

# Report of the Auditor-General March 1984



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Clerk of the Senate

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Joint Committee of  
Public Accounts



THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

REPORT 240

REPORT OF THE AUDITOR-GENERAL - MARCH 1984

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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 or 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 the 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.

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## PREFACE

Each year the Committee examines recently published reports of the Auditor-General. Following the tabling of the Report of the Auditor-General - March 1984, the Committee sought written submissions from 16 Departments in respect of the 19 items listed in Appendix A.

The Committee decided to take evidence on two items - Department of Health, National Biological Standards Laboratory (para 11.1), and Australian Broadcasting Commission (Corporation), Hiring and Flying of Aircraft. Public Hearings were held in Parliament House, Canberra, on 15 and 22 May 1985 and details are listed in Appendix C.

Supplementary submissions were sought also from the Departments of Finance and Employment and Industrial Relations on Public Sector Training - Salary Payments; Social Security and Employment and Industrial Relations on Unemployment, Sickness and Special Benefits; and Veterans' Affairs, Social Security and Telecom on Telephone Rental Concessions to Pensioners. A copy of all submissions received is included at Appendix B.

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

Consideration of the matters raised in this Report was undertaken by the Sectional Committee - Sub-Committee 'A' which was chaired by Senator G Georges.

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  
16 October 1985

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CHAPTER 1

DEPARTMENT OF DEFENCE

MAJOR EXERCISES

1.1 The Auditor-General's March 1984 Report noted significant shortcomings in the Defence approach to the planning, execution and evaluation of major military exercises particularly Exercise Kangaroo 83, and to the estimating process in financial control.

Exercise Planning

1.2 The Auditor-General noted considerable imprecision in the form of objectives and tasks set, providing an insufficient basis upon which to measure exercise performance. Audit considered that, given the many stated purposes of major exercises, the value of exercises would be improved if objectives and tasks provided a clearer basis upon which to measure exercise performance.

1.3 Audit found little evidence of the costing of alternative proposals. Decisions generally appeared to have been made without referral to costed options. Issues which had been considered and decided upon by exercise planners were not supported by sufficient documentation of cost/benefit analysis.

Financial Control

1.4 Audit noted the need for a significantly improved basis for estimation of direct costs of major exercises.

Exercise Reporting

1.5 Audit considered that there had not been clear assigning of responsibility for monitoring of action taken on identified lessons learned from major exercises. Progress reported from related inquiries was not reviewed prior to the planning and conduct of subsequent exercises.

Departmental Response

1.6 The Department considered that significant improvements had been achieved in the management of major exercises in recent years and accepted that scope for further improvement exists. The Department rejected Audit's suggestion that greater precision in planning and reviewing processes and greater documentation and analysis of planning and cost/benefit issues was likely to result in more informed decisions for rationalisation and deployment of available resources. Instead, the Department will be looking to improve the early planning and budgeting process by achieving earlier definition of force allocations and resource limits within which major exercises are to be constrained, and by applying the improved costing and estimating method.

## Exercise Planning

1.7 The Department rejected the proposal to define objectives and tasks more specifically to allow 'measurement of performance', and to allocate priorities. The proposal misunderstood the total exercise planning process. The Auditor-General's comments concerning exercise planning oversimplified a very complex process and the concept of 'measuring exercise performance' in the usual audit sense appeared inappropriate to major military exercises.

## Financial Control

1.8 The Department concurred with the Auditor-General's recommendations for financial control. Action was already in train to improve the estimating process and standardise costing. The Minister for Defence has endorsed the Department's costing policy paper which, in part, sets out standard cost definitions to be applied in costing defence activities. The concept of 'direct cost' was to be introduced by the end of 1984 for all submissions to the Minister requiring approval for Defence exercises.

1.9 The costing report for Exercise Kangaroo 83 was completed in April 1984 and the financial outcome of the exercise against budget provisions has been included in the Exercise Director's Post Exercise Report. Financial reporting of this nature will be an integral part of the post-exercise reporting process for future major exercises.

## Exercise Reporting

1.10 For Exercise Kangaroo 83, the Chief of Defence Force Staff (CDFFS) and the Secretary endorsed a two phase program for the follow-up of exercise recommendations. Phase 1 involved obtaining comments from the Service Office, Australian Joint Warfare Establishment and Defence Divisions on relevant Post Exercise Report recommendations. Phase 2 required responses to be collated by the Joint Military Operations and Plan Division (JMOP) and the issue of a detailed follow-up program including monitoring requirements. Phase 1 was completed in early June 1984 and Phase 2, activated on 26 June 1984, is currently in progress.

## Conclusion

1.11 This item highlights perceived shortcomings in the management of Defence Force Projects. The Auditor-General's Report of September 1983 (paragraph 5.2: Project Management Review) covered a general review of the Department's practices in this regard.

1.12 The Committee has noted the initiatives and controls developed in response to the comments made by the Auditor-General. The principles raised in this examination are being addressed by the Committee's inquiry into Project Management in the Department of Defence, commenced on 7 March 1984. The Committee expects to report on this reference later in 1985.

## CHAPTER 2

### DEPARTMENT OF DEFENCE SUPPORT<sup>1</sup>

#### MANUFACTURE OF MUNITIONS

2.1 Audit concluded that the inability of the Department of Defence to define the strategic capabilities it required for munitions creates fundamental problems for the Department of Defence Support and its factories in planning, factory plant capability and rationalisation programs. Current financial and administrative arrangements for munitions production and procurement have a number of shortcomings resulting in:

- difficulties in resolving design, technical and production problems;
- ordering of uneconomic quantities of munitions; and
- inefficiencies in ordering components and raw materials.

2.2 In addition, Audit considered that there is scope for the Central Office of the Department of Defence Support to exercise greater management oversight of the factories' activities assisted by improved management reporting by the factories.

#### Department of Defence Response

2.3 The Department stated that periodic reviews of the overall capacity and structure of the Government factories have generally called for a restructuring into a smaller number of more efficient factories, more in tune with current defence needs. More recently Cabinet has directed reviews of the aircraft, shipbuilding and ship repair industries. The Defence Committee recommended inclusion of the munitions industry in those reviews.

2.4 As regards short term planning, the Department's Five Year Defence Program (FYDP) is a detailed and soundly structured document, possibly without peer in comparable areas of Government budgetary planning. While Defence projections of requirements for local production of ammunition may fall short of the degree of reliability desired by the production planners, they are considerably more timely and reliable than the forecasts available to commercial industry. With regard to economic order quantities, it is agreed that the efficiency of Defence ordering might be improved if the Department of Defence Support were better able to define minimum economical production run sizes, for the current range of munitions requirements.

1 The Administrative Re-Arrangements abolishing the Department of Defence Support and re-establishing these offices in the Department of Defence were approved by the Governor-General on 13 December 1984.

2.5 Defence recognises the attempts being made in Defence Support to jointly achieve production objectives. With regard to the management of Initial Production Teams, this function has now been passed over to Defence project managers and, as acknowledged by Defence Support, the revised arrangements should avoid recurrences of past problems.

#### Department of Defence Support Response

2.6 The Department of Defence Support agreed with Audit conclusions, and the initiatives referred to below address the deficiencies noted.

2.7 Initiatives referred to in the Department's response included:

- a detailed review of costing and pricing of factory operations and products;
- the Department is currently considering the assessment of costs of unused capacities retained in the interest of strategic considerations as part of its implementation strategies against Project MURAD - a project directed at improving performance in the finance, supply and personnel functions of the production establishments;
- reviews on future defence industry needs, strategic facilities in Government factories, factory restructuring and development, etc, are now in hand;
- a Program for efficient production and accurate forecasting of deliveries has high priority within Defence Support. Defence Support is exploring with Service customers the possibility of multi-year ordering to permit more efficient planning and production operations;
- a detailed Directory of Australian Defence and Offsets Industry is about to be re-published;
- better methods for increasing delivery are being introduced;
- ADP systems are being trialled and introduced to ensure a more efficient approach to production control and monitoring;
- as part of its program to implement recommendations of the joint management review of the administrative functions of the production establishments (Project MURAD) the Department is undertaking a review of the costing and pricing arrangements within the establishments;

- management of new projects in future is to be modelled on the Hamel arrangement which to date has proven most effective;
- better phased production management is to be introduced;
- particular attention will be given to ensure that transfer of production projects between factories are undertaken while continuing to achieve delivery requirements;
- initiatives are in hand for greater contractual responsibility by Munitions Division, including delivery and cost accountability; and
- in 1984-85 the Department will be addressing issues such as performance measurement, both internally and through appropriate consultancies, to ensure the most efficient review and control over delivery performance.

#### Conclusion

2.8 The Committee has noted the initiatives and controls developed in response to the comments made by the Auditor-General. The principles raised in this examination are being addressed by the Committee's inquiry into Project Management in the Department of Defence, commenced on 7 March 1984. The Committee expects to report on this reference later in 1985.



## CHAPTER 3

### DEPARTMENT OF EMPLOYMENT AND INDUSTRIAL RELATIONS

#### UNEMPLOYMENT BENEFIT ADMINISTRATION

3.1 Audit revealed significant weaknesses in the administrative arrangements between the Department of Social Security (DSS) and the Commonwealth Employment Service (CES) and in the associated procedures and controls in operation at CES.

#### Unemployment Benefit Administration Arrangements

3.2 Audit examination disclosed that administrative arrangements between DSS and CES were inadequate to ensure that all unemployment beneficiaries were registered for employment with CES. Disparities were caused by the CES not advising the DSS of instances where beneficiaries were removed from the register for employment for failing to respond to CES correspondence.

3.3 Audit suggested that the arrangements and associated CES procedures would be strengthened if:

- . all terminations of registration by CES offices were advised to DSS; and
- . DSS were to ensure that all individuals, whose benefits are restored or continued, were re-registered with CES with a recipient providing evidence to the DSS of the re-registration.

#### Work Test Procedures

3.4 Audit noted that only a limited number of job seekers registered for unemployment had been subjected to the work test, and, even in those instances, the application of procedures was inconsistent. Audit found that due to the limited number of job vacancies processed by CES, compared with the number of job seekers processed, the general application of work test programs was ineffective.

3.5 Audit suggested that the work test guidelines be revised to enable equitable and general application to all unemployment beneficiaries to determine whether they are prepared to accept an offer of suitable work.

#### Review of Assistance to Registered Job Seekers

3.6 Audit noted instances where there was no regular review of assistance to registered job seekers. The audit also disclosed inconsistencies in both interpretation of instructions regarding the form of the regular review of assistance and the consequential termination of the registration of a job seeker.

#### Job Seeker Cards

3.7 Audit noted that the standard of recording of information on job seeker cards was not always satisfactory. Audit revealed instances where the cards lacked evidence that prescribed procedures relating to the recording of action taken in respect of those registered had been implemented.

#### Liaison with Department of Social Security

3.8 Inconsistencies were noted in information forwarded to the DSS by CES offices in relation to the termination of registration for employment. Audit also noted there was no positive means of ensuring that all advices to DSS had been despatched to, and received by, the DSS Regional Office.

#### Re-registration of Job Seekers

3.9 Audit disclosed that job seekers whose registration for employment may have been terminated by CES, may be restored or continue to receive Unemployment Benefit (UB) from DSS without re-registering with CES. As the Department of Employment and Industrial Relations (DEIR) has implemented a number of employment creation programs to assist the disadvantaged unemployed registered at CES, Audit considered that the Department should take action with a view to ensuring that all unemployment beneficiaries are registered for employment. Audit suggested that the Department should consult with DSS to develop more effective arrangements and procedures to ensure that recipients of UB are registered with CES.

#### Department of Employment and Industrial Relations' Response

3.10 The Department advised the Committee that a review of administrative arrangements had resulted in revised liaison procedures, which provide for:

- . DSS to action on claims for UB only where such forms have been endorsed by the CES;
- . the CES to advise DSS of all placements and lapses;
- . DSS to advise the CES, by way of ADP output, of all terminations, rejections and restorations; and
- . beneficiaries, who change their address, to have their fortnightly UB Income Statement endorsed by the CES.

3.11 Procedures for the application of the Work Test have been reinforced with CES staff. The revised procedures are expected to result in virtually all UB recipients being registered with the CES. The Department stated that the current interpretation of the Work Test which is the product of some years of refinement provided a coverage which is sufficiently

equitable and general to withstand the closest scrutiny. The Department believed that there is not general community dissatisfaction with the application of the Work Test and further stated that a general review of the Work Test guidelines is currently neither desirable nor appropriate.

3.12 The Department had independently recognised the inadequacies of the procedures for assistance to registered job-seekers and in April 1983 had begun a review which resulted in the issue in August 1983 of revised procedures. The procedures rectified the deficiencies noted by the Audit and generally improved the service offered to CES clients.

3.13 In addition, the new CES/DSS liaison arrangements, which commenced on 1 August 1984, provided for DSS to advise the CES, by way of ADP output, of all UB terminations, rejections and restorations. This will further enable the CES to maintain accurate records of job-seekers seeking employment assistance.

3.14 The Department acknowledged the validity of the Audit findings in respect of job-seeker cards. However, corrective action was undertaken independently in August 1983 when revised procedures, designed to rectify such deficiencies, were issued.

3.15 The Department considered that there was no real inconsistency in information forwarded to the DSS by CES offices in relation to the termination of registration for employment. All offices were providing information required by the existing instructions. Furthermore, the revised procedures, regarding UB administration, addressed the liaison matters by requiring the CES to advise DSS of all placements, and lapses of job-seekers records, through the use of a prescribed form.

3.16 The Department also stated that the revised procedures satisfactorily resolve the matter of re-registration of job-seekers.

3.17 In recognition of the importance of the matter of liaison arrangements between the CES and DSS, the revised procedures were to be reviewed by both Departments after three months operation.

#### Department of Social Security's Response

3.18 The Department advised the Committee that, due to the revised procedures agreed upon between the Department of Employment and Industrial Relations and the Department of Social Security, changes were being made to the DSS ADP system, and clerical procedures in both Departments were being amended.

3.19 Implementation of the revised liaison arrangements is discussed in more detail in Chapter 9, Department of Social Security, of this Report.

#### Conclusion

3.20 The Committee is very concerned that weaknesses in the administrative arrangements between the Department of Social Security (DSS) and the Commonwealth Employment Service (CES) and in the associated procedures and controls in operation at CES were found by Audit.

3.21 The Committee endorses the establishment of the DSS/CES review group and the introduction of revised liaison arrangements between CES and DSS. The Committee expects to be advised of progress in the response to this Report.

#### PUBLIC SECTOR TRAINING - SALARY PAYMENTS

3.22 Audit noted evidence that deficiencies existed in the controls over the charging of trainee salary payments to appropriations of Department of Employment and Industrial Relations (DEIR). The Department of Finance (DOF) carried out a national survey of salaries charged to the appropriations of DEIR Manpower Training Programs in late 1982. The survey disclosed that salaries being paid to a significant number of persons were being charged incorrectly to DEIR appropriations although they were no longer in a training program or had been appointed to a permanent public service position. The survey indicated a lack of oversight by DEIR of the charging of salary payments to appropriations under its control.

3.23 Audit suggested that :

- . controls over the charging of salary payments to the appropriations would be strengthened if the training agreements and associated departmental instructions were revised to specify clearly the responsibilities of DEIR and participating departments;
- . at the cessation of training, DEIR should remind the participating department of the need to terminate trainees' salaries; and
- . DEIR should initiate a regular review of chargings to the appropriations of the manpower training programs.

#### Department of Employment and Industrial Relations' Response

3.24 The following action has been taken as a result of the Auditor-General's Report:

- . all participating departments were supplied with printouts from DOF and requested to review those printouts to ensure that only current trainees remained as a charge against DEIR;

- similarly, departments are to be requested to check DOF bimonthly printouts of trainees for each participating department to ensure that only legitimate trainee payments are being charged to the DEIR's appropriation codes; and
- the CES Instruction Manual segment which covers Government employment is to be revised to reflect the changed procedures.

3.25 DEIR was asked to provide a further submission clarifying the efficiency of action taken on this matter, in particular, the circulation of printouts to participating departments, the checking of printouts and changes to the Manual. DOF was asked to outline measures taken to rectify charging errors in respect of DEIR trainees. In particular, the Committee requested information on progress on program amendments to provide the report requested by DEIR on a regular basis to allow it to monitor payments made through the Finance Pay System.

3.26 DOF is now producing bimonthly printouts which are distributed to DEIR at the State and Territory Office level and to participating departments, enabling a check to be made on current trainees. There are still some problems with the regularity and timing of printouts which are being pursued.

3.27 State and Territory Offices of DEIR have been checking the relevant printouts for miscoding and have identified instances where corrective action has been or needs to be taken. It is not possible to answer for all the participating departments but where miscoding has been identified by DEIR the department concerned has been notified and encouraged to improve their checking procedures. At the same time, where errors have occurred, action has been taken to transfer the funds into the correct appropriation code. A recent survey of the procedures indicated, however, that some DEIR State and Territory Offices needed to tighten their arrangements for the future.

3.28 Draft forms and procedures have been developed but the introduction of the necessary changes has been delayed due to the need to develop new program arrangements in respect of the Report of the Kirby Committee of Inquiry into Labour Market Programs released in January 1985 and the forthcoming Report of the Review of Aboriginal Employment and Training Programs. Priority has also been given to the introduction of a new training agreement and associated procedures in respect of wage subsidy arrangements in general. Given the range and complexity of the changes under consideration, it was considered that changes to the arrangements governing public sector trainees should be introduced as part of a total package of changes to be assimilated by Offices of the Commonwealth Employment Service (OCES). The following factors were relevant to this preference:

- public sector training is a relatively small element in programs other than Training for Aboriginals compared to related training arrangements in the private sector;

any changes to administrative arrangements set out in the CES Manual needed to take into account the complexity of the instructions under which OCES staff operate. Where possible it is considered preferable for related instructions to be issued as a package rather than piecemeal. Changes of this kind normally entail staff training and are normally packaged in a way to minimise the disruption to the normal placement activity of the CES; and

there was a strong possibility that public sector training would not continue in its present form, given the new program arrangements discussed as a result of the Kirby Inquiry. DEIR's submission to the Miller Committee of Review of Aboriginal Employment and Training also proposes changes to public sector training.

3.29 DEIR concluded that the existing arrangements give a greater degree of control than was possible previously, but there were still problems associated with the checking of the printouts.

3.30 If public sector training is to continue then the format of the printout needed further development to facilitate the required checking and to lessen clerical workloads. The development of new computer systems in DEIR, in particular, the Job Seeker System, will allow the production of more appropriate reports by State and Territory Offices and possibly also the production of form letters to participating departments, notifying them of approaching completion dates for trainees.

3.31 In considering the appropriate administrative arrangements, DEIR's view was that due recognition should be given to the position that the essential problem was not one of overpayment but miscoding.

#### Department of Finance (DOF) Response

3.32 DEIR approached DOF in December 1983 and sought a listing from the Finance Pay System showing trainees currently charged to NESA and SYETP appropriations and the provision of the information on a cyclical basis. The listing of current payees was provided in March 1984 and it was agreed to make program changes to the Pay System to enable provision of the report on a regular basis. Because of other substantial work priorities, these changes were not completed immediately, but were expected to be available within the next few months.

3.33 A further request dated 27 June 1984 was received from DEIR seeking inclusion of a facility in the Finance Pay System which will automatically cease salary payments to trainees at the expiry of their training period. DOF advised that this request was not practicable at the time. The programming resource

implications of such a development are quite substantial and, having regard to the limited nature of the application it would serve, could not be afforded high priority relative to other demands in the area of Finance Systems developments. The control over cessations of payees, as for other variations to payroll data in the Finance Pay System, is an integral part of personnel management and systems controls. However, the abovementioned reporting facility being developed through the Pay System should facilitate management of the training schemes.

#### Conclusion

3.34 The Committee notes the initiatives which have been taken to reduce the incidence of overpayments. The Committee does not accept that any overpayment of Commonwealth funds is merely a matter of miscoding. All cases detected must be investigated and recovery action instituted. The incidence of the incorrect use of DEIR appropriation codes must be lessened by the further development of appropriate controls and training of staff, including supervisory staff. The Committee regards these elements as essential ingredients of any program involving the transfer of funds. The Committee will continue to monitor this item in subsequent Auditor-General's Reports and in the response to this Report.

## CHAPTER 4 DEPARTMENT OF FINANCE

### TREASURY REMOTE INPUT/OUTPUT SYSTEM (TRIO)

4.1 The following suggestions for improving controls in the system were represented by Audit to the Department:

- . that regular review of the TRIO system console log was necessary to ensure the correctness of functions performed by the operator;
- . that formal clearance should be obtained for use by one office of another's identifying code; and
- . that delays which occasionally occurred in transferring work to the back-up machine when breakdowns occurred in the Canberra Regional Office minicomputer could be alleviated by more complete documentation of the back-up procedures.

4.2 Audit also made a number of suggestions for improvements which it considered should be taken into account during the Department's major revision of the TRIO system then in progress. In addition, Audit observed that the check digit technique currently in use in the TRIO system on cheque numbers was not fully effective as it would not detect errors in transposition of numbers.

#### Departmental Response

4.3 The Department stated that:

- . the review of the console log is now undertaken daily by the ADP Services Manager who initiates any follow-up actions if necessary;
- . new procedures now require requests for processing input data on behalf of other Regional Offices to be supported by formal authorisation; and
- . the Regional Office now has an effective and reliable back-up system.

4.4 The Department advised that Audit's suggestions for consideration during the current program for re-equipment of the Finance computer network were of significant importance. The suggestions dealing with the VDU screen formats, error displays, and keyboard layout would be implemented. The Department will also consider use of encryption devices for data security at the time that such security is deemed necessary.

4.5 The Department advised that experience since the inception of TRIO supports its conclusion that the prescribed manual checks applied are sufficient to provide adequate protection against possible transposition errors.

#### Conclusion

4.6 The Committee's conclusion to this item and the next item below is in paragraph 4.9.

#### CENTRALISED SYSTEM FOR RECONCILIATION OF DRAWING ACCOUNTS (RECO)

4.7 Audit identified certain control weaknesses in the RECO system. These referred to:

- . edit input/output checks;
- . absence of control totals; and
- . age of the system.

#### Departmental Response

4.8 Remedial action has been taken on the particular matters described above to correct the weaknesses detected during the audit:

- . the RECO EDIT program has been amended to produce control information which reports on transactions generated by the program itself and which permits reconciliation with data extracted from the TRIO system;
- . agreement has been made to review control totals at a later date; and
- . work has commenced on a review of program documentation and should be completed depending upon the availability of programming resources.

#### Conclusion

4.9 The Committee notes the action taken in response to the comments made by the Auditor-General in relation to both of these items. The Committee's Sectional Committee on Automatic Data Processing will be maintaining an interest in the management of the computing systems in the Department of Finance.

## CHAPTER 5

### DEPARTMENT OF FOREIGN AFFAIRS

#### AUSTRALIAN DEVELOPMENT ASSISTANCE BUREAU (ADAB) - EMERGENCY HUMANITARIAN ASSISTANCE AND DISASTER RELIEF

5.1 An audit of the Bureau's administration of humanitarian assistance and disaster relief was completed in December 1983. The audit covered:

- . the procedures adopted by the Bureau to implement the Government's aims and objectives for the provision of relief;
- . mechanisms and guidelines for the Bureau's evaluation of requests for assistance;
- . procedures for approval of Government assistance;
- . monitoring procedures which enable the Bureau to evaluate the cost effectiveness of aid; and
- . procedures for ensuring expenditure is accurately recorded.

5.2 Unsatisfactory matters referred to the Bureau were the lack of administrative guidelines for considering proposals for assistance for refugee and disaster relief situations; and lack of evidence that the implementation of aid proposals was monitored by the Bureau.

