, the withdrawal of services by the Federal Police, and restrictions on staffing resources, have severely limited the Department's capacity to undertake necessary investigation work associated with the location and prosecution of offenders.)
- A lack of formalised standard procedures for ADP systems development. Comment: Since the time when this criticism was penned, the Department has instituted comprehensive changes in the management of ADP development work, involving users at appropriate levels, identifying milestones for critical paths, assigning responsibilities for specified task etc. We believe that these changes satisfy the Audit requirements.

Summary

17 The Department accepts the thrust of the Auditor-General's report towards a greater degree of centralised control over scheme administration and is taking action on a number of fronts to meet specific criticisms, most notably through the strengthening of staffing resources in the Central Office operations area and the development of improved ADP systems, administrative and statistical documentation and procedures. A summary of action being taken, showing the state of play on each item, is attached.

Names of Witnesses

18 Should the Committee choose to conduct a public hearing on this matter the names and designations of the probable witnesses from the Department are:

Mr P Bowler

First Assistant Secretary,
General Student Assistance Division

Mr D Moss

Director, Operations Section, Student
Assistance Program Management Branch

Mr G Seymour

Assistant Secretary, ADP Branch.

29 November 1984

PARA 7.1 - CENTRAL ADMINISTRATION OF STUDENT ASSISTANCE PROGRAMS

STEPS TO BE TAKEN	PROCESS TO DATE	EXPECTED COMPLETION DATE
1 Management of Student Assistance Regulations relating to treatment of income equalisation deposits (IED).	The provisions of the Income Tax Assessment Act relating to IED were ascertained in October 1984. As a result the treatment of the IED Scheme by both the Student Assistance Regulations and taxation legislation is now consistent. Under SAs and AIC Ministerial approval is to be sought for operating consistently with the taxation provisions.	Beginning of 1985.
2 Examination of Student Assistance Regulations relating to treatment of lump sum payments.	Relevant regulations being examined with a view to formulating instructions for drafting of proposed amendments.	Mid-1985.
3 Head for standards for acceptable processing times.	Nil. The wide range of variable factors and limitations on resources preclude development of meaningful standards.	Early 1985 if possible. Otherwise start of 1986 (depending on ADP priorities).
4 Reactivation of system reporting statistics on turnaround times for processing applications.	A proposal for redevelopment of the former system was submitted to ADP Branch, November 1984.	Early 1985.
5 Reduction of timing for preparation of half-yearly statistical reports.	Procedures for production of these statistics are being reviewed with the object of providing for basic data for management purposes to be available more quickly.	New procedures to be in place early 1985.
6 More feedback to State Offices on analysis of control statistics.	State Offices will be provided regularly with selected control statistics.	New arrangements to operate from start of 1985.
2		
STEPS TO BE TAKEN	PROCESS TO DATE	EXPECTED COMPLETION DATE
7 Expansion of management information to take account of reassessments and remedial action.	Nil. To be taken into account in development of management information in upgraded ADP system.	1987.
8 Implementation of a uniform system of quality control.	Current State Office practices are being examined and a uniform system being devised.	Beginning of 1985.
9 Evaluation of effectiveness of eligibility/ entitlement checks and consideration of alternative approaches.	Review in progress to determine appropriate checks to apply for 1985.	Early 1985.
10 Income verification - standardisation of follow-up procedures.	Uniform procedures for the cases in question (ie overstatement of income) are being devised.	Beginning of 1985.
11 Greater emphasis on pre-assessment verification checks in upgraded ADP system (including income verification).	Pre-assessment checking is being examined as part of Project to introduce upgraded ADP system. Pre-assessment income verification is subject to negotiations with Taxation Office, which are being arranged.	Introduction of new ADP system is planned for start of 1987.
12 Need for consultation with ADP with a view to defining information to be sought under provisions of Income Tax Assessment Act.	Discussions with ADP on verification checks under upgraded systems to include consideration of information to be sought.	Early 1985.
13 Need for Central Office to oversight preparation, distribution and use of local reference material.	Total oversight not practicable, but details of reference material are maintained in Central Office. In operation already.	

PARA 7.1 - CENTRAL ADMINISTRATION OF STUDENT ASSISTANCE PROGRAMS

STEPS TO BE TAKEN	PROGRESS TO DATE	EXPECTED COMPLETION DATE
1Amendment of Student Assistance Regulations relating to treatment of Income Equalisation Deposits (IED).	The provisions of the Income Tax Assessment Act relating to IED's were enacted in October 1984. As a result the treatment of the IED Scheme by both the Student Assistance Regulations and taxation legislation is now generally consistent. However some change will be sought in the regulations to cover the implications for TEAS of the phasing out of the earlier IED scheme. Drafting instructions will be sent to the Attorney-General's Department shortly.	Mid 1985
2Examination of Student Assistance Regulations relating to treatment of lump sum payments.	Relevant regulations have been examined and instructions for drafting of proposed amendments will be sent to the Attorney-General's Department shortly.	Mid 1985.
3Need for standards for acceptable processing times.	The desirability of developing standard times will be kept under review. The Department is not, however, convinced that the setting and monitoring of such standards - even if resources permitted - would be productive. A wide range of variables, including complexity of cases, circumstances of family, industrial disputes, system faults and equipment breakdowns, can affect processing times. The overall processing performance of individual State Offices is continuing to be monitored. This involves a comparison with performance in previous years and with that of other Offices.	

STEPS TO BE TAKEN	PROGRESS TO DATE	EXPECTED COMPLETION DATE
4Reactivation of system reporting statistics on turnaround times for processing applications.	The statistics on turnaround times produced in 1983 provided information on one variable only, viz. the time gap between receipt of application and A.D.P. output. They were thus very limited in their usefulness as a management tool as they did not indicate stages at which hold-ups in processing were occurring. A proposal for a more comprehensive system has been developed. This will provide information on the time taken for the various stages of processing and for different types of applications, and will necessitate the capture of additional information from the application form. Limitations on APP resources preclude the development of the system for 1986. It will, however be introduced as part of the upgraded system to apply in 1987.	Implementation in 1983 start of 1987.
5Reduction of timing for preparation of half-yearly statistical reports.	In the meantime statistics on turnaround times will be collected direct from State Offices during peak processing times.	Late 1985.
6More feedback to State Offices on analysis of control statistics	Procedures for production of these statistics are being reviewed with the object of providing for basic data for management purposes to be available more quickly, and reducing the time taken to produce the half-yearly reports.	Action completed.
7Expansion of management information to take account of reassessments and remedial action.	NIL. To be taken into account in development of management information in upgraded APP systems.	1987.
8Implementation of a uniform system of quality control.	Procedures for conduct of quality control checks were issued to State Offices in December 1984.	Action completed.
9Evaluation of effectiveness of eligibility/ entitlement checks and consideration of alternative approaches.	A review of checks and checking procedures has been completed and instructions on checks to apply for 1985 were issued to State Offices in May 1985.	Action completed.

STEPS TO BE TAKEN	PROGRESS TO DATE	EXPECTED COMPLETION DATE
10 Income verification - standardisation of follow-up procedures.	Uniform procedures for the cases in question (ie overstatement of incomes) were issued to State offices in November 1984.	Action completed.
11 Greater emphasis on pre-assessment checks in upgraded ADP system (including income verification).	Pre-assessment checking is being examined as part of project to introduce upgraded ADP system. Pre-assessment income verification is subject to negotiations with Taxation Office, which are being arranged.	Introduction of new ADP system is planned for start of 1987.
12 Need for consultation with NTO with a view to defining information to be sought under provisions of Income Tax Assessment Act.	Memorandum sent to Taxation Office in May 1985 outlining types of income and deductions to be taken into account for income checking purposes under student assistance schemes. This aspect to be included in forthcoming discussions with taxation referred to in item 11.	Action continuing.
13 Need for Central Office to oversight preparation, distribution and use of local reference material.	Total oversight not practicable, but details of reference material are maintained in Central Office.	In operation already.

**"JOINT COMMITTEE OF PUBLIC ACCOUNTS
Inquiry into the Auditor-General's Report, September 1984
Submission by the Department of Health"**

The Auditor-General's Report of September 1984 reported on an examination of the control of the Internal Audit function by the Departmental Audit Committee, and the procedures whereby the Branch manages and controls those resources.

The findings of the Audit were discussed with Departmental staff before finalisation. It was during these discussions that it became obvious:

1. That the comments being made by the Auditor General were based on a small sample of Audits completed.
2. The Audits selected were not representative of the Audits conducted by the Branch as a whole.
3. Differences in philosophy were apparent between the two Audit areas and these differences were not resolved.
4. At no time did the Auditor-General comment on the quality and effectiveness of the Audits conducted or on the results achieved.

None the less a number of Audit recommendations were regarded as being of assistance and these have been implemented by the Department. Listed below is a detailed response to the comments made by the Auditor-General which follows closely the comments made by this Department in replying to the Auditor-General's correspondence in this matter.

1. Strategic Audit Plan

- 1.1 The Auditor-General raised the point that there was no indication that the 1984/86 Strategic Audit Plan (SAP) had been approved by the Director-General or the Departmental Audit Committee (DAC) although it had been presented to the Committee in March 1984.
- 1.2 It is acknowledged that the SAP was not formally approved at that time. This was due to an oversight in the course of the discussions of the Committee. At a subsequent meeting in August 1984 it was noted by the DAC that although no formal statement had been made the previous meeting had approved the SAP by consensus.
- 1.3 A comment was made on the lack of updating of the 1981/83 SAP during its currency to allow for changes in organisation functions

and priorities. During that period, few changes occurred in the organisational structure of the Department until late in 1983 when the Surveillance and Investigation Division was created. In the knowledge that the 1984/86 SAP was shortly to be prepared, the then current plan was not amended. Within the limited resources of the Internal Audit Branch priority is given to carrying out audits and while the need for changes to planning documentation is recognised, their implementation is at a time convenient to the Branch.

1.4 The SAP for the Regional Offices as submitted to the DAC was in the form of a listing of the headings of auditable areas in the Regions together with the frequency of audit coverage. The plan was submitted in this fashion so as to show concisely the audit coverage. The jobs were not given absolute priorities. However, the frequency of planned audit coverage i.e. once, twice or three times within the three year period - was a measure of the relative priorities.

2. Annual Work Programme

2.1 The Auditor-General reported that there was no indication that the Annual Work Program (AWP) was provided to the DAC for approval or that the Committee was advised of the allocation of available resources.

2.2 The 1984 AWP was based on expected resources at the time of preparation in November 1983. At that time a reorganisation of the Branch had been proposed and additional staff ceiling cover of 5 had been approved from March 1984. It was realised at the DAC meeting in March 1984 and the subsequent Management Committee meeting that the reorganisation proposal would not be resolved in the short term and the AWP was appropriately adjusted in July 1984 in the normal six monthly review which the Branch carries out.

2.3 The resource allocation and timing of jobs for 1984 in Central Office were included on the SAP for approval by the DAC. Similar

data for each of the Regions were not indicated in order to reduce the quantity of detail to be considered by the Committee. The revised AWP and SAP of July 1984 have been combined for all States.

2.4 It was reported that where internal audit resources were limited the Department had reduced mandays for jobs rather than applying priorities to jobs. This statement reflects a lack of understanding of the planning concepts being used at the time.

2.5 It is not Internal Audit policy to reduce the scope of an audit merely to fit the resources allocated to it. As a means of ensuring timely reports and in order to build up experience of times for audit assignments it has been the policy to use, as far as practicable, a standard number of mandays (i.e. 20 days) for each audit unit. In cases where an audit might otherwise have been given a greater time budget it would well be broken into several more manageable units each of the standard size. This does not imply a reduction of the scope of the audit to fit resource availability.

2.6 In many cases the practical auditable units were larger than the standard and budgeted times were exceeded. The experience gained in these cases is being applied in the 1984/86 SAP.

3. Audit Control

3.1 The Auditor-General reported that some cases were found where records of actual time taken were not compared with budgeted times during the audit to provide control of time spent. Formal comparison of actual and budgeted times while an audit is in progress is at the discretion of Internal Audit Management. A field audit plan in general use since late 1983 provides for the allocation of times to the various stages of the audit and encourages field auditors to consider the progress of their work against budgeted times. At the end of each month, however, each auditor reports on his actual time and progress for the past month and his expected allocation of time for the succeeding month. A

comparison of actual and budget times for each audit assignment is carried out by internal audit management to assess these times against the results being achieved rather than against the original budgeted time, which is only considered an initial indicator.

- 3.2 A number of cases where time overruns had occurred were noted. As stated in paragraphs 2.5 and 2.6 above, the policy of moving towards a standardised audit unit resulted in many cases where the logical division of an audit resulted in auditible units which proved larger than the standard. With the incorporation of this experience into future work plans the incidence of such overruns will decrease.
- 3.3 Excess time spent on other jobs is only one reason for jobs on the AWP not being commenced. The AWP is not fixed. Audits are included in the program on the basis of the best information available at the time of its preparation and may be rescheduled or replaced if changes in departmental priorities or other special circumstances occur. The Audit Committee accepts that low priority audits may be reprogrammed a number of times.
- 3.4 Analysis by the Audit Office suggested to that Office that work planned and achieved as compared with the total auditible areas in the Department was not satisfactory.

The idea of complete coverage of all auditible areas in the Department within the three year period is excellent in theory. However, given finite resources in a dynamic department, it is not practicable. The only useful measure of performance is of the work achieved compared with the approved work planned. The Audit Committee was made aware of the work carried out against the SAP and accepted the coverage achieved as satisfactory.

Review and Quality Assurance

- 4.1 The Audit Report deals with findings of the audit conducted in Central Office, an area which contains only 30% of the total general audit staff. Discussions with Audit Office staff indicated that the findings were taken from a small number

of audits conducted in Central Office and which represented only some 4% of the total audits conducted in a year.

- 4.2 Where deficiencies existed they would have been restricted to a small number of audits and performance in these areas is improving. A number of the matters raised are not considered to be deficiencies
 - the lower level of testing was due to an emphasis on system documentation and control evaluation in the period of the 1981/83 SAP and greater emphasis is now being placed on testing.
 - audit reports concentrated on those matters considered to be of use to management rather than reporting on every aspect of the objectives.
 - documentation of systems varies from that used by the Audit Office but is considered to compare favourably with other internal audit areas within the Public Service.

- 4.3 The quality assurance program in operation within the Internal Audit Branch consists of a review by three officers (State Manager, Central Office Manager and Branch Head) for audits conducted in State offices or by two officers (Central Office Manager and Branch Head) in Central Office. In either case the first review by the appropriate local manager concentrates on detail while the subsequent reviews are concerned with matters such as format and presentation as well as comparison of the report with the supporting papers.

It is felt that this approach results in a more thorough and flexible review than the questionnaire approach recommended by Paper Number 25 of the Interdepartmental Advisory Committee on Internal Audit.

ADP Audit

- 5.1 It is acknowledged that planning for ADP audit work was deficient in the past. However, planning for the work of the ADP Audit Section is now integrated with that for other audit work in the 1984/86 SAP and AWP.

.6.

5.2 A separate methodology was not established for ADP audits as it was considered that the same principles and basic methods applied to audits of ADP based systems as to any other audit. The differences lie in the tools and techniques used. A section on techniques applicable is being included in the Internal Audit Manual. Guidelines for consulting work on ADP systems under development will also be included in the manual.

6. Internal Audit Manual

6.1 The Internal Audit Manual has been revised and the new sections on ADP audit are being included. An approach to audits of efficiency or cost effectiveness has not been specifically included as the role of Internal Audit in these areas is being considered as part of the total of review methods in the Department.

7. Conclusion

7.1 The Department is aware that some problems existed in high level planning for the internal audit function. The revised format and integration of the Strategic Audit Plan and Annual Work Program; the approval by the Departmental Audit Committee of changes to the plan; the growing experience of times of audit tasks; and the increased review of time taken will largely solve these problems.