#### Bureau's Response

5.3 ADAB advised that:

- . since publication of the Auditor-General's Report, it had undertaken preparation of a broad statement on emergency humanitarian and disaster responses and would aim to implement progressively, matters arising in the Aid Review Report; and
- . since the audit, the Bureau's ability to monitor emergency relief had been upgraded, particularly in the South-West Pacific, through the Natural Disasters Organisation; and generally through the Australian Overseas Disaster Response Organisation; as well as the establishment of a data base of past levels of assistance to refugee, humanitarian and disaster situations to assist future planning.

5.4 It was noted that both of the above would depend to some extent on staffing in the Bureau. This problem would be addressed in the Bureau's recommendations on the conclusions of the Aid Review Committee and on policy-related conclusions to be drawn from its review of emergency humanitarian and disaster relief responses.

#### Conclusion

5.5 The Committee notes the report of the Aid Review Committee, ADAB's in principle agreement with the suggested introduction of guidelines and procedures and the action now being undertaken. The Committee expects to be informed of the development of policy in this field and advised of the consequent guidelines and procedures.

#### AUSTRALIAN DEVELOPMENT ASSISTANCE BUREAU (ADAB) - DESICCATED COCONUT FACTORY - TONGA

5.6 An audit of the project was undertaken in late 1983 to assess the effectiveness of the Bureau's control systems for administering the project. Audit disclosed that some established procedures were not followed and that some administrative procedures and resources were not in existence. In particular, audit disclosed unsatisfactory matters to do with:

- . project selection and approval;
- . project design;
- . contract with consultants; and
- . project review and evaluation.

#### Bureau's Response

5.7 The Bureau accepted that due to lack of resources with technical competence in this field the project was not monitored adequately throughout. As a consequence of the experiences of this particular project, new guidelines and procedures have been implemented. These are outlined below.

5.8 A Pacific Regional Team of technically competent personnel has been established to monitor the provision of Australian aid to the region. It was fully operational by November 1984.

5.9 The Bureau has revised a Bilateral Programs Operations Manual to help ensure that established procedures are followed for feasibility studies. Project approval practice will henceforth adhere to Bureau procedures and cost-benefit analysis has been given increasing emphasis. It was emphasised, however, that because the remoteness of the developing countries of the South Pacific results in costs which are inherently difficult to estimate, problems in project selection and approval will persist.

5.10 Since the completion of the factory, procedures have been formalised to ensure closer monitoring of expenditure against the financial limitations on contracts.

5.11 The Bureau rejected Audit's criticism regarding the non-inclusion of a technically qualified Australian Government representative in the Project Management Group. This did not represent a departure from established procedures.

5.12 The Bureau agreed that serious deficiencies on its part should not have occurred. It believes that similar deficiencies are unlikely to occur again.

#### Conclusion

5.13 The Committee concludes that most of the unsatisfactory matters referred to by Audit have been addressed. Some responsibility for the failure of the factory must be borne by the consultants whom the Bureau engaged to design a factory that would achieve the desired level of output, and to supervise its construction. The consultants did not adhere to the original specifications and some of the modifications implemented only exacerbated problem areas.

CHAPTER 6  
DEPARTMENT OF HEALTH

NATIONAL BIOLOGICAL STANDARDS LABORATORY

6.1 During 1983 an audit of the National Biological Standards Laboratory (NBSL) was carried out in the Australian Capital Territory with the objective of assessing the effectiveness of procedures in relation to the planning, management and organisational controls over the operating systems in use.

6.2 Some of the more important matters referred to the Department concerned certain policy, legislative and administrative requirements and are outlined below.

Development of standards

6.3 At the time of the audit it was noted that approximately 100 therapeutic goods, both biological and pharmaceutical, were known not to have any applicable standard. A National Register of Therapeutic Goods had not been established; as a result the number of goods on the Australian market with or without standards could not be accurately determined.

Testing of therapeutic goods

6.4 Audit considered that testing of samples of goods should be carried out on a more regular basis than every three to four years. Audit also suggested that, in view of the high failure rate in the testing of antibiotic veterinary products, consideration should be given to increasing the testing of these products.

Inspections

6.5 It was noted that delays of up to twelve months had occurred before follow-up action was taken on recalled products. Audit considered that companies should be inspected after remedial action had been undertaken so that this could be assessed before production was recommended.

Legislation

6.6 There is no uniform State legislation covering the licensing of therapeutic goods manufacturers.

Wastes

6.7 There were no written instructions relating to disposal of residual material by the chemistry and antibiotics sections.

6.8 The Committee sought a submission from the Department (see Appendix B) and held a public hearing on 22 May 1985.

Departmental Response

Development of Standards

6.9 The National Biological Standards Laboratory (NBSL) has the responsibility, together with the Therapeutic Division, for ensuring that safe and effective therapeutic goods for both human and veterinary use are available in Australia. The main functions are assisting in the formulation of therapeutic goods regulatory policy and the provision of scientific services in connection with government controls over therapeutic goods by -

- (a) testing samples for compliance with standards;
- (b) evaluating protocols of the chemistry, microbiology, manufacturers' quality control, packaging and labelling of therapeutic goods;
- (c) developing new and improved standards;
- (d) inspecting plants manufacturing therapeutic goods; and
- (e) providing advisory and consultative services to departments and manufacturers.

6.10 The provision of standards for goods and the testing for their compliance with those specifications has traditionally been the method used to regulate their quality. However, it has become clear that there are a number of practical drawbacks in relying entirely on the standards mechanism.

6.11 To be effective, standards should be available for all products on the market at all times. This has never been achieved in any country and is never likely to be achieved in Australia. Depending upon the class of product, the proportion with standards varies from 75 per cent to 30 per cent.<sup>1</sup> There are thousands of products for which statutory specifications are not available. This is often the case for non-prescription (ie, 'over-the-counter' or 'OTC') products upon which large sums are expended by the public.

6.12 It should also be possible to modify standards quickly when the need arises and there should be international congruence of standards so as not to unnecessarily interfere with the free flow of goods in international commerce. However,

<sup>1</sup> Joint Committee of Public Accounts, Report of the Auditor-General - March 1984, Minutes of Evidence, p.104.

it has not been necessary to inform the Commonwealth that a new product is to be introduced into the market unless that product contains a new drug substance and is imported. Information concerning the number and types of certain categories of therapeutic goods is very patchy. Without such a notification system the provision of standards for all goods is a virtually impossible aim. The main sources of standards are international compendia like the British Pharmacopoeia (BP), United States Pharmacopoeia (USP), European Pharmacopoeia (EP), etc, but there is an appreciable time lag between the marketing of new remedies and the publication of statutory standards.

6.13 The process of preparing standards is time consuming, very expensive and is made more difficult by the absence of a research-based pharmaceutical industry in Australia. The arrangements for developing standards require very considerable consultations with the people who are affected by them and the present mechanism of putting them through two committees, involving extensive consultation, makes it difficult to change standards quickly. To a considerable extent therefore, NBSL derives its standards from the British Pharmacopoeia.

6.14 The standards mechanism is also inadequate because it forms only a partial control over the quality and efficacy of products. Quality must be built into goods during manufacturing. It cannot be tested into goods and, although testing can be used as a measure of quality, testing as a mechanism does not always detect serious faults if these have a low incidence, eg, if only one per cent are defective in some way. A large number of samples have to be taken to ensure that such a fault is detected. This is not always possible for practical reasons.<sup>2</sup>

6.15 For these reasons, the use of standards as a method of regulating the quality of goods needs to be supplemented by other methods of control. Following the Kefauver Enquiry into the pharmaceutical industry in the USA and the thalidomide tragedy, two additional mechanisms were introduced into the regulatory process.<sup>3</sup> These were the inspection of manufacturers for compliance with a Code of Good Manufacturing Practices and a much more searching evaluation of new therapeutic goods.

6.16 NBSL is attempting to increase the protection afforded by standards by the development of general standards for classes of goods. While not as effective as a standard for a specific product, these would provide a coarse filter, to catch seriously deficient products. The generality of such standards and the need to avoid arbitrary interference in international commerce tends to make them a lower common denominator of pharmacopoeial practice and particularly difficult to prepare. Resources for this work have been lacking for some years.

2 Ibid, p.109.

3 Ibid, p.103.

6.17 In its submission the Department stated that eleven standards had statutory status and another seven were ready for ministerial approval (see Appendix B). They are largely modifications or alterations to standards for products which have not been covered by the British Pharmacopoeia. Further documentation was provided which related to the standards that have been promulgated or are presently being developed under the provisions of the Therapeutic Goods Act and are in Regulations (see Appendix B).

6.18 The Department elaborated on other mechanisms (mentioned above) to supplement the inadequacies of the standards mechanism. The first method is one of evaluating products before they are marketed. New products are put through a system of evaluation under the aegis of the Australian Drug Evaluation Committee and then they are either not permitted to be marketed or only marketed under specific conditions. This process arose following the thalidomide incident in 1962.<sup>4</sup>

6.19 Another method is that of monitoring the quality of products on the market. This can be done by testing for products even if they have no legal standards; non-statutory standards are used which can be determined to be fairly equivalent to statutory standards. Also used is a method of inspection of companies to the criteria of the Code of Good Manufacturing Practices. The rationale here is that faults can be detected in processes before they occur in goods, and the danger of random events and accidents occurring where good manufacturing practice is not observed may be perceived. Finally, there is a mechanism of recalling products which are considered to be dangerous. All these mechanisms are utilised.<sup>5</sup>

6.20 The Department believes that the mechanisms described above are, if not entirely satisfactory, at least as effective as those in most countries for the proper regulation of quality and safety.

6.21 In its submission the Department stated that, while there have been several amendments to the Therapeutic Goods Act to make it more efficient, it does not form a sufficient basis for regulatory activities because of the limited range of powers provided in the Act. Since the drafting of the Act, changes in the perception of Constitutional powers now permit alternative administrative mechanisms to be provided.

6.22 The Department outlined for the Committee the two alternative administrative mechanisms it would like to see provided. Most countries use what is termed a registration system, which is basically a licensing system for goods. The marketing of goods is not permitted unless they are approved by the Government - a necessary condition of approval being that the Government is convinced of their safety, efficacy and potency. Another system is the licensing of pharmaceutical companies, based on the notion that it must be seen that goods are manufactured in a proper manner.

4 Ibid, p.111.

5 Ibid, p.112.



6.23 The Department believes that corporation power<sup>6</sup> will provide the means by which legislation could be introduced by the Commonwealth to take these particular actions, ie, to provide a single control authority over pharmaceutical goods. At the present time the legislation covering these aspects of regulatory activity is irregularly dispersed amongst the States, or divided amongst the States, with differing legislation in different States.

6.24 The Department stated in its submission that the most effective power available to it is the discretion provided in the National Health Act for the Minister to refuse to list low quality goods as Pharmaceutical Benefits.

6.25 Audit criticised NBSL for not establishing a National Register of Therapeutic Goods, which according to Sub-section 23I (1) of the Therapeutic Goods Act 1966, shall include information, as the Director-General determines, in relation to goods for therapeutic use that are supplied in Australia or produced in Australia.

6.26 The Department advised of its progress in implementing the Register in the public hearing. Notices had been sent to about sixty companies to obtain information. A copy of the notice requirements, in Regulation 4B of the Therapeutic Goods Act, was made available to the Committees (see Appendix B). It has become apparent that there is much more data to be entered into the Register than was expected. Some companies are making as many as 1 500 products, largely of a minor nature. The naming of products and substances has been somewhat erratic and there are problems making a proper assessment of the validity of the data. Although extra staff members have been employed, the task has become more massive than expected.<sup>7</sup>

6.27 The Committee sought an explanation as to why it took the Department almost twenty years to begin the compilation of a National Register. The Department advised that the Act was not amended until 1981 to provide legislation to make the supply of information obligatory. Following the amendment to the Act it was necessary to develop computer systems and negotiate with industry.

6.28 The Department advised that officers of the Department of Health have had consultations with other countries regarding a method of setting world standards. This has not been particularly successful and to date there is no real prospect of immediate international collaboration in this area. In the last amendment of the Therapeutic Goods Act the Department adopted the power to cite standards other than the British Pharmacopoeia. It also uses the United States Pharmacopoeia, the European Pharmacopoeia and the International Pharmacopoeia, and standards generated by the Standards Association of Australia. There are problems in doing this because in the pharmacopoeial system there are specifications for analytical reagents. The European Pharmacopoeia is the largest attempt to rationalise the

standards area of control. The United States Pharmacopoeia is a very important pharmacopoeia because of the concentration of manufacturers in that country.

#### Testing of Therapeutic Goods and Veterinary Antibiotic Products

##### - Therapeutic Goods

6.29 In general, products listed as Pharmaceutical Benefits are accorded a high priority for testing. Antibiotic products are tested at least once a year. The frequency of testing of other Benefit items varies from once a year to once every four years depending upon available resources, the therapeutic importance of the product, its cost to the Commonwealth and indications of a need to test the goods. Such indications are derived from complaints, reports in the literature and observations by inspectors of manufacturing practices in particular companies.

6.30 The Department agreed with Audit that it would be desirable to carry out testing on a more regular basis. However, limited testing facilities require that judgments be made as to the most effective way to utilise scarce resources.

6.31 The Department submitted that delays in obtaining samples for testing had decreased since the Audit Report. Recruitment of an officer for sample collection had begun in the Melbourne Office but in Sydney the position had not yet been advertised. The Department reported opposition by Departmental pharmacists to sample collection being carried out by non-professionals.

6.32 In addition, a new and very effective packaging system has been evolved for collection of official samples. Pilot runs indicated that the system would reduce the delays. The Department advised the Committee that, in the past, unless the samples arrived at a predetermined time, it was not possible to program NBSL activities. This aspect had been largely overcome, although delays still varied considerably. NBSL has found that it takes about three months to get in a complete sample order. Some are received rapidly if they are readily available, others are either not available in stock or they may have been discontinued. In the period January to April 1985, eg, it still took eight to ten weeks to get some advice in relation to all samples.<sup>8</sup> Samples are collected by inspection pharmacists of the Pharmaceutical Benefits Branch, Commonwealth Department of Health.

##### - Veterinary Antibiotic Products

6.33 The Department submitted that quality of veterinary antibiotic products continued about the same as reported by Audit. There is no effective regulatory action available to the Commonwealth under the present Act, as in the case of pharmaceutical products. Proposals were made to the States to

<sup>6</sup> See The Constitution, Sub-section 51(xx).

<sup>7</sup> Joint Committee of Public Accounts, Report of the Auditor-General - March 1984, Minutes of Evidence, p.115.

<sup>8</sup> Ibid, p.121.

establish a national system for the regulation of the quality of therapeutic goods. Although one State supported the proposal, the majority did not. State Departments of Agriculture have been informed of this situation.

6.34 The Committee was further advised that it has been difficult to test veterinary goods because there were no standards for them. The development of a proper formulation of these types of product is exceedingly difficult and the resources available to the veterinary industry are not up to the task. It took quite a while for NBSL with greater expertise, to be able to develop methods to test these particular products. When it was done, it was found, not unexpectedly, that there were very considerable failure rates in the products meeting those sorts of standards which would be regarded as being reasonable for such goods. These results were reported to the Animal Health Committee and the attention of the States thereby drawn to the matter. The Animal Health Committee had some discussions with NBSL and was advised of the sorts of machinery that work or had proven to be satisfactory in the human field.

6.35 The Committee discussed with the Department the implications for human health in the application of antibiotics to animals. The Department stated that the most important factor is the use of foods fortified with antibiotics for stock use. This is the way in which large numbers of animals receive antibiotic products and it has always been a worry to microbiologists that this might cause the generation or development of organisms which are resistant to these antibiotics. The matter is under investigation by a sub-committee of the National Health Medical Research Council. The Department is assisting in the investigation by trying to determine, on behalf of the committee, the amount of antibiotics in animal feedstuffs, the quality of the product that is put into these substances and what tests are carried out to see that they are what they are said to be. The Department provided the Committee with documentation from the National Health and Medical Research Council which expressed concern at the quality of antibiotics for veterinary use (see Appendix B).

#### Inspections

6.36 The Department submitted that since the Audit Report was made, the New South Wales Department of Health had recruited two additional inspectors with industrial experience. These have other duties as well as inspections of manufacturers.

6.37 At the public hearing, the Department further advised that positions for six inspectors had been created, where there were previously three inspectors. People had been interviewed for the positions and two were awaiting appointment. After a suitable training period, these two would become completely effective in six to twelve months. The Committee was told that it is difficult to get suitable people for inspection work, firstly, because they are well paid in industry and secondly, the position requires a competent person, skilled in the art of manufacture and quality control.

6.38 The Department commented on information included in the Auditor-General's Reports on the approximate ratio of inspectors to companies manufacturing pharmaceuticals in Australia and other selected countries. The British have a unitary system, ie, they have one authority and have relied more on inspection than they have on testing. Inspection of pharmaceutical companies as a routine world-wide activity really only began in the mid - 1960's. The British were influenced by developments around about that time and have concentrated largely on having an inspection force and do not have much in the way of laboratories. The Department advised the Committee that inspection is probably the most cost effective of the mechanisms which are utilised for the regulation of quality of goods and Australia has suffered in the past because there were not enough inspectors. It was stated that the recent doubling of the staff would make a significant difference to this.

6.39 Audit reported that there had been no centralised training for State inspection officers in the last ten years. The Department advised the Committee that a training course was held in June 1984 for New South Wales and Commonwealth inspectors. A course was held in May 1985 for all Commonwealth and State inspectors with a total of 16 people attending.

#### Legislation

6.40 The Department submitted that the greatest concentration of manufacture is in New South Wales followed by Victoria. There are licensing provisions in New South Wales. The Department advised that the Victorian Government had prepared a Therapeutic Goods and Cosmetics Bill which will require manufacturers of therapeutic goods to be licensed in that State and which was expected to become effective in late 1984.

6.41 However, the Department advised in the public hearing that the Bill had not been passed, due to the considerable resistance it generated from the manufacturers of fringe therapeutic agents. This has led to a delay in the progress of the Bill and an investigation by committees of the Victorian Parliament.

6.42 The Department advised that there is concern in the minds of some State officers that there should be additional legislation to require manufacturers of therapeutic goods to be licensed. Apart from Western Australia, which is considering introducing legislation, there is no other legislation in prospect. Tasmania has had legislation since 1978, but the regulations have never been written for it.

6.43 The power to license companies rests with the States. The Commonwealth advises the States jointly with the State inspectors; there is not always agreement on what should be done and some States are more tolerant than others. The Committee raised the example of New South Wales' disagreement with the NBSL inspectors' recommendations. The Committee was told that as a consequence of the disagreement, the co-ordinating body, the National Therapeutic Goods Committee, agreed to set up a

committee to look at the interpretation of the code in particular instances. The committee would meet at regular intervals to assure a more consistent approach.

#### Wastes

6.44 The Department advised that written instructions for the disposal of waste had been prepared by the NBSL Safety Committee and practices were now uniform throughout the laboratories. The disposal of waste was previously carried out in a satisfactory manner but not recorded. The Department provided the Committee with its instructions for the disposal of laboratory waste (see Appendix B).

#### Other Matters

6.45 The Department did not dispute Audit conclusions. Both the Auditor-General's Report and the Department's submission noted staff shortages as a major cause of problems. The Department advised that the increase in the level of available resources has significantly improved the day to day operations of NBSL. Other structural changes have taken place. The first steps have been taken to develop a regulatory system for medical devices. Positions have been created, advertised and interviews for staff to man such an activity were imminent at the time of hearing with the Committee. Additionally, the Department amalgamated the Therapeutics Division of the Department of Health with the National Biological Standards Laboratory (NBSL) to form a unitary structure organisation which parallels, in a number of ways, the sorts of agencies which occur in other countries, such as the Food and Drug Administration in the United States and the Food and Drug Directorate in Canada.

6.46 The Department advised that administrative arrangements within NBSL are improving. The re-organisation was a recent initiative at the time of the Committee's hearing and the organisational structure had not been completed. The Department advised that the amalgamation of NBSL and Therapeutics would be more effective in that it would reduce duplication and improve co-ordination by putting people who are doing similar tasks, or different aspects of the same, together so that they will be able to collaborate more efficiently. The amalgamation will facilitate this approach.

6.47 The Committee was advised that during the 1983-84 fiscal year, the time at which the Auditor-General's Report was presented, the Department made reallocations of financial resources from internal funds to NBSL. During 1984-85 there has been a significant increase in funds allocation for the NBSL, about \$400 000 to undertake the National Therapeutic Goods Register and also a register associated with the new medical devices area.

6.48 Audit concluded that the major cause of the NBSL's problems appeared to be the allocation of insufficient resources. Audit advised the Committee that the Department of Health has taken considerable action in relation to the matters raised in the report. Audit also noted the increase in the level of available resources and staffing to assist the Department to extend the functions and objectives laid down in the legislation which Audit considered they were not quite meeting.

6.49 The Department advised the Committee that NBSL's major problem is inadequate physical resources. There is no central laboratory; there are buildings scattered in different suburbs of Canberra and in Melbourne. The bacteriology laboratory and the animal house facilities are bad; the sterility testing is being carried out in what was the kitchen of a restaurant. The Committee noted a reference to NBSL's accommodation facilities contained in the transcript of the 'Nationwide' television program of 7 August 1981. The program revealed that the National Biological Standards Laboratory 'is in fact a converted furniture repository, a converted pie shop, a converted restaurant and a converted World War II prefab'. The Department informed the Committee that this situation still exists at the moment.<sup>9</sup> The Committee is aware that the Report of the Inquiry into Commonwealth Laboratories (November 1983) noted that the NBSL was working in accommodation which was quite inadequate. The Report's recommendations (38a-x) were made on the understanding that the project for a new building to accommodate all Laboratory sections, which was given approval in the 1983-84 Budget papers, would proceed.<sup>10</sup> However, approval for the proposed new building was subsequently revoked.

#### Conclusions

6.50 The Committee notes that the Commonwealth Department of Health has taken action in relation to the matters raised in the Auditor-General's report. The Committee is very concerned that NBSL's facilities are so inadequate, below standard and scattered that it cannot carry out its functions effectively. The Committee concludes that the appropriate legislative or policy changes need to be implemented and, at the same time, the lack of resources needs to be addressed urgently. The Committee will be monitoring this situation closely.

<sup>9</sup> Ibid, pp.136-7.

<sup>10</sup> Inquiry into Commonwealth Laboratories Report, November, 1983, Volume 2, pp.141-5.

## CHAPTER 7

### DEPARTMENT OF HOUSING AND CONSTRUCTION

#### DEPARTMENTAL ACCOUNTING AND INFORMATION SYSTEM AND CENTRAL OFFICE ADP ENVIRONMENT CONTROLS

7.1 The Audit encompassed both the ACT Region and Central Office computing facilities. Audits were also completed in New South Wales and South Australia, directed at assessing the implementation of the Departmental Accounting and Information System (DAIS) in the respective regions.

7.2 The Audit revealed inadequacies in the overall arrangements for the development and implementation of DAIS and in the control environment for computer processing in the Department, including instances where the Public Service Board Guidelines were not followed. Matters raised included:

- . application system development - implementation, modification and review controls;
- . software systems development, implementation, modification and review controls;
- . operational controls;
- . processing controls;
- . management and organisational controls;
- . physical security controls;
- . communication controls; and
- . data integrity controls.

#### Departmental Response

7.3 The Department grouped the Auditor-General's observations into five categories:

- . failure to achieve system objectives;
- . inadequacies in the development and implementation phases of the system;
- . inefficiencies in the DAIS system as it currently operates;
- . deficiencies in the control environment for computer processing generally within the Department; and
- . deficiencies in computer system development processes generally within the Department.

#### Failure to Achieve System Objectives

7.4 The Department conceded that there were shortcomings and that there are still some problems in the area of management control to be remedied. Although the system is neither perfect nor complete the Department is confident that the facets of DAIS that have been implemented now undertake the functions for which they were designed.

#### Inadequacies in the Development and Implementation Phases of DAIS

7.5 The Department formally acknowledged to the Auditor-General's Office that it encountered difficulties in establishing standards for the development of DAIS. Nevertheless the Department is satisfied that the development phase of DAIS and its predecessors was handled adequately.

#### Inadequacies and Inefficiencies in DAIS

7.6 The Department acknowledged inadequacies in DAIS at the time of the audit. However, the Auditor-General's comments do not take into account the evolving nature of DAIS and the Department's changing information needs. Corrective action has been taken in a number of areas, and further training of staff and users will continue to receive priority at both Central Office and Regional levels.

#### Deficiencies in the Control Environment for Computer Processing Generally Within the Department

7.7 The Department outlined measures undertaken to remedy deficiencies in environmental controls identified by Audit. The more significant of these measures were that:

- . the Departmental Computing Security Committee had been approved. Terms of reference and membership have also been approved and the Committee meets regularly;
- . a Software Standards Committee had also been formed;
- . a review had been conducted to assess the adequacy of environmental controls against the Public Service Board guidelines and an action plan is in hand;
- . the Department had recently concluded a consultancy that reviewed Capacity Management and addressed aspects of environmental control. Further consultancy is under way; and
- . increasing numbers of ADP staff are being deployed to undertake environmental control activities.

7.8 Whilst acknowledging that all aspects of requisite environmental controls were not yet in place, all deficiencies of significance have been addressed and will be resolved within a reasonable time frame.

7.9 Nevertheless, the Department believes that, for all practical purposes, the risks and exposures are being contained at an acceptable level and that the present standard of environmental control is commensurate with the requirements of systems on the network.

#### Deficiencies in Computer Systems Development Processes Generally Within the Department

7.10 The Auditor-General reported that at the time of the audit there were several areas in which computer systems development processes within the Department needed review or improvement. The particular areas mentioned were:

- . the strategic planning process;
- . the lack of assurance to Regional staff that when Central Office programmers accessed production files to make changes, only the requested changes were made;
- . the weaknesses in data integrity controls relating to data base systems; and
- . the lack of training in the use of DAIS for ADP staff and users in the SA/NT Region.

7.11 The Department submitted that:

- . the strategic planning process has been revised for 1984-85;
- . the Department has developed master file comparison programs to reduce the manual effort involved and to provide additional checking facilities for this and other control needs. These facilities were near completion;
- . since the audit, the Department has introduced its first Data Base System; and
- . there is an on-going program to train appropriate staff in the SA/NT Region.

#### Summary of Departmental Response

7.12 The Department has adopted a two-pronged approach to addressing deficiencies identified by the Auditor-General:

- . a short term objective of ensuring that the identified deficiencies are remedied urgently; and
- . a long term objective of ensuring that the Department's internal practices and procedures are amended so that the same deficiencies do not recur.

7.13 As part of the short-term objective, several immediate actions were taken, most important of these being the establishment of a Task Force in order to expedite the task of remedying the deficiencies identified in DAIS and the computer environment controls. The Task Force has been able to report considerable progress. However, resourcing problems have been encountered, and it is estimated that these will take many months to resolve satisfactorily.

#### Conclusion

7.14 The Committee was concerned that the inadequacies in the overall arrangements for the development and implementation of the Departmental Accounting and Information System (DAIS) have not been remedied. The Committee has therefore referred this item to its Sectional Committee on ADP matters for further consideration.

CHAPTER 8

DEPARTMENT OF IMMIGRATION AND ETHNIC AFFAIRS

ADULT MIGRANT EDUCATION PROGRAM

8.1 The Department's submission to the Committee on 6 December 1983 followed a request arising from the Report of the Auditor-General - September 1983 on the Adult Migrant Education Program (AMEP). A revised and updated version of this submission was received from the Department in response to the Report of the Auditor-General - March 1984.

8.2 Audit disclosed a number of deficiencies in the Department's administration of the Program. A number of matters were referred to the Department for further comment, including:

- . the lack of a relevant, formal Agreement between the Commonwealth and the States;
- . the effectiveness of procedures in courses provided by the States;
- . the lack of procedures to determine student eligibility; and
- . payment of living allowances.

Departmental Response

8.3 The Auditor-General in his September 1983 Report expressed concern that the Program lacked a relevant, formal agreement. In the Department's submission of December 1983 it advised that an agreement had been accepted by three States and the Northern Territory.

8.4 The position in October 1985, was that the agreement had been accepted by Victoria, South Australia, Western Australia, Tasmania, the Northern Territory and New South Wales. Negotiations are continuing with Queensland at officer level.

8.5 The Auditor-General in his September 1983 Report indicated that there is a lack of a formal system to approve, review and evaluate individual courses of instruction under the Program. The Department reiterated its view that it would be contrary to established practice in other educational areas if the Department was to undertake formal approval of individual courses. The Department's view is that on-going evaluation of the effectiveness of the Program could be achieved more effectively and economically by:

- . the setting of agreed objectives;

- . a clear division of responsibilities between the Commonwealth and States/Territories; and

- . monitoring and evaluation of day-to-day program arrangements by the States.

8.6 The Department advised that considerable progress has been made over the past few years in developing, in consultation with the States and the Northern Territory, effective course arrangements for the Program. The Professional Development Sub-Committee of the Joint Commonwealth States Committee on the AMEP has established clear guidelines and professional standards for setting course objectives, with particular emphasis on a needs-based approach to adult 'English as a second Language' (ESL). The Sub-Committee meets four times each year. Foremost amongst the developments to date has been the establishment of self-directed learning centres including the development and promulgation of more appropriate teaching and learning materials.

8.7 An on-going trialling and development program for initiatives under the AMEP was introduced in 1982-83 and as an integral part of these arrangements, evaluation of all projects is carried out at State and national levels. In November 1983, a Language Assessment Working Party of the Professional Development Sub-Committee was formed to specifically develop new approaches to the evaluation of English language proficiency gains in AMEP courses. The Working Party has met twice and it is expected to develop a suitable methodology for evaluating English language gains in late 1985. Two studies on 'tests' are expected to be completed by December 1985.

8.8 The work of the Professional Development Sub-Committee and the Language Assessment Working Party in developing high professional standards and a process of on-going review and evaluation is considered to be appropriate, efficient and effective.

8.9 The Department has developed a comprehensive information system for the Program, designed to enable more effective monitoring of the eligibility of applicants. The system is designed to provide a wide range of information about students, courses, staffing and support services, as well as a range of management-oriented data and control mechanisms. This information will assist checks on eligibility, with reference to Departmental records where necessary.

8.10 Regulations have been drafted by the Attorney-General's Department. A number of definitional problems have recently been referred to the Department by the Attorney-General's Department and are currently being dealt with.

## Conclusions

8.11 The Committee's Report 233<sup>1</sup>, tabled in May 1985, noted that the Department had advised the Committee that a major review of the Adult Migrant Education Program had commenced on 11 March 1985 and is expected to report in November 1985. The terms of reference for the review are provided in Appendix B to this report.<sup>2</sup> The report is expected in November 1985. The Committee expects to be informed of the results of the review in the response to this Report.

8.12 The Committee is concerned that the formal agreements on the Adult Migrant Education Program with all States and the Northern Territory have still not been concluded more than two years after the Minister sought formal agreement. One State still has to accept the agreement.

8.13 The Committee sees the finalisation of regulations for the payment of allowances as being necessary and urgent.

## CHAPTER 9

### DEPARTMENT OF SOCIAL SECURITY

#### UNEMPLOYMENT, SICKNESS AND SPECIAL BENEFITS

9.1 Audit concluded that the key controls over the payment of Unemployment Benefits were being inconsistently applied. Audit identified these controls as:

- . the identification of applicants;
- . pre-grant interviews;
- . checks with employers;
- . intra-departmental verification checks;
- . liaison with the Commonwealth Employment Service (CES); and
- . review of continuing entitlement.

#### Department of Social Security (DSS) Response

9.2 The Department advised that:

- . the client identification process has been subject to review as a major consultancy project, to be completed in the near future;
- . the role of pre-grant interviews in the client identification process is currently being examined;
- . it is believed that the incidences of failure to follow-up checks with employers is not widespread;
- . the implementation of the revised liaison arrangements will be reviewed via selective review processes, and other methods, some months after implementation; and
- . a comprehensive Management Information System which will cover review of continuing entitlement is being developed.

9.3 The Auditor-General was critical of the frequency of validations for Sickness Benefit. Data analysis is continuing in two areas. Controls over the payment of Special Benefits were satisfactory except in respect of benefits paid to persons admitted to Australia under assurance of support arrangements. Instructions are currently being amended to identify those persons who have been absorbed into the community and to simplify administration in this area.

<sup>1</sup> Joint Committee of Public Accounts, Report 233, Reports of the Auditor-General - 1982-83 and September 1983, 1985, Chapter 5.  
<sup>2</sup> Appendix B, p. 211.

9.4 DSS was asked to comment on progress in introducing new guidelines to improve performance in this area and to comment specifically on the role of pre-grant interviews in the identification progress.

9.5 Changes to the Proof of Identity (POI) system were introduced in most States in November/December 1984. In New South Wales they were introduced in March, 1985.

9.6 The aims of the new system are :

- . to reduce the opportunity for fraud in the client identification process;
- . to improve techniques for dealing with genuine clients experiencing difficulty in establishing identity; and
- . to reduce tension between clients and staff in the identification process.

9.7 Early in 1985 State administrations of the Department were asked to undertake an informal survey of regional offices to establish whether the new system was operating satisfactorily and whether it was being generally accepted.

9.8 State administrations reported that the new system was of good value and a definite improvement on the old. Early indications are that the system is efficient and effective in meeting its objectives of deterring fraud while improving the service provided to genuine needy clients. Regional offices reported a reduction in client/staff tension during the POI procedure.

9.9 The new system requires a pre-grant interview to be conducted for each claimant and dependant spouse of the claimant. Some allowance is made for special circumstances such as where sickness, remoteness or child care make attendance unrealistic.

9.10 Beneficiaries are identified before payment. However, there is provision for payment on the basis of Proof of Identity (POI) which is below the new standard, subject to identity being subsequently confirmed. At present this is being administered manually in the benefits area, although automatically in the pensions system. System changes to enable the automatic process are expected to be introduced by the end of 1985. At that stage a post implementation review will be undertaken.

9.11 This, and the accompanying post implementation review, will complete the introduction of the new system. At this stage it appears to be both effective and efficient.

9.12 DSS further advised that, in order to assess the extent to which additional staff resources may be required to implement the revised liaison procedures nationally, a pilot exercise was

conducted in two DSS regional offices. The pilot concluded on 21 June 1985 and the results are currently being evaluated. Early indications are that additional resources would be required to implement the revised procedures nationally.

9.13 In the event that these indications are confirmed CES and DSS will further review the situation and seek to identify any other options for improving liaison arrangements with existing resources.

9.14 Revised arrangements for the review of Unemployment Benefit recipients have been implemented. The new approach emphasises:

- . the desirability of reviews being undertaken on a selective basis using risk analysis to make those decisions;
- . that the choice of cases for review can be:
  - by regional office staff;
  - by the public (these are unavoidable); and
  - by selection of groups of cases from the DSS's records on the basis that there is a perceived higher than average risk of wrong payment;
- . the usefulness of the detailed information which is being provided about the results of reviews. This is the management information system referred to in paragraph 33 of the earlier submission and will assist in making the risk analysis decisions referred to above (see Appendix B); and
- . the importance of regional offices using the appropriate mix of skills on review work (ie clerical resources as well as field staff).

Department of Employment and Industrial Relations (DEIR) Response

9.15 DEIR is satisfied that the 'revised procedures', referred to above, are suitable. In recognition of the importance of the matter of liaison arrangements between the CES and DSS, the revised procedures will be reviewed by both Departments after three months operation.

9.16 DEIR was also asked to provide the Committee with the results of the revised liaison procedures with DSS including dates of implementation and review.



9.17 Trials of the revised liaison arrangements arising from the joint CES/DSS working party report were introduced in Boronia CES and DSS offices in Victoria in October 1984 and Southport, Mermaid Beach, Surfers Paradise CES and Southport DSS offices in Queensland in November 1984.

9.18 The trials were originally to run for a period of three months; however, due to initial difficulties with the Queensland trials, this was extended to a 21 June 1985 completion date.

#### Current Progress

9.19 The results of the trials are under evaluation currently by the DSS against the Trial Terms of Reference. The evaluation is expected to be completed by November 1985. The Terms of Reference are set down below:

- determine the effectiveness of revised procedures in ensuring that unemployment beneficiaries are actively seeking work;
- establish the cost of the revised procedures in terms of staff resources vis-a-vis savings resulting from the review of benefit entitlement following CES advice. Duration of the pilot is to be sufficient to adequately establish these factors;
- determine the methodology required to measure the effectiveness of revised procedures in pilot offices; and
- consider the national introduction of revised placement advices to all DSS offices prior to the completion of the pilot study. The possible introduction of these advices to be determined by the measurement of the impact on staff resources in pilot offices.

9.20 The exchange of computer generated information between CES and DSS to facilitate the required level of liaison is an option currently receiving consideration. For reasons of systems compatibility, size of data base and volume of transactions, a computer-based solution is, by its very nature, a longer term rather than an immediate answer.

#### Conclusions

9.21 The introduction of a new Proof of Identity (POI) guidelines was noted in the Committee's 232nd<sup>1</sup> and 233rd<sup>2</sup> Reports tabled in May 1985. As stated then the Committee is most concerned that beneficiaries are properly identified prior to becoming entitled to, or receiving, benefits. The Committee is

- 1 Joint Committee of Public Accounts, Report 232, Report of the Auditor-General - May 1983, 1985, Chapter 9.
- 2 Joint Committee of Public Accounts, Report 233, Reports of the Auditor-General - 1982-83 and September 1983, 1985, Chapter 12.

pleased to note that early indications are that the system is efficient and effective in meeting its objectives of deterring fraud while improving the service provided to genuine needy clients and that it is reducing client/staff tension during the POI procedure.

9.22 The Committee notes that revised arrangements for the review of Unemployment Benefit recipients have been on trial and DSS is currently assessing the results of those trials. The Committee wishes to be informed of the results of the trials and of any subsequent decisions to be made on the national application of the liaison arrangements.

#### RECOVERY OF OVERPAYMENTS

9.23 Audit's main objective was to review the adequacy of DSS action in detecting, recording and recovering amounts overpaid. Particular difficulties in this area included:

- the need to adopt recovery procedures to the socio-economic circumstances of the debtors who are liable to change their place of residence frequently;
- pressure on DSS resources; and
- a general lack of experienced staff allocated to recovery work.

9.24 Audit concluded that the adoption of tighter controls would appear to be essential.

#### Auditor-General's Report - September 1985

9.25 In September 1985, the Auditor-General reported on an audit of the State Headquarters and three regional offices in Western Australia which again evaluated the adequacy of departmental procedures. Audit reported that the balance of unrecovered overpayments at 30 June 1985 was \$123.8 million. Audit found that many problems still exist, but that there had been a general improvement in controls over the recovery of overpayments following new initiatives introduced mainly as a result of the national review of departmental debt recovery methods.

#### Departmental Response and Committee's Conclusions

9.26 This issue has been raised by the Auditor-General in a number of recent reports. The Committee co-ordinated its comments on the matter in Chapter 9 of its 232nd Report.<sup>3</sup> 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.

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

CHAPTER 10  
DEPARTMENT OF THE TREASURY

RECOVERY OF TAX

10.1 Audits of procedures for the recovery of outstanding taxes were conducted in the Brisbane, Sydney, Melbourne and Perth Branches of the Taxation Office. Various unsatisfactory matters were noted in the course of the audits regarding:

- . deficiencies in recovery procedures;
- . delays in processing recovery action;
- . deferment arrangements; and
- . management information.

10.2 The amount of tax outstanding is a matter of concern. At 30 June 1983 it was \$2 904 million, 90 per cent of which was income tax (\$2 604 million). This is an increase of more than \$2 000 million in six years. Statistics provided by the Taxation Office show that the amount of tax outstanding has been rising at a faster rate than tax collectable. Tax outstanding as a proportion of collectable tax has risen from 9 per cent in 1976-77 to 23 per cent in 1982-83, largely because of the increase in the amount outstanding from taxpayers involved in tax avoidance schemes i.c. (see also Appendix B).

Department of the Treasury's Response

10.3 Subject to some qualifications, preamble information to the Auditor-General's Report and the statistics reflecting the amount of tax outstanding are considered by the Department to accurately reflect the situation as it existed. However, the Department stated that:

- . since the Audit, all officers associated with the preparation, authorisation and input of computer input forms have been reminded of the correct procedures to follow;
- . additional staff have been deployed to the 'Deferred Tax Unit' to overcome backlogs, and there has been considerable success in updating additional tax;
- . extra resources have been made available and this has resulted in considerable success in formalising deferment arrangements and in follow-up of non-compliance with deferment arrangements; and
- . the weekly report detailing outstanding workload has been re-instituted and a series of monitoring reports will be introduced progressively as computer systems permit.

10.4 The major matter not yet completed is a total review of recovery activities. However, work is being done to review staffing numbers and classifications together with a number of other matters in the recovery area.

10.5 The problems with the Perth Office appear to have been resolved.

Attorney-General's Department's Response

10.6 The Department advised that there had been an improvement in the Deputy Crown Solicitor's Office in Perth. Disciplinary proceedings were brought against three members of the legal staff and new procedures were introduced.

Conclusion

10.7 The Committee will defer any further consideration of this item until the House of Representatives Standing Committee on Expenditure has completed its review of the efficiency audits of the Australian Taxation Office. The review is expected to be completed before the end of the financial year 1985-86.

AUSTRALIAN TAXATION OFFICE - WOOL TAX

10.8 An audit was conducted at the Sydney Branch of the Taxation Office to review legal compliance, financial regularity and cost effectiveness aspects associated with wool tax collection. A number of aspects were raised with the Sydney Branch of the Taxation Office and with its Head Office. These included examples of failure to:

- . carry out intended office procedures and statutory requirements;
  - . ensure prompt lodgement of returns and payment of taxes;
  - . impose prescribed additional taxes for late lodgement of returns and payment of tax; and
  - . systematically pursue investigations of selected taxpayers.
- 10.9 Particular Audit findings related to:
- . irregular investigations of taxpayers;
  - . system weaknesses, including an outdated wool tax procedural manual, a computer program which failed to meet user needs and a manual system which had been developed in an ad hoc fashion;
  - . inadequate internal control procedures;
  - . legal compliance, particularly that related to lodgement of returns, was not always adhered to;

- . additional tax under the Wool Tax (Administration) Act for late payment;
- . the transfer of wool tax administration from the Taxation Office to another department;
- . methods of checking the level of disclosure by farmers; and
- . confirmation that all wool tax has been paid.

#### Australian Taxation Office Response

10.10 The Deputy Commissioner of Taxation (DCT) noted that Audit had highlighted some significant difficulties encountered by his Office in attempting to use a computer system which had not been specifically designed to cater for wool tax processing requirements. In attempting to resolve these difficulties, it had been necessary to introduce a number of manual procedures to overcome defects in the wool tax processing program. The present system bore the hallmarks of this ad hoc development of practices.

10.11 It has long been accepted that the computer system could do more, but priorities have had to be assigned to areas of most importance in terms of where the greatest savings can be achieved or collections increased. At this stage wool tax, which is a self-assessing tax, raising \$142 million from 3 016 returns lodged each year and costing less than \$0.5 million annually to collect, cannot be regarded as having a high priority in deciding where scarce computer programming resources are to be allocated. This is particularly so when compared against areas such as P.A.Y.E., Prescribed Payments, other income taxes, sales tax, etc, which each raise far more revenue, cost far more to administer and concern a far greater number of taxpayers.

10.12 The more specific matters raised in the Auditor-General's Report are outlined below.

#### Investigations

10.13 The DCT, in replying to Audit criticisms of the small amount of investigation activity, agreed that there was not a Wool Tax investigation program. Given available resources, it was unlikely that a formal program would have been achieved in recent years. The need for this lies in the need to use relevant personnel on sales tax investigations, particularly those where avoidance arrangements were believed to be involved.

10.14 The DC advised that it is not the case that there is evidence of considerable underpayment. A review of all wool tax investigations carried out by the Sydney Branch Office since 1 January 1978 provided the following information:

- . Number of investigations - 52
- . Number where no underpayment detected - 40

- . Number where underpayment detected less than \$500 - 4
- . Number where underpayment detected between \$500 and \$2 000 - 4
- . Significant underpayments of the following amounts: \$4 731, \$5 435, \$17 024 and \$138 724 - 4

10.15 In the largest case identified, the Office had been provided with information from an external source. The investigation was not carried out as part of a program of investigations. Experience has shown that wool tax returns are, for the most part, accurate and little additional revenue is obtained from regular investigation projects.

10.16 It was noted that the Australian Wool Corporation (AWC) closely monitors activities within the wool industry and, following changes to the legislation under which that body operates, it is now possible for it to provide non-compliance information to the Taxation Office. The Auditor-General noted in his Report that the DC proposed to have discussions with the Australian Wool Corporation to make arrangements for supply of information. These discussions have not yet taken place but are expected in the near future.

#### System Weaknesses

10.17 None of the procedural problems noted by Audit has affected the overall administration of wool tax nor has it resulted in any loss of revenue. The DC has had the wool tax procedural manual reviewed and updated to reflect the current processing arrangements. Written instructions have been issued which have eliminated duplication of documentation as well as instances where the under-remittance procedure was not followed. The written instructions now insure that final notices are issued in all cases where returns are not received within ten calendar days of the due date. The DC advised that a permanent register of the final notices issued is now maintained in the file control lodgements area. With regard to those matters requiring computer system changes, a review is planned but priorities are such that this cannot be done for some time. The Office recognises that there is a need to modify the existing computer system to provide more assistance to those responsible for wool tax processing.

#### Internal Control

10.18 Under this heading there were two matters mentioned of a trivial nature both related to lack of evidence of certain checks being carried out. The DC advised that appropriate action had been taken to satisfy Audit desires in this area. A third matter mentioned related to the granting of extensions of time to pay wool tax by an officer without such authority. Technically the officer exceeded his authority but given the circumstances of

the case the action was completely correct and no revenue was placed at risk. While this was an isolated instance, the DC has taken steps to ensure that such actions should not occur in the future.

#### Legal Compliance

10.19 The matter of failure to give notice to taxpayers when they cancel their registrations is a minor one and has been corrected.

10.20 Audit sampling indicated that only 5 per cent of returns were lodged by the due date. The Sydney Branch Office used a different sample and concluded that 35 per cent of returns were lodged by the due date with a further 49 per cent lodging by the end of the month. Audit commented that the different results obtained by the Audit tests and the Sydney Office survey indicate a need for the Office to keep the matter of lodgement of returns under review. This is now being done.

10.21 The problem of additional tax for late payment generally not being charged was due to procedural deficiencies in the wool tax processing area and has now been corrected. The number of cases where additional tax for late payment is imposed is small and the failure to notify wool tax taxpayers of the amount would have resulted in only a very small loss of revenue. Since matters were corrected (a period of about seven months) the amount of additional tax notified to taxpayers for late payment of wool tax was approximately \$8 400, some of which would have been notified in any event. The Office concluded that there had been a noticeable improvement in lodgement patterns which could be attributed to the more consistent approach to notifying additional tax for late payment now being followed.

#### Additional Tax

10.22 Audit queried whether consideration was being given to increasing the rate of additional tax for late payment of wool tax from 10 per cent to 20 per cent to bring it in line with that applying to income tax. This was increased to 20 per cent by the Taxation Laws Amendment Act 1984, Clause 357, which was passed on 14 December 1984.

#### Responsibility for Wool Tax Administration

10.23 The Taxation Office advised that no further consideration has been given to this matter at this stage.

#### Disclosure By Farmers

10.24 Audit sought Taxation Office comments on the feasibility of comparing income from wool sales shown in income tax returns with sales disclosed by brokers in wool tax returns. Audit suggested that a suitable method would be for the Taxation Office to obtain details of farmers' wool sales subject to wool tax either by requiring wool brokers' and dealers' returns to disclose this additional information or by obtaining it from

other sources such as the AWC. This Office noted that the Wool Industry Act 1972 was specifically amended in 1983 to permit the AWC to divulge information to the Commissioner of Taxation.