7.2 It should be noted that the Auditor-General's Report does not indicate deficiencies in the quality of the audit work being performed. The Internal Audit Branch is aware of the need to maintain this. Increased standardisation throughout the Branch along with the revision of the Internal Audit Manual and continued attention to the review of work carried out should maintain or improve this quality of work.

30 November 1984

JOINT COMMITTEE OF PUBLIC ACCOUNTS

INQUIRY INTO AUDITOR-GENERAL'S REPORT (SEPTEMBER 1984)

SUBMISSION BY DEPARTMENT OF HOUSING AND CONSTRUCTION
ON GENERAL WORKS DIVISION, ACT REGION

DECEMBER 1984

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SECTION 1 : INTRODUCTION

1. In 1984 officers of the ACT Region of the Australian Audit Office conducted an audit on the General Works Division of the Department's ACT Region and reported their findings to the Region in June 1984. In September 1984 the Auditor-General's report, which included a summary of the Regions response, was tabled in Parliament.

1.1 The report which followed an extensive audit was not adverse to the actions and developments in the General Works area.

1.2 In responding to the Auditor-General's report to Parliament we believe that full account should be taken of the progressive steps taken by the Department to implement the recommendations of a Joint Management Review of General Works Functions (JMR) conducted in 1982 and the consequent workload on Regional resources to put into effect the changes in operations and procedures. A copy of the JMR report was forwarded to the Auditor-General in February 1982.

1.3 A summary of the JMR of General Works and the effects on the Division is at paragraphs 2.11 to 2.19.

Findings of the Auditor-General

1.4 The matters raised by the Auditor-General can be placed in two categories:

(a) the first being those arising from the implementation of the JMR recommendations

Asset Control System - he queried the completeness of computer based records, the method of obtaining details of assets, the level of professional input into inspections, and whether the non capture of data would effect the system and impose cost penalties in the future

Maintenance Program Formulation - he requested assurance as to the quality and accuracy of inspection reports, that they were completed on time and that officers' other responsibilities were not unduly affected by inspection requirements

Maintenance Program Management - he requested advice as to the backlog of maintenance recommended but not funded in 1983/84 and the duplication of effort by ACT Schools Authority and Department of Territories and Local Government both carrying out inspections as well as the Department of Housing and Construction

(b) the second being those concerned with observance of existing procedures

Stores - he noted that stocktakes had not been carried out for 3 years and that the procedure manual was out of date

Plant - he found that stocktakes had not been carried out, the manual was out of date and that there were deficiencies in the administration of the plant pool

Cost Cards - he reported that the Region was still maintaining manual cost cards in parallel with the Departmental Accounts and Information System (DAIS).

1.5 Findings of the Auditor General and DHC comments are detailed in Section 3.

Overview of Departmental Submission

1.6 In the first category [1.4(a)above] are the findings and queries of the Auditor-General directly related to changes that have, or are, occurring through implementation of the JMR and is still proceeding.

1.7 The ACT Region now prepares its repairs and maintenance program using the Asset Control System (ACS) which has a longer term capability to enable generation of information on the economic performance of assets and further improvement in the quality of forward estimates. Individual inspections of assets have to be carried out to eventually provide a uniform basis for estimating and presentation of information on asset cost history and enable effectiveness of operations and maintenance throughout Australia to be assessed.

1.8 Considerable effort has been expended in making the changeover to ACS from the previous system. The ACT Region's dedication to the task over the past 2 years has been wholehearted despite the fact that they did not have the resources, at the time, to inspect every asset and record every detail. A management decision was made that they would concentrate on carrying out normal cyclical inspections and, as they the details of that asset for inclusion into the ACS. This is considered the appropriate method of completing the task.

1.9 Program formulation guidelines introduced in April 1983 for the preparation of repairs and maintenance programs (i.e. specific preventative and corrective maintenance works over \$3000 seen as necessary for the preservation of assets in good order) have recognised the wastefulness of preparing estimates for works which never achieve program status. The guidelines have introduced a new step into the process whereby the Department and the client agree, prior to inspections being carried out, on the clients priorities for the inspection program. This allows DHC to concentrate on those items most likely to achieve program status in the following year.

1.10 In addition the Region has recognised the magnitude of the task of making ACS fully operational and for upgrading the quality of program estimates by initiating actions for substantial increases in the number of staff used.

1.11 The ACT Schools Authority and the Department of Territories and Local Government have responsibility for day-to-day operations and to ensure tenant satisfaction. They have delegations to budget for and arrange for works up to \$750, and accordingly, clearly have a responsibility for some inspections. This delegation releases DHC from a multitude of minor inspections and duplication is kept to a minimum through co-ordination with those bodies.

Stores, Plant and Cost Cards

1.12 The Auditor-General's report states that stocktakes were not carried out. Some stocktakes were carried out in accordance with the Regions stocktake program. The stocktakes which the Region deferred, through lack of resources, were not approved in accordance with the requirements of the Audit Act. The ACT Region has been advised of its responsibilities in this matter and it has submitted programs for approval to address the backlog. This also applies to the stocktakes in the plant area.

1.13 The production of new Supply and Plant Manuals has reached an advanced stage. Both are scheduled to be issued early in 1985.

1.14 A significant proportion of General Works activities are of short duration and wages employees expenditure must be on a daily balance basis. Pending the full development of DAIS the General Works Division will maintain the existing cost card system to provide this necessary information.

SECTION 2 : DEVELOPMENT OF ASSET MANAGEMENT PROCEDURES
IN DEPARTMENT OF HOUSING AND CONSTRUCTION

2. Prior to 1972 the Department operated through separate multi-discipline teams in design and construction. In 1972 the Department pioneered Project Management for major new works by combining the design and construction functions under a Project Manager who controls multi-discipline teams. At the same time General Works Divisions were progressively introduced into Regions to handle the design and construction of minor new works and to plan and execute repairs and maintenance.

2.1 Initially there was no separate General Works Division in Central Office, this was introduced in 1976 as a result of a recommendation of the Administrative Review Committee.

2.2 In 1981 the Department initiated a Joint Management Review into General Works Functions. Since August 1982, following a definitive statement of the objectives, functions and roles of the General Works Division, the major recommendations of the JMR are progressively being implemented.

Objectives and Functions

2.3 The major objective of the General Works Divisions is to contribute towards the achievement of DHC's Corporate Objectives by providing appropriate advice to Management on policies and practices within General Works Division's areas of responsibility and the planning and execution of the repairs and maintenance, minor new works and operational components of Commonwealth works responsibilities of the Department.

Roles

2.4 General Works Divisions have been established in Central Office and Regions to carry out the above functions and their respective roles and responsibilities include:

2.5 Central Office role encompasses the development and overall coordination of policies and practices for the General Works functions on a national basis; participation in the overall Departmental policy-making process including the provision of information and advice on General Works matters to the Minister, Secretary, other Division Heads and Regional Directors.

2.6 It also provides clients with technical, economic, financial and planning advice; undertakes, at the Departmental level, planning coordination and control of programs for repairs and maintenance and minor new works, in conjunction with the Management Division; and manages at the Departmental level the

- wages employee construction workforce
- supply operation and
- vehicle and construction plant operation.

2.7 The major Regional Office role is to direct and control at the Regional level the General Works functions within the framework of Departmental objectives, policies and practices; provide clients with technical, economic, financial and planning advice and arrange for the design and execution of repairs and maintenance and minor new works and undertake at the Regional level, planning coordination and control of programs for repairs and maintenance and minor new works, in conjunction with the Management Services Division.

2.8 In detail this includes management of the Region's wages employee construction workforce, supply operation, and vehicle and construction plant operation; where agreed with other Divisions act as agent for work appropriate to the skills of the Division including design and/or construction, supervise major capital works and arrange for such Divisions to carry out on an agency basis specialist or specific General Works tasks; collection and dissemination of information in respect of performance of the fabric and engineering services of existing assets.

2.9 In the ACT Region the General Works Division also undertakes on behalf of the Department of Territories and Local Government the maintenance of "Territorial" housing and the municipal functions of repairs and maintenance of the ACT's schools and roads and bridges.

Statistical Data

2.10 For financial year 1983/84 (all Regions)

• Expenditure on repairs and maintenance		
- Civil	..	\$ 83.1M
- Defence	..	\$ 91.7M
- Other	..	\$ 37.1M
- CEP	..	\$ 19.9M
		\$241.8M
• Expenditure on capital works by General Works Divisions	..	<u>\$ 44.4M</u>
		\$286.2M
• No of wages employees as at 30 June 1984		
- Tradesmen	2457	
- Apprentices	402	
- Non Trades	<u>1102</u>	
		3961
• No of staff		
• No of Regional Offices	..	1050
• No of Area Offices	..	6
• No of Depots	..	14
		84

Joint Management Review of General Works Functions

2.11 In 1981 a Departmentally initiated Joint Management Review of General Works functions was carried out. The report (dated February 1982) analysed General Works activities and General Works function. The major thrust of these recommendations was for the Department to recognise the need for and develop an expanded asset management service, viz. the provision of advice with respect to use made of and state of repair of assets and the need for replacement, as well as continuing to operate and maintain assets on behalf of client Departments.

Implementation

2.12 The Department accepted the major thrust of the JMR Report and formed the "JMR Implementation Team" to investigate, develop and put into practice, the findings/recommendation of the JMR.

2.13 Copies of reports on implementation are supplied to the Auditor General.

2.14 In line with the recommendations of the JMR, significant changes have been made to the management and operational procedures of the General Works functions at both CO and Regional levels. These include:

- redevelopment of the Asset Control System (ACS) to provide additional programming/work planning capabilities and to upgrade the system to a "data base" format
- issue by Department of Finance of "Australian Government Repairs and Maintenance - Budgeting Administrative Procedures" as a Finance Circular (1984/10) which details the procedures and steps to be carried out in formulation of repairs and maintenance programs
- issue of guidelines for preparation of Sections 1 and 2 Repairs and Maintenance Programs
- restructuring of the organisation in Central Office and the Regions to improve management and to resource recommended changes in operations and procedures.

2.15 The Implementation Team's efforts initiated the Division's role as asset managers and the strategy developed by them which is being continued by line management, will provide General Works with the capability to forecast programs and provide clients with advice on cost penalties as a consequence of not carrying out maintenance.

2.16 The major factors affecting the rate at which an expanded asset management service and other recommendations made can be introduced are:

- the scale, nature and geographic dispersal of Commonwealth assets (DHC looks after some 40,000 building assets, 13,000 residences and 7,000 engineering systems)
- the ongoing and immediate nature of maintenance on these assets and the continuing effort in planning, executing and controlling the expenditure of \$240M on repairs and maintenance and a workforce of just under 4,000 people together with the management of minor contracts for the provision of works and services

- the impracticability of introducing new procedures quickly as the decentralised structure has meant that many individual local management practices have developed over time. Significant retraining will be necessary while, at the same time, keeping the organisation operational
- the tight restraint of both human and financial resources has limited the Department's capacity to increase the numbers of managerial, technical and administrative staff in the General Works area.

2.17 In October 1983 Management decided that implementation had progressed to the stage where further ongoing work could be taken over by line management.

Post Implementation Review

2.18 In October 1984, the JMR Team was reconvened to assess the progress made over the past 2 years. The consultant involved with the JMR was commissioned to examine and report on implementation.

2.19 The consultant found that significant and satisfactory progress had been made in strengthening management of General Works Divisions at Central Office and in the Regions, and a sound basis established for operating with clients and developing systems and procedures to support General Works operations. The major recommendation being that continuation of the above work be complemented by a final phase study, on a pilot basis, of operations within a District office to establish local responsibilities, staffing skills and systems needed to properly implement asset management at District level.

SECTION 3 : COMMENTS ON FINDINGS OF THE AUDITOR-GENERAL AND CONSEQUENT ACTIONS

Asset Control System (ACS)

3. Until 1981 the ACT Region had been preparing their repairs and maintenance recommendations using Section 2 Asset Maintenance Planning (STAMP). This system relied on a theoretical general formulae relating form of construction and size and age to forecast maintenance needs but did not address the total needs of asset management.

3.1 In 1983, to conform with a JMR recommendation to produce uniform methods of estimating and presentation to clients, the ACT introduced the Asset Control System (ACS) as the method of preparing repairs and maintenance programs. This system permits the programming of specific inspection cycles for different types of assets (commonly 5 years external and 7 years internal for most building assets) and has the longer term potential to generate information on the economic performance of assets. The ACT Region has a significant task in collecting details on some 17,000 assets.

3.2 The Auditor-General's review was carried out during the changeover from STAMP to ACS and in its report found:

- early in 1984, approximately 20% of Commonwealth buildings had not been inspected and incorporated into the ACS
- the prescribed form was not being used for purposes of initial inspections, resulting in a wide range of information (including the use of assets, date constructed, maintenance standard, cost of construction, and modification costs) not being recorded for input to the computer
- the initial inspections continued to be performed by works supervisors and estimators without professional input or review by architectural or engineering specialists notwithstanding the recommendation of a previous Joint Management Review (JMR)

3.3 The Department was requested to:

- advise how it could ensure information in ACS was complete and accurate and that cost penalties were not incurred in subsequently obtaining and entering data
- advise on the effect non-capture of data would have on future development of the system.

3.4 The initial information recorded by the ACT Region was the total number of assets in the Region and the due date for their next inspection. Because of the limited resources available and to reduce the possibility of duplication of inspections the Region decided that the best, and most efficient, method of adopting the new system was to include only those specific details of the asset, for the system to be operational. The capture of full details at the initial stage is not required for the system to produce inspection programs. Full details of assets will be included on the prescribed form for entry into ACS as they are inspected in accordance with the cyclical program.

3.5 The ACS now contains a list of all assets and is able to produce inspection programs to satisfy repairs and maintenance program formulation needs.

3.6 The JMR Report suggested that only complex assets in the ACT should be inspected annually by a team led by a professional. The ACT Region is following this suggestion and professional input is made to maintenance inspections of complex assets. The Department does not consider it necessary nor cost effective for professional input to be made for all classes of assets, many of which are of simple construction with straightforward maintenance needs. Such needs are capable of assessment by a Works Supervisor who normally has a trade background and previous experience of repairs and maintenance on that asset. However, Auditor-General's report, all recommendations and, introduced after the Area Managers as part of the Region's new operational procedures.

3.7 The prescribed form for input of data into the ACS system contains many details that can only be obtained by inspection of the asset. There is a minimum amount of information that can be registered into the system that will allow it to operate as a register of assets and produce inspection programs. These details have been, where possible, recovered from the data held by STAMP and the use of the prescribed form was not necessary.

3.8 In the ACT Region an expanded Asset Control Group under the direction of a Chief Technical Officer (Buildings) and consisting of an Administrative Group headed by a Clerk Class 8 and another group of Works Supervisors covering the various trades is being established. The ACS Group will be responsible for all asset inspections, formulate that part of the program developed from ACS input, and maintain all asset records. Part of the responsibility of the Administrative Group will be to reduce progressively the backlog of data still to be put into the ACS.

Program Formulation

3.9 The Department was requested to advise how the Region could ensure:

- the quality and accuracy of Maintenance Inspection Reports (MIR's) and hence the Repairs and Maintenance proposals
- the completion of required inspections in a timely manner, and
- the other responsibilities of Works Supervisors were not unduly affected by inspection requirements.

3.10 The use of ACS now provides a program for asset inspections in a timely manner and with the strengthening of the control group (see 3.8 above) the quality of the MIRs, and their timeliness will improve as will the situation in respect of the present inspection workload on Works Supervisors.

3.11 Guidelines for the preparation of repairs and maintenance programs were issued by the JMR Implementation Team in 1983 and in June 1984 the Department of Finance's Circular 1984/10 "Australian Government Repairs and Maintenance - Budgeting Administrative Procedures" was issued. These documents define responsibilities and set timetables to ensure program formulation is carried out within time constraints.

Program Management

3.12 The Auditor-General required advice from the Department as to:

- the extent of maintenance which had been originally recommended but which it had not been practicable to perform in the ACT as to 30 June 1984
- duplication of effort through inspections by the Department of Territories and Local Government and ACT Schools Authority.