10.25 The Taxation Head Office confirmed that wool tax returns currently lodged by wool-brokers, dealers, manufacturers and exporters do not supply details of the persons from whom wool was purchased. The Office agreed that additional information could be collected from wool growers but stated that there were practical problems in matching information from external sources with that shown in income tax returns. This Office would commit resources for this purpose only if there were indications of substantial understatements of income. No exercise for wool producers is firmly scheduled at this time. Along with other industry groups, however, it is proposed that, as and when resources and priorities permit, studies will be undertaken to identify whether any large scale tax evasion is taking place. A recently expanded Enforcement Co-ordination Branch will be responsible, among other things, for developing proposals of the kind suggested by Audit.

Confirmation that all Wool Tax has been paid

10.26 Audit sought information on whether the Taxation Office satisfied itself by reference to information available from other agencies that all wool tax that should have been paid was in fact collected. It is considered that deficiencies in available external information are such that any attempted reconciliation would be inconclusive.

10.27 Audit commented on the outmoded wording on the return forms and suggested that metric measurement be used. The Taxation Office indicated that it would be taken into account during the annual review of these forms. It had also sought the views of the Wool Council of Australia on the use of metric measurements in return forms.

#### Taxation Office - Conclusions

10.28 The Taxation Office concluded that Audit did not identify any matters which would have had any serious effect on revenue collections. Except for the redesign or modification of the computer system, all matters identified requiring remedial action have been corrected or are receiving attention. In the case of the computer system, current priorities do not allow resources to be devoted to that project. Notwithstanding this, the Taxation Office considers that wool tax is being administered in a reasonably efficient and controlled manner.

#### Conclusion

10.29 The Committee was generally satisfied with the actions taken on aspects raised by the Auditor-General on the wool tax.

CHAPTER 11  
DEPARTMENT OF VETERANS' AFFAIRS

CHEQUE PRODUCTION AND DISTRIBUTION

11.1 The more significant matters represented by Audit to the Department concerned:

- . organisational aspects;
- . weaknesses in internal control; and
- . cost effectiveness matters.

11.2 Audit's final comment was that a recurring theme in the Departmental responses is that deficiencies in the existing pensions processing system will be overcome by the proposed new ADP development. The Department's view is that scarce resources are better allocated to that development than to modifications of the present operation. Such an approach would be reasonable provided the date for implementing the new system is relatively near. If that date is remote, the Departmental response in respect of many of the matters raised by Audit in New South Wales cannot be considered to be satisfactory.

Departmental Response

Organisational aspects

11.3 Audit commented that:

- . there were no up-to-date manuals outlining the responsibilities of staff involved in the processing of pension payments; the need for involvement by the recently formed ADP internal audit section was also raised;
- . significant delays in the input coding of transactions were noted; the backlog was reduced only on the occasion of application of additional resources;
- . although there was a satisfactory system for cheque production at alternative sites in the event of temporary need, no long term disaster back up plan existed for the Sydney computer centre (National Computer Centre - NCC); and
- . sundry debtor information was maintained on other equipment thus requiring additional data entry and reconciliation to be performed.

11.4 The new data base structure proposed by Doll Martin Associates did not proceed. A further consultancy on the Department's overall computer environment supported the consolidation of the existing computer software and hardware environment and recommended a more gradual evaluation and introduction of new data base technology. The Department took account of the cost and risk factors associated with maintaining adequate technical support in Australia and with maintaining sufficient computer capacity for the new data base structure, and will proceed more gradually.

11.5 The development of the APAA (All Pensions and Allowances) project is proceeding as follows:

- . the major revision and upgrading of the Service Pension Processing system was introduced in November 1984;
- . the new Client Registration system was introduced in July 1985;
- . the interim Disability Pension Processing system is scheduled for introduction in November 1985; and
- . the planned Entitlement and Eligibility Recording system is expected to be completed by mid 1986.

11.6 In response to the Audit observation that the Department did not have a disaster plan for the NCC the Department stated that a consultancy study was undertaken in 1984-85 to investigate possible options.

11.7 In line with the consultant's recommendations regarding the security, disaster and backup strategy for the NCC, the Department has allocated funds in 1985-86 to extend the security of the existing site and improve backup and recovery facilities by acquiring additional capacity.

Internal Control

11.8 Audit found that:

- . inadequate controls existed to ensure that all transactions initiated in the Branch were processed;
- . internal controls over cheques returned unclaimed by the addressees were deficient;
- . the level of control over program changes was inadequate in that there was no assurance that desired changes had been implemented or that unauthorised changes had not occurred; and
- . controls over access of programmers to the computer room and the tape library were inadequate.

11.9 The Department advised that to improve security arrangements, the Access Control Facility is being progressively implemented. Steps are being taken to improve control over program changes. Also, the revised test system, which provides for user acceptance testing of programs before implementation, is being introduced as part of the Income Assets system. It is intended to extend the features of the test system to other systems to improve the level of control over changes to programs.

11.10 The control over access of software programmers to the computer room is complicated because of layout and access to fire escapes. However, accommodation for the programmers outside the operations area is the subject of negotiation with the management of the building in which the New South Wales Branch is located.

#### Cost-effectiveness matters

11.11 Audit noted that:

- . some duplication of data collection in the pensions system existed resulting in the need for additional storage capacity and likely increased processing times;
- . the incidence of cheques drawn for low values indicated a need for the development of alternative and cost effective arrangements for payment of low value pensions; and
- . the Department was not taking advantage of a substantial discount offered by Australia Post for bulk pre-sorted mail.

11.12 The Department advised that, in 1983-84, the volume of cheque issues was significantly reduced. This follows significant initiatives during 1983 to encourage use by pension payees of direct crediting facilities. Although there is a continuing trend towards the direct mode, consideration is being given to options which involve stronger action to reduce further, the number of small-value cheques issued. The options include:

- . periodic lump sum payments;
- . lump sum 'payout';
- . compulsory direct credit payment (with certain exceptions) of small pensions; and
- . withdrawal of the cheque payment option.

11.13 The Department is anxious to avoid heavy-handed action in its efforts to reduce the cost of cheque production and issue. It will continue to take positive steps to educate contact staff and to stress to beneficiaries the advantages of the direct credit method of payment.

#### Conclusions

11.14 The Committee notes that the Department is supporting a more gradual evaluation and introduction of the new data base technology. The Committee also notes the progressive implementation of improvements to overcome deficiencies in the existing pensions processing (APAA) system.

11.15 The Committee will continue to monitor this item and has referred it to the Committee's Sectional Committee on ADP matters for further examination.

11.16 The Committee's Report 232<sup>1</sup> strongly recommended that the direct credit method of payment be the principal means of payment of all benefits with only exceptional cases being paid by other means. The Committee notes that the Department is implementing the direct credit as its prime mode of benefit payment and would like to be advised of the Department's progress in this direction.

<sup>1</sup> Joint Committee of Public Accounts, Report 232, Report of the Auditor-General - May 1982, 1985, Chapter 9.

## CHAPTER 12

### TELEPHONE RENTAL CONCESSIONS TO PENSIONERS

12.1 Many reports of the Auditor-General (the latest being the April 1985 Report) have referred to the potential for overpayments and administrative difficulties and the need for review of the continuing eligibility of pensioners in receipt of telephone rental concessions. The telephone rental concession (TRC) was introduced on 1 October 1964.

12.2 During 1982-83 \$26.3 million was expended on telephone rental concessions by the Department of Social Security (DSS) and \$5.2 million by the Department of Veterans' Affairs (DVA). Estimated expenditure by the two departments in 1983-84 was \$34.6 million.

12.3 During 1983 audits were carried out in New South Wales and the Australian Capital Territory in respect of both DSS and DVA. In the case of the DVA additional reviews were carried out in South Australia and Western Australia. The objectives of the audits were to review the adequacy of departmental procedures in respect of the concession (TRC) and to evaluate remedial action taken to overcome the recurring problems associated with the administration of the scheme. Complementary reviews were undertaken in State offices of Telecom.

12.4 The more important of the unsatisfactory matters referred to the Department of Social Security concerned:

- . eligibility checks; and
- . payment of accounts.

12.5 Similar matters were put to the Department of Veterans' Affairs and Telecom.

12.6 Audit concluded that effective administration of the scheme is inhibited by:

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

### Department of Prime Minister and Cabinet Response

12.7 The Department advised that, following the establishment of the Working Party, this item was not within its jurisdiction. A copy of the letter is at Appendix B.

### Departmental Responses

12.8 Most of the departmental responses were dealt with in the Committee's 229th Report,<sup>1</sup> tabled in May 1985. However, the Committee sought additional information on the results of the Interdepartmental Working Party. The Committee asked in particular for an outline of any administrative changes made to the existing concession scheme as a result of that Working Party's deliberations.

12.9 The option most favoured by the Departments of Social Security and Veterans' Affairs was discussed at the third meeting of the Working Party in September 1984. It involved the regular issue of eligibility cards which would be checked by Telecom at the time of accounts payments. The main elements of this proposal were outlined in Telecom's supplementary submission. They are as follows:

- . eligible pensioners to be issued with an entitlement card by the Department of Social Security or the Department of Veterans' Affairs - a new card to be issued each year in November;
- . applicants for a new telephone service to produce the card at a Telecom Business Office or Post Office to prove entitlement to the TRC;
- . each year, entitlement to the TRC would need to be re-established upon receipt of the first telephone bill received after November by the pensioner presenting his entitlement card to a Telecom Business Office or a Post Office; and
- . bills (quarterly) issued in the interim to incorporate a statutory declaration which would be signed by the pensioner to indicate continuing entitlement to the TRC.

12.10 Telecom advised that it is opposed to the proposal for two reasons: from a point of view of disadvantaging the pensioner concerned and being incompatible with Telecom's current billing operations. This is being replaced by CABS (Customer Accounting and Billing System) progressively over a two to three year period which commenced in August 1985.

12.11 Telecom reported that,<sup>2</sup> notwithstanding the real disadvantages of the proposal, as identified in correspondence to DSS, with copies to DVA, action at Ministerial level led to

<sup>1</sup> Joint Committee of Public Accounts, Report 229, Reports of the Auditor-General - 1981-82 and September 1982, 1985, Chapters 1, 8 and 11.

<sup>2</sup> See Appendix B.

the Expenditure Review Committee agreeing on 16 April 1985 that the administration of the TRC be transferred to Telecom provided that the Ministers for Communications, Finance, Social Security and Veterans' Affairs accepted that the transfer would reduce overall administrative costs, 1 January 1986 being identified as the date of effect. This Decision was endorsed by Cabinet on 13 May 1985.

12.12 On 10 May 1985 Telecom's Managing Director wrote to the Minister for Communications re-affirming Telecom's opposition to the proposal (which had been earlier conveyed to the Department of Communications). This advice, which identified, in approximate terms, the cost to Telecom if the proposal proceeded namely a net \$812 000 additional annual costs plus once-only billing development costs of \$500 000, also highlighted the fact that resolution of the matter should not proceed simply on the basis of relative costs within the respective organisations. Due recognition should be given to the serious disadvantages to pensioners and the inability to introduce the scheme throughout Australia until the new CABS billing system was fully implemented in two or three years hence.

12.13 Telecom arranged for the provision of magnetic tapes to DSS and DVA in support of its monthly claims for reimbursement, as from August 1983. DSS has not taken any action to enable it to process magnetic tapes against its data base of pensioner records and thus automatically validate individual telephone customer's entitlement to the concession.

12.14 However, DVA has developed a system which does process Telecom's tapes. This has not been effected without some difficulty and the level of rejects has been high with resultant costs of follow-up within Telecom. A significant factor in this regard is Telecom's inability to feature the pensioner's name on the magnetic tapes and errors do occur in the main identification key - the entitlement number. However, with Telecom's new CABS system, customer name and address will be provided on tape and thus the work-load associated with validating entitlement and following up items of reject would be significantly reduced in both the paying Departments and Telecom.

12.15 Whilst this matter, specifically the proposal espoused within DSS and now endorsed by Cabinet (subject to the original conditions of acceptance by the four interested Ministers) has reached an advanced stage for resolution. Telecom firmly believes that the proposal, which has adverse political implications regarding the welfare of pensioners as well as operational impracticabilities within Telecom, should not proceed.

12.16 Telecom believes that its current provision of magnetic tapes should be used to effectively check eligibility by computer and, with the enhanced and more accurate information to be included on tapes generated by CABS, the ancillary clerical effort associated with the validating process within both the paying Departments and Telecom will be minimised.

12.17 On 24 June 1985 Telecom again approached DSS in this matter seeking a high level discussion on a more practicable solution as a matter of urgency before the Ministers endorsed a scheme containing the disadvantages outlined by Telecom.

12.18 DSS reported<sup>3</sup> that the Government is actively pursuing the matter to determine the most cost effective option from the Commonwealth perspective. DVA stated<sup>4</sup> that the most cost effective option could be the transfer of the total administration of the TRC to Telecom and this possibility is to be examined.

#### Conclusion

12.19 The Committee understands that the Department of Communications is now co-ordinating discussions. The Committee is concerned that this matter continues to be unresolved.

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3 Ibid.  
4 Ibid.



## CHAPTER 13

### AUSTRALIAN BROADCASTING CORPORATION

13.1 As a result of an audit in Queensland, information was sought on a number of unsatisfactory matters related to the hiring of aircraft. Audit noted that:

- . on a number of occasions there was a lack of documentary evidence available in relation to the requirement and authorisation for the aircraft hire;
- . there was no evidence from documentation sighted that quotations for the hire of the aircraft had been obtained; and
- . on a number of occasions an officer had exceeded his delegation to approve expenditure.

13.2 Audit also sought information on a number of matters in connection with the piloting of hired aircraft by a Corporation officer. Audit sought information on:

- . the need for a Corporation officer to pilot the hired aircraft;
- . whether consideration had been given to the Corporation's responsibilities in the event of an accident while the officer was piloting the aircraft; and
- . the position regarding insurance risk while the officer was carrying out the duties of pilot.

13.3 Although a generally satisfactory response to Audit's representations was received, certain aspects concerning the piloting of hired aircraft by a staff member were pursued with the Corporation.

13.4 The Committee was particularly concerned about this item due to the death of a Corporation Regional Program Manager and his three passengers in an aircraft crash near Claremont in Queensland, on 24 October 1983.

#### Corporation's Response

13.5 The Corporation advised the Committee in a submission that:

- . the Special Flying Duties policy does specifically exclude pilots. A requirement to fly in an aircraft is not considered synonymous with being required to pilot an aircraft; and
- . the decision that the officer concerned would pilot aircraft was not formally documented.

13.6 The Committee pursued these matters further with the Corporation at a public hearing on 15 May 1985.

#### Hiring of Aircraft

13.7 The Corporation outlined its procedures for the hiring of aircraft, with particular reference to Queensland and the matter of the Rockhampton hiring.<sup>1</sup> The Regional Program Manager for Rockhampton was a private unrestricted licenced pilot with a Class 4 instrument rating. He suggested to his superiors that he fly an aircraft in the interests of cost effectiveness to cover the vast region of central Queensland. There were a number of charter firms that made aircraft available. A firm called Sunbird Airlines, which was stationed in Gladstone, offered to make available a plane to be stationed at Rockhampton for the pilot's use.

13.8 The Corporation outlined its procedures for the charter of aircraft as follows. In decentralised operations the Corporation relies heavily on the local knowledge of available charter companies. The companies are canvassed for availability and price and which would be the best operator under given circumstances. A purchase order is issued after oral quotations have been submitted.

13.9 The Corporation was criticised by Audit for not calling tenders in the case of the Rockhampton incident. The Corporation explained to the Committee that Sunbird Airlines, which owned the aircraft in question, is based in Gladstone. There have been documented occasions, when the Corporation chartered a plane from Sunbird Airlines, that required the Corporation to have an aeroplane and pilot come from Gladstone to Rockhampton to pick up a Corporation crew, fly them to wherever they were required to be, bring them back to Rockhampton and then return to Gladstone. It was suggested to the Corporation by the Rockhampton manager that the proprietor of Sunbird Airlines was prepared to leave in Rockhampton one plane on which the Corporation could have first call, on the understanding that the pilot was the Corporation's manager for Rockhampton. There was no retainer paid and no contract arranged with Sunbird Airlines. The owner stationed his plane away from his base knowing that it would be used as the occasion arose for program assignments.

13.10 The Corporation further advised that it has a standard instruction manual outlining the administrative procedures for purchases and services. The hiring of aircraft falls within those procedures. There have been occasions when the Corporation has required quotations or the use of certificates of inexperience.

13.11 The Corporation agreed with the Committee that the Rockhampton situation provided the Corporation with an opportunity to review its chartering practices. The Corporation advised the Committee that it is looking at all of the policies of purchasing including the hiring of aircraft.

<sup>1</sup> Joint Committee of Public Accounts, Minutes of Evidence, Report of the Auditor-General - March 1984, p.14.

## Piloting of Aircraft

13.12 The Corporation outlined the procedures relating to its employees flying aircraft. If an employee is required to fly on aircraft in hazardous situations (see paragraphs 13.17-18 below), approval is required from a delegate. The Corporation has a number of people who are specified in each of the States who are delegates. The delegates also have the power to agree to the person piloting the aircraft in the fairly rare instances that it would occur.

13.13 The Committee was advised that the Regional Program Manager for Rockhampton had piloted aircraft in the district from 1980 and had in excess of 800 flying hours. His credentials were provided to the Corporation in April 1982<sup>2</sup> and these specified the aircraft he was licensed to fly and indicated the level of insurance cover for each aircraft from the Australian Aviation Underwriting Pool. This was supported by a document from the Managing Director of Sunbird Airlines advising that the aircraft proposed to be stationed at Rockhampton was insured, that the pilot had been checked and endorsed and that the risk had been accepted by the Australian Aviation Underwriting Pool.

13.14 The Corporation advised that it was currently considering implementing a new minimum standard licence for permitting staff to pilot aircraft on official duties, referred to as a Class 1 instrument rating. The Corporation was reluctant to describe a standard or minimum requirement for any ABC staff to pilot aircraft, since the policy had not actually been implemented. However, at the time of the hearing, it was the Corporation's intention to consult with its house union, proposing the minimum standard. The Corporation subsequently advised the Committee that the issue of the policy covering staff piloting aircraft had been delayed. However, discussion with its Branches has been finalised.<sup>3</sup> An indication of the nature of the new policy was set out in correspondence between the Auditor-General and the Corporation, dated 17 May 1985.<sup>4</sup>

13.15 The Corporation was asked whether it should be required to cut costs by using one of its personnel as a pilot. The ABC replied that it did not require a member of staff to pilot an aircraft. The initiative has been from staff.

13.16 The Corporation agreed that it had more information on the deceased pilot and his qualifications than they would have if they chartered an aircraft with a pilot. The Corporation further advised that in the calendar year 1984, staff flew on 1 739 occasions, covered by Special Flying Insurance for a total of 2 992 1/2 hours. Over the previous twelve months, staff acted as pilots on only three occasions, all in the Northern Territory.<sup>5</sup>

2 See Appendix B, p.290.

3 Correspondence dated 11 July 1985.

4 See Appendix B, pp.292-4.

5 Correspondence dated 11 July 1985.

## Flying Insurance

13.17 The Committee was advised that the Corporation had considered extensively the matter of hazardous flying insurance. There is a provision in the awards and determinations covering Corporation staff. The following extract explains 'hazardous':

A member who in the course of his duties is required to fly in an aircraft in circumstances which in the opinion of the General Manager or an officer authorised by the General Manager may involve risk greater than those involved in normal air charter operations shall either be insured by the ABC for an amount of \$50 000 in addition to the amount specified in Sub-section 14(1) of the Air Accidents (Commonwealth Government Liability) Act 1963 as amended from time to time, in the event of death arising from an accident while performing such duty and in the event of partial or total incapacity or injury for amounts considered appropriate by the General Manager having regard to usual insurance practice, or in lieu shall be covered by the Commonwealth for an equivalent amount.<sup>6</sup>

13.18 The Corporation advised that it had interpreted the clause 'greater risks than those involved in normal air charter' in the following way:

Sub-clause 1 provides in effect that special flying insurance is provided if, in the delegate's opinion greater risks than those involved in normal air charter are involved. Given the precise nature of the discretion granted the delegate, particularly by the words underlined, the ABC has adopted the following general rule for guidance: An employee should be denied special insurance only if the answer to BOTH the following questions is 'yes':

- (i) Is the air service to be used by the employee(s) available to members of the general public? and,
- (ii) Does the service to be used fly to and from Department of Transport controlled airports/airfields?

6 See Appendix B, p.298, ISM 658.

13.19 These provisions were operative at the time of the accident in question. The Corporation advised that it considered that what the pilot was doing was hazardous<sup>7</sup> (see also Bureau of Air Safety Investigation Aircraft Accident Report at Appendix B)<sup>8</sup>.

13.20 The procedures followed by the Corporation in approving flights in circumstances falling within the Special Flying Insurance provisions are set out in a Corporation document, 'Industrial Service Memorandum (ISM 658)' issued on 9 June 1981.<sup>9</sup> Paragraph 3 of ISM 658 identifies a number of supervisory and managerial staff in each Branch of the Corporation who have the authority to approve staff carrying out duties on an aircraft that may involve higher than normal risk. When a proposed flight has been approved, paragraph 4 of the ISM requires each Branch to supply this information to the Head of Personnel Services. At the end of each year a summary of this information is provided to the insurance company to allow it to calculate the premium to be paid by the Corporation.

#### Conclusions

13.21 It would appear to the Committee that the administrative procedures of the Corporation for the chartering of aircraft, except for the situations in which a member of the Corporation's staff did the piloting, were appropriate. The Committee notes that in the case of chartering without pilots the Corporation has refined its procedures and laid down minimum standards. The Committee wishes to be advised, in response to this Report, that those standards have been widely promulgated and accepted by the staff.

13.22 The Committee appreciates the desire of staff members with pilot's licences employed by the Corporation on other than flying duties to use opportunities, such as occurred in this case, to keep up their flying hours. It is the Committee's belief that the Corporation should not require its personnel to undertake such duties in order to achieve savings in the way revealed or to permit the use of these opportunities unless the piloting of the aircraft on a particular task was incidental to their normal duties.

<sup>7</sup> Joint Committee of Public Accounts, Minutes of Evidence, Report of the Auditor-General - March 1984, p.22.

<sup>8</sup> Appendix B, pp.295-7.

<sup>9</sup> See Appendix B, pp.298-301.

## CHAPTER 14

### AUSTRALIAN NATIONAL RAILWAYS COMMISSION

#### ACQUISITION AND DEVELOPMENT OF COMPUTER BASED SYSTEMS

14.1 Serious deficiencies were noted by Audit in the preliminary investigations, planning, equipment specification, systems development and general management control of the Commission's ADP Cost Management Information System. Audit expressed the view that the Commission had embarked on the project without establishing the necessary control framework. This resulted in serious delays and deficiencies and additional costs. Audit was also of the view that the Commission's responses to problems, identified by it or its consultants during the course of the project, have not always been sufficiently positive or prompt.

#### Commission's Response

14.2 The Commission provided background to the introduction of the Cost Management Information System (CMIS). The Commission envisaged the CMIS project as a means of achieving greater efficiency, reducing costs and competing more effectively in the market place. The project would permit the Commission to:

- . standardise information systems;
- . rationalise administrative procedures;
- . produce timely up-to-date information; and
- . redeploy clerical staff.

14.3 The Commission needed to get the project under way in as short a time as possible and therefore appointed management consultants to undertake phase 1 of the project.

14.4 The Commission agreed with the summary of the Audit findings in that the Commission embarked on the project in 1980 without realising its size and complexity as a consequence of deficiencies in the feasibility study and of the urgent need for extensive rationalisation in the administrative procedures and for management information.