3.13 The value of scheduled maintenance not included in the ACT Region's 1983/84 recommended repairs and maintenance program was \$3.84m out of a total of \$14.318M. The approved program was that agreed by the Government in the Budget context and took into account the relative priorities of all Commonwealth funded repairs and maintenance proposals.

3.14 In accordance with Finance Circular 1983/1 Departments/Authorities may carry out minor repairs and maintenance without reference to DHC up to a value of \$750. The underlying purpose of this delegation is to ensure speedy completion of jobs, to simplify administration and to free DHC from a multiplicity of small, straight-forward jobs.

3.15 This delegation gives the potential for duplication of effort by both the ACT Schools Authority, whose responsibility includes inspections to ensure that schools are functioning correctly and the Department of Territories and Local Government which, as owner/landlord of large holdings of housing assets, has responsibility for regular inspections of these assets, particularly at tenant changeover. Duplication is kept to a minimum through continuing co-ordination with the ACT Schools Authority whilst a Joint Working Party is examining ways to ensure this with the Department of Territories and Local Government.

Stores

3.16 The audit revealed that stocktaking had not been carried out for almost 3 years and the Procedure Manual was out of date.

3.17 It is acknowledged that, as required by Finance Directions, approval was not given by the Secretary to the Department to deferral of some stocktakes. In September 1984 the Secretary wrote to the Director of the ACT Region instructing him to ensure that in accordance with Finance Directions (Section 26) and the Audit Act (Section 41c) annual stocktaking programs are maintained and that if this is not possible for any reason his approval be sought for deferrement.

3.18 Programs for stocktakes have been prepared and progress is being made on catching up the backlog that exists.

3.19 The Supply Manual which was being redrafted in CO to reflect changes recommended by a "Review of Supply Operations" and to reflect the provisions of the new DAS "Commonwealth Purchasing Manual" has been now given a higher priority and is due for issue early in 1985.

Plant

3.20 Audit considered that there were control deficiencies in the administration of the plant pool, the Plant Manual was out of date and some stocktakes had not been undertaken.

3.21 The stocktakes are covered in Item 3.17 and 3.18 above.

3.22 The revision of the Plant Manual is being carried out in Central Office. The draft was sent to Regions for comment in November 1984. It is scheduled to be issued early in 1985.

3.23 The control deficiencies, which included plant records not being kept up to date, determination of depreciation rates and minor construction equipment records not current were in the main, the result of lack of resources. The Region has addressed the comments of the Auditor-General and has provided resources to update the plant records from other areas of the Region.

Cost Cards

3.24 The Auditor-General noted the apparent duplication of effort in continuation of the cost card system that was to be eliminated after the introduction of the Departmental Accounting and Information System (DAIS).

3.25 The manual cost cards will be maintained to ensure that daily costings are available until all depots are equipped with terminals connected to DAIS.

3.26 The present delays experienced with conversion to DAIS are attributable to insufficient staffing resources to maintain preparation of input data and are not connected with any processing problems.

11 December 1984

- A letter from the Department of Housing and Construction, dated 25 July 1985, providing updated information may be found on Joint Committee of Public Accounts File 1984/6, Part A.

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor General's Report - September 1984

Submission by the Department of Industry and Commerce

Paragraph 14.1 Diesel Fuel Rebate Scheme

1 Introduction

- 1.1 During the course of the enquiry by the Joint Committee of Public Accounts into Excise and Deferred Customs Duties, certain information in respect of the operation of the Diesel Fuel Rebate Scheme was provided by the Department.
- 1.2 In its Report on this matter the Committee elected not to examine the Scheme in detail for several reasons. Perhaps the most significant of which was that at the time of the Committee's Inquiry the Auditor General was conducting an extensive audit of the operation of the Scheme. The Auditor General's findings and comments about the Scheme are contained in Section 14 of his report of September 1984.
- 1.3 The Committee indicated that it would scrutinise the item in the context of its consideration of that report.
- 1.4 The Department provided responses which were included by the Auditor General in his report and is taking action where appropriate.

2 Background

- 2.1 Prior to August 1982, a diesel fuel certificate scheme operated wherein certificates were issued to end users to enable them to purchase diesel fuel at a duty free price for their off-road use. In the context of the 1982 Budget, this system was replaced by the Diesel Fuel Rebate Scheme which required that all purchases of diesel fuel be made at a duty paid price with rebates being payable only to persons who used the fuel for off-road purposes in certain eligible categories. These categories are the agricultural, mining, forestry and fishing industries, domestic users, medical and nursing institutions and aged persons' homes.
- 2.2 The Government decision required the Department to have the necessary administrative/processing requirements for the Rebate Scheme in place to allow the new system to operate immediately upon the legislation receiving Royal Assent. Development of administrative procedures and computer processing arrangements was therefore required to be completed within a six week deadline.
- 2.3 Due to the anticipated volume of transactions, turnaround times and location of claimants, the Department decided on a computer assisted system to process claims. It was necessary for the computer system to be developed at very short notice to support some 60 terminals located throughout Australia and connected to the central computer in Canberra via a separate communications network.

2.4 Currently there are approximately 135,000 claimants registered under the Rebate Scheme. Rebates paid in 1983-84 totalled \$165.5 million and approximate nett revenue for diesel fuel was \$532 million.

3 Policies

3.1 Policies relevant to the administration of the legislation have emanated from three primary sources:

- Government intention
- Department of Finance requirements
- Departmental decisions.

3.2 Government intentions contained in the various policy decisions issued prior to and during the passage of the legislation are the principal determinants of policy. These were that:

- the Scheme be easily understood by claimants and subject them to a minimum of inconvenience
- rebate be paid on purchases rather than on use and consequently claimants be required only to estimate eligible usage
- claimants be required to estimate eligible usage only once, on the occasion of the first claim. The need to subsequently amend that estimate in the event of changed circumstances be left to the claimant
- delivery dockets or invoices be acceptable as evidence of purchase
- claims for rebate be processed and paid within two weeks of receipt of the claim
- fishing co-operatives be able to claim on behalf of fishermen (agreed to during the passage of the legislation).

3.3 The present Government has decided that the rebate arrangements will continue.

3.4 Policies for the processing, authorisation and payment systems of the Scheme have been determined in conjunction with the Department of Finance and are contained in an agreed statement of procedures (copy attached). Procedures were closely scrutinised by Finance officers prior to the system being approved under Finance Regulation 45A(3)(b)(ii).

3.5 Departmental policies which supplement those determined by the Government and the Department of Finance have been developed. They primarily relate to the areas of staffing, claims processing and investigation and are contained in the Procedure Manual and the Investigation Manual which have been circulated to all State Offices (copies attached).

4 Objectives

4.1 The objectives of the Department in administering the Rebate Scheme are to ensure that:

- the correct amount of rebate is paid to eligible users of diesel fuel in respect of their eligible usage of the fuel
- adequate controls exist for the processing of rebate claims
- eligible users of diesel fuel are subjected to a minimum of inconvenience
- eligible claims for rebate are paid within two weeks of receipt of the claims.

5 Response to Audit Findings

5.1 The Auditor-General reported on his findings in relation to the following matters:

- Processing of claims
- Multiple registration of claimants
- Claims by fishing co-operatives
- Documentation supporting claims
- Error/warning messages
- Accuracy of rebate payments
- Field investigation guidelines
- Investigation program
- Investigation reports
- Computer system
- Password security
- Data base updates by ADP staff
- Backup, recovery and contingency plans
- Communications.

5,2 While initial Departmental responses to the findings have been recorded in the Auditor-General's report, further comments are provided below in relation to those matters where such comments are considered necessary or where subsequent action has been initiated by the Department to implement the recommendations of the Auditor General.

6 Processing of Claims

6,1 As advised to the Auditor General it was Government Policy that claims be based on the intended use at the time of purchase of the fuel. This intention is reflected in the legislation.

6,2 The fact that a computerised system is used to process claims and support investigations and that claimants must personally sign each of their claims does place an onus on claimants to make legitimate claims and/or vary percentages when necessary.

7 Multiple Registration of Claimants

7,1 The problem raised by Audit is common to most name index systems and only arises where a claimant who is already registered in the system

- lodges an "initial" claim form rather than the personalised computer generated "subsequent" claim form,
- does not indicate that rebate has previously been claimed, and
- changes name details which are then input to the computer in various formats e.g. Smith J.D., J.D. Smith, John Smith.

7,2 The R.E.E.F. name edit is based on exact name matching. Any variation in format at registration will not detect that the claimant is already registered. A comprehensive name matching system could be incorporated however, experience with these systems show them to be expensive on machine resources and they cannot be guaranteed to detect all possible variations.

7,3 As a practical option the Department has issued instructions to all State offices per medium of the procedure manual which prescribe the format for inputting name details for initial claims at registration.

8 Claims by Fishing Co-operatives

8,1 Arrangements for processing claims by fishermen and fishing cooperatives are presently being examined with a view to tightening control in this area. It is anticipated that the review will be completed in early 1985.

8,2 Recently the Department of Finance changed its policy for approving payment systems under Finance Regulation 45A(3)(b)(ii). The revised policy is to formally delegate this authority to the Secretary of Departments. This Department is taking steps to obtain the delegation and when this is finalised the delegate's approval for procedures determined as a result of the review will be sought.

9 Documentation Supporting Claims

9,1 Statements are only accepted when they contain full details of the transaction (including date, invoice number, quantity and product description) and it is impracticable for the claimant to provide either delivery dockets or invoices. In such circumstances, prior approval must also be obtained from the Collector.

10 Error/Warning Messages

10,1 The computer does not generate "error" or "warning" messages as such, rather it provides "alert" and "investigate" notification advices.

10,2 "Alerts" only bring to the attention of examiners of claims the fact that a claim detail has changed since the last claim was lodged. Examiners refer to "alerts" when making their assessment as to the validity of claims. However, it was never intended that formal action be taken by examiners to acquit such advices.

10,3 "Investigate" advices are generated when, for example, apparent duplication of invoices occur. Such advices require that action be taken by the examiners in respect of the claim, details of which must be recorded. These advices have always been attached to the claims in all State offices.

10,4 The procedure manual has now been updated to require that all notification advices are filed with claims.

11 Accuracy of rebate payments

11,1 Following the comments made by the Auditor-General, the computer routine for calculating the amount of rebate payable has been modified to provide an accurate rebate payment. In addition batch reconciliation processes are being amended to verify the on-line calculations and will be implemented December 1984.

12 Field Investigation Guidelines

12,1 Eligibility interpretation guidelines have been provided to all States and are in the process of being incorporated in the investigation Manual.

13 Investigation Program

- 13.1 Claims are referred to the Investigation area when details of claims require further clarification as to eligibility for rebate or when it is considered that claimants may have overestimated eligible usage.
- 13.2 In cases where eligibility is questioned, the procedure manual requires that the matter be resolved before payment is authorised. This is done either by the investigation officer making local enquiries or by field investigations.
- 13.3 In those cases of possible overestimation, when it is considered that the irregularity may be of a minor nature, the claimant is flagged for future investigation and the claim referred back to the processing area. In instances where claimants may have considerably overestimated, investigations are undertaken as a matter of urgency before further processing is considered.
- 13.4 The Department conducts investigations in accordance with its overall priorities and available resources. In a general sense, processing of claims is accorded a higher priority than investigations. It was never envisaged that all claimants would be investigated. However, in the initial period to June 1983, 2500 field investigations were carried out and in excess of 3,000 investigations were completed during 1983/84.
- 13.5 Resources of all Diesel Fuel sections in the States, like other areas of the Department, have been severely affected by Customs conversion training being undertaken. The problem will diminish in the near future as this training nears completion.

14 Investigation Reports

- 14.1 The National Investigation System provides guidelines for investigation recording and review.

15 Computer System

- 15.1 The first fault/enhancement Report raised for the system, which commenced processing claims in November 1982, is dated January 1983. Following a March 1983 Diesel Fuel Conference up until the time of the Audit, 193 Fault/Enhancement Reports had been raised. The conference encouraged delegates to think about their system, suggest desirable enhancements and identify likely problem areas. Many of the reports received were duplicates or requested similar enhancements. Many can be seen as "tidy up" requests.

15.2 The ADP Fault/Enhancement Report System is the established means whereby users can request new facilities, seek enhancement/amendment of current systems or report faults. The report also serves as a project control device within the Systems Division in that it provides details of the proposal, the action recommended and the action taken. It forms an effective audit trail for all changes undertaken.

15.3 The Department accepts that given only 6 weeks to design, develop and implement the system, insufficient time was available to devote to detailed planning. Nevertheless it is not accepted that the nature and frequency of fault/enhancement requests is solely the result of inadequate planning, design or testing. For the reasons mentioned above users often request enhancements to provide additional features not originally envisaged and there are currently a number of enhancements in hand to cater for changes to the scheme introduced with the last Budget.

16 Password Security

- 16.1 A formalised manual system has been implemented in each State to control password usage and to ensure regular changes.

17 Database updates by ADP Staff

17.1 Technical Review Section involvement in updates to the Diesel Fuel System database by ADP staff has now been formally documented. These procedures have been included in the working papers of the Technical Review Section and each staff member is conversant with them. Documentary evidence of each update of the database is retained by the Technical Review Section.

18 Backup, Recovery and Contingency Plans

18.1 Following the Audit, attempts were made to locate suitable off-site storage. A likely site containing a heavy duty safe was identified in Unit 2, Barton Offices. However, subsequent investigations revealed that the safe was not satisfactorily fire proofed. Departmental security officers are investigating other options and subject to availability of funds it is expected that acceptable off-site storage will be available within 6 weeks.

18.2 An investigation carried out into the alleged failure of recovery procedures in January 1984 has revealed that the corruption of data in fact took place prior to the recovery and was in no way connected with recovery procedures. Several recoveries have taken place since that time and to date no problems have occurred. The Department thus disputes the assertion that the recovery method could not ensure data integrity.

18.3 All transactions are backed up to an on-line disc file as well as a recovery tape. In the event of a failure requiring recovery, access is initially made to the on-line disc. If this fails the recovery tape is used. If this also fails then recourse is made to the previous day's recovery tape. The system thus provides three levels of back-up.

19 Communications

19.1 The design of the Department's data communications network will result in the situation that both Data Communication Processors (DCPs) will be on-line and in production. This will provide load sharing and automatic fall back to a single DCP in the event of failure of a single unit. However at present one DCP must be devoted to development and testing of network interface software. This requirement is diminishing and is expected to tail off to an acceptably low level by February 1985 when the implementation of all interstate terminals via the packet network and the Session Control And Registration Processor (SCARP) is achieved. At that stage it is expected the network software maintenance will require infrequent access to a DCP for testing.

19.2 This will be carried out in predefined test slots. The alternative is to have a third DCP devoted to testing. At approximately \$200,000 this is not considered to be cost effective.

19.3 It must be borne in mind that the REEF network at present is a separate entity from the Departments packet-switched data communications network. Development work is being undertaken by SPERRY to allow REEF to be supported via the packet-switched network. This is now expected to be implemented in conjunction with the extension of the SCARP connections to encompass all terminals during January/February 1985.

19.4 The REEF network as it stands is a temporary expedient put together to ensure the timely implementation of the system.

19.5 Some improvements have been made to the DCP configuration since the audit report. In particular, communications line switching equipment has been installed. This obviates the need for manual recabling and greatly speeds the transfer of processing between DCPs in the event of failure.

19.6 Any swapping of DCPs is only required in the event of a prolonged hardware failure. Reliability of the DCPs is such that downtime due to hardware failure is less than .05%. Mean time between failure of several hundred hours is expected and achieved.

19.7 The same cannot be said of software reliability in recent times. Implementation of the interface to the packet network involving special software developed by SPERRY introduced a substantial degree of instability. This has now been overcome.

19.8 Maintenance of the DCP software (TELCON) is undertaken by SPERRY staff as part of a Software Maintenance Service. This service covers all SPERRY software products. Procedures are in place to control the release of all new versions of software. These procedures involve approval at two levels within the Department:

- the section leader of the Departments Software Support group;
- the Technical Review Section.