14.5 The Commission did not agree that the evolutionary approach suggested by the consultant was inadvisable. The rationale was that of introducing initially a bare-bones version of each system which management and staff would gradually learn to use to satisfy their information needs. Management believes that this has been and will continue to be the correct approach to the development and implementation of systems in Australian National until the basic CMIS project has been implemented and there are appropriate, fully documented, accounting and administrative procedures.

14.6 The Commission agreed that the project was commenced with a totally unrealistic implementation program. The reasons for this have been a resistance to change by management and staff, the inexperience of Commission staff in data processing, inadequate documentation of existing practices and inadequate accounting practices. These were not problems that could be readily overcome in the short term.

14.7 The Commission agreed with the Auditor-General's criticisms of the consultants who carried out the initial study. However, the shortcomings noted by Audit were drawn to the Commission's attention by the consultants themselves during phase 2 of the project. Remedial steps were taken as the issues were raised and before the audit took place. Since many of the difficulties are inherent in the organisation they will not be overcome in the short term.

#### Conclusions

14.8 The Committee is concerned at the serious deficiencies raised by Audit and the response by the Australian National Railway's Commission on its acquisition and development of computer based systems. The Committee will continue to monitor this item in subsequent Auditor-General's Reports and in the response to this Report.

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Employment and Industrial Relations	8.1	Unemployment Benefit Administration
	8.3	Public Sector Training-Salary Payments
	17.1	Unemployment, Sickness and Special Benefits
Finance	9.1	Treasury Remote Input/Output System (TRIO)
	9.2	Centralised System for Reconciliation of Drawing Accounts (RECO)
	8.3	Public Sector Training-Salary Payments
Foreign Affairs	10.4	ADAB - Emergency Humanitarian Assistance and Disaster Relief
	10.5	ADAB - Dessicated Coconut Factory- Tonga
Health	11.1	National Biological Standards Laboratory

Department	Paragraph	Subject
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Immigration and Ethnic Affairs	14.1	Adult Migrant Education Program
Prime Minister and Cabinet	24.1	Telephone Rental Concessions to Pensioners
Social Security	17.1	Unemployment Sickness and Special Benefits
	17.2	Recovery of Overpayments
Treasury/ Attorney-General's	8.1	Unemployment Benefit Administration
	24.1	Telephone Rental Concessions to Pensioners
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Australian Broad- casting Corporation	24.1	Telephone Rental Concessions to Pensioners
	Ch.31	Hiring and Flying of Aircraft
	Ch.39	Acquisition of ADP equipment
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JOINT COMMITTEE OF PUBLIC ACCOUNTS  
Inquiry into Auditor-General's Report, March 1984  
Submission by the Department of Defence

MAJOR EXERCISES  
Paragraph 5.1

Introduction

1. The Report of the Auditor-General concerning major exercises includes ten observations or recommendations. Each of these matters was discussed at length between officials of the Department of Defence and the Office of the Auditor-General. A formal departmental response to the draft Report which is essentially the same as the published report is at Enclosure 1. This response demonstrates Defence concerns, which were voiced at the exit discussion, on some of the recommendations of the audit.
2. Of the ten major points, six concern the planning, umpiring and reporting of Exercise Kangaroo 83, and four concern the estimating process in financial control. Within these major points the Auditor-General made nine general recommendations. The Department of Defence concurs with five of these, including all those associated with financial control.
3. Action was already in train to improve the estimating process and standardise costing between Services; and the matter of centralised coordination of joint exercises is also being progressed. The Minister for Defence has now endorsed the Department's costing policy paper which, in part, sets out standard cost definitions to be applied in costing Defence activities. These definitions are reproduced at Enclosure 2. The concept of 'direct cost' is to be introduced by the end of 1984 for all submissions to the Minister requiring approval for Defence exercises.
4. The costing report for Exercise Kangaroo 83 was completed in April 1984 and the financial outcome of the exercise against budget provisions has been included in the Exercise Director's Post Exercise Report. A copy of the financial statement is at Enclosure 3. Financial reporting of this nature will be an integral part of the post-exercise reporting process for future major exercises. Responsibility has also been clearly assigned for the monitoring of follow-up action in respect of validated exercise recommendations. This too will in future be an integral part of the formalised post-exercise action.
5. For Exercise Kangaroo 83, the CDPS and Secretary endorsed a two phase programme for the follow-up of exercise recommendations. Phase 1 involved obtaining comments from the Service Offices, Australian Joint Warfare Establishment and Defence Divisions on relevant Post Exercise Report recommendations. Phase 2 required responses to be collated

by the Joint Military Operations and Plans Division (JMOP) and the issue of a detailed follow-up programme including monitoring requirements. Phase 1 was completed in early June 1984 and phase 2 activated on 26 June 1984, is currently in progress.

6. The recommendations of the Auditor-General not agreed by Defence concern the 'measuring of exercise performance', the application of 'cost/benefit analysis' and the use of 'simulation modelling, ADP data collection and statistical analysis'. The Department's views on these matters are detailed in Enclosure 1. However, as the Auditor-General has not accepted the Defence view, some further comment is offered on specific matters referred to in the Auditor-General's Report.

#### Objectives and Tasks

7. The comments of the Auditor-General concerning objectives and tasks reflect a misunderstanding of the exercise planning process and assume a need to 'measure exercise performance'. The Auditor-General's use of the words 'measure' and 'performance' attributes a precision to a review process which, because of the judgemental nature of that process, is, in Defence's view, unwarranted. Defence certainly agrees that good management practice calls for the overall success of an exercise to be considered by the Exercise Director in his report. This is a well established requirement for all Defence exercises. However, as was pointed out to the Auditor-General, the process is largely one for military judgement as to whether or not the forces involved were effectively exercised and the degree to which exercise objectives were met.

8. It is, of course, necessary for the Exercise Director to ensure that the use of resources in the exercise remains within the allocation, and, closing the management loop, to report on the outcome in this respect. However, because a military exercise is just part of a larger continuing process of training and preparation, the allocation of resources is more one of judging, within an overall operating cost budget, benefits between various training options than simply whether or not to expend funds.

9. The proposal to define objectives and tasks more specifically to allow 'measurement of performance', and to allocate priorities, misunderstands the total exercise planning process. Objectives are purposely couched in general terms at the outset to provide guidance to planners while ensuring sufficient flexibility to allow the most effective exercise to be developed. The judgement of priorities is a dynamic and continuing process which is a major task of the planning staff and involves complex interaction between the Service operational staffs and the CDFS.

#### Cost/Benefit Analysis

10. The manner in which examples were quoted by the Auditor-General is misleading. In the first place, direct operating costs for aircraft flying hours were used as if the choice was whether or not to incur those costs. Defence pointed out to the Auditor-General that, in respect of training costs, once the annual allocation has been decided within the normal budget process, and assuming no subsequent major changes to general activity levels, the choice in principle relates to which form of flying gives the best training value for the resources expended.

11. Secondly, the Auditor-General suggested that the basing decisions for aircraft involved in the exercise should have been supported by cost analysis. Defence pointed out to the Auditor-General that other practical considerations (such as runway capacity, tarmac space, fuel storage facilities) determined the location of the various forces and that cost analyses were justified only where a choice of practical options existed.

12. In the case of Kangaroo 83, the only suitable airfield for Mirage operations was Learmonth and the choice of locations for Orange F111s was limited to Pearce or Darwin because of the practical requirement to separate Blue and Orange forces. As Pearce and Darwin were virtually equidistant from the exercise area, other practical considerations led to the selection of Pearce.

13. The question of location of Blue reconnaissance F111s was considered in detail but eventually hinged on the availability of C130 hours to transport the necessary photographic support equipment from Amberley. In the event, as sufficient C130 hours were not available due to other operational and training tasks and the overall financial constraints regulating flying hours there was no choice in the matter and it was accepted that, although there would be additional unproductive transit hours, the best compromise from a training and exercise point of view was to operate the reconnaissance flights from Amberley. Again, cost analysis would not have contributed to this decision process.

#### Summary

14. In summary, therefore, the Department of Defence considers that the audit of major exercises is useful in focusing on areas for improvement, especially in financial control aspects. However, the comments concerning exercise planning oversimplify a very complex process and the concept of 'measuring exercise performance' in the usual audit sense appears inappropriate to major military exercises.



15. Defence recognises the need for the continuing review of its major activities to ensure that the most effective use is made of the resources made available for the defence of Australia. The establishment of dedicated exercise planning staffs and the effort put into creating effective major exercises is a measure of the seriousness with which the department addresses this responsibility. As indicated by the Auditor-General's comments, Defence considers that significant improvements have been achieved in the management of major exercises in recent years and accepts that scope for further improvement exists. However, 'greater precision in planning and reviewing processes' and 'greater documentation and analysis of planning and cost/benefit issues' is unlikely to 'result in more informed decisions for rationalisation and deployment of available resources'. Instead, Defence will be looking to improve the early planning and budgeting process by achieving earlier definition of force allocations and resource limits within which major exercises are to be constrained, and by applying the improved costing and estimating method.

16. Finally, it should be noted that CDFS, Service officers and officials of the various Commonwealth, State and regional authorities associated with Exercise Kangaroo 83 considered that exercise to be one of the best conceived, planned and executed of its type in Australia's recent experience. The Exercise Director in his post-exercise presentation to CDFS said that:

'K83 was - within the bounds of necessary exercise restrictions - eminently successful; current ADF capabilities were demonstrated; and valuable training experience was obtained in a credible scenario; in many areas much of it for the first time.'

Moreover, in his Post-Exercise Report, he noted that:

'Within resource limitations, all objectives of the exercise were met and initial indications are that the exercise was conducted within budget. The majority of joint and single-Service tasks were achieved'.

Enclosures:

1. Audit Review - Major Exercises RFP84/214 dated 31 January 1984
2. Costing Policy
3. Kangaroo 83 Exercise Direct Costs

26 July 1984

Copies of the following documents may be found on Joint Committee of Public Accounts File 1984/4, Part B.

. Letter from Department of Defence to the Auditor-General's Office re Audit Review - Major Exercises RFP 84/214 dated 31 January 1984.

. Costing Policy.

. Kangaroo 83-Exercise Direct Costs.

MANUFACTURE OF MUNITIONS  
Paragraph 6.1

Introduction

1. A central objective of Defence policy for industry is to ensure that the Defence Force can be supported and maintained from within Australia, utilising a combination of local industry (including Government factories), selective stockholdings and reliable overseas sources of supply, for provision of the necessary equipments and munitions. The policy is therefore not to maximise local production or to increase industrial self-sufficiency as objectives in their own right. Rather, resources are allocated to training or to operating the forces, or to their supply and support in a financial program which is derived from an extremely detailed and thorough analysis of the relative priorities of those activities. This financial program - the Five Year Defence Program - is a central document which not only reflects the outcome of defence policy but also serves to convey that defence policy guidance to other departments.

Audit Findings

2. The main thrust of the audit report findings which concern this Department are:

- a. the need for improved definition by Defence of the required strategic capabilities to be provided by the factories.
- b. Scope for improved efficiency through review of the financial and ordering arrangements between the two departments since these arrangements underpin the basis for shorter term planning.
- c. Shortcomings in the design and technical interface between relevant authorities in each department and the impact of that relationship on production and testing.

Production Capacity

3. The Audit report comments that there is no recorded, comprehensive assessment of the adequacy of existing capacities and capabilities to meet the Defence Force's strategic needs, including emergency production. The Defence approach has been to set up mechanisms to examine the importance of industry capabilities to overall defence objectives and to weigh that importance against the cost of establishing or sustaining each capability. Important questions in the process are:

- a. what is the likelihood that the capability would be required in the more likely contingencies.
- b. what is the likelihood that overseas supplies of the same product would be restricted in such circumstances and does stockpiling present a viable alternative.
- c. what alternatives are there to achieve local production in an emergency, including:
  - (1) manufacture by existing commercial facilities or rapid conversion of such facilities to defence needs, and
  - (2) reduction of the lead time to establish local production to be within the warning time for contingencies that may need the capability (by, for example, drawing up detailed plans and purchase of long lead time items rather than actually building and running the facility at considerably higher costs).

4. Such considerations are dynamic and are influenced by changes such as:

- a. the strategic circumstances,
- b. the structure of the Australian Defence Force,
- c. the capabilities and capacities of Australian commercial industry,
- d. resources available; and
- e. competing Defence priorities.

5. Current Defence thinking on this matter is that the single expansion scenario used for planning in the 1950's, while administratively convenient, particularly for the factories, is strategically unsound. Unlike, for example, the NATO forces in Europe, Australia is not faced with a single, known threat against which forces, equipment, doctrine and tactics may be planned in detail. Australia is faced with a very wide range of possibilities of varying likelihoods with the potential for developing in different time frames. Planning of the structure of the Australian Defence Force and its supply and support needs is correspondingly complex.

6. In noting the comments by Defence about the problems in providing a precise and comprehensive statement of the manufacturing capabilities required, the Audit report concludes that the present arrangements result in an ad hoc

approach in considering expensive plant replacement and in the incurring of significant expenditure in maintaining surplus capacity that, in many cases, has low Defence priority. The report states that no one appears to be able to firmly state what capability is required. The reference to an ad hoc approach to plant replacement would seem to have been made without the benefit of an examination of the Defence processes involved. Defence supports funding of plant replacement only in cases where it has been established that the plant is required to meet a strategic need and where the cost of new plant is found to be justified having considered the alternatives such as stockpiling or development of secure sources of overseas supply.

7. The Audit report further implies that the appropriation item 'Maintenance of Production Capability - Munitions Industry' is to 'sustain production capabilities considered essential for the manufacture and/or support of defence material and equipment'. Such an interpretation has connotations of excess capacity at the prevailing level of production. There is, in fact, no evidence of any significant excess capacity in personnel and any such excess is underutilised equipment, buildings and land does not reflect in the Maintenance of Production Capability (MPC) appropriation because the factories do not pay depreciation or rates on land. Some small, additional costs may be reflected in the appropriation to cover expenditure on building maintenance.

8. Maintenance of Production Capability appropriation is in effect a supplementation or form of subsidy which is necessary because of the difference between the prices charged to the defence Services and the factory cost of production of the munitions. Prices are based on a manhour rate (Defence Munitions Manhour Rate - DMMR) which covers all direct costs but only part of indirect factory costs. Attachment A compares munitions factory accounting structure with commercial factory accounting structure.

9. Defence believes that this combined subsidy/charging arrangement is inappropriate and should be replaced by a charging basis which more fully reflects the cost of production. This approach has already been adopted in the shipbuilding agreement on the Australian Frigate Project. The basis of charging for the output of the munitions factories is currently under review by the two departments in conjunction with the Department of Finance.

10. There have been periodic reviews of the overall capacity and structure of the Government factories, the most recent being by the then Special Adviser on Defence Production, Mr D.H. Eltringham. These reviews have not been available publicly because of the classified nature of the assessments, including the disclosure of Australian capability to produce various types of weapons and ammunition. They have, however, generally called for a restructuring into a smaller number of more efficient factories, more in tune with current defence needs.

11. More recently Cabinet has directed reviews of the aircraft and shipbuilding and ship repair industries. The Defence Committee recommended inclusion of the munitions industry in those reviews.

12. The Government's Defence Policy for Australian Industry notes that, despite significant past expenditure, the capabilities and capacities of the factories are, in important respects, ill-matched to our strategic needs and in need of reform, and calls on the Ministers for Defence and for Defence Support to prepare a paper on longer term defence requirements and on measures to encourage the maximum participation by Australian industry that is consistent with strategic priorities. In such a plan the Defence vote would only be used to support local industries if it could be shown that locally sourced supply is essential for strategic reasons.

#### Short Term Planning:

13. Under this heading, the Audit report makes reference to the need for more reliable projections of Service requirements to be advised to DDS as well as to the effects on production levels resulting from changes in Defence priorities. Defence procedures in the matter of planning of munitions orders include the annual preparation of a 'Munitions Shopping List' which is supplied to the Department of Defence Support. This list sets out, by specific munitions items, estimated Defence requirements over the succeeding five years. As well, the Five Year Defence Program (FYDP) which is Defence's basic financial planning document reflects the content of the 'shopping list' in budgetary terms. Whilst it would be unrealistic to believe the FYDP could be immutable, it is a detailed and soundly structured document, possibly without peer in comparable areas of Government budgetary planning.

14. To the extent that the reliability of the FYDP data degrades in the later years, overwhelmingly the greatest cause is the variability of Government financial programs. As well as these formalised expressions of Defence's projects for the next five years, and in addition to the continuing informal liaison between officials, the periodic meetings of the high level Government Munitions Factories Workload Co-ordination Committee provide the vehicle for reconciliation of the Services' delivery requirements with the production capabilities of the Factories. In this forum, detailed variations to priorities and schedules can be agreed and trade offs settled to the advantage of both supplier and user.

15. Some 66% of the annual ordering program derives essentially from the ongoing annual training requirements of the Defence Force. This is a well known and relatively stable requirement although it can vary somewhat from year to year, depending on the relative priorities for the development of specific defence capabilities.

16. Whilst Defence projections of requirements for local production of ammunition may fall short of the degree of reliability desired by the production planners, they are considerably more timely and reliable than the forecasts available to commercial industry. In that environment, factory planning and scheduling are subject to the vagaries of the economic environment and there are the considerably greater uncertainties of the market forces to be coped with.

17. Leaving aside the causes, the effect is that the fluctuations in Defence orders are small and are generally known well in advance, compared to the very large scale fluctuations (sometimes 'all or none' ordering patterns) and 'mouth-to-mouth' uncertainties normally encountered in similar types of commercial production.

18. With regard to the adoption of economic order quantities, it is agreed that the efficiency of Defence ordering might be improved if the Department of Defence Support were better able to define minimum economical production run sizes, for the current range of munitions requirements. The cost penalties for the ordering of lesser quantities would need to be exposed as would the possible additional requirements for the very costly magazine type storage facilities necessary to hold the larger levels of stocks that would come from larger production runs.

19. To date, the indications are that in the main, when new orders are taken in conjunction with orders already on hand in the factories, production run sizes which exceed minimum economical production levels are generally produced. This interpretation is supported by the absence of any significant response to earlier Defence requests for advice on economical production levels so that consideration could be given by Defence to these unit cost reduction measures.

#### Production

20. When addressing the matter of development of technical data, specifications, drawings, quality requirements and testing, the report tends to imply responsibilities to Defence which are Department of Defence Support responsibilities and vice versa.

21. Defence Support must have the responsibility to design and specify for its production processes in order to achieve the technical requirements specified by the Services. However, in the absence of that capability, 'trial runs', 'pre-production prototypes' and other such devices have been employed in the past wherein the Services and Defence Support have attempted to jointly achieve production objectives. Defence recognises the attempts being made in Defence Support to improve in this area.

22. With regard to the management of Initial Production Teams, this function has now been passed over to Defence project managers and, as acknowledged by Defence Support, the revised arrangements should avoid recurrence of past problems.

26 July 1984

DEPARTMENT OF DEFENCE

A copy of Attachment A which compares munitions factory accounting structure with commercial factory accounting structure may be found on Joint Committee of Public Accounts File 1984/4, Part B.

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS INQUIRY INTO THE AUDITOR-GENERAL'S REPORT, MARCH 1984

SUBMISSION BY THE DEPARTMENT OF DEFENCE SUPPORT IN RELATION TO PARAGRAPH 6.1 - MANUFACTURE OF MUNITIONS

The objectives of the Munitions Division of the Department of Defence Support 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.

The Auditor-General has made a number of comments relating to forward planning, control of production and quality, financial matters and management information systems. Responses to those comments follow in the body of this submission. However, the following general comments are offered:

The Department of Defence Support was established in May 1982 as a consequence of adoption by the then Government of one of the principal recommendations of the UTZ report. The then Minister accepted the task of revitalising the Department's operations, including those of the Munitions Division, in a way which, *inter alia*, would address (and ultimately remove) the root cause of the problems upon which the Auditor-General has now commented. The relevance of this task has been endorsed by the Hon. Brian Howe.

A number of major departmental initiatives has been taken in this direction which will have long term effect on the operations of the Munitions Division including:

- . membership of Senior Defence Committees including the Force Structure Committee and the Defence Industry Policy Committee.
- . the creation within DDS in May 1984 of the Defence Industry Development Committee which includes representation from Industry and the Trade Unions, and Departments of Defence, Industry and Commerce, and Science and Technology.

- the establishment of Boards of Management for operating divisions, including the Munitions Board of Management; with its inaugural meeting scheduled for September 1984. (These boards also have representation from industry, the trade unions and Department of Defence.
- the restructuring of the top management of the department at establishments and at Central Office is now almost complete.
- a review of administrative functions within factories of the Munitions Division, which led to the setting up of project MURAD to effect long term improvements in the area of financial and personnel operations, inventory management information systems.
- the setting up of working groups on
  - costing and pricing in munitions establishments
  - factory autonomy, (to identify constraints to effective management)
  - review of the Explosives and Ordnance Factories Groups (to address environmental problems and rationalise workload)

These initiatives when fully effective should all have the effect of improving the efficiency and effectiveness of the Munitions Division.

Meanwhile, the Auditor-General's comments are both timely and helpful in focussing on areas where effort needs to be directed.

Following are responses to the particular comments in the Auditor-General's Report, Chapter 6.1 Manufacture of Munitions:

6.1.2 Production Capacity

Existing Capability and Capacity

1. Audit notes that the factories have a large amount of underutilized plant and equipment left over from past high volume production. In the absence of a defined Defence policy on the capabilities and capacities required for munitions production, these facilities are generally retained. In many cases the plant is very old but quite capable of substantial production should the need arise.

The need for a study to define the capabilities and capacities required for munition manufacture has existed for many years. Letters requesting a paper on capabilities were written to the Minister for Defence by Mr Viner in 1982 and Mr Howe in 1983.

Financial Arrangements

2. Audit notes the cost to Defence of \$68.4 million (actual for year \$68.1m) in Maintenance of Production Capability (MPC) for 1983/84 for the Munitions Factories. Maintenance of Production Capability is the money required to cover the operations cost of the Munitions Factories that is not recovered from sales.

This situation arises from the pricing agreement with Defence for Service orders, ie. the Defence Munitions Manhour rate (DMMR), recovers less than full factory overhead costs.

3. The present financial arrangements between the Departments of Defence Support and Defence were established between the former Department of Industry and Commerce and the Departments of Defence and Finance in 1976.

A detailed review of costing and pricing of factory operations and products respectively, is in hand. This program aims to ensure that the relevant costs of production are identified and allocated by cost centre and product.

4. The Department acknowledges that it is difficult to assess specifically the costs of unused capacities retained in the interest of strategic considerations, however it is currently considering that issue as part of its implementation strategies against Project MURAD - a project directed at improving performance in the finance, supply and personnel functions of the production establishments.

Statements of Capability/Capacity Required - For Defence Needs

5. Audit highlights the fact that Defence Support has no definitive guidance from Defence on capabilities and capacities for local munitions production required to meet present or future needs. Audit reports that Defence consider it unrealistic to expect finite statements of production capabilities and requirements. In the joint statement on Defence Policy for Australian Industry released on 3 June 1984, Mr Scholes and Mr Howe stated that Defence is to provide policy guidelines which is to include the specification of important local capabilities and acceptable cost premiums for their retention and development. These policies are to be developed jointly by Defence and Defence Support.

The need for a clearly defined policy statement on the future role of the Munitions Factories as noted by Audit is agreed. Reviews on future defence industry needs, strategic facilities in Government factories, factory restructuring and development etc, are now in hand.

Ability of Factories to meet Delivery, Cost and Quality Requirements

- 7. The primary role of Munitions Factory management is to meet delivery, cost and quality requirements for all production. A number of factors operate against efficient production and accurate forecasting of deliveries, because of the public nature of the factories' operations, including
  - high quality and performance requirements for defence orders leading to technical difficulties in the adaptation of overseas designs
  - the need to maintain broad-based production capabilities, including those specialised capabilities not available in industry and which are not economic to operate at peace-time levels
  - an undertaking to accept defence orders which are small in quantity but often expensive in terms of resource consumption
  - public service and financial regulations
  - employment restrictions including restrictions on non-P.S. Act employees.