19.9 Operations Section is responsible for the actual installation of new software. They will not install new releases of software unless they have been correctly approved.

19.10 The only way for an unauthorized version of software to be installed is as a result of some collusion with malicious intent. It is not possible to completely prevent this sort of occurrence by cost effective means.

19.11 It is not normal practise to test communications lines on a regular basis. Network software should detect and report fault conditions. These reports are used by network control staff to initiate investigation into problems. Line test and monitoring equipment and suitably qualified staff are available to carry out these tests.

19.12 The ability of the standard DCP Software (TELCON) to effectively detect and report line faults is inadequate. However, the packet-switched network has comprehensive error detection and reporting mechanisms. When the DCP-packet network interface is fully operational the effect of the shortcomings of the current DCP software in this regard will be minimized. Future releases of TELCON software planned by SPERRY will also improve the situation in the area of fault detection and performance monitoring.

19.13 Design of the processing environment ensures that loss of data is minimized. It cannot however guarantee, for a realistic cost, that no data will ever be lost. However, the reconciliation process will always detect any loss of data and recovery procedures will be invoked to correct the loss.

20 General Conclusions

20.1 Investigations

20.1.1 In the matter of investigations, the Department disagrees with the thrust of the Auditor-General's findings. From the outset the Department considered that it would be at least 12 months before a fully documented national investigation system could be implemented. It would take this time for a workable claimant population to be established and for a knowledge of their distribution to be determined. In fact, after 12 months new claimants still represented 30% of the claims being received.

20.1.2 For this reason, it was decided that the development of the investigation system would proceed in stages.

20.1.3 As a first step, Collectors were instructed to direct their investigation efforts towards the identification of ineligible or high value claimants and claimants who may be overestimating. These were considered to be the areas of highest potential revenue risk.

20.1.4 Computer facilities were designed and used to identify claimants whose percentage estimates or claiming patterns were contrary to others within their industry categories. Guidelines were provided by Central Office in respect of Investigations and the methods by which States were to report findings.

20.1.5 Departmental policy in respect of investigation procedures to be followed are that officers are expected to exercise judgement and initiative in determining those activities and records which are to be checked. Reports are required to be completed in respect of all investigations.

20.1.6 The next stage in the development of the Investigation system commenced in November 1983 (12 months after the Scheme began) when Collectors were asked to provide input for a national investigation system. Such a system was developed by Central Office in the following six months, adopted at an Investigation Conference in June 1984 and has been implemented in all States.

20.1.7 The National Investigation System incorporates refined risk assessment techniques and involves all States in the preparation, on a regional basis, of annual investigation programmes. Apart from assessed high risk claimants and processing system referrals, intuitive/intelligence referrals and randoms are selected for investigation. Procedures for ensuring more effective recording and reporting of investigations have been strengthened and the performance of States in meeting planned investigation programmes will be monitored in Central Office.

20.1.8 The final stage in the development of the investigation system involves the implementation of various computer enhancements to considerably streamline procedures for determining State investigation programmes and assist in risk rating individual claimants. These enhancements will take 64 mandays to implement and are scheduled for completion by mid 1985.

20.1.9 The National Diesel Fuel Investigation System is consistent with the Department's overall investigation policy and it is considered that it will result both in improved investigations effectiveness and more efficient utilisation of investigation resources.

20.2 Computer System

20.2.1 The Department considers that deficiencies recognised by users and/or identified by the Auditor General have been largely corrected.

20.2.2 Enhancements necessary to ensure prompt and correct payments, were addressed as a first priority. Other enhancements of a less urgent nature have been implemented in line with the availability of programmer resources and competing Departmental priorities.

20.3 Applicant Estimate of Percentage Use

20.3.1 In view of the Government decision that applicants be required only to estimate eligible usage at the time of making the claim, the Department has not considered examining alternative methods of assessing rebate.

Reference: 82/2612
Contact: Mr D.J. Riston
Telephone: 633935



DEPARTMENT OF FINANCE

Newland Street, Paine, A.C.T. 2600
Telephone: Canberra 629111
Telex: 62639

The Secretary
Department of Industry and Commerce
CANBERRA ACT 2600

ATTENTION Mr K.J. Charlton

REBATES OF DUTY PAID ON DIESEL FUEL -
FINANCE REGULATION 45A

This memorandum confirms oral advice to Mr K. Charlton that the system controls and accounting procedures forwarded with your memorandum of 3 November 1982 were approved for the purposes of Finance Regulation 45A(3)(b)(ii) on 5 November.

Prior to approval, two minor amendments were made at your request.
A copy of the final procedures is attached.

R.G. Humphry
R.G. Humphry
First Assistant Secretary
Accounting and Supply Division
9 Nov. 1982

-COPY-

DIESEL FUEL REBATE SCHEME

OVERVIEW OF SCHEME

Persons who consider they are entitled to a rebate of duty paid on diesel fuel purchases are required to submit an application (on a prescribed form) to the Collector of Customs in the state of residence. Separate forms are provided for initial applications and for subsequent rebate claims.

Applications are manually registered on receipt and covered by a "claim control form" to facilitate clerical control during the various stages of systems processing. All relevant application details, including applicant status information in the case of initial applications, are recorded on computer files. The application is allocated a unique registration number by the system and preliminary edits are performed to test against previous payment and compliance with eligibility criteria. A reconciliation between manual registrations and system registrations provides control over input of applications.

The system incorporates an on-line communication capability between state Collectorate offices and the central installation in Canberra. Applications data is captured in state offices and transmitted to Canberra for subsequent processing in the centralised data base system.

Following initial data input, applications are passed to an examiner for scrutiny of application details and supporting invoice information and, in the case of initial applications, the dual fides of applicants.

Details of all claims passed for payment are provided weekly on magnetic tape to the Department of Finance's General Payments System (under cover of a Processing Authority form - Sample A attached) for generation of payments to payees' nominated accounts with banks, credit unions or building societies.

Authorization of the expenditure (evidenced on a Payment Authority form - Sample B attached) is given at state level and is provided to the relevant state Accounting Office Paymaster.

At the same time as payment a computer prepared combined claim form/payment advice is sent to the payee. This advice serves the dual purpose of providing the payee:

- payment particulars of his current application
- a subsequent application form in a format both convenient for the applicant to complete and suited to the Department's processing procedures.

Regular reports are produced by the system to assist with following up of outstanding applications.

Enquiry facilities are available within the computer system to help answer queries as to the status of particular applications and to facilitate in-field investigation of selective claims to ensure compliance with payment conditions.

The scheme incorporates system controls and accounting procedures to safeguard against processing of unauthorised payments. Recovery and reprocessing procedures are available in the event of a computer system failure, loss of data, etc.

ROLES OF APPOINTED OFFICERS IN THE SCHEME

The various processing stages to authorization of weekly payments under the Diesel Fuel Rebate Scheme will involve certificates being provided by the following appointed officers. The source of certificate reflects the separation of functions within the payment cycle between the state Collectorate offices and central office of the Department.

Applications Examiners

Applications Examiners in the state offices of DIAC will have the responsibility for ensuring that rebate applications meet the requirements prescribed in section 164 of the Customs Act 1901 and section 78A of the Excise Act 1901. Job procedure statements for Applications Examiners will provide that the relevant provisions of Finance Regulation 45 (1) be applied in the examination process, particularly in relation to the requirement for supporting vouchers ie invoices/delivery dockets.

Office Manager

Claims which fail to meet the system's various eligibility edits are accorded a "rejected" status. Where subsequent investigation of the rejection results in the judgement that payment should proceed, a special "override" facility of the system is used to enable payment. Within state Collectorate offices, the position of Office Manager (Class 6) has the responsibility for determining cases where the override is used. The Office Manager will record (and sign) the reasons supporting override on the claim control form. A report is available from the system detailing all claims passed for payment by way of the override facility.

Officer-in-Charge

Operational responsibility for each state Collectorate office is vested in the Class 9 position designated "Officer-in-Charge". The position will be responsible for providing confirmatory advice to the authorised officer under Finance Regulation 45A (3) (b) - Central Office position of Assistant Director, Diesel Fuel - that all approved system controls and accounting procedures as applying to the Collectorate office have been complied with in the processing of each week's payment tape.

Authorized Officer - Regulation 45A (3) (b)

Central Office position designated "Assistant Director, Diesel Fuel" will hold the appointment of authorized officer for the purposes of providing the certificate prescribed in Finance Regulation 45A (3) (b), namely:

- that the payments are based upon data prepared by a computer; and
- that, in the preparation of that data, systems controls and accounting procedures approved by the Minister have been employed.

This officer has the detailed knowledge of the system controls and accounting procedures to ensure that the approved procedures have been employed in each payment run. This officer will be responsible for the reconciliation of various output reports to ensure the accuracy of information passed to the payments tape.

Certifying Officer

The currently appointed central office Certifying Officer will also certify, against the requirements of Finance Regulation 45A, claims for diesel fuel rebates. Payment tapes will be covered by a Payment Authority upon which the Certifying Officer will provide the certificate in accordance with sub-section 34 (2) of the Audit Act.

Authorizing Officers

The currently appointed central and state office Authorizing Officers will authorize payments for diesel fuel rebates falling within their respective areas of responsibility. A certified Payment Authority in respect of each state's expenditure will be forwarded to the appropriate state Authorizing Officer by the central office Certifying Officer.

SYSTEM CONTROLS AND ACCOUNTING PROCEDURES

Set out below are system controls and accounting procedures relating to the processing of payments under the Diesel Fuel Rebate Scheme. The duties of the "Assistant Director, Diesel Fuel" - who is the authorized officer for the purposes of providing the certificate in accordance with Finance Regulation 45A (3) (b) - are stated separately.

General Procedures

Procedures controlling forms flow and computer processing of the weekly payments run must ensure that:

- (i) All rebate applications (initial and subsequent applications) are properly approved for payment. In respect of each "DIESEL FUEL REBATE REPORT OF COMPLETED CLAIMS" all application numbers listed for payment have been verified to the manual claims register and any discrepancies accounted for. This check is to be carried out by a person not associated with the data input of claim forms.
- (ii) In respect of any given application, the initial data capture and subsequent data verification has not been undertaken by the same Data Processing Officer.
- (iii) All applications control messages have been correctly actioned (eg the application data has been re-input or the application passed to RESEARCH/ENQUIRY/INVESTIGATION UNIT).
- (iv) All claims accepted for payment by means of the system's "reject override" facility have been verified to an override approval form.

Procedures-Authorized Officer

The position of Assistant Director, Diesel Fuel, holds the appointment of authorized officer for the purposes of Finance Regulation 45A (3) (b). In relation to each weekly payments run this officer shall:

- (i) Sight evidence from the Officer-in-Charge of each Collectorate office that the General Procedures as stipulated above have been employed.
- (ii) Ensure that applications data has not been lost or corrupted during processing by maintaining a manual total for each month using the total of each week's payments from the 'Processing Authority' report.

This manual total is reconciled with the total value of claims processed in the period, year to date, and overall, which appears on the 'Monthly Statistics' report. (Totals on the "Monthly Statistics" report are compiled each month from the History files.)

- (iii) Ensure that the correct value of payments has been passed across to the Department of Finance payments file by verifying on the computer produced report titled 'State Discrepancy Report', that for each state no discrepancies exist between the input value of deposits (totalled during the week as each claim is processed and held on the control record for that state) and the calculated value of deposits (totalled as the payments are written to the Payments Tape to go to the Department of Finance).

- (iv) Ensure that, in the creation of the Department of Finance tape, the value of payments agrees to the value of ledger chargings by verifying on the computer produced report titled 'State Deposit Totals' that the Total value of deposits for each state is the same as the 'Total value of cheques' shown on the 'Payment Authority' for that state.

SAMPLE A

The Senior Finance Officer
Central Accounting Section
Department of Finance, Canberra
(Room A50)

DIESEL FUEL REBATES - PROCESSING AUTHORITY

You are hereby authorised to produce cheques for payments of diesel fuel rebates in accordance with information specified on Department of Industry and Commerce magnetic tape Number subject to your verification of the following:

Total Value of Cheques
Total Number of Cheques
Payments are for the period ending

Processing should be arranged as soon as possible.

Attached are copies of the related Payment Authority forms to individual Accounting offices detailing cheque drawings for each state. The aggregate value of drawings agrees with the "Total Value of Cheques" specified on this Processing Authority form.

..... /.... /....
Authorizing Officer
Department Of Industry and Commerce

SAMPLE B

The Paymaster
Accounting Office
Department of Finance
.....

DIESEL FUEL REBATES - PAYMENT AUTHORITY

You are hereby authorized to draw cheques for the payment of diesel fuel rebates in accordance with information supplied to your Department's Central Accounting Section on magnetic tape Number subject to your verification of the following:

Total Value of Cheques
Total Number of Cheques
Payments are for the period ending

Despatch should be arranged as soon as possible.

..... /.... /....
Certifying Officer
Department Of Industry and Commerce

For the purposes of section 34(2) of the Audit Act 1961, I certify that payment of the amount specified above may properly be made.

..... /.... /....
Authorizing Officer
Department Of Industry and Commerce

DEPARTMENT OF INDUSTRY AND COMMERCE

A letter from the Australian Customs Service, dated 25 June 1985, providing updated information on the Diesel Fuel Rebate Scheme may be found on Joint Committee of Public Accounts File 1984/6, Part A.

Copies of the Procedure Manual and Investigation Manual referred to in the Departmental submission may be found on File 1984/6, Part B.

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report, September 1984

Submission by the Department of Industry and Commerce

14.2 Coal Excise Duty

In 1949 a Trust Account was established to finance long service leave payments for miners employed in black coal production. The Trust Account's income is derived from payments made by the Commonwealth amounting to a four-fifths share of receipts from a current 25 cents per tonne excise duty imposed on black coal production. Income for 1984/85 is estimated at \$19 m.

2. In 1977 a further Trust Account was established to finance coal research. The Trust Account's income is similarly derived from payments made by the Commonwealth amounting to a one-fifth share from the excise duty. Income for 1984/85 is estimated at \$4.75 m.

3. Excise duty is payable on coal produced and removed from a mine including coal which is produced for export.

4. The legislative basis for the collection and administration of the duty is the Coal Excise Act 1949.

5. The Auditor-General has referred to the following matters arising from an audit in Queensland earlier this year:

- Licensing of coal producers;
- Currency of licences;
- Calculation of duty liability on coal produced;
- Securities;
- Confirmation that all excise duty had been paid;
- Reconciliation to the Revenue Ledger of collections received;
- Inspection of producers' premises and records;
- Penalties;
- Departmental instructions.

6. The present position in respect of each of these matters follows.

7. Licensing of Coal Producers

7.1 Officers - formal procedures have been documented and are now being followed by officers when examining applications for production licences. These procedures also incorporate a check list.

7.2 Applicants - comprehensive guidelines in the form of a booklet are now available for prospective applicants for licences to produce coal.

7.3 Delays - this matter has been improved but continues to receive attention in conjunction with a current review of all functions of the Inland Services Branch in Queensland.

8. Currency of licences

8.1 A review of all current licences has been completed. Those licences which require amendment are presently being re-issued.

8.2 Procedures have been amended such that changes to mine description and lease details are taken into account when considering applications for renewal of licences

9. Calculation of duty liability on coal produced

9.1 The Department accepts that there is an inconsistency between the industry procedure of calculating duty liability on the basis of sales weight or "paid for" weight and the Coal Excise Act which, in effect, refers to production weight, and as a result there may be delays in duty payment.

9.2 The Coal Excise Act, as drafted in 1949 requires that duty liability be calculated on the basis of coal produced and removed from a mine. However, in 1984 this requirement disadvantages the many producers who do not have beneficiation facilities within their minesites.

9.3 The development of the industry since 1949, particularly the export trade, has meant an upsurge in coal washing. This process can include the blending and preparation of coals from different sources and when applied to the "raw" coal removes the extraneous non-combustible material resulting in "product" coal fine tuned to contract specifications. In the export trade the quantity of this coal is established at the point of export by draft survey of the exporting vessel - the most reliable measure in the industry.

9.4 In both the domestic and export trades, today, most contracts provide that adjustments may be made for the weight of excess moisture resulting from the washing process and/or climatic conditions, before arriving at a sales weight or "paid for" weight.

9.5 The Department has accepted excise duty payment on this same "paid for" weight believing that to enforce the law as it stands would have undesirable results in that those producers without beneficiation facilities on-site would be liable for duty on raw-coal tonnage thus paying more duty. To obviate this would mean considerable capital expenditure on new plant.

9.6 The Department intends to resolve this matter and has prepared a Cabinet Submission which recommends an amendment of the Act to align it with the accepted industry practice. The proposed amendment will have a revenue neutral effect and is supported by the Departments of Employment and Industrial Relations and Resources and Energy. The present period of "caretaker" Government has halted progress of the Submission but action will recommence after 1 December 1984.

10. Securities

10.1 Section 10 Securities

Developments in the industry since 1949 have made the 1950 Central Office direction on this matter obsolete. The Department is advising all coal producers to lodge securities in terms of Section 10 of the Coal Excise Act. This will bring coal producers into line with other licensees under the Excise Act.

10.2 Sub-section 24(2) Securities

10.2.1 A review of the monetary level of securities was completed on 7 September 1984. Procedures are in place to ensure that this review is undertaken at least annually.

10.2.2 Departmental policy provides that the Collector of Customs will decide on the type of security either with or without surety to be required in each case. In 1975 there was a departure from this policy when Central Office directed that securities without surety be taken in respect of deferred duty payments under the Customs Tariff (Coal Export Duty) Act.

10.2.3 In 1975 the Government decided to impose levies on certain extraction industries arguing that the community should share the windfall profits - hence

the crude oil levy and coal export levy. In special recognition of the nature of these products (i.e. duty liability was not readily able to be calculated from initial gross production figures) - the Treasurer of the day decided to allow duty payment on a periodic basis after delivery to home consumption or export.

10.2.4 Following the Treasurer's decision, Central Office took a policy decision not to require securities with surety. In taking this decision particular regard was had to the large amounts of revenue that extraction companies would be paying and the resultant servicing costs which would be involved if surety was required commensurate with average weekly duty liability.

11. Confirmation that all excise duty has been paid

11.1 New procedures for the reconciliation of monthly returns of coal produced, duty paid and Queensland Coal Board returns of sales have been implemented. These include written instructions and an internal reporting system which requires the monthly submission of detailed reports. A copy of the new procedures is at attachment "A".

12. Reconciliation to the Revenue Ledger of duties received

12.1 Since the Audit, reconciliations have been completed for the financial years 81/82, 82/83 and 83/84. The computerised accounting systems referred to in the 1981 survey have not been developed but are included as part of the departmental ADP redevelopment program scheduled for the later part of 1986. In the meantime Collectors are conducting monthly reconciliations of coal excise collections as per excise entries and receipts recorded in the revenue ledger.

13. Inspection of producers' premises and records

13.1 A risk rating of all coal producers has been completed. Programmed field testing of the risk rating commenced during October 1984.

14. Penalties

14.1 As reported to the Auditor-General on 13 July 1984 the Bill to amend the prescribed penalties under various Acts (including the Coal Excise Act) administered by the Department was put forward by the Minister for Parliamentary Business Committee of Cabinet did not include the Bill in the program. It is proposed that the Minister put the Bill forward again as part of his legislative program for the 1985 Autumn Sittings.

15. Departmental instructions

15.1 The guidelines and procedures developed in Queensland following the audit are being reviewed with a view to incorporation in the Customs Services Manual.

16. Policy and objectives

16.1 There is, however, one area in which the Department is not in complete agreement with Audit - namely the consideration "that coal producers should be included in the Department's Inland Services risk assessment program and an inspection program should be developed in accordance with the assessed risk for each producer". (page 105, 3rd last paragraph).

17. Following upon the 2247 Report of the Joint Committee of Public Accounts into Excise and Deferred Customs Duties the Department is currently developing a national risk assessment program. Ideally, the program will encompass all of the traditional excise commodities and crude oil whose revenues contribute directly to consolidated revenue for the funding of Commonwealth Budgetary programs. Successful implementation and operation of the program will allow Collectors of Customs to allocate staff to areas representing greatest risk to the revenue. This will certainly involve the re-allocation of existing resources and may even require additional resources.

18. The Department has the view that whilst it does have responsibility for Coal Excise Duty, allocation of resources for field investigations will not have as high a priority as those traditional excise commodities referred to above. This was particularly departmental policy during the 28 years up to 1977 when the excise duty was wholly dedicated to coal miners long service

leave schemes. In effect, it provided the means for coal producers to fund their long service liabilities to their employees.

19. Costs to the Commonwealth were minimal for in the end they amounted to administration costs only. These primarily concerned the Department (currently Employment and Industrial Relations) responsible for monitoring payments from the Trust Fund against excise receipts.

20. In 1977 the excise duty assumed a Commonwealth element in the Research Trust Fund administered by the Department of Resources and Energy. This operates along the same lines as the Miners fund and once again provides assistance to coal producers.

21. Despite the fact that there is a major difference between the revenue allocation of coal excise and the traditional excise duties this Department accepts that it does have definite statutory obligations under the Coal Excise Act. However, over the years the Departments of Employment and Industrial Relations and Resources and Energy have never indicated that insufficient excise had been collected from coal producers such that the respective Trust Funds could not be correctly operated. This should not be confused with cases where collections have not been allocated to the correct account - a matter taken up by the Auditor-General at page 105 of his Report. These considerations have also influenced the Department's decisions on the level of field investigation resources allocated to coal excise.

22. The proposed amendment of the Coal Excise Act to align it with industry practice as referred to above would mean that the excise and some State Government royalties would be levied on a similar basis.

23. The Department is currently active in examining whether agreements can be made with State Governments for specialist royalty officers to undertake the verification of producers production records on behalf of the Department. In New South Wales where the 90 operating mines contribute about 55% of the total coal excise collection the Department is confident that such an agreement will be negotiated.

24. In those states where it may not be possible to negotiate an agreement with the State the Department will continue to undertake a specific investigation program for coal excise.

DEPARTMENT OF INDUSTRY AND COMMERCE

- Attachment A to the Departmental submission on Coal Excise Duty may be found on Joint Committee of Public Accounts File 1984/6, Part B.
- A letter from the Australian Customs Service, dated 24 June 1985, providing updated information on the Coal Excise Duty may be found on Joint Committee of Public Accounts File 1984/6, Part A.

SUBMISSION TO JOINT COMMITTEE OF PUBLIC ACCOUNTS

INQUIRY INTO REPORT OF THE AUDITOR GENERAL - SEPTEMBER 1984.

SUBJECT: DEPARTMENT OF RESOURCES AND ENERGY - INTERNAL AUDIT
PREAMBLE

1. Increasing awareness of the importance of accountability within organisations has focussed attention, in recent years, on the need for a more responsive and effective internal audit organisation in the Public Service generally.
2. In addition to this increasing awareness, continuing critical comment by the Auditor-General of the lack of emphasis placed by Departments on the maintenance of an appropriate internal audit structure resulted in the commissioning of a Joint Management Review of Internal Audit procedures by the Public Service Board in 1977. Subsequently, the Public Service Board established a Joint Implementation Committee (JIC) to facilitate and encourage upgrading of the internal audit function.
3. The JIC has been assisted by an Interdepartmental Advisory Committee on Internal Audit which has been active, in consultation with the Auditor-General's Office, in promulgating advice on the adoption of new standards and techniques.
4. As a result of these initiatives, comment by the Joint Parliamentary Committee of Public Accounts in its 1979 Annual Report, and further comment by the Auditor-General in his Report for 1979-80 on the quality of internal auditing in the Public Service generally, a review of the Department's Internal Audit function was initiated to determine the resources necessary to implement modern internal auditing standards and systems-based audit techniques and to improve audit efficiency and effectiveness.

DEPARTMENTAL ACTION

5. Following completion of the Departmental review, which indicated that the Internal Audit Section was under-classified, inadequately staffed and organisationally unsound, a proposal for upgrading of the unit was referred to the Public Service Board for consideration. The Board's approval to a significant upgrading of the area was obtained on 13 March 1981.
6. Subsequently, action was taken to recruit suitable senior internal audit staff, to develop a new internal audit charter for this area of activity, to revise the internal audit program and to constitute a departmental Internal Audit Committee with responsibility for the oversight and control of the Internal Audit unit.

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7. Since then the Internal Audit Charter has been revised to enable a new Internal Audit Sub-Committee to be established. The Internal Audit Sub-Committee has been given responsibility for undertaking a detailed review of all internal audit reports before consideration by the Committee.
8. Copies of the current Internal Audit Charter and Guidelines and the terms of reference of the Committee and Sub-Committee are at Attachments A, B, C.

AUDITOR-GENERAL'S COMMENTS

9. Specific comments on each of the matters raised by the Auditor-General in his September 1984 Report, in the light of the preceding background information, are set out in the following paragraphs.

STAFFING

Audit Report Extract

The September 1981 Report mentioned that 3 of the 5 internal audit positions were vacant and that soon after the audit review, the PSB had approved an increase in the number of positions to 7. Audit noted that 2 of the positions had remained vacant in excess of 12 months.
The Department advised that one of these positions has since been filled and the other vacancy advertised.

10. Following the departmental review referred to above the PSB approved an internal audit establishment of seven positions comprising 1 Clerk Class 10, 2 Clerks Class 8, 1 Clerk Class 7, 1 Clerk Class 6, and 2 Clerks Class 5.
11. Although recruitment action was initiated after the Board's approval had been obtained on 13 March, 1981, this action was incomplete at the time of the Auditor-General's review. The question of staffing was first raised with the Department in February, 1981, and was subsequently reported on in the Auditor-General's Report in September of that year.
12. During the above period, the Department was operating under considerable staffing restraint which had been introduced as a result of recommendations of the Review of Commonwealth Functions. The priorities within the rapidly expanding energy policy field made it inevitable that resources were directed to meeting the Government's demands in this area.
13. Currently, there has been a relaxation in these staffing restraints and audit resources are being increased to the establishment level. Currently all of the 7 positions are filled.

AUDIT PROGRAM

Audit Report Extract

The September 1981 Report stated that the audit program was inadequate in terms of coverage and was in arrears. It was found that the situation had improved only marginally and that insufficient resources, coupled with additional activities to be audited, had led to inadequate coverage of the audits planned for 1983. The Department advised that augmentation of staffing resources was expected to lead to a more comprehensive coverage of the approved program than had been achieved in the past.

14. The lack of sufficient audit staff resources, over the previous 3 years, has been a prime factor in restricting audit coverage to a level below that anticipated in the approved Internal Audit Strategic Audit Program.
15. Other factors, however, have also been responsible for this shortfall. One of these factors, as mentioned in the Auditor-General's report has been the need to perform additional audits such as those relating to 'Uranium activities'. This function, together with several others, was acquired under the Administrative Arrangements Order of 11 March 1983 from the former Department of Trade and Resources.
16. These factors have been compounded by the time taken to develop skills in system based operational auditing. As well, a consequence of the current comprehensive audit approach is that considerably more of the audit resources available need to be applied to particular audits than has been necessary in the past.
17. The filling of all the available audit positions will result in further improvement in this area. A decision will however need to be undertaken in the near future as to whether the program should be revised or internal audit staff augmented.

FIELD PLANS AND MANUALS

Audit Report Extract

The review indicated that field audit plans had not been prepared for audits undertaken, consistent with the PSB guidelines. In addition there was no internal audit manual. The Department advised that considerable effort has since been devoted to the development of an internal audit manual which had been issued on an interim basis pending detailed consideration by the Internal Audit Committee. It also advised that field audit plans were now being prepared.

18. Whilst it is acknowledged that field plans and manuals were not formally in existence at the time of the audit review, it must be stated that field auditors were always under close personal supervision and direction from the Chief Internal Auditor. This personalised attention, which was possible due to the relatively small number of staff working in the audit section, covered, to a large extent, those aspects that would have normally been covered in the field audit plans and audit manuals.
19. Although this approach has worked reasonably well in the past, it is acknowledged that the formalisation of such direction and advice is desirable as it provides a permanent record of audit activity and operational instructions which are necessary to ensure that the operational effectiveness of the audit section is maintained. Accordingly, action has already been taken to remedy these shortcomings.
20. The specific action that has been taken is as follows:
 - **Field Plans:** As required under the Interdepartmental Advisory Committee on Internal Audit (IDAC) Paper No. 63 paragraph 7.22, field assignment plans are prepared for each assignment undertaken. Items addressed in these plans include:
 - Scope and Objective of the audit;
 - Control models, if applicable;
 - Action packages available;
 - Administrative Arrangements;
 - Resources;
 - Proposed target dates for completion of discrete sections of the audit;
 - Work Category dissection, and
 - Relevant background information.
- **Audit Manual:** A comprehensive audit manual has recently been developed which provides a guide to the most recent

developments in auditing practice and procedures. As such its primary emphasis is on the application of systems-based auditing as a technique irrespective of the actual type of audit being undertaken.

The manual was recently approved by the Secretary of the Department, who has actively encouraged internal audit personnel to: refer to the manual as a primary source of reference; to familiarise themselves with its contents; and, to initiate programmed audits in line with the procedures.

The manual covers the following topics:

- a. The Nature, Scope and Purpose of Modern Internal Auditing.
- b. Types of Audits.
- c. Planning for Internal Audits.
- d. Auditing Techniques.
- e. Working Papers for Internal Audit.
- f. Reporting on Internal Audit.
- g. ADP Auditing.
- h. Auditing Standards.
- i. Quality Assurance for Internal Audit, and Appendices:
 - Internal Audit Charter
 - Terms of Reference - Audit Committee
 - Terms of Reference - Audit Sub-Committee
 - Internal Audit Section Structure
 - Permanent Head Instructions
 - Annual Reports to Minister

QUALITY ASSURANCE PROGRAMS

Audit Report Extract

A quality assurance program to monitor the operations of the internal audit function had not been formally established in accordance with the PSB guidelines. The Department advised that the quality assurance program had since been introduced.

21. Following criticism from the Auditor-General, this matter has been reviewed and the weakness of documentation acknowledged. It has therefore been considered appropriate to introduce a formalised system to document the quality assurance review program. This program has now been introduced and is based on the Quality Assurance Checklist Questionnaires contained in IDAC paper No. 25.

OCCURRENCE REPORTS

Audit Report Extract

Although the internal audit charter requires the Internal Audit Section to evaluate procedures for the safeguarding of assets, no reports were being made to the Section in respect of theft, defalcation or control breakdowns. The Department advised that such a reporting system had now been introduced.

23. Under previous audit procedures, occurrence reports were reviewed whenever an audit was conducted into the particular functional activity to which that occurrence report related (e.g. occurrence reports for losses of public moneys and stores would be examined when the register of losses for these areas were to be examined in accordance with the strategic audit program).

24. This procedure however had the disadvantage that critical control weaknesses, which are often identified or highlighted by such reports, may continue to exist until audit review of the area is performed.

25. Accordingly, procedures have been amended to the effect that files relating to all Writeoffs, Waivers and Act of Grace Payments are now required to be provided to Internal Audit for information.

GENERAL AUDIT COMMENT

Audit Report Extract

The deficiencies noted by Audit related to the administration and implementation of the internal audit function and not to the quality of the work performed by the internal audit personnel. The action taken by the Department should make for continuing improvement.

26. The Department wishes to make no comment on this matter.

LIST OF POSSIBLE WITNESSES

Mr B.J. Hill - Deputy Secretary, Dept. of Resources and Energy
Mr G.C. Gorrie - Senior Assistant Secretary, Co-ordination and Management, Dept. of Resources and Energy
Mr P. White - Chief Internal Auditor, Dept. of Resources and Energy

CHARTER OF THE INTERNAL AUDIT FUNCTION - DEPARTMENT OF RESOURCES AND ENERGY

1 Nature of Internal Audit

1.1 Internal Audit is an independent appraisal activity within the Department for the review of operations as a service to management. It is a management control which functions by measuring, and evaluating the efficiency and effectiveness of other controls.