However, even with the above constraints, many dictated by public sector operation, actions are possible to make operations more efficient. A program to this effect has high priority within Defence Support. Judgements on factory effectiveness and efficiency must take account of the totality of Australia's munitions needs.

- 8. Audit's conclusion that the absence of quantified production capability requirements causes planning difficulties is agreed and is covered under paragraph 5 above. Defence Support is exploring with service customers the possibility of multi-year ordering to permit more efficient planning and production operations.
- 9. Audit observes that Defence Support has limited information on private industry capabilities. A Detailed Directory of Australian Defence and Offsets Industry has been available for several years and is about to be re-published.

Defence Industry and Purchasing Division of DDS has a responsibility for the development and management of proposals for Australian industrial involvement in defence related projects and for non-defence projects emerging from the offsets program. A fundamental requirement of this responsibility is a deep knowledge of Australian industry capabilities, a knowledge that must be kept up to date.

- 10. During 1983/84 Corporate Plans were developed for the Division and factories. These provide a blueprint for change and new initiatives by addressing problems in the areas of product delivery, quality and cost, new technology and marketing, resource management and the introduction of initiatives including increased autonomy of factories, encouragement of equal employment opportunities, industrial democracy, improved product orientation, long term plans for investment in Australia's defence industry and the establishment of closer links between development resources and design and production techniques. The question of specific capability development and capacity requirements however relates to the Audit observations of paragraph 6.1.2, i.e. lack of firm, long-term planning data from Defence on future needs for defence production.

6.1.3 Short-Term Planning

- 11. Audit refers to the Munitions Operations Plan setting out delivery commitments for the Munitions Factories and comments that it appears to be over-optimistic. In noting that production levels are not attained for various reasons it should also be noted that the Operations Plan is a target objective for deliveries. The plan is compiled taking into account existing and expected Defence and other orders balanced against factory production labour and resources. The need to reduce rise and fall of labour requirements to manageable degrees is also a factor in preparing the plan together with Defence customer requirement to meet training and other needs.
- 12. The fact that the operations plan is not fully achieved because of unforeseen technical and other problems does not invalidate or reduce the value of the plan as a production planning document. It should be understood that the Operations Plan is prepared based on forecasts of Service orders provided before the Budget outcome is known. This can affect the timing and size of orders, and sometimes results in cancellation of existing orders. Under existing arrangements orders on Munitions Factories can be cancelled at no direct cost to the customer.

Nevertheless, an objective of Corporate plans for the Munitions Factories is a delivery achievement improvement each year measured in dollar value of items delivered. The yearly Operations Plans are to form the base document for the measurement of delivery achievement against agreed objectives.

13. Audit, suggests that because the Operations Plan is optimistic in terms of deliveries, problems are caused with financial programming by Defence. Failure to fully deliver a quantity of items does not necessarily indicate that the planned input of work on those items is not significantly achieved. It is accepted that achievement of delivery programs is necessary for effective financial programming by our customers just as firm longer term orders from customers are necessary for efficient planning of production. Better methods for increasing delivery are being introduced.
14. The need for more reliable projection of Service requirements as noted by Audit is agreed, as discussed above. An improved arrangement would be a three year firm ordering program similar to the Canadian system. A three year program would also provide opportunities for more economic ordering quantities through multi-year orders.

#### 6.1.4 Acquisition/Procurement of Materials

15. It is hoped that administrative actions emanating from the MURAD implementation program will enable relevant staffing to be put in place during 1984/85 that will see an improvement in administrative and financial functions across the board.
16. As regards the public tender threshold of \$10,000, the Department considers there is merit in present moves to see that limit increased - particularly for material required for production purposes.

#### 6.1.5 Production

17. Audit cites problems of lack of firm design or build standards and technical specifications as a reason for shortfalls in delivery programs and uses the F3 mine as an example. The major percentage of munition orders in terms of dollar value are for ongoing well established requirements such as small arms ammunition, medium calibre ammunition and mortar ammunition. The prime causes of delivery delays for these items are production technical problems or material supply problems.

18. Further problems that cause delivery delays noted by Audit, including specified material that is no longer available and deficiencies in specifications, apply to new production programs and are part and parcel of establishing new production. To try to improve this situation, an objective of the Department is to improve the management of new capability establishment and to respond in a more "commercial" manner to Service contracts. In particular, we need to advise Service customers of delivery delays or cost increases implicit in build standard changes and delays in resolving specification definition problems (see paragraph 32).
19. Audit's suggestion that Defence Support review the adequacy of all specifications before issuing production orders is accepted. Specifications are reviewed but many problems are not apparent until actual production is being established.
20. Audit suggests that reasonable time frames be allowed for detailed design and testing of new requirements prior to production becoming a matter of urgency. Munitions Division certainly supports this statement. Defence has in the past, and is at the present time, because of financial constraints, deferring decisions on local production of new equipment at the expense of lead time available for production establishment to meet in-service target dates. 105mm Tank ammunition is a prime example, the decision on local production is being taken after delivery of tanks has commenced. At present, deferral of decision on 20 mm ammunition for F/A 18 Aircraft, Abbot 105mm ammunition for the new field gun, and possibly the new small arms projects, is effectively eroding lead time for establishment in Australia of production capabilities for these munitions.

#### Administrative Delays

21. It is acknowledged that management information handling and control systems require improvement to ensure a more efficient approach to production control and monitoring. ADP systems are being trialled and introduced to overcome this deficiency.

#### Cost Aggregation and Transfer

22. As part of its programme to implement recommendations of the joint management review of the administrative functions of the production establishments (Project MURAD) the Department is undertaking a review of the costing and pricing arrangements within the establishments.



That programme aims to ensure that the relevant costs of production are identified and allocated by cost centre and product. Progress in this area is to a large degree dependent on the availability of appropriate systems and manpower to facilitate data handling and management. An integral aspect of that review will be consideration of areas where excess/surplus capacities or capabilities may exist and derivation of an appropriate procedure to separately fund those elements.

23. The Department acknowledges that it is important that the relevant costs of production are known by product and that where cost over-runs occur, the reasons for them are analysed and appropriate action is taken eg recovery from customer or taken up as production losses.

Initial Production Teams (I.P.T)

24. Audit suggests that greater use of Initial Production Teams, ie - representatives of production, inspection and design authorities, be made for new and restarted production projects. Initial Production Teams or their equivalent are formed for all new production and for all changes to existing production where thought necessary. Audit comments about the management of Initial Production Teams are accepted. Project management arrangement for Project Hamel (105MM Field Gun) is based on a management agreement between Army Chief of Materiel and Contoller Munitions Division. This agreement of all parties clearly defines the responsibility and authority of all parties concerned and defines time limits for Initial Production Teams to resolve problems. Management of new projects in future is to be modelled on the Hamel arrangement which to date, is proving most effective.

25. Audit cites problems with 1,2 grain detonators as an example of problems requiring greater design expertise and better management of IPT'S. The particular problem with 1,2 grain detonators provides a valuable lesson for all munitions production. These detonators, used for 40mm and 76mm UK designed ammunition have been made in Australia for many years. In 1976/77 a new design from the UK was adopted and production of the previous design ceased before production started on the new one. Technical problems with the new design resulted in the delays cited by Audit. The fundamental mistake made by all parties concerned was the cessation of existing production before production of the new item had been established and proven. Better phased production management will be introduced to prevent future such occurrences.

External Contracting

26. Audit cites a lack of manufacturing data from industry contracts when production is taken over by the Munitions Factories. We agree with the Audit observation in principle although previous experience with contracts requiring contractors to provide manufacturing data has proven to be of doubtful benefit as the data provided is tailored to the specific processes used by the contractors, (ie for different machinery and plant and methods of production). In many instances, industry contractors do not produce tooling drawings unless essential, because of the cost involved.

Liaison Between Factories

27. Audit cites the transfer of 40mm tracer production from Small Arms Factory Lithgow to Ordnance Factory Maribyrnong as an example of poor liaison resulting in delayed deliveries of 40 mm ammunition. The basic problem in this instance was the same as that noted in paragraph 25 where production of a small but essential item was stopped at one factory before being fully established at the second factory. The transfer of production projects between factories is not common but where, in the interest of efficiency and economy, it is decided to redistribute functions among factories, particular attention will be given to ensure that transfers are undertaken while continuing to achieve delivery requirements.

Production Control

28. Project Murad is being undertaken by Munitions Division to improve the overall administrative effectiveness of the Munitions Factories. The citing by audit of problems at the Ordnance Factory with visual standards for acceptance of shell cavities, highlights the need for a more commercial approach by Munitions Factory Managers. While discussions are in progress with inspection authorities, factory management must advise the Service customer of the likely cost and delivery implications involved with the specifications and offer alternatives. In addition, modern instruments and automated inspection equipment are also needed to support efficient inspection procedures.
29. While the approach to managing munitions production can be more commercially orientated, there is a need to balance this against the strategic need for local production, and for repair, overhaul and maintenance and advisory services, that are essential to the Defence Force. Initiatives are in hand, for greater contractual responsibility by Munitions Division, including delivery and cost accountability.

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6.1.6 Quality Assurance/Quality Control

30. The need for the factories to achieve AS 1822 reflects Defence Quality Assurance policy which in turn is based on the longer term achievement of economies in the national resources deployed on Munitions Production, Quality Control (QC) and Quality Assurance (QA).

The OFM situation is developed as follows:

- . The factory underwent a Defence assessment in June 1984
- . A decision has been withheld pending further corrective action
- . A limited reassessment is planned for August 1984.

Ammunition Factory, Footscray and Ordnance Factory, Bendigo have achieved qualification to AS 1822.

The remaining five Munitions establishments are progressing towards QA systems accreditation by 1986.

31. The procedure for approval of minor departures needs to be discussed further with the Service Quality Assurance Authorities. It is currently stated in the Audit Report that action sheets for minor deviations (concessions) are acceptable for those establishments that have QC systems complying with AS 1822. All other establishments must use the formal SGI Production Permit-Concession Application for every deviation, no matter how minor the deviation.
32. The Division agrees that all departures from the design and the drawing should be documented but believes that there is scope for giving increased delegations for such decisions to the factories in accordance with overseas practice.

We also consider there should be more scope for doing this once the service customer has confidence in AS1822 standard Quality Management Systems.

6.1.7 Management Information

33. In 1984/85 the Department will be addressing the issues such as performance measurement, both internally and through appropriate consultancies, to ensure the most efficient review and control over delivery performance.

Implementation of Project Murad and Corporate Planning targets and objectives will assist in achievement of this area.

6.1.8 Audit Conclusions

34. We agree with Audit conclusions, and those initiatives referred to in the body of this submission will correct the deficiencies noted.

35. Possible Witnesses

Mr A D Powell  
Controller  
Munitions Division

Mr N H Tozer  
General Manager  
Munitions Filling Factory, St Mary's

Mr P M O'Dwyer  
General Manager  
Ammunition Factory, Footscray

3 August 1984



# Inquiry into the Auditor General's Report march 1984

JOINT PARLIAMENTARY COMMITTEE of  
PUBLIC ACCOUNTS

Submission by  
Department of Employment and Industrial Relations  
september 1984

## 8.1 - UNEMPLOYMENT BENEFIT ADMINISTRATION

### 17.1- UNEMPLOYMENT, SICKNESS AND SPECIAL BENEFITS

#### Overview of Audit Findings and DEIR Response

- 1.1 The Audit of a sample of Commonwealth Employment Service (CES) offices in Victoria disclosed, in the view of the Auditor-General, "a number of unsatisfactory matters". These related to;
- Unemployment Benefit Administration
  - Work Test Procedures
  - Review of Assistance to Registered Job-seekers
  - Job-seeker Cards
  - Liaison with the Department of Social Security
  - Re-registration of Job-seekers.
- 1.2 Details of these findings and this Department's response to each is set out in the body of this submission.
- 1.3 The findings listed above involve two broad subjects, namely CES/Department of Social Security (DSS) liaison arrangements and CES administrative matters.
- 1.4 Audit findings in regard to the former subject resulted in the establishment of a Review group, comprising senior officers from the CES and DSS. Changes to procedures arising from the Review have been agreed to by both Departments. It was proposed by both Departments to implement the new procedures on 1 August.

However, DSS have since advised that they are unable to meet this date and therefore there will be a delay to the implementation.

- 1.5 Attachment 1 to this submission is a copy of the revised procedures which are for issue to the CES network.
- 1.6 With reference to those Audit findings which relate to CES administration, these had already been identified and addressed independently by this Department and revised procedures were issued in August 1983. Furthermore, some of the findings were of a comparatively minor nature and as such might well have been more appropriately omitted from the Auditor-General's report in view of the discussions which took place with Departmental officers. A copy of the revised procedures for Reviewing Assistance to Jobseekers and recording on job-seeker cards are at Attachment 2.

CES Role in Unemployment Benefit Administration

- 1.7 The CES acts as an agent of DSS in relation to certain aspects of the administration of unemployment benefit (UB). The agency role of the CES involves the issue of initial claim forms to registrants, the administration of the work test and liaison with DSS. DSS has overall responsibility for UB administration including determination of

eligibility for UB and the payment of benefit to those eligible.

- 1.8 Prior to the Review of Commonwealth Functions (RCF) claims for unemployment benefit were issued by the CES and fortnightly income statements were lodged at CES offices. This arrangement ensured that UB beneficiaries continued to be registered with the CES.
- 1.9 The RCF report of 1981 directed that the involvement of the CES in collecting fortnightly Income Statements should cease and that in future these were to be lodged at DSS regional offices. This, in effect, took away the built-in control of registration with the CES and necessitated the development and implementation of alternative systems of liaison and communication between the two Departments.
- 1.10 The liaison arrangements in force at the time of the audit were introduced in August 1982; during the consultation process with DSS, which preceded these new arrangements the CES had indicated to DSS its willingness to provide details of all lapses. DSS, however, rejected this offer and it was generally accepted that the registration control would be weakened. The subsequent audit by the Auditor General verified this fact.

1.11 The following is this Department's response to the specific matters raised by the Auditor-General.

Unemployment Benefit Administration

1.12 Audit examination disclosed that the administration arrangements between the DSS and CES and the associated procedures adopted at CES were inadequate to ensure that all unemployment beneficiaries were registered for employment with the CES.

1.13 Audit suggested that the arrangements and associated CES procedures would be strengthened if:

- . all terminations of registration by CES offices were advised to DSS, and
- . DSS were to ensure that all individuals, whose UB is restored or continued (following transfer to another DSS office) were re-registered with CES with a recipient providing evidence to the DSS of the re-registration.

1.14 The revised procedures, developed as a result of the joint working party, which address these matters provide for:

.DSS to act on Claims for Unemployment Benefit only where such forms have been endorsed by the CES (Refer Items 2.3012-4 of Attachment 1);

- . the CES to advise DSS of all placements and lapses ie terminations of CES registration (Refer Items 2.3019-27);
- . DSS to advise the CES, by way of ADP output, of all terminations, rejections and restorations. This will enable the CES to maintain a more accurate record of job-seekers seeking employment assistance (Refer Items 2.3033-40);
- . beneficiaries, who change their address, to have their fortnightly UB Income Statement endorsed by the CES. This will also enable the CES to maintain accurate address records thereby reducing the incidence of the CES being unable to contact job-seekers (Refer Items 2.3041-4).

Work Test Procedures

1.15 The Work Test is the process of determining whether persons who claim or receive unemployment benefits are willing and able to undertake suitable work and take reasonable steps to obtain such work. The Auditor-General described the CES role in administering the work test as:

- . registering UB claimants for unemployment (sic):
- . seeking suitable work for them; and
- . reporting on whether claimants are willing and able to accept an offer of suitable work.

1.16 Any breach of, or failure to satisfy, the Work Test is to be reported by the CES to DSS.

1.17 The Audit found:

- instances where, following the failure of a job-seeker to respond to a specific offer of employment via a courier message, no further action was taken;
- the Work Test could not be applied to all persons because not all recipients were registered with the CES;
- Work Test guidelines had not been revised to enable equitable and general application of the Work Test to all UB claimants to determine whether they are prepared to accept an offer of suitable work.

1.18 The Department's response to these matters, respectively is as follows:

- DSS offices varied in their acceptance of such advice from the CES, on failures of job-seekers to respond to such an offer of employment, and as a consequence this led to inconsistent application of the procedures by the CES; procedures for the application of the Work Test have since been reinforced with CES staff.

• the revised procedures are expected to result in virtually all UB recipients being registered with the CES (refer Items 2.3012-4 of Attachment 1).

• the current Work Test provides for reports to be made by CES offices to DSS when it appears that a breach of the Work Test guidelines has been made. As such the system examines work motivation of individuals in the course of their job search as they come into contact with CES staff. A failure of the Works Test is a failure by an individual to meet predetermined criteria when faced with a particular set of circumstances arising naturally during his/her job search. It is not seen as desirable to generate artificial circumstances against which to test the work motivation of individuals. The Department believes that the current interpretation of the Work Test which is the product of some years of refinement provides a coverage which is sufficiently equitable and general to withstand the closest scrutiny. The Department does not believe that there is general community dissatisfaction with the application of the Work Test and believes that a general review of the Work Test guidelines is currently neither desirable nor appropriate.

Review of Assistance to Registered Job-seekers

- 1.19 In addition to the normal CES services provided to registered job-seekers, there are prescribed procedures to review the requirements of registered job-seekers at regular intervals. The procedures also provide for identification of job-seekers who no longer require CES assistance.
- 1.20 The audit noted instances where there was no regular review conducted and inconsistencies in interpretation of the instructions.
- 1.21 The Department had independently recognised the inadequacies of these procedures and in April 1983 had begun a review which resulted in the issue in August 1983 of revised procedures (refer Attachment 2). The procedures rectified the deficiencies noted by the Audit and generally improved the service offered to CES clients.
- 1.22 In addition, as mentioned above, at paragraph 1.14, the new CES/DSS liaison arrangements to commence 1 August, 1984 provide for DSS to advise the CES, by way of ADP output, of all UB terminations, rejections and restorations. This will further enable the CES to maintain accurate records of job-seekers seeking employment assistance.

Job-seeker Cards

- 1.23 The Audit noted that the recording of information on job-seeker cards was not always adequate and that there were instances where cards lacked evidence that the prescribed procedures relating to recording had been implemented.
- 1.24 The Department acknowledges the validity of the audit findings. However, corrective action was undertaken independently in August 1983 when revised procedures, designed to rectify such deficiencies, were issued. Refer Attachment 2.

Liaison with Department of Social Security

- 1.25 The Audit noted inconsistencies in information forwarded to the DSS by CES offices in relation to the termination of registration for employment. At a number of CES offices, DSS was advised only in respect of those terminations of registration for employment as agreed upon when the liaison procedures were revised in August 1982, while other CES offices provided additional categories. Additionally, Audit noted there was no positive means of ensuring that all advices to DSS had been despatched to, and received by, the DSS Regional Office.



1.26 The Department does not consider that there was any real inconsistency, as all offices were providing information required by the existing instructions. Where additional information had been provided this was a local arrangement consistent with CES willingness to provide additional information to DSS but, as a normal rule, this additional information was not required by DSS.

1.27 The revised procedures regarding UB administration address these matters by requiring the CES to advise DSS of all placements, and lapses of job-seeker records, through the use of a prescribed form. Refer Items 2.3019-27 of Attachment 1. Furthermore, through the provision of termination, rejection, and restoration lists by DSS to the CES, checks on action taken by DSS in response to CES advice can be made.

Re-registration of Job-seekers

1.28 The Audit disclosed that job-seekers, whose registration for employment may have been terminated by the CES, may be restored or continue to receive UB from DSS without re-registering with the CES. Audit suggested that the Department should consult with DSS to develop more effective arrangements and procedures to ensure that recipients of UB are registered with CES.

1.29 The Department believes that the revised procedures outlined at paragraph 1.14 and detailed in Attachment 1 satisfactorily resolve this matter.

General Conclusion

1.30 The Department is satisfied that the revised procedures are suitable and that they address the "unsatisfactory matters" raised by the Audit, where appropriate. As indicated, some matters had already been identified by the Department and corrective measures taken in August 1983.

1.31 In recognition of the importance of the matter of liaison arrangements between the CES and DSS, in respect to UB administration, the revised procedures will be reviewed by both Departments after 3 months operation.

10 SEPTEMBER 1984

DEPARTMENT OF EMPLOYMENT AND INDUSTRIAL RELATIONS

Copies of the following documents may be found on Joint Committee of Public Accounts File 1984/4, Part B.

. Attachment 1 - Unemployment Benefit, Volume 2, Section 30.

. Attachment 2 - Review of Assistance to Registered Job Seekers, Volume 2, Section 7, Re-issued A No 19.

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report, March 1984 Relating to the Public Sector Training - Salary Payments and Unemployment, Sickness and Special Benefits Submission by the Department of Employment and Industrial Relations

Unemployment Sickness and Special Benefits (para 17.1)

2. Introductory Comments

This response is directed to the items referenced by the Secretary to the Committee in a memorandum to DEIR dated 21 June 1985 is the results of the revised liaison procedures with DSS including dates of implementation and review.

3. Background

3.1 Paragraph 1.4 of the Department's submission dated September 1974 refers to a joint DEIR/DSS Review Group. This group (working party) had agreed to new procedures for implementation by 1 August 1984. DSS were unable to meet this date and there was, thus, a delay.

3.2 Paragraph 1.31 of the submission stated that a review of the procedures would occur after 3 months.

3.3 Trials of the revised liaison arrangements arising from the joint Commonwealth Employment Service/Department of Social Security working party report were introduced in Boronia CES and DSS offices in Victoria in October 1984 and Southport, Mermaid Beach, Surfers Paradise CES and Southport DSS offices in Queensland in November 1984.

3.4 The trials were originally to run for a period of three (3) months however, due to initial difficulties with the Queensland trial, this was extended to a 31 May 1985 completion date.

4. Current Progress

4.1 The results of the trials are under assessment currently by the Department of Social Security against the Trial Terms of Reference set down below.

4.2 Determine effectiveness of revised registration procedures in ensuring that unemployment beneficiaries are actively seeking work.

4.3 Establish the cost of the revised procedures in terms of staff resources vis-a-vis savings resulting from the review of benefit entitlement following CES advice. Duration of the pilot is to be sufficient to adequately establish these factors.

4.4 Determine the methodology required to measure the effectiveness of revised procedures in pilot offices, as required by paragraph 4.3.

4.5 Consider the national introduction of revised placement advices (forms 2.1.4 and 2.1.339) to all Department of Social Security offices prior to the completion of the pilot study. The possible introduction of these advices to be determined by the measurement of the impact on staff resources in pilot offices.

4.6 The Department of Social Security have advised that results of the trials should be available within the near future enabling decisions to be made on the national application of the liaison arrangements.

4.7 Exchange of computer generated information between CES and DSS to facilitate the required level of liaison is an option currently receiving consideration. For reasons of systems compatibility, size of data base and volume of transactions, a computer-based solution is, by its very nature, a longer term rather than an immediate answer.