2 Objectives of Internal Audit

2.1 The overall objective of Internal Audit is to assist management in the effective discharge of its responsibilities, by the employment of compliance, systems-based auditing and other techniques and by furnishing management with objective analysis, appraisals, pertinent comments and recommendations concerning the activities reviewed.

3 Scope of Internal Audit

3.1 Internal Audit coverage may extend to all operative areas of the Department, where activities involve the expenditure and/or the receipt of public moneys.

3.2 Internal Audit coverage may extend to non-financial activities of the Department, including matters such as the use of physical assets and the utilisation of staff resources.

3.3 Internal Audit review and appraisal does not in any way relieve line management of responsibilities assigned to them.

4 Authority and Responsibility

4.1 The Chief Internal Auditor shall be responsible to the Permanent Head or his nominee for the functional control of audit activities throughout the Department, in relation to:

- development, implementation and oversight of internal audit methods and procedures;
- development and control of the internal audit program;
- the scope of audits;
- fulfilling the aims and objectives of internal audit; and
- utilising the Section's resources so as to maximise efficiency and effectiveness.

2.

4.2 The Chief Internal Auditor is directly responsible for the control and direction of the Internal Audit Section. He shall observe and maintain auditing standards issued by the Public Service Board in consultation with the Auditor-General's Office and the Department of Finance and shall develop the internal audit function in accordance with principles espoused by the Public Service Board.

4.3 The Chief Internal Auditor shall be involved in:

- the formulation of any proposals related to the structure of the internal audit organisation and the staffing of internal audit positions;
- establishing criteria to ensure that the staff of the Internal Audit Section taken as a whole are capable of performing the work;
- ensuring that appropriate levels of ADP expertise are developed and maintained in the Internal Audit Section to facilitate appraisal of the Department's ADP activities (Where an audit requires expertise not available within the Internal Audit Section, suitable staff may be seconded to the Section for the duration of the audit).

4.4 There shall be established an Audit Committee comprising such membership as the Permanent Head determines. The Audit Committee shall be responsible for appraising the planning and efficiency of the Department's internal auditing activities and ensuring the adequacy of follow-up actions. As far as Internal Audit reports are concerned the Audit Committee shall concern itself primarily with major matters and/or issues which cannot otherwise be resolved with auditees.

4.5 There shall be established an Audit Sub-Committee Comprising of such membership as the Audit Committee determines. The Audit Sub-Committee shall be responsible for appraising all Internal Audit Reports and identifying issues requiring consideration by the Audit Committee. The Sub-Committee will be responsible for initiation follow up action on other minor matters identified by Internal Audit Reports and will be required to report on any such action to the Audit Committee.

4.6 The Chief Internal Auditor will report to the Audit Committee through the Audit Sub-Committee on any matters required by the Audit Committee and in any circumstance where he is unable to achieve the aims and/or objectives of the Internal Audit Section.

4.7 Internal Audit does not exercise authority over persons in the Department whose work it reviews.

5 Relationship with Commonwealth Audit

- 5.1 Under the Audit Act 1901, the Auditor-General has right of access to all accounting and other records of the Department including those records maintained by Internal Audit.
- 5.2 Internal Auditors shall co-operate fully with Commonwealth Auditors at all time.

6 Method of Operation

- 6.1 To enable Internal Audit to provide maximum service to management it shall:
 - be responsible to the Permanent Head or his nominee for all internal audit matters and so that there may be no restriction on its activity it shall have access to the Permanent Head as necessary.
 - report on all internal audit matters to the Permanent Head or his nominee and to such other officers as is necessary for the proper consideration of internal audit findings. In all cases, matters raised in audit reports shall have been previously discussed with management of areas audited.
 - assist all members in the effective discharge of their responsibilities by:
 - reviewing and appraising the soundness, adequacy and application of systems and accounting, financial, and operating controls (including ADP);
 - assessing the extent of compliance with established policies, plans, procedures, instructions, statutory requirements and regulations;
 - examining the adequacy and currency of promulgated procedures;
 - ascertaining the extent to which Commonwealth assets are safeguarded;
 - ascertaining the reliability of costing, accounting and other data developed within the Department;
 - maintaining a high standard of personal relationships with other departmental officers and employees;
 - appraising the quality of performance in carrying out assigned responsibilities;
 - assessing the cost effectiveness of activities and reviewing the efficiency/effectiveness of resource utilisation.

6.2 Internal Auditors shall:

- advise details of systems and methods considered capable of improvement together with recommendations of action necessary to remedy faults and to prevent their recurrence
- observe all security considerations and generally expected courtesies to management
- have right of access at all times, to the books, accounts, vouchers, records, correspondence, documents and other data of the Department which are necessary for the proper performance of their duties, except for personal files which require prior approval for release
- request any officer or employee to furnish any information and explanation deemed necessary for them to form an opinion on the adequacy of systems and/or controls
- remain independent of the operational functions which they are required to appraise
- conduct special investigations into any matter or transaction affecting the interests of the Department.

7 Relations with Audittees

It is important that the Internal Audit process encourages co-operation in the achievement of efficiency, objectives and avoids the generation of unnecessary friction. In this context, special emphasis is to be placed on

- (a) giving prior notice of impending internal audits to Division and/or Branch Heads;
- (b) open consultation with auditee groups;
- (c) exit interviews and consultation with auditees to try to resolve outstanding issues and improve practices for the future. Areas of remaining disagreements are to be noted in Internal Audit Reports - such disagreements, comments etc to be cleared with Division Head.

As appropriate, auditees may be invited to attend meetings of the Audit Committee or the Audit Sub-Committee to respond to audit findings and to try to find appropriate solutions to issues.

DEPARTMENT OF RESOURCES AND ENERGY

DEPARTMENTAL AUDIT COMMITTEE
TERMS OF REFERENCE

- The Audit Committee shall be chaired by the Deputy Secretary, responsible for administrative matters in the Department, and otherwise comprise senior officers designated by the Permanent Head.
- The Audit Committee shall be responsible for the overall appraisal of the planning and efficiency of the Department's internal audit activities and resources.
- In particular, the Audit Committee shall

PLANS

- (a) Examine the proposed strategic and annual audit plans developed by the Chief Internal Auditor, and determine the final programs.
- (b) Assess changes proposed by the Chief Internal Auditor to the two plans, and determine changes to be made.
- (c) Ensure all programs and activities of the Department are considered when selecting areas for audit.

REPORTS

- (d) Evaluate all major audit matters and disagreements referred to it by the Audit Sub-Committee and recommend corrective action to be taken.
- (e) Advise the Permanent Head and Division Heads of the recommended corrective action.
- (f) Review the implementation of corrective action previously recommended.
- (g) Review all reports from the Auditor General's Office and review corrective action taken.

GENERAL

- (h) Ensure the Chief Internal Auditor establishes and maintains a quality assurance program to evaluate the operations of the Internal Audit function.
- (i) Advise on the adequacy of internal controls and accounting methods.
- (j) Recommend follow-up action on any of the above matters.
- (k) Provide a forum for consideration of audit plans and methodology.
- (l) Deal with such other matters relating to the internal audit function as may arise from time to time.

DEPARTMENT OF RESOURCES AND ENERGY
DEPARTMENTAL AUDIT SUB-COMMITTEE
TERMS OF REFERENCE

- The Audit Sub-Committee shall be chaired by the Senior Assistant Secretary, Co-ordination and Management Division and comprise the Chief Internal Auditor and other senior officers designated by the Audit-Committee.
- The Audit Sub-Committee shall be responsible for the initial appraisal of all internal audit reports resulting from internal audit activities and take action as required.
- In particular, the Audit Sub-Committee shall
 - (a) Evaluate all audit reports prepared by the Internal Audit Section and recommend corrective action to finalise all outstanding matters.
 - (b) Arrange further interviews with Audittees as necessary, on unresolved matters.
 - (c) Advise the Audit Committee of the recommended corrective action and any major matters under dispute.
 - (d) Review the implementation of any corrective action previously recommended.
 - (e) Recommend follow-up action on any of the above matters.

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report - September 1984
Submission by the Department of Social Security on
paragraph 19.1 - Invalid Pensions

In this paragraph the Auditor-General expressed concern that in a relatively high number of cases the determining officer had approved a grant of pension when the CMO had assessed a level of incapacity below 85%. Procedures require determining officers to take account of medical impairment, socio-economic and other related factors when assessing an applicant's eligibility for invalid pension.

2 The Social Security Act provides that a person shall be deemed to be permanently incapacitated for work if the degree of his permanent incapacity for work is not less than 85 per cent. Legal opinion on the meaning of permanent incapacity is that it consists of two broad elements - impairment (physical and/or mental disability) plus other factors which may be described as "socio-economic". These elements must be taken into account by the delegate of the Director-General in determining whether the person is at least 85 per cent permanently incapacitated for work.

3 To assist the delegate in arriving at a considered conclusion he is guided by a range of data. Of prime importance is the opinion of the CMO. While the Department has laid down guidelines which indicate relevant socio-economic factors to be taken into account to assist CMOs reach a conclusion, the delegate is obliged to consider whether the CMO has considered those factors and given them an adequate weighting. It has not been uncommon for a delegate to conclude that the CMO has not taken these other factors fully into account. This approach is entirely consistent with the responsibility laid upon the delegate by the legislation and with the thrust of many decisions on invalid pension which has emerged from the Administrative Appeals Tribunal.

4 The Department endeavours to adopt a balanced and reasonable line in the decision making process and has taken initiatives intended to enhance the quality and consistency of decision making, namely -

- Establishment of positions of Invalid Pension Liaison Officers (IPLO) at each State and Territory Headquarters. IPLOs are responsible for overseeing the quality of processing procedures and decision making. They contribute to the training of determining officers, Area Management and the Department of Health.
- Implementation of a national statistical monitoring system. The system will provide a measure of consistency of decisions. Trends will be identified and explanations sought.

-2-

5 In addition the Department is developing -

- an enhanced training program for decision makers and the introduction of a national package for invalid pension decision making; and
- a package for use by regional offices to assist managers in satisfying themselves as to the quality of invalid pension decisions taken at their offices, with an emphasis on decisions taken which do not reflect CMO recommendations.

6 The Department of Health has a system for monitoring CMO recommendations by a senior medical officer.

Group Payments

7 Under paragraph 19.1 the Auditor-General also stated that there were no guidelines to assist staff in the evaluation of an institution's suitability for inclusion in the group payment system and no review procedure to ensure that institutions remain suitable for such purposes.

8 The approval of an institution for the purposes of payment through the group payment system is a matter for administrative decision. The Director-General of Social Security has authorised State Directors of the Department to decide whether a particular institution may be accepted for group payment and broad guidelines on the matter are in the Pensions Manual of Instructions.

9 In addition to the operational matter of including the institution on the group payment system, applications for payment of individual pensions to an institution in this manner are carefully considered in accordance with instructions relating to the appointment of nominees by pensioners. The pension remains the property of the pensioner and must be used for his or her benefit and maintenance and the Department is obliged to ensure that both the pensioner and the person receiving the pension are aware of each other's responsibilities in this respect. The arrangement can be terminated at any time and is reviewed immediately there are any allegations of misuse of the payment.

Other Matters

10 The Auditor-General's Report also raised a number of other issues. Comments are provided below.

11 Failure to liaise with Department of Veterans' Affairs resulting in an overpayment of \$15,233 by that Department.

There was undue delay in the Belmore regional office which should have actioned the advice from the Department of Veterans' Affairs. A breakdown also occurred at the Central Benefits Unit which should have monitored the Department's response. A debit has been

raised and attempt made to recover. The Department has reviewed the liaison procedures on a national basis and revised draft procedures are currently being considered by the Department of Veterans' Affairs. Details of the Department's involvement in these procedures is dealt with fully in the Department's submission on paragraph 25.4 of the Report.

12 Substantial arrears in pension entitlement reviews.

The Regional Office self-monitoring program should identify problems of this nature and initiate corrective actions. NSW staff were reminded of the necessity to quickly finalise reviews in an Operations Instruction of 1 June 1984.

13 Where computer warnings were ignored, pensions have been granted prior to the applicant attaining 16 years.

The Department advised the Auditor-General (before the close-off date for finalising his report) that further investigation of the instances noted had revealed that the Pensions System will reject a new claim for invalid pension if the claimant has not turned 16 years of age, rather than merely issue a warning.

14 Need for the change of address form to be amended.

The Auditor-General is referring to a local NSW form. A national form (SA23A) was introduced in August 1984. This form should satisfy the Auditor-General's requirements.

15 Instances where a previous overpayment of pension/benefit was not taken into account when a new pension was granted.

The Pensions system will reject a new grant if limitation to recover an overpayment is not imposed, provided the pension number is the same as that on which there is an outstanding overpayment. In other cases, including eg if the overpayment was of a benefit rather than a pension, the outstanding overpayment should be detected by the indexing action, and appropriate action taken by the examiner.

The instances occurred through human error during indexing action. The provision of an integrated benefits database under Stratplan will address this matter.

16 Significant variations in quality of field officer reports dealing with institutional payments system.

In the interests of ensuring consistent reporting the Sydney office is currently giving consideration to the development of a pro-forma report. In the meantime

field officers have been asked to ensure that reports contain all relevant information. In addition all field officers receive training and clear guidelines as to preparation of reports.

17 Numerous errors in the medical appeals master file indicating a need for improved input/output controls.

The 'medical appeals master file' is a NSW management information system used to monitor both general and medical appeals.

At the time of the Auditor-General's report it was in its developmental stage. Data was still being collected and input to the system. Programs were still being written and testing was in process.

In view of the above, and the early stage of development, no error analysis was being performed by the computer on input transactions.

Since the Auditor-General's report, input documents are being checked by a second officer and the computer now performs an error analysis check. The error rate according to the last error analysis was 1.8% which shows dramatic improvement compared with the 24% mentioned in the Auditor-General's findings in March 1984.

The system has been converted to use on Stratplan equipment and pending lifting of union bans will be operational. This will then streamline processing arrangements.

18 Substantial delays in processing medical appeals.

The medical appeals situation in NSW has dramatically improved since the Auditor-General's report. The number of unfinalized medical appeals on hand at 30 March 1984 was 952 while the present number on hand is 489.

An analysis of the time taken for the Appeals and Representations Section to process medical appeals to the Social Security Appeals Tribunal also shows substantial improvements. During the period 12 July 1984 to 12 October 1984 the days elapsed to forward medical appeals to the Social Security Appeals Tribunal were analysed. The findings were as follows:

Average days elapsed (arithmetic mean)=	10.6	days
Most common number (mode)	=	1 day
Middle value (median)	=	7 days

The Auditor-General's findings in March 1984 indicated the average time between Appeals and Representations Section and the Social Security Appeals Tribunal was 13.6 weeks.

The Department is always searching for ways in which decisions on appeals can be made more speedily. However where external consultants are concerned, appointments for examinations are often not able to be arranged as early as the Department would wish.

It must be pointed out that in most cases the applicants are in receipt of income maintenance payments and would not be suffering hardship as a result of the delay in the determination.