31 July 1985



## **Inquiry into the Auditor General's Report march 1984**

**JOINT PARLIAMENTARY COMMITTEE of  
PUBLIC ACCOUNTS**

**Submission by  
Department of Employment and Industrial Relations  
september 1984**

### 8.3 Public Sector Training - Salary Payments

- 2.1 As reported in the Auditor-General's Report, the Department considers that the Finance Regulations place the basic responsibility for the payment and correct charging of trainees' salaries with participating departments. However, the Department agreed to review procedures with the aim of strengthening various controls along the lines suggested by the Auditor-General.
- 2.2 The following actions have been taken as a result of the Auditor-Generals Report:
- (a) all participating departments were supplied with printouts from the Department of Finance (DOF) which indicated persons being paid under this Department's appropriation codes as at 22 February 1984. Departments were requested to review those printouts to ensure that only current trainees remained as a charge against this Department's codes,
  - (b) at this Department's request, DOF has amended its computer system to produce bimonthly printouts of trainees for each participating department in the future
    - the first printout will be issued to departments following the pay day of 20 September 1984 and then following the last pay day in each second month;
    - departments are to be requested to check these printouts against their records to ensure that only legitimate trainee payments are being charged to this Department's appropriation codes;
    - copies of printouts will also be provided to Regional Offices of this Department for reconciling with trainee records. This task has been allocated to Regional Offices rather than CES Offices as investigation has shown that the majority of payments outside the agreed training period are merely payments due to ex-participants which could not be made during the period of work experience (for example, National Wage Case rises);
  - (c) the possibility of inserting an automatic cut-off-date for each trainee's salary was canvassed with DOF who advised that the present system will not accommodate such a requirement. DOF was also requested to investigate the feasibility of amending the system to include this facility in the future, however DOF has advised that current resources do not permit consideration of the task except in a long term context;

- (d) the CES has received advice from the Attorney-General's Department which indicates that the current training agreement form, revised as suggested by the Auditor-General, cannot be used in respect of labour force programs where the employer is another Commonwealth department. As a result, a new form which merely formalises the arrangement between the CES and participating departments is being prepared. This form will incorporate procedures which will require the identification of a participant who is to be paid through the DOF Salary System; and
- (e) the CES Instruction Manual segment which covers Government employment is to be revised to reflect the changed procedures.

10 SEPTEMBER 1984

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report, March 1984 Relating to the Public Sector Training - Salary Payments and Unemployment, Sickness and Special Benefits Submission by the Department of Employment and Industrial Relations

Public Sector Training - Salary Payments (Item 8.3)

1 Introductory Comments

1.1 This response is directed to three main issues raised by the Secretary to the Committee in a memorandum to DEIR dated 21 June 1985. Those issues, relating to item 8.3 of the Report, were whether:

- all participating departments have printouts from the Department of Finance to ensure that only current trainees remain as a charge against the Department;
- departments have been checking Department of Finance bimonthly printouts of trainees for each participating department to ensure that only legitimate trainee payments are being charged to the Departments' appropriation codes;
- the CES Instruction Manual segment which covers Government employment has been revised to reflect the changed procedures.

1.2 The report of action taken to lessen the incidence of incorrect use of DEIR appropriation codes is made in terms of these three points.

2. Background

2.1 The Department of Employment and Industrial Relations (DEIR) administers a range of manpower training programs that provide temporary employment opportunities for eligible trainees in Commonwealth Departments and Instrumentalities. Trainees are paid normal award rates and the full cost is met from appropriations of the DEIR.

2.2 The Auditor-General's Report of March 1984 referred to deficiencies in controls over the charging of trainee salary payments to these appropriations. In general, the problem arises when a public sector trainee completes his subsidised period of employment but is successful in obtaining a further period of temporary or permanent employment with the participating Department. In some cases the latter Department continues to charge the salary cost to the DEIR appropriation rather than use the correct appropriation. It is emphasised that the problem is not substantially a matter of overpayment but the use of incorrect appropriation codes. While the use of the correct appropriation code is primarily the responsibility of the Department authorising salary payments DEIR accepts that it should take steps to ensure that charges made against its appropriations are correct.

Detailed Comment

3. Circulation of Printouts to Participating Departments

The Department of Finance (DOF) is now producing bimonthly printouts which are distributed to DEIR at the State and Territory Office level and to participating Departments, enabling a check to be made on current trainees. There are still some problems with the regularity and timing of printouts, which are being pursued.

4. Checking of Printouts

State and Territory Offices of DEIR have been checking the relevant printouts for miscoding and have identified instances where corrective action has or needs to be taken. It is not possible to answer for all the participating Departments but where miscoding has been identified by DEIR the Department concerned has been notified and encouraged to improve their checking procedures. At the same time where errors have occurred action has been taken to transfer the funds into the correct appropriation code. A recent survey of the procedures indicates, however, that some DEIR State and Territory Offices need to tighten their arrangements for the future.

5. Changes to CES Manual

5.1 DEIR in its comments on the Auditor-General's Report indicated that new procedures, including the developing of appropriate forms would be introduced with the objective of improving control over the charging of salaries to the correct appropriation code.

5.2 Draft forms and procedures have been developed but the introduction of the necessary changes has been delayed due to the need to develop new program arrangements in respect of the Report of the Kirby Committee of Inquiry into Labour Market Programs released in January 1985 and the forthcoming Report of the Review of Aboriginal Employment and Training Programs. Priority has also been given to the introduction of a new training agreement and associated procedures in respect of wage subsidy arrangements in general. Given the range and complexity of the changes under consideration, it is considered that changes to the arrangements governing public sector trainees should be introduced as part of a total package of changes to be assimilated by Offices of the Commonwealth Employment Service (OCES). The following factors are relevant to this preference:

- public sector training is a relatively small element in programs other than Training for Aboriginals compared to related training arrangements in the private sector;
- any changes to administrative arrangements set out in the CES Manual needs to take into account the complexity of the instructions under which OCES staff operate. Where possible it is considered preferable for related instructions to be issued as a package rather than piecemeal. Changes of this kind normally entail staff training and are normally packaged in a way to minimise the disruption to the normal placement activity of the CES;

there was a strong possibility that public sector training would not continue in its present form, given the new program arrangements discussed as a result of the Kirby Inquiry. The Department's submission to the Miller Committee of Review of Aboriginal Employment and Training also proposes changes to public sector training.

#### 6. Summary

6.1 On balance it can be said that the existing arrangements give a greater degree of control than was possible previously, but there are still problems associated with the checking of the printouts.

6.2 If public sector training is to continue then the format of the printout needs further development to facilitate the required checking and to lessen clerical workloads. The development of new computer systems in DEIR, in particular the Job Seeker System will allow the production of more appropriate reports by State and Territory Offices and possibly also the production of form letters to participating Departments, notifying them of approaching completion dates for trainees.

6.3 The report of the Auditor-General on the deficiencies in the control system received careful consideration by DEIR and various options were considered other than those which have been introduced. For example, DOF was requested to introduce an automatic cessation date into its payment system but was unable to accommodate this, given other problems and priorities. Other options which have been considered generally entail an increase in workloads, which may lead to increased staffing requirements. In considering the appropriate administrative arrangements, the Department's view is that due recognition should be given to the position that the essential problem is not one of overpayment but miscoding.

31 JULY 1985

### JOINT COMMITTEE OF PUBLIC ACCOUNTS INQUIRY INTO THE REPORT OF THE AUDITOR-GENERAL - MARCH 1984 SUBMISSION BY THE DEPARTMENT OF FINANCE

#### 8.3 PUBLIC SECTOR TRAINING - SALARY PAYMENTS

##### BACKGROUND

1. In August 1982, a review of the ACT Payroll in respect of departmental chargings to the Department of Employment and Industrial Relations (DEIR) appropriations for NESAs and SYETP salary payments was conducted by this Department's Canberra Regional Office. It followed the discovery that the salary chargings for a number of continuing payees previously employed under these schemes were incorrectly being charged to the DEIR appropriations after the elapse of the training period, instead of against the employing departments' appropriations.

2. The DEIR was approached to validate the ACT Payroll salary chargings of current NESAs and SYETP payees, however, it advised that it was unable to do so as the responsibility lay with each department's delegate for the purposes of Finance Regulation 56AA (which requires the regular preparation of a statement of variations, and the reasons therefore, in respect of the pay of officers of the department concerned). As noted in the Auditor-General's Report, an Australia wide investigation was then conducted, in September 1982, through Finance Regional Offices. The investigation revealed a number of discrepancies which were subsequently rectified.

3. In December 1983, the DEIR approached Finance seeking a listing from the Finance Pay System showing trainees currently charged to NESAs and SYETP appropriations and provision of the information on a cyclical basis. The listing of current payees was provided in March 1984 and it was agreed to make program changes to the Pay System to enable provision of the report on a regular basis. Because of other substantial work priorities, these changes have yet to be completed but are expected to be available within the next few months.

4. A further request dated 27 June 1984 has been received from the DEIR seeking inclusion of a facility in the Finance Pay System which will automatically cease salary payments to trainees at the expiry of their training period.

## COMMENT

5. The Department of Finance first discovered the charging errors in respect of the DEIR trainees and since then it has endeavoured, within the means at its disposal, to rectify the errors.

6. As mentioned earlier, program amendments are in progress to provide the report requested by DEIR on a regular basis (the regularity of which has yet to be determined) which will effectively allow the DEIR to monitor payments made through the Finance Pay System. Provision of this facility has been given a high priority.

7. DEIR's further request of 27 June 1984 for the development of a facility to automatically cease payees after their training period expires is not practicable at this point of time. The programming resource implications of such a development are quite substantial and, having regard to the limited nature of the application it would serve, could not be afforded high priority relative to other demands in the area of Finance systems developments. The control over cessations of payees, as for other variations to payroll data in the Finance Pay System, is an integral part of personnel management and systems controls. However, the abovementioned reporting facility being developed through the Pay System should facilitate management of the training schemes.

13 July 1984

## JOINT COMMITTEE OF PUBLIC ACCOUNTS INQUIRY INTO THE REPORT OF THE AUDITOR-GENERAL - MARCH 1984

SUBMISSION BY THE DEPARTMENT OF FINANCE

## 8.3 PUBLIC SECTOR TRAINING - SALARY PAYMENTS

## BACKGROUND

In July, 1984 this Department provided a submission to the Committee which detailed the Department of Finance's involvement in the detection and correction of incorrect salary chargings to the Department of Employment and Industrial Relations (DEIR) appropriations for Training Programs for payments made through the Finance Pay System. The submission stated that Pay System program amendments were in progress which would enable the provision of regular reports to allow the DEIR to monitor payments charged to its Training Program appropriations.

## COMMENT

Pay System program amendments to enable the provision of regular reports of payees whose salaries are charged to the Training Program appropriations were completed in August 1984. Following consultations with the DEIR it was agreed to produce the reports bimonthly, and to distribute copies to the DEIR's Regional Offices and to employing departments. Production and distribution of the reports was commenced in September 1984 and has continued on a bimonthly basis since then. Instructions to departments regarding the use of the reports were prepared by the DEIR and distributed prior to the production of the initial reports.

July 1985

9.1 TREASURY REMOTE INPUT/OUTPUT SYSTEM (TRIO)

DESCRIPTION OF TRIO SYSTEM

1. The TRIO System provides the remote data collection and output facilities of the Finance computer network. The system utilizes the PDP-11 Terminal Computers of the Regional Offices in each State (Canberra, Brisbane, Sydney, Melbourne, Hobart, Adelaide, Perth, and Darwin), and in Washington and London; and the AMDAHL V8 Computer System located in Canberra. Data is transferred between these systems: within Australia via the leased telephone lines of the Finance network; for Overseas via the Foreign Affairs network; or in "back-up" mode via magnetic tape.
2. Initially the TRIO System facilities were used to collect data for applications operating on the Bureau of Statistics' CDC computers, replacing data collection via Card Punch/Verifiers, Flexowriters, ADDO-X machines (where remaining), and the ARLI System (a mini-computer system to provide edited data for input to the Appropriation/Revenue Ledger then being processed on the ABS computer). These applications are now phased out, and the TRIO System collects data and distributes output for the replacement applications, operating on the Department's central computer.
3. Batches of data are entered via Transdata, Decscope or Facit Data Entry Sets (DES). The Transdata sets are attached directly to the Data Collection system (DCS) PDP 11 computer. The Decscope and Facit sets use a different communication protocol from the Transdata sets and are connected to the DCS via an intermediary Data Entry Processor (DEP) PDP 11 computer which acts as a translator for information passing between the Decscope set and the DCS. Basic edits are performed within the DCS (eg numeric fields, check digits, etc) and the DPO is given the opportunity to correct errors detected, or to bypass them for later correction.
4. Accepted batches are transmitted to the Central Computer where further processing occurs: Reconciliation batches are processed as TRIO transactions and are stored to the TRIO data base for later extraction; other batches are processed directly by programs of the appropriate system.

5. TRIO is also responsible for the formatting and writing of cheques; the automatic capture of cheque issue data; and generation of cash sheets on Form 18 as appropriate. These processes are performed by the PDP-11 terminal computer. The source cheque data may be either the direct by-product of data collection eg Ledger Transaction Type 11 or generated externally and transmitted to TRIO via line or tape eg payroll prepayments. Batches of cheque issue data are generated during cheque printing. These batches are included with normal input batches for transmission to the central computer. Cash sheet and Form 18 information is printed by a subsequent process.
6. The following comments are provided in respect of the specific comments contained in the Auditor-General's Report:

• REVIEW OF TRIO CONSOLE LOGS

It is recognized that the console log is an important control document showing chronologically the processing events.

The review of the console log is now undertaken daily by the ADP Services Manager who initiates any followup actions if necessary.

• STATE IDENTIFICATION CODES

The design of the TRIO system envisaged the need for processing of data at locations other than the originating Regional Office. In the past the actual receipt of data from other States has been accepted as an advice and authority to use that State's identification code.

New procedures now require requests for processing input data on behalf of other Regional Offices to be supported by formal authorization.

• COMPUTER BACK-UP FACILITIES

Recently the back-up computer which was located within the ADP area has been relocated within the Regional Office Canberra. When the relocated equipment is fully operational it will provide the Regional Office with an effective and reliable back-up system. At that stage the draft documentation on back-up procedures will be finalized.



7. The Audit Report also contained a number of suggestions that should be considered during the current program for re-equipment of the Finance computer network.
8. The first three suggestions that dealt with VDU screen formats, error displays, and keyboard layout were of significant importance during the evaluation of tenders and Audit suggestions will be implemented. The final suggestion dealt with the possible use of encryption devices for data security. Although not included initially in the new network, the Department will consider the use of such devices at the time that such security is deemed necessary.
9. The Report also contained a comment relating to the check digit technique used in the TRIO system on cheque numbers and a recommendation that a method to detect transposition errors be introduced.
10. The system in use was determined by the trading banks in concert and the Department has no discretion in this matter. However experience since the inception of TRIO supports the conclusion that the prescribed manual checks applied are sufficient to provide adequate protection against possible transposition errors.
11. The Department of Finance possible witness is Mr R. Caldwell (Director, Finance Regional Office, Canberra).

13 July 1984

JOINT COMMITTEE OF PUBLIC ACCOUNTS INQUIRY INTO THE REPORT  
OF THE AUDITOR-GENERAL - MARCH 1984  
SUBMISSION BY THE DEPARTMENT OF FINANCE

9.2 CENTRALISED SYSTEM FOR RECONCILIATION OF DRAWING  
ACCOUNTS

Description of the Drawing Account Reconciliation System

1. The present computerised system to assist in reconciliation of Drawing Accounts was introduced by this Department (then part of Treasury) in 1974. The system was designed to assist Permanent Heads (of cheque issuing authorities operating under the Audit Act) to meet their statutory obligations under the Finance Regulations.
2. The reconciliation system master files are maintained on the Finance central computer installation in Canberra and are updated each day from cheque issue data from users and cheque presentation data from the Reserve Bank offices in Australia. Output is sent to users each day in the form of hardcopy and microfiche.
3. The system maintains two master files; one provides the reconciliation service for the "Northern" Region, ie for cheque issuing authorities in NSW, QLD, TAS, ACT and NT; and the other the "Southern" Region covering VIC, SA and WA. In all there are 35 cheque issuing authorities around Australia serviced by the system. These cheque issuing authorities are under the control of the Departments of Finance, Social Security and Veterans' Affairs and the Australian Taxation Office.
4. The following comments are provided in respect of the specific matters contained in the Auditor-General's Report.

CONTROL WEAKNESS

- Edit input/output checks

Negotiations with the Reserve Bank concerning the provision of transaction count details have been concluded and both branches of the Bank are now providing this information.

The RECOEDIT program has been amended to produce control information which reports on transactions generated by the program itself and which permits reconciliation with data extracted from the TRIO system.

Absence of control totals

We have agreed to review the UPDATE program but the unavailability of programming resources has not made it possible to do so at this stage.

Age of the system

Work has commenced on a review of program documentation and is still continuing, however, the timing of its completion is dependent upon the availability of programming resources.

5. The Department of Finance possible witness is Mr W. Brophy (Director, Applications, ADP Branch, Canberra).

13 July 1984



AUSTRALIAN  
DEVELOPMENT  
ASSISTANCE  
BUREAU

DEPARTMENT OF FOREIGN AFFAIRS



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ACTION OFFICER

REFERENCE

2 AUG 1984

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

REPORT OF THE AUDITOR-GENERAL - MARCH 1984  
(Your memorandum 1984/4 of 17 June 1984)

I refer to your memorandum concerning a request from the Public Accounts Committee for a detailed submission from this Bureau concerning paragraphs 10.4 and 10.5 of the Auditor-General's report.

The Australian Development Assistance Bureau has been requested to reply to two issues - administration of emergency, humanitarian and disaster relief, and execution of a desiccated coconut factory aid project in Tonga. The Bureau will provide a submission on each subject.

I am pleased to forward now for consideration a submission which covers emergency humanitarian assistance and disaster relief. A separate submission on the Tonga aid project will be forwarded to you as soon as possible.

Mr Hayden has written to Senator Georges about the attached submission, noting that policy is currently under review and proposing that ADAB inform the Committee, in due course, of the Government's policy decisions and of relevant guidelines and procedures to implement them. I would be grateful if you could inform me whether this is acceptable to the Committee.

(L. Corkery)  
First Assistant Secretary  
Policy, Training & Organisations Division

INQUIRY INTO THE AUDITOR-GENERAL'S REPORT - MARCH 1984

Submission by the Australian Development Assistance Bureau (ADAB)

Emergency Humanitarian Assistance and Disaster Relief

1. The examination conducted by the Auditor-General's office was based on an audit of papers conducted during 1982. The discussion in the report relates to findings at that time, supplemented by drawing on comments from the Australian Development Assistance Bureau which covered both the past situation and changes made since 1982. A further updating is provided in this submission.
2. The Auditor-General has found that although remedial action so far proposed by the Bureau should improve the administration of emergency humanitarian assistance and disaster relief, the administration and management of aid projects of this type would be further improved by the development of and adherence to clear guidelines and procedures covering evaluation, documentation and monitoring of aid assistance proposals.
3. The Bureau agrees in principle with the Auditor-General that the establishment of guidelines and procedures should help the management of emergency and humanitarian aid overseas. However, since publication of the Auditor-General's report the Minister for Foreign Affairs has already agreed to ADAB's undertaking preparation (foreshadowed in the Auditor-General's report) of a statement on emergency humanitarian and disaster responses perhaps amplifying past aid philosophy in this field. The Bureau considers that the policy content of such a statement would be fundamental to establishing guidelines and procedures.
4. In this context the Bureau will report to the Minister at the same time on relevant policy considerations mentioned in the report of the Committee to Review the Overseas Aid Program, chaired by Sir Gordon Jackson. The report was tabled in Parliament on 7 June 1984 for public discussion during the next 12 months. Mr Hayden informed Parliament that the Government would aim to implement progressively matters arising in the Aid Review Report.
5. The Aid Review report may be summarized as concluding that aid to refugees and the victims of disasters is clearly an important component of any aid program; that the aid program should retain flexibility to respond to emergency situations and that for refugees, humanitarian assistance and sustained diplomatic activity are likely to be necessary for some time to come. The report covers some specific aspects of refugee and disaster assistance and also recommends a more professional style of management of special programs such as international agencies (used as channels for refugee and disaster aid) and disaster relief operations i.e. on-going assessments and monitoring of individual agencies and programs, and appraisal and evaluation.

6. The Aid Review Committee also made broader conclusions about aid management and administration covering the entire aid field, of which emergency and humanitarian assistance is an integral part. The Bureau is currently examining these wider conclusions and their relationship to specific forms of aid. In the light of public discussion which is already being initiated the Bureau will make recommendations to the Government on both policy and management, including possible guidelines and procedures for emergency humanitarian and disaster assistance.

7. Meanwhile, since the audit, the Bureau's ability to improve evaluation, documentation and monitoring of emergency relief in the South-West Pacific has been upgraded by decisions taken by the Ministers for Foreign Affairs and Defence under which the Natural Disasters Organisation, Department of Defence, has become the Bureau's managing agent for the planning and provision of material and services for emergency relief, initially in the South-West Pacific. The Bureau has also tentatively reached agreement with a non-governmental organisation, the Australian Overseas Disaster Response Organisation, on arrangements for AODRO's role as a channel for official aid in some circumstances, including in co-operation with the Natural Disasters Organisation. The Bureau has also established a data base of past levels of assistance to refugee, humanitarian and disaster situations to assist future planning.

8. Progress on emergency humanitarian and disaster relief policy and consequent guidelines and procedures will depend to some extent on staffing in the Bureau. Attention has already been drawn in the Audit report to staffing problems which the Bureau has faced in the past and which have affected its administrative ability. These problems continue but will be addressed in the Bureau's recommendations on the conclusions of the Aid Review Committee and on policy-related conclusions to be drawn from its review of emergency humanitarian and disaster relief responses.

31 July 1984

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report, March 1984  
Submission by the Australian Development Assistance Bureau

The Joint Parliamentary Committee of Public Accounts has requested a detailed submission on matters raised in the Auditor-General's March 1984 Report concerning the construction of a desiccated coconut factory in Tonga under the Australian aid program.

2. Matters raised in the Auditor-General's report included both broad administrative issues as well as issues specific to this particular project.

Project Selection and approval

Feasibility Study

3. The report noted that the Consultants' feasibility study concentrated on the ability of the Tongan authorities to operate the factory after construction and placed insufficient emphasis on assessing their capacity to construct the factory or the logistical problems involved. These factors contributed to the cost escalation.

4. In this case, the Bureau did not adequately pursue the requirement for feasibility studies and appraisals to assess the capabilities of local instrumentalities to undertake project tasks. This represented a failure to adhere to standards prevailing at the time within the Bureau. Since then, the Bureau has revised a Bilateral Programs Operations Manual to help ensure that established procedures are followed.

5. It should be emphasised, however, that the problems of accurately estimating costs for projects undertaken in the developing countries of the South Pacific will persist. As a result of their remoteness, which results in shortages and delays in the availability of materials and labour skills that would be taken for granted in Australia, costs are inherently difficult to estimate.

Project Approval

6. The Auditor-General's report criticised the Bureau's failure to apprise the minister fully of the economic analyses provided by the Department of Finance and the Bureau's own Appraisals and Evaluations Section.

7. It has never been Bureau practice to ignore unfavourable economic assessments including comments by the Department of Finance. In this instance, however, only the assessment of the Department of Finance that the project was marginally economic was presented to the Minister. The view of

the Bureau's Appraisal and Evaluation Section that the project was not economically viable if the opportunity cost of foregone copra production were to be considered should also have been passed to the Minister for his consideration. This was a failure to adhere to Bureau procedures and does not represent Bureau practice then or now. In accordance with practice since 1982, directions given by the Minister and more recent discussions between the Bureau and the Departments of Finance and Treasury, cost-benefit analysis has been given increasing emphasis.

#### Project Design

8. The Auditor-General's report noted that the Appraisals and Evaluations Section recommendation for the inclusion of a technically qualified Australian Government representative in the Project Management Group was not followed. This did not represent a departure from established procedures. If it is anticipated that the technical complexity of a project warrants it, the Bureau will engage independent technical advisers, usually from Commonwealth technical departments and agencies, to provide advice on the designs prepared by consultants. The necessity of this step must be carefully weighed against the additional costs involved. Despite the Appraisals and Evaluation advice, it was the judgement of the Bureau that, on balance, the additional cost of independent technical advisers was not justified in this case. Quarterly progress reports

provided to the Bureau by the consultants, did not highlight problems of a kind which would have called for independent technical advice.

#### Project Review and Evaluation

9. Although the consultants met the Bureau's requirement to provide progress reports, the independent Technical Review Committee appointed by the Bureau to investigate the failure of the factory did not consider that the problems which occurred during the commissioning trials could have been anticipated from these reports. Therefore, while provision existed for project reviews in the Memorandum of Understanding with the Tongan Government and the contract with the consultants, there was no strong indication for such a requirement.

10. The possible extent of the consultants failure to design and construct a functional factory is indicated by the nature of the refurbishment/rectification program being carried out at an estimated cost of \$1.5 million. The Bureau is currently waiting on advice from the Director of Legal Services on whether to take legal action against the consultants.

11. ADAB had no technical capacity of its own to monitor the construction program. The fact that there was (and still is) no aid officer based in Tonga undoubtedly contributed to the failure of the Bureau to detect defects in the project.

The basing of an ADAB officer in Tonga is under study, but it must be considered in the context of many competing bids for staff resources within the Bureau.

12. A Pacific Regional Team has been established which should be fully operational by about September 1984. It is intended, inter alia, to help overcome deficiencies in monitoring. The Team comprises professional people who will assist as required with the monitoring of on-going projects in the Pacific, in particular in areas requiring technical expertise. The Team includes an engineer and will make random checks of projects in progress and report to the Bureau.

#### Contract with Consultants

13. Since the completion of the factory, procedures have been formalised to ensure closer monitoring of expenditure against the financial limitations on contracts. Consultants are required to use a standardised statement of certification in financial reporting. The responsibilities of authorised officer delegations in accordance with Finance Regulation 56 have again been emphasised in the Bureau's operating procedures.

#### Conclusion

14. At the stage of presenting the project for approval there were serious deficiencies on ADAB's part. These should not have occurred then, and we believe that they are unlikely

to occur again. Deficiencies on the part of other parties will now be subject to closer control as a result of the enhanced monitoring capacity provided by the Regional Team.

15. With hindsight it appears that the problems at the design stage could have been prevented if an independent Technical Review Committee had been appointed. However judgements will always be required to weigh risks and costs in these matters. As a result of the coconut factory experience judgements are likely to err more on the side of incurring unnecessary expense than in the past.

16. More effective monitoring of project implementation would have enabled the unsatisfactory nature of project design to have been detected earlier. However, this could not reasonably have been expected without an ADAB officer stationed in Tonga or the availability of a technically competent person. The Pacific Regional Team should improve the Bureau's monitoring capacity in Tonga although it would also be desirable to establish an ADAB position in Tonga.

2 SEPTEMBER 1984

Objectives and Development of Standards

The audit report states that the major objective of the National Biological Standards Laboratory (NBSL) is to develop standards for Therapeutic Goods. The concept of the role and responsibilities of the NBSL has developed beyond this.

The objectives and functional activities of the laboratory are periodically reviewed by the Director-General of Health and approved by the Minister for Health. These are stated below.

The National Biological Standards Laboratory has the responsibility, together with the Therapeutics Division, for ensuring that safe and effective therapeutic goods for both human and veterinary use, are available in Australia. The main functions are assisting in the formulation of therapeutic goods regulatory policy and the provision of scientific services in connection with government controls over therapeutic goods by -

- (a) testing samples for compliance with standards;
- (b) evaluating protocols of the chemistry, microbiology, manufacturers' quality control, packaging and labelling of therapeutic goods;
- (c) developing new and improved standards;
- (d) inspecting plants manufacturing therapeutic goods;
- (e) providing advisory and consultative services to departments and manufacturers.

The Department of Health perceives the laboratory as underpinning a national system for the regulation of the quality and safety of therapeutic goods in collaboration with State authorities.

The provision of standards for goods and the testing for their compliance with those specifications has traditionally been the method used to regulate their quality. This was the situation when the laboratory was established in 1958. Following the Kefauver Enquiry into the pharmaceutical industry in the USA and the thalidomide tragedy, two additional mechanisms were introduced into the regulatory process. These were the inspection of manufacturer's for compliance with a Code of Good Manufacturing Practices and a much more searching evaluation of new therapeutic goods.

In any case, it has become clear that there are a number of practical drawbacks in relying entirely on the standards mechanism. To be effective, standards should be available for all products on the market at all times. It should be possible to modify standards quickly when the need arises and there should be international congruence of standards so as not unnecessarily to interfere with the free flow of goods in international commerce.

These conditions have never been achieved in any country and they are never likely to be achieved in Australia. Depending upon the class of product, the proportion with standards varies from 75 per cent to 30 per cent. There are thousands of products for which statutory specifications are not available.

Nor has it been necessary to inform the Commonwealth that a new product is to be introduced to the market unless that product contains a new drug substance and is imported. Information concerning the number and types of certain categories of therapeutic goods is very patchy. Without such a notification system the provision of standards for all goods is a virtually impossible aim.

The main sources of standards are international compendia like the British Pharmacopoeia (BP), United States Pharmacopoeia (USP), European Pharmacopoeia (EP), etc, but there is an appreciable time lag between the marketing of new remedies and the publication of statutory standards.

While the most therapeutically effective products are given a high priority in preparing standards, products of minor therapeutic importance, which are nevertheless sold in large numbers, frequently lack standards. This is often the case for non-prescription (i.e. 'over-the-counter' or 'OTC') products upon which large sums are expended by the public.

The NBSL is attempting to increase the protection afforded by standards by the development of general standards for classes of goods such as all tablets and capsules, or all injections or veterinary avian vaccines and the like. While not as effective as a standard for a specific product, these would provide a coarse filter, to catch seriously deficient products. The generality of such standards and the need to avoid arbitrary interference in international commerce tends to make them a lower common denominator of pharmacopoeial practice and particularly difficult to prepare. Resources for this work have been lacking for some years.

Since approval has been granted for the legal drafting of standards within the Health Department, some 17 standards have been prepared. Eleven now have statutory status and another seven are virtually ready for Ministerial approval (see Appendix A).

The process of preparing standards is time-consuming, very expensive and is made more difficult by the absence of a research-based pharmaceutical industry in Australia. When standards are available, they are conducive to higher quality and more uniform goods but the standard mechanism is inadequate by itself for the proper regulation of quality and safety. These considerations led to the development of a variety of different approaches to this end described above.

While there have been several amendments to the Therapeutic Goods Act to make it more efficient, it does not form a sufficient basis for regulatory activities because of the limited range of powers provided in the Act. Since the drafting of the Act changes in the perception of Constitutional powers would now permit alternative administrative mechanisms to be provided.

The most effective power available to the Health Department is the discretion provided in the National Health Act for the Minister to refuse to list low quality goods as Pharmaceutical Benefits.

Register of Therapeutic Goods

More information about the goods sold in Australia will be available when the Register of Therapeutic Goods is completed. A data-base has been prepared, information is being sought from manufacturers and it is hoped to have the register completed during the first half of 1985.

Testing of Therapeutic Goods

In general, products listed as Pharmaceutical Benefits are accorded a high priority for testing. Antibiotic products are tested at least once a year. The frequency of testing of other Benefit items varies from once a year to once every four years depending upon available resources, the therapeutic importance of the product, its cost to the Commonwealth and indications of a need to test the goods. Such indications are derived from complaints, reports in the literature and observations by inspectors of manufacturing practices in particular companies.

Delays in obtaining samples for testing have decreased since the Audit report. Recruitment of an officer for sample collection has begun in the Melbourne Office but in Sydney the position has not yet been advertised. There is opposition by Departmental pharmacists to sample collection being carried out by non-professionals.

A new and very effective packaging system has been evolved for collection of official samples. Pilot runs have shown that this will reduce the delays. The scheme begins fully in July.

Veterinary Antibiotic Products

The quality of veterinary antibiotic products continues about the same as reported. There is no effective action available to the Commonwealth under the present Act, in the case of pharmaceutical products. Proposals were made to the States to establish a national system for the regulation of the quality of therapeutic goods. Although one State supported the proposal, the majority did not. State Departments of Agriculture have been informed of the situation.

Inspections

Since the report was made, the New South Wales Department of Health has recruited two additional inspectors with industrial experience. These have other duties as well as inspections of manufacturers.

The Victorian Government has prepared a Therapeutic Goods and Cosmetics Bill which will require manufacturers of therapeutic goods to be licenced in that State. It is expected to become effective near the end of this year.

Wastes

Written instructions for the disposal of wastes have been prepared by the NBSL Safety Committee and practices are now uniform throughout the laboratories. The disposal of wastes was previously carried out in a satisfactory manner but not recorded.

Audit Conclusions

These are not disputed. In general, the laboratory's staff has remained static despite increasing responsibilities resulting from technological advances, increases in growth of the community and its expectations of consumer protection.

Recruitment of scientific and technical staff to the Public Service is slower than the recruitment of clerical staff because a higher proportion are recruited from outside the Service. In recognition of the laboratory's staff problems, 15 new positions were provided by the Department of Health in October 1983. Since then 60 recruitment actions were initiated resulting in 32 staff being recruited. In the same period 26 staff were lost, resulting in the net gain of 6 officers.

The reasons for the losses were:

- Retirement (2)
- Resignation (7)
- Temporary Transfer (8)
- Transfer (2)
- Medical redeployment (1)
- Transfer under mobility provision (1)
- Promotion (2)
- Long term Sick/Maternity Leave (3)

Under the staff ceiling system previously utilised, this would have resulted in a loss of 9 positions.



The delegation by the Public Service Board to the Department of Health of the authority to recruit to base-grade positions has reduced the period taken to recruit such staff and expedited the day-to-day operations of the laboratories significantly.

17 JULY 1984

APPENDIX A

Standards Published Prior to NBSL Receiving Approval to Legally Draft

Therapeutic Goods  
Order No.

- |   |      |
|---|------|
| 1. Digoxin Tablets                          | 1975 |
| 2. Digoxin Tablets (Amendment to TGO No. 1) | 1976 |

Standards Published by NBSL After Receiving Approval to Legally Draft

- |   |      |
|---|------|
| 3. Child Resistant Containers   | 1980 |
| 4. Modification to BP Monograph for Potassium Chloride  | 1981 |
| 5. Modification to BP Monograph for Strong Potassium Chloride Solution  | 1981 |
| 6. Modification to BP Monograph for Soda Lime   | 1981 |
| 7. Modification to TGO No. 3 - Child Resistant Containers   | 1982 |
| 8. Standards adopted from the British Pharmaceutical Codex 1973   | 1982 |
| 9. Standard for Brucella Abortus Rose-Bengal Antigen  | 1984 |
| 10. Standard for Brucella Abortus Milk Ring Test Antigen  | 1984 |
| 11. Standard for Sterile Therapeutic Goods  | 1984 |
| 12. Standard for Sterility of Intramammary Injections   | 1984 |
| 13. Standards adopted from the British Pharmacopoeia (Veterinary) 1977 and the British Veterinary Codex 1965, Supplement 1970 | 1984 |

Standards Awaiting Signature by the Minister

- |  |      |
|--|------|
| 14. General Standard for Metered-Dose Aerosols for Oral Inhalation | 1984 |
|--|------|

Standards about to go to the Minister for Signature (within next few days)

- |  |      |
|--|------|
| 15. Standard for Stainless Steel Sutures | 1984 |
| 16. Standard for Absorbable Sutures      | 1984 |
| 17. Standard for Non-Absorbable Sutures  | 1984 |

Standards to Minister in Near Future (i.e. within two months)

- |  |      |
|--|------|
| 18. Child Resistant Containers - Additions to Schedules          | 1984 |
| 19. Standard for Infectious Laryngotracheitis Vaccine Live Virus | 1984 |
| 20. Standard for Diagnostic Goods of Human Origin                | 1984 |

13 JULY 1984

STATUS OF STANDARDS(Status as of 28/6/85)  
Item 7.2Published Therapeutic Goods Orders

<u>T.G.O. No.</u>	<u>Title</u>	<u>Date of Ministerial Assent</u>	<u>Gazetted</u>
1	Digoxin Tablets	17 Oct 1974	21 Oct 1975
2	Digoxin Tablets (amendment to TGO 1)	29 Mar 1976	11 May 1976
3	Child Resistant Containers	28 Apr 1980	27 Jun 1980
4	Modifications to the Monographs of the British Pharmacopoeia for Potassium Chloride	2 Mar 1981	30 Jun 1981
5	Modifications to the Monographs of the British Pharmacopoeia for Strong Potassium Chloride	2 Mar 1981	30 Jun 1981
6	Modifications to the Monographs of the British Pharmacopoeia for Soda Lime (printed in one document)	2 Mar 1981	30 Jun 1981
7	Amendment to Therapeutic Goods Order No. 3. Child Resistant Containers	21 Oct 1981	30 Mar 1982
8	Standards Adopted from the British Pharmaceutical Codex 1973	25 Mar 1982	31 Mar 1982
9	Standard for <u>B. abortus</u> Rose-Bengal Antigen	4 Dec 1983	28 Feb 1984
10	Standard for <u>B. abortus</u> Milk Ring Test Antigen	4 Dec 1983	28 Feb 1984
11	Standard for Sterile Therapeutic Goods	4 Dec 1983	28 Feb 1984
12	Standard for Sterility of Intramammary Injections	4 Dec 1983	28 Feb 1984
13	Standards Adopted from the British Pharmacopoeia (Veterinary) 1977 and the British Veterinary Codex 1965, Supplement 1970	23 Dec 1983	19 Mar 1984
14	General Standard for Metered-dose Aerosols for Oral Inhalation	4 July 1984	9 Oct 1984
15	Standard for Stainless Steel Sutures	24 July 1984	9 Oct 1984
16	Standard for Absorbable Sutures	24 July 1984	9 Oct 1984

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- 2 -

17	Standard for Non-absorbable Sutures	24 July 1984	9 Oct 1984
18	Standard for Infectious Laryngotracheitis Vaccine, Live Virus	23 Sept 1984	26 Mar 1985
19	Standard for Diagnostic Goods of Human Origin	23 Sept 1984	26 Mar 1985
20	Child resistant containers (revokes TGO's 3 and 7)		(in publication)

Standards to go to Minister in near future (date refers to latest draft)

- General requirements for labels for therapeutic goods (30/4/85).
- General standard for live avian viral vaccines (7/5/85).
- Standard for ethanol (12/6/85).

Standards given priority and being actively developed at the present time

- \* General Standard for Tablets (4/10/84)
- \* General Standard for Capsules (4/10/84)
- \* Standard for Cotton Wool with Rayon (2/10/84)
- \* Standard for Rayon with Cotton Wool (28/8/80)
- \* Standard for Blood Bags (24/2/84)
- \* General Standard for Inactivated Viral Avian Vaccines (17/2/85)
- \* Standard for Hydrocortisone Acetate Cream (17/2/84)
- \* Standard for Hydrocortisone Acetate Ointments (16/11/79)
- \* Standard for Hydrocortisone Acetate Eye and Ear Ointments (16/11/79)
- \* Standard for Contact Lens Solutions (1983)
- \* Standard for Haloperidol Tablets (February 1984)
- \* Standards for
  - . Tetracycline Hydrochloride (non parenteral) (7/2/84)
  - . Tetracycline Base (22/2/84)
  - . Capsules of Tetracycline Hydrochloride (22/2/84)
  - . Capsules of Tetracycline (22/2/84)

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- \* Standards for Bandages and Dressings (initial draft yet to be developed)
- \* Standards for Contact Lenses (adoption of SAA standard under consideration)
- \* Standards for Urinary Catheters (S.A.A.) (adoption of SAA standard under consideration)
- \* Limulus Amoebocytis Lysate (LAL) Test (13/2/84)

Other Standards under development (some are still at a preliminary stage)

- \* General Standards for concentrated Inhalants Solutions for Inhalation (26/9/77)
- \* General Standards for Powders and Granules for Ingestion (10/5/76)
- \* General Standard for Injections:
  - a) Containers for Parenteral Preparations (deferred)
  - b) Uniformity of Parenteral Preparations (deferred)
  - c) Physical Attributes for Parenteral Preparations (deferred)
- \* Standards and Test for Particulate Matter in Large Volume Injections (28/11/74)
- \* General Standards for Topical Preparations (development discontinued)
- \* Standards for
  - Benzathine Phenoxymethylpenicillin (21/9/76)
  - Benzathine Phenoxymethylpenicillin Oral Suspension (21/9/76)
  - Hydrabamine Phenoxymethylpenicillin (21/9/76)
  - Hydrabamine Phenoxymethylpenicillin Oral Suspension (21/9/76)
- \* General Standard for Liquids for Ingestion (deferred)
- \* Standard for Efficacy of Preservatives (deferred - 25/11/76)
- \* Standard for Bluetongue Vaccines (19/10/81)
- \* Standard for Marek's Disease Vaccines (3/8/76)
- \* Standard for Infectious Bronchitis Vaccine Living (March 1978)
- \* Standard for Stained Mycoplasma gallisepticum Antigen for the Serum Agglutination Test (7/2/75)

- \* Standard for Tuberculins (20/4/78)
- \* Standard for Plasma Protein Fraction (Human) - SPPS (21/2/79)
- \* Clostridium Tetani Toxoids Standard (deferred 21/9/76)
- \* Standard for Newcastle Disease Vaccine, live virus (28/8/81)



# NATIONAL REGISTER OF THERAPEUTIC GOODS

INFORMATION REQUIRED ON THERAPEUTIC GOODS THAT CONSIST OF A SUBSTANCE AND ARE READY FOR USE, (Therapeutic Goods Act 1996)

Please provide a separate form for each dosage form and each strength of the same dosage form except where they are a composite pack and are distributed as the one product, e.g. Injection set, Oral contraceptive tablets. A separate form is not required for each pack size.

Read accompanying letter before completing.

Please type or print. Do not use pencil.

### PRODUCT NUMBER

P1:       Office use only - do not fill in

DATE NOTIFIED Give year and month, e.g. 7 19 8 4 10 2

P2:

### STATUS Insert appropriate code

GM = General marketing

LM = Limited marketing. Follow this code by nature of limitation, e.g. hospitals only.

CI = Clinical investigation

ØT = Other

P3:

PROPRIETARY (TRADE) NAME (Include any suffix or prefix. If no proprietary name, place cross in box. )

P4: .....

DOSE FORM e.g. Injection, Ear drops, Lotion. Where product consists of units containing substances differing in strength or kind, e.g. Injection set, write 'Composite pack' after appropriate dosage form.

P5: .....

ROUTE(S) OF ADMINISTRATION e.g. Oral, I.M., I.V. bolus, I.V. infusion. List each route on a separate line. If insufficient space, leave blank and attach sheet giving information.

P6: .....

P6: .....

P6: .....

### ACTIVE SUBSTANCE(S) and NOMINAL QUANTITY(IES) PER USUAL DOSE UNIT or PROPORTION

List each substance on a separate line. If insufficient space, leave blank and attach sheet giving information.

Use Australian Approved Name. If none, use other non-proprietary name. If no non-proprietary name, give chemical or biological description.

Do not include overages.

Where product is a composite pack and some of the substances are common to different units of the pack, substances may be listed in tabular form, e.g.

	Exem.	White	Ochre	Imps.
P7: Levonorgestrel	50	75	125	NIL
P7: ethinylloestradiol	30	40	30	NIL

Where product is a composite pack and few or no substances are common, list substances separately under separate headings.

P7: .....

P7: .....

P7: .....

P7: .....

P7: .....

P7: .....

P7: .....

P7: .....

P7: .....

P7: .....

### EXCIPIENTS

Do not list quantity or proportion.

List each excipient, including substances in coatings or cores, on a separate line. If insufficient space leave blank and attach sheet giving information.

Use Australian Approved Name, etc. as per Active Substances Section.

Record colourings, including those of capsule shells, beginning with Colour Index Number

Where product is a composite pack, excipients may be listed in the same format as that used for active substances.

P8: .....

P8: .....

P8: .....

P8: .....

P8: .....

P8: .....

P8: .....

P8: .....

P8: .....

P8: .....

P8: .....

P8: .....

P8: .....

P8: .....

AUSTRALIAN SPONSOR The firm which is responsible for the product in Australia.

P9: .....

### SPONSOR'S STREET ADDRESS

P10: .....

Postcode

OVERSEAS/LOCAL MANUFACTURE Manufacture includes labelling and/or packaging. Insert appropriate code.

- A = Fully imported
- B = Fully manufactured locally
- C = Part manufactured locally

P11:

OVERSEAS MANUFACTURER Complete even if only part manufactured overseas. If more than one overseas manufacturer, leave blank and attach sheet giving information.

P12: .....

### OVERSEAS MANUFACTURER'S ADDRESS

POISONS SCHEDULES Give schedule number only. If not scheduled insert N.

A.C.T. N.S.W. N.T. Q.L.D. S.A. T.A.S. VIC. W.A.

P13:

P14:

P15:

P16:

P17:

P18:

P19:

P20:

THERAPEUTIC CATEGORIES Office use only - do not fill in

P21: .....

P21: .....

P21: .....

P21: .....

P21: .....

P21: .....

### PRODUCT LABELS, OTHER EXPLANATORY MATERIAL ACCOMPANYING THE GOODS and PACKAGING

If packaging bears labelling or information on indications

If no information on indications is on or accompanies the goods, attach promotional material

Attach two samples or copies of each.

Insert cross in appropriate boxes.

Container label

Primary pack (1/1)

Pack (1/1) (1/1)

Other



In reply  
please quote: 84/1174  
NH & MRC  
VH:JW

24 JUL 1984

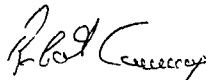
The Director,  
NBSL

NH & MRC Working Party on Antibiotics in Stockfeeds  
Quality of antibiotics in animal feed

The following is an extract from the Report of the Ninety-seventh Session of the National Health and Medical Research Council held in June 1984:

The Council noted advice from the Working Party on Antibiotics in Stockfeeds, that there is no nationwide system for checking the potency and other qualities of antibiotic products used as additives to feeds to promote the growth of animals and poultry or to improve feed conversion rates. Users of animal feed may use excessive amounts of such antibiotic products to compensate for suspected sub-potency, with likely consequent impairment of the efficacy of antibiotics in human and veterinary medicine. The Council therefore recommended that the National Biological Standards Laboratory (NBSL) carry out surveys of the quality of these products, as resources become available for this purpose.

As requested by the Council, I am bringing this matter to your attention.

  
(Robert Cumming)  
Secretary of Council

STANDARD OPERATING PROCEDURE NO. 17

DISPOSAL OF WASTE SOLVENTS

Containers for waste solvents (usually marked Winchesters) will be placed in laboratories 3, 4, 5 and 6. One container will be used for chlorinated solvents and one for hydrocarbons. All water soluble solvents such as alcohols, acetone etc. will be flushed down a sink with copious water using a fume hood where necessary.

The chlorinated solvents will be disposed of in the large evaporating tray near the back fence. At most five litres will be disposed of at any one time. Disposal will preferably take place after 4 p.m. to avoid inconvenience to Animal House personnel.


Hydrocarbons will be evaporated off in a fume cupboard using a stream of air and gentle heat. Flammable solvents will not be evaporated off in the open unless under close supervision to avoid accidental ignition.

Ether should be disposed of also by evaporation in a fume hood at the conclusion of each day's use. Similarly any waste complex t.l.c. mixture should be disposed of by evaporation.

The following will be responsible for disposal of chlorinated solvents and hydrocarbons.

- |                                  |   |                                   |
|----------------------------------|---|-----------------------------------|
| (a) Laboratory 3                 | - | Technical Assistant Grade 2 - 159 |
| (b) Laboratory 4 and 5           | - | Technical Assistant Grade 2 - 151 |
| (c) Laboratory 6 and t.l.c. room | - | Technical Officer Grade 1 - 149   |

If any of the above persons are not available the Technical Assistant Grade 1 - 105 will take over responsibility. Users should dispose of water soluble solvents, ethers and t.l.c. mixtures themselves.

  
2/11/82

Procedure for the