30 November 1984

JOINT COMMITTEE OF PUBLIC ACCOUNTS

- Inquiry into the Auditor-General's Report - September 1984
Submission by the Department of Social Security on
paragraph 19.1 - Invalid Pensions

1. This submission provides more details on the procedures used by the Department of Social Security to determine an applicant's eligibility for invalid pension. In particular, it outlines the processes and guidelines used in determining eligibility on socio-economic factors.
2. The Social Security Act provides that a person shall be deemed to be permanently incapacitated for work where the degree of their permanent incapacity for work is not less than 85 per cent. Decisions of the Administrative Appeals Tribunal, for example, Panke 4 ALD 179 and McGeary 4 ALN N310 have made it clear that the assessment of a person's incapacity for work cannot be based on their medical condition alone and that relevant non-medical (or socio-economic) factors such as age, sex, English language skills, education and previous work history need also to be considered.
3. The Department, in its Pensions Manual, sets out guidelines to assist its delegates in reaching correct and consistent decisions as to invalid pension eligibility. Additionally, staff members receive training in the determination process. The guidelines in the Department's Pensions Manual have recently been revised to reflect the interpretation of the law as clarified by decisions handed down by the Administrative Appeals Tribunal and the Federal Court of Australia. The draft guidelines were recently forwarded to each of the Department's State Administrations for comment prior to finalisation and national distribution. In the following paragraphs reference is made to relevant parts of these attached draft guidelines as a means of expanding on the points made.
4. The revised guidelines make it clear that entitlement to an invalid pension should only arise from a medical condition which in itself is significantly affecting a person's capacity for work. It is not sufficient, in the Department's view, that the person's medical condition be just a factor in deciding eligibility for invalid pension. The medical condition must be of such significance that the incapacity for work can be said to largely arise from it (See paragraph 4.030).
5. The insistence on a medical condition which is significantly affecting a person's capacity for work safeguards against the possibility that a person who is unlikely to obtain work as a result of non-medical factors such as age, sex, English language skills and education and who is suffering from a minor medical condition might be considered incapacitated for work and granted an invalid pension (see paragraphs 4.020 and 4.030). However where the delegate is satisfied a person is suffering from a medical condition that is significantly affecting his/

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3. The Department, in its Pensions Manual, sets out guidelines to assist its delegates in reaching correct and consistent decisions as to invalid pension eligibility. Additionally, staff members receive training in the determination process. The guidelines in the Department's Pensions Manual have recently been revised to reflect the interpretation of the law as clarified by decisions handed down by the Administrative Appeals Tribunal and the Federal Court of Australia. The draft guidelines were recently forwarded to each of the Department's State Administrations for comment prior to finalisation and national distribution. In the following paragraphs reference is made to relevant parts of these attached draft guidelines as a means of expanding on the points made.
4. The revised guidelines make it clear that entitlement to an invalid pension should only arise from a medical condition which in itself is significantly affecting a person's capacity for work. It is not sufficient, in the Department's view, that the person's medical condition be just a factor in deciding eligibility for invalid pension. The medical condition must be of such significance that the incapacity for work can be said to largely arise from it (See paragraph 4.030).
5. The insistence on a medical condition which is significantly affecting a person's capacity for work safeguards against the possibility that a person who is unlikely to obtain work as a result of non-medical factors such as age, sex, English language skills and education and who is suffering from a minor medical condition might be considered incapacitated for work and granted an invalid pension (see paragraphs 4.020 and 4.030). However where the delegate is satisfied a person is suffering from a medical condition that is significantly affecting his/

her capacity for work then the next step in the decision making process is a consideration of the effect of the medical condition together with relevant non-medical factors on the person's capacity for work (see paragraphs 4.002 and 4.003).

6. It is at this stage that the delegate is required to consider whether the Commonwealth Medical Officer (CMO) has taken relevant non-medical factors into account and if so whether sufficient weight has been given to them. For this purpose wide ranging details about the claimant are collected; in particular cases the opinion of a social worker may be sought to assist the CMO and the delegate to give proper consideration to non-medical factors relevant to the determination. Attached is a copy of Form SA16 which illustrates the scope of the medical and non-medical factors which are taken into account.

26 June 1985

Attached to the Departmental submission on Invalid Pensions, called 'Pensions Manual, Chapter 4 - Invalid Pensions', may be found on Joint Committee of Public Accounts File 1984/6, Part B.

Inquiry into the Auditor-General's Report - September 1984
Submission by the Department of Social Security on paragraph
25.4 - Pension Overpayments and Other Debtors

Introduction

1 At paragraph 25.4 of his Report for September 1984, the Auditor-General commented on the recovery of excess payments arising from the concurrent payment of service pension under the Repatriation Act and age, invalid or widow's pension under the Social Security Act.

2 The Auditor-General expressed concern in relation to both the adequacy of the legislative provisions for the bar to the concurrent payment of such pensions and to the responsibility of the Departments of Social Security (DSS) and Veterans' Affairs (DVA) for the recovery of any resulting excess payments.

3 Paragraphs 4-13 below deal with these matters and paragraphs 14-18 below outline action being taken jointly by both Departments; in particular, action to set in place more effective control procedures to address the problem which has occurred in this area.

Legislative Provisions and Recovery Procedures

4 The legislative bar to the concurrent payment of service pension and age, invalid or widow's pension lies in the Repatriation Act (S.86).

5 Prior to September 1981, it was an agreed procedure between both Departments that recovery of any excess payment caused by concurrent payment of these pensions would be undertaken by the Department which granted its pension last.

6 In September 1981, DSS instructed its State administrations that responsibility for raising and recovering excess payments in these cases lay solely with DVA on the basis that the legislative bar was contained in the Repatriation Act.

7 No subsequent instructions have been sent to State administrations of DSS which substantively amend that position. Copies of relevant instructions contained in the DSS Pensions Manual of Instructions are attached. However, it has become increasingly more apparent that this arrangement was causing difficulties in administration at the State and Regional level and accordingly its basis has been reviewed.

-2-

8 Legal advice made available to DSS indicated that although the bar to the concurrent payment was contained in the Repatriation Act, that provision prevented the valid payment of a social security pension to a service pensioner. As a result it became apparent that the pre-1981 arrangement was legally correct and should be re-instituted.

9 In April 1984, DSS conveyed to DVA its understanding of the legal advice and its willingness to introduce new arrangements to overcome the problem. DVA has indicated its broad acceptance of principles put forward by DSS but certain issues remain outstanding. Discussions between both Departments are continuing and it is expected that agreement can be reached in the near future. It is expected that the agreed arrangements will be based very largely on those operating before September 1981.

10 Discussions between Departments have also dealt with the recovery of excess payments arising from concurrent payments of service pension and other types of social security pensions and benefits, eg. supporting parent's benefit or unemployment benefit. The recovery arrangements being arranged by the departments are being expanded to make provision for these types of excess payments.

11 In light of the above legal advice and the foreshadowed new arrangements between both Departments, which will essentially involve a return to the position that existed prior to September 1981, there would appear to be no particular legal or administrative need to insert bars into the relevant provisions of the Social Security Act as recommended by the Advisory Committee on Repatriation Legislation Review in its November 1983 report.

12 It is recognised by both Departments nevertheless that there are certain limitations in the provisions of the Social Security and Repatriation Acts to each Department's powers of recovery of these excess payments which are made by the other Department. There have been certain difficulties experienced in this area and accordingly consideration is being given to this aspect as part of the review of the recovery arrangements.

13 The implementation of new recovery arrangements has been delayed, in part due, to the desirability of co-ordinating the new approach with revised control procedures for the prevention of these excess payments. These control procedures are currently being finalised by both Departments. These procedures are discussed briefly at paragraphs 14-18 below.

Revised Control Procedures for Reducing Incidence of Excess Payments

14 It has been recognised by both Departments that greater emphasis should be placed on introducing improved control procedures designed to prevent the occurrence of excess payments. If this could be achieved, the difficulties outlined in paragraphs 4-13 above in relation to responsibility and procedures for recovery action would assume a lesser significance.

15 An example of a breakdown in control procedures is outlined at page 140 of the Auditor-General's Report for September 1984.

16 Discussions between officers of DSS and DVA were held in 1983 with a view to achieving improvements in this area. As a result of those discussions DSS agreed to draft revised control procedures. Draft procedures were forwarded to DVA for comment in late 1983.

17 Discussions have been held between both Departments this year as part of the process of finalising the draft procedures. The legal aspects of recovery action as outlined in paragraphs 4-13 above have also been discussed at that time.

18 DSS is currently awaiting formal clearance of the draft procedures by DVA. Once such clearance is received from DVA, it is intended that State administrations of both Departments be given an opportunity to comment on the procedures before final procedures are set in place. As indicated in paragraph 13 above, details of both Departments' responsibilities for recovery action will be included in the draft procedures.

- Attachment to the Departmental submission on Pension Overpayments and Other Debtors, on 'Overpayments Involving Veterans' Affairs Payments', may be found on Joint Committee of Public Accounts File 1984/6, Part B.

30 November 1984

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report - September 1984
Submission by the Department of Social Security on paragraph
19.6 - Departmental Protective Security

In recent years the Department has become increasingly aware of the need to upgrade its security arrangements within its office network to provide protection for its staff, records and assets.

2 The Department operates through a Central Office in Canberra, Headquarters in each State and Territory and a network of some 210 Area and Regional Offices throughout Australia.

3 From the protective security viewpoint the Department's senior management considers the key elements must be:

- (i) protection of staff, particularly those in public contact areas, from attack and harassment;
- (ii) security of Cabinet documents and the relatively small amount of CONFIDENTIAL material held in Central Office;
- (iii) security of sensitive personal information relating to clients, held on paper files, microfiche and magnetic media; and
- (iv) increasingly with the introduction of new ADP technology, the protection of computer equipment and communication links.

4 The protective security audit of Juliana House was undertaken over the period December 1983 to February 1984. During the course of the audit no discussions were held by the Auditor with senior staff on the question of security. It is felt that the absence of such discussions may have led to some lack of understanding about the Department's commitment to protective security issues. In addition, it should be mentioned that matters clarified and corrections made following receipt of the findings of the audit have not been taken into account in the Auditor General Report's.

5 The specific matters referred to in the Auditor General's report were those raised in the Chief Auditor's memorandum of 20 June and dealt with in our memoranda of 6 July and 16 August. They have been addressed seriatim in the following paragraphs: -

-2-

Organisational Structure & Policy

6 In the past, responsibility for protective security has rested with the First Assistant Director-General (Level 3) responsible for overall management issues. Recently this has been reviewed and the responsibility for overall security placed under the control of the National Manager (Field Operations), a level 5 position. The Director (Facilities Planning), a Class 10 officer, has line responsibility for the formulation of policy and oversight nationally of protective security arrangements. Previously this officer reported to the FADG responsible for national management issues. There is a departmental security officer in Central Office who has responsibility for operational matters within that office. In each State Headquarters, an officer has responsibility for security amongst other duties. In addition, the Security Section in Systems Division and the Personnel Practices Section in Resource Management Division undertake the specialized systems and personnel security function.

7 While in the past the Department has not had a formal Protective Security Committee as such, two other committees comprising senior Second Division staff have, in fact, been overseeing security arrangements. The Stratplan Executive Committee which is responsible for the implementation of the Department's computer re-equipment program has examined the question of protective and ADP systems security in Central, State Headquarters, Area and Regional Offices. The Departments ADP Security Committee (now named the Systems Security Steering Committee) comprising Second and senior Third Division staff is responsible for the developing systems security and also looks at protective security for computer equipment, data and communications.

8 In July 1984 a Protective Security Committee was formed. As mentioned above this Committee is chaired by the National Manager (Field Operations). It comprises senior Second Division Officers including representatives from the Stratplan Executive Committee and the ADP Security Committee. The Protective Security Committee is drawing all elements of security together. The Director (Facilities Planning) acts as secretary to this Committee.

9 Specific comments have been made by the Auditor-General about the operations of the security officer in Central Office. The involvement of this officer in routine tasks did not allow him to operate in a manner appropriate to his function and level and steps have therefore been taken to remove routine tasks from his daily schedules. This will allow the security officer to develop techniques appropriate to the needs of the Department's Central Office.

Security Procedures

10 The Auditor-General reported that no written procedures had been issued regarding security arrangements at Central Office, State Headquarters or Regional Offices of the Department.

11 It is not known how this conclusion was reached as strict instructions on the handling, classification and storage of CONFIDENTIAL material have been in place within the Department for many years. These instructions were based on the provisions of the Protective Security Manual and the Department's operational functions. These instructions were superseded in 1982 with procedures formulated by the Attorney-General's Department. These have been observed since their promulgation. In addition, there have been instructions in respect of systems security from the time the Department commenced its ADP operations.

12 It is also relevant to note that, since May 1984 two officers have been working full time on the development of a comprehensive security manual which includes a review of all existing security instructions. The manual will have application in Central Office, State Headquarters and Regional Offices. On completion of the manual work will commence on a staff training and awareness program covering all aspects of security.

13 In addition the Department commissioned a major Records Management Review in 1983. The Review placed heavy emphasis on the need for protection of information including paper files, microfiche, magnetic tapes and disks etc. Recommendations from the Review are now being finalised and will be co-ordinated in respect of input to the Manual mentioned in the previous paragraph.

14 The Auditor-General's report also refers to lack of procedures for recording security breaches. In this regard it can be stated that while there has been no formalised procedure for recording security breaches such breaches have been actioned appropriately with authorities such as the Australian Federal Police. The formal reporting system for security breaches will be included in the manual referred to above. In the meantime the Central Office Security Officer has implemented an interim recording system for security breaches within Central Office.

15 The Audit correctly identified that certain security recommendations put forward in 1978 had not been implemented. Due to changed circumstances and technology it has been decided not to review those recommendation now but rather to seek a further review by ASIO.

16 In respect of personnel security, a draft departmental policy was completed and in October 1983 forwarded to the two most interested staff associations for their consideration and comment. Since that date it has been the subject of consultation and negotiation with the associations. It is hoped the second draft now being considered by the associations will be agreed to shortly.

17 The Department is also in the process of identifying all positions which have access to material classified as CONFIDENTIAL. A consolidated list of these positions will be prepared and attached to the final personnel security policy.

Administrative Practices

18 The Auditor-General referred to unspecified weaknesses in controls over security containers. The Central Office security officer has been relieved of certain duties and now has the opportunity to maintain a tighter control over security containers and their contents. The requirements which will be adhered to will be:

- (i) the changing of combinations at least each six months or whenever there is a change in personnel associated with a particular container;
- (ii) the maintenance of an accurate register;
- (iii) the holding of all combinations in signed, sealed envelopes in a secure location.

19 Contract cleaners in Central Office have not been security cleared. National security material is not held in the office and CONFIDENTIAL and sensitive material is locked away after working hours. In view of this security clearances are not considered appropriate and are not sought. The question of a 'character check' for cleaning staff in the Central, State and Regional Offices was considered but in view of its limited use and the very high rate of mobility among cleaning staff was not considered appropriate.

General

20 While acknowledging that the Security Audit did identify some shortcomings it has been demonstrated above that remedial action has been completed or was in train and was pointed out in our memoranda of 6 July and 16 August 1984 to the Chief Auditor.

21 In general, the Department does consider it is taking a responsible approach to protective security and the following supports this:-

- A Protective Security Committee chaired by the National Manager (Field Operations) exists and considers policy and major operational issues;
- systems security has, over a long period, been considered by the ADP Security Committee (now renamed the Systems Security Steering Committee). With the implementation of the Department's ADP re-equipment program (STRATPLAN), the work of the Committee has been directed to the new systems environment;
- policy in respect of security is developed in three areas of the Department: systems security in the Security Section of Systems Division; personnel security in the Personnel Practices Section and general protective security in the Facilities Planning Section of Resource Management Division.

22 In all relevant areas activity is taking place to ensure the Department protects its staff, assets and records appropriately. The most important recent developments have been:-

- the employment of a consultant to work with the Security Section and the Systems Security Steering Committee to assist with the upgrading of the systems security in line with the ADP re-equipment program (STRATPLAN);
- threat assessments of new mainframe computer sites Sydney, Melbourne, Brisbane, Hobart and Adelaide;
- negotiations with staff associations in respect of the policy on personnel security;
- the development of a functional brief for a standard security system for regional office - the system will be incorporated in fit out of offices as they are prepared to accept the new ADP (STRATPLAN) equipment and will incorporate and/or upgrade existing duress alarms and perimeter security system;
- the development of Protective Security Manuals for Regional, State and Central Office staff.

23 Much work has been undertaken and efforts will continue to be made to ensure an appropriate level of protective security in the Department of Social Security.

30 November 1984

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report; September 1984

Submission by the Department of Territories and Local Government

PARAGRAPH 22.1 - FINANCIAL STATEMENTS OUTSTANDING

1. The Department acknowledges the importance of timely reporting and has allotted a high priority to removing the backlog of statements awaiting submission to the Audit Office. A total of eleven statements were listed by the Auditor-General as having not been submitted in final form although, as was acknowledged, some of those statements had been submitted and returned to this Department for amendment.
2. At the time of writing, nine of the statements listed by the Auditor-General have been submitted to the Audit Office in final form, having been signed, dated and submitted formally. They are regarded by this Department as completed statements, although they are open to amendment upon Audit advice. The two remaining statements have been submitted to the Audit Office in an unsigned draft form. Details in respect of each statement are listed below.
3. Considerable steps have been taken to ensure that the improved reporting performance is maintained in the future. Major exercises designed to improve the preparation of accounting records are detailed under the separate headings below; and Finance and Supply Branch officers are also required to closely monitor performance against proposed targets for finalisation which are agreed with

the Audit Office. In addition, as from October 1984, our Internal Audit Section undertakes reviews of the quality of statements before submission in final form to the Auditor-General.

4. ACT FORESTRY TRUST ACCOUNT

1981-82 Statements - submitted in final form; audit certificate issued 26 September 1984
1982-83 Statements - submitted in draft form; final form expected by 30 November 1984

Consultants were engaged during 1982-83 to review forestry operations and administration. Their recommendations, which are currently being implemented, include:

- decentralisation of financial administration to Forests Branch;
- introduction of improved accounting systems and form of financial statement; and
- creation of a position of Senior Finance Officer within the Forests Branch to oversight administration of forestry operations and the ACT Forestry Trust Account.

5. ACT RENTAL HOUSING

1981-82 Statements - submitted in final form on 2 November 1984 (amendments were required to earlier statements)
1982-83 Statements - submitted in final form on 31 August 1984

These are notional accounts for which much of the required data is available only from sources outside the Department. The Housing Branch of the Department is examining methods of enhancing data collection.

6. ACT TRANSPORT TRUST ACCOUNT

1980-81 Statements - submitted in final form on 24 September 1984
1981-82 Statements - submitted in final form on 16 November 1984
1982-83 Statements - submitted in final form on 16 November 1984

Following a June 1984 consultant's report on the Trust's current and future computer system requirements, proposals are being considered by the Department's senior management. A further consultancy report, dealing with difficulties associated with the chart of accounts, 1983-84 financial statements and matters raised by the Auditor-General, is expected by December 1984.

7. CANBERRA PUBLIC CEMETERIES TRUST

1981-82 Statements - submitted in final form on 22 October 1984 (amendments were required to earlier statements)
1982-83 Statements - submitted in final form on 13 September 1984

The Department provides secretariat and financial services to the Trust, including the task of preparing financial statements. Timely reporting procedures have been implemented and the 1983-84 statements are being produced at present.

8. CITY OF CANBERRA MUNICIPAL ACCOUNTS

1981-82 Statements - submitted in final form on 11 September 1984
1982-83 Statements - submitted in draft form on 19 November 1984

The Municipal Accounts are notional accounts prepared to reflect those activities of the Department which are of a local government

nature. Delays have occurred in the past due to staffing restrictions and a cumbersome system of manually extracting data from departmental records after the close of each financial year. A revised Rates Branch computer system is expected to be completed by June 1985 which will facilitate the collection and processing of information. Manual systems in other Branches are to be progressively reviewed for more timely collection of data.

9. Tabling of Financial Statements in the House of Assembly

The Auditor-General requested the Department's advice as to whether financial statements prepared under section 41D of the Audit Act 1901 would be tabled in the House of Assembly in view of the proposal for self-government for the ACT. Until financial arrangements for a future ACT government have been determined, no decision on the Audit question in that respect can be taken. The tabling of financial statements prior to self-government is still under consideration.

PARAGRAPH 22.4 - INDUSTRIAL WAGES PAYROLL SYSTEM

10. The Department acknowledges the deficiencies referred to by the Auditor-General and is taking remedial action to achieve improvement in respect of all of the matters raised.
11. ADP system development - While the Department has recognised deficiencies in the system and has improved high priority sections of the operation, it has been decided to await Government decision on the arrangements for ACT self-government before undertaking a comprehensive review of the payroll system, particularly given that the payroll obligations are continuing to be met. The Industrial Payroll computer system was bought by this Department as a package, and modification to large components is resource intensive.
12. Special reviews are being undertaken to identify priority system deficiencies and to implement enhancements. A team of officers from our Finance and Supply, Systems and user Branches has developed system changes to facilitate procedures associated with the introduction of the 38 hour week. Implementation took place in October 1984. The team has separated the wages payment and costing functions, which has substantially improved the operation of the system. A management consultancy team from our Establishments Branch commenced a review in November 1984 with the following terms of reference:
 - investigate current procedures and documentation to ensure that they are efficient and effective. Recommend changes where

necessary.

- examine the existing organisational structure, including the classifications of the positions in the Section. Develop a revised organisation if appropriate.
- examine the existing placement of the Section within the Departmental organisation. Recommend whether the Section would be more appropriately placed within the Establishments Branch.

13. Payroll procedures - Pay Office staff have received instruction on the correct procedures for handling and safe storage of moneys and have been reminded of the importance of obtaining complete documentation when transferring moneys. Detailed written instructions are in preparation. Payment of employees, other than those from the Public Transit area, is in the presence of supervising officers. Except when they are personally known to the witnessing and paying officers, Public Transit employees are required to show their identification cards prior to receiving their pay envelope.

14. The Department uses the Transurety armoured vehicle service for the transport of moneys, including cash pays.

15. Leave records - Following receipt of the Audit comments, leave records were redesigned, and a high priority was accorded to developing an improved recording system. A review by our Systems Branch to fully computerise these records commenced in November 1984.

16. Leave bonuses - Procedures have been amended and calculations are checked to ensure, as a as possible, that future payment of leave bonuses will be correctly made and recorded. New procedures are also being considered as part of the current review of the leave recording system. There is close monitoring in the interim.

17. Reconciliations - Staff in the Industrial Wages Sub-section have been reminded of the importance of maintaining a record of required checks, and detailed written instructions are in preparation. Fortnightly and quarterly reconciliations of computer produced payroll to personnel records are now being performed.

18. Employee history file - Limited computer resources restricts the amount of data which can currently be retained on the employee history file. At present the file contains a complete history of employee payments for the past five years. Prior to deletion of any data from the computer record, hard copy is obtained and is retained in the Sub-section.

19. Overpayments - The Industrial Wages Sub-section processes pay and allowances for more than 2,000 industrial workers. It can be expected, in view of the volume, complexity and current manual involvement in these wage calculations, that a level of processing error involving overpayments will occur.

20. The bulk of potential overpayments is detected by system controls prior to employees being overpaid. The Department recognises the importance of improvement in this area, however, and has reallocated experienced staff within the Wages and Compensation Cells for this purpose. In addition, our Systems Branch

has made changes to the computer system which will further reduce the error rate.

21. Public transit employees - The weakness reported by the Auditor-General resulted from a situation where the delegation to approve overtime was at an inappropriately high level. Revised delegations, to officers at lower levels in operational areas, are to be made to resolve this difficulty.
22. Personnel files - Papers relating to an employee's employment are filed separately in respect of personnel and compensation matters. Each is the responsibility of different areas of the Department. The maintenance of separate files has been found to date to be the most convenient arrangement.

WITNESSES

23. The following officers may be departmental witnesses in the event of a public inquiry.

Mr John A Turner	Deputy Secretary
Mr Ross J O'Connell	First Assistant
	Secretary, Management
	Services Division
Mr Michael C Woods	Assistant Secretary,
	Finance and Supply
	Branch

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS ENQUIRY INTO THE REPORT OF THE AUDITOR-GENERAL - SEPTEMBER 1984

SUBMISSION BY THE DEPARTMENT OF VETERANS' AFFAIRS ON 25.1 ADP SYSTEMS DEVELOPMENT

POLICY AND OBJECTIVES

The objective of Veterans' Affairs ADP benefits systems development is to process claims and enquiries from Veterans and their dependants, involving access to computer-based records by a wide range of officers, in the least time consistent with cost effectiveness.

2. The Department entered the computer era in the mid 1960's. The development in hardware and software since that date has been enormous. From time to time the Department has been able to acquire more powerful and sophisticated hardware and software resources. However some of the Department's major computer systems were designed before the present, more modern, resources were acquired. These systems tended to be separate solutions for discrete processing tasks such as the payment of pensions, the processing of a claimant's entitlement to disability pension, and the tracking of paper files relating to claimants. Other tasks, such as the processing of disability pensions after the claimant's entitlement has been established, still remain a manual clerical process working from information on paper files. Automation of these manual clerical processes and their integration with redeveloped existing systems into a unified compatible whole (known as All Pensions And Allowances - APAA) will reduce duplication and increase efficiency. A better service and faster response will be provided to clients and overall management will be improved by better management information.

3. The Department accepted the Auditor-General's advice on all aspects raised and took positive remedial action wherever this was necessary. In the remainder of this submission, comments additional to those recorded to this effect in the Report of the Auditor-General are provided where further developments have overtaken the situation as presented in that Report.

GENERAL

4. Various aspects of the control and monitoring of progress in the development of systems generally, are mentioned in the Report. Project Steering Committees have now been formed and are being chaired by senior officers from the user areas. External monitoring is now facilitated by two software packages designed specifically for this purpose and minutes are now maintained for Priorities Review meetings.

All Pensions and Allowances (APAA)

5. As mentioned in the Auditor-General's Report, a risk analysis of APAA was conducted. That analysis confirmed that the APAA system was a high priority requirement and endorsed the Department's systems strategy.

6. 20 Staff had commenced the detailed design of the APAA development in August 1983. However, just shortly after, the Government announced that in future, an assets as well as an income test would apply to the grant of service pensions. Whereas APAA was, and is, accorded a high priority, systems development for the assets test therefore had to be given precedence. After the team for this new task had been assembled only four staff remained in APAA development. The assets test systems development has now essentially been completed and the APAA project team has now increased to 10. Further staff allocations will be made.

7. No special funding for APAA manpower and software resources could be provided in the 1984-85 Budget and funding is confined to the Department's overall allocation for general systems development. Nevertheless, the next major elements of the system are proceeding with a view to implementation in June 1985.

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS ENQUIRY
INTO THE REPORT OF THE AUDITOR-GENERAL - SEPTEMBER 1984

SUBMISSION BY THE DEPARTMENT OF VETERANS' AFFAIRS ON
25.4 PENSION OVERPAYMENTS AND OTHER DEBTORS

POLICY AND OBJECTIVES

Insofar as pension overpayments and other debtors are concerned, the Department's objectives are to minimise their occurrence to the extent that this can be achieved in a cost effective way, to record known overpayments reliably, and to deal with them with efficiency and fairness.

2. When designing systems and setting down procedures, care is taken to guard against overpayments. Nevertheless they can occur, and the Department's procedures for recovery of pension overpayments by lump sum or by deduction from pension instalments are aimed at providing a balance between the need to recover and the need to avoid unnecessary hardship. These include provisions for waiver or write off.

Dual Payments of Pension

3. Since 1981 the Department of Veterans' Affairs (DVA) has accepted sole responsibility for recovery action in respect of overpayments resulting from the dual payment of social services and Repatriation pensions. In accepting this responsibility however, the Department was not convinced of the correctness of the Department of Social Security (DSS) opinion that the lack of any appropriate legal provisions in the Social Security Act put the onus on this Department (DVA) to take action even where dual payment was the result of the grant of a social service pension. DVA held the view that section 86 of the Repatriation Act, prohibiting simultaneous payment of service pension and age, invalid, or widow's pension, should have a universal effect and should not affect only the activities of DVA. That view has now been found to be correct and DSS have agreed in principle to return to the "last to grant" basis of the arrangements from 1966-1981. Detailed procedures are now being developed to provide the basis for quick and efficient clearances between the two departments.

4. The 1982 computer matching exercise was conducted by DSS with the aid of a computer tape of service pensioner details provided by DVA. The following dual payments of pension were identified:-

TYPE	NUMBER	OVERPAYMENT
Service Pension/Age Pension	110	\$357,699
Service Pension/Unemployment and Sickness Benefit	9	\$185,735
TOTAL	119	\$544,434

5. The Auditor-General's Report states that although there are "procedures for liaison ..." (by DVA) ... "with the Department of Social Security at times of grant of service pension" there were nevertheless 119 overpayments. DVA does in fact follow clearance procedures with DSS before a service pension is granted and because age eligibility for service pension is achieved five years earlier than for age pension it is likely that most, if not all, of the service pension/age pension dual payments would have followed the granting of social services pension. Because of the DVA clearance procedures, it is also likely that service pension/unemployment and sickness benefit dual payments would not have flowed from the grant of a service pension.

6. The Department is ensuring that its required procedures are carried out and is working with DSS to help it overcome its dual payment problems.

7. A further matching exercise is currently being conducted. Full results are not yet available from DSS but preliminary information suggests that no dual payments of age and service pensions have been identified.

Central Office Role

8. The Department traditionally has placed the responsibility for a significant range of matters at the Branch Office level. This may have some risk factor, but has helped to avoid duplication of effort and resources which has been of particular benefit in situations of staffing restraints.

9. The Auditor-General's Report suggests however that the Central Office of the Department should be playing a more active role in the detailed monitoring of standards of debtor control and in the collation and evaluation of management information concerning overpayments. It is accepted that this is a point of view which must be taken into account. The Department is examining the possibility of establishing an overpayment control group in its Central Office but has been constrained by limited staff resources. The envisaged responsibilities of such a group would include the prevention of overpayments and the use of ADP measures to identify and therefore shorten the duration of continuing overpayments. It is also envisaged that pilot studies would be undertaken to test in advance the cost effectiveness of such measures and particular attention would be paid to high risk groups.

10. At the same time, as far as detailed monitoring and information services are concerned, such activities, given the comparatively limited incidence of overpayments, may not be cost effective, particularly as existing procedures have been designed to achieve a greater simplicity and efficiency of operation. This is a question which will need to be examined.

New South Wales, Victoria, South Australia

11. Audit has acknowledged that matters arising from inspections in these States have been rectified and further comment is unnecessary.

12. However, in Central Office, processing of submissions for write off/waiver is still in arrears because this labour intensive task had to be given a relatively low priority in the allocation of scarce resources. It is acknowledged however that this task must be brought up to date and a number of options are being kept under review.

APPENDIX C

DATE OF HEARINGS, LIST OF WITNESSES AND OBSERVERS

The following items from the Report of the Auditor-General - September 1984 were made the subject of a public inquiry at Parliament House, Canberra, on 15 May 1985:

Department of Territories and Local Government

The following witnesses were sworn or made an affirmation and were examined by the Committee at the public hearing:

Ms L M Webb	First Assistant Secretary Housing and Welfare Branch
Mr R J O'Connell	First Assistant Secretary Management Services
Mr M Woods	Acting First Assistant Secretary Community Affairs Division
Mr R P Sawyer	Acting Director Finance and Marketing Forests Branch
Mr R H Collis	Acting Commissioner for Housing
Mr G C Gaskill	Director Internal Audit
Mr B J Wojewidka	Acting Project Manager Industrial Wages
Mr J Wynants	Acting Director Accounting and Supply Division
Mr V Smorhun	Director Finance and Administration Public Transit Branch

During the public inquiry the Committee was assisted by the following observers:

The following item from the Report of the Auditor-General - September 1984 was made the subject of a public inquiry at Parliament House, Canberra, on 22 May 1985:

Department of Administrative Services

Paragraph 1.1

Property Directorate

The following witnesses were sworn or made an affirmation and were examined by the Committee at the public hearing:

Mr A R Palmer	Deputy Secretary
Mrs P Morris	Acting Director of Property
Mr R Whitfield	Acting Executive Officer Information Section and Property
Mr A B Skinner	Assistant Secretary Systems Branch

During the public inquiry the Committee was assisted by the following observers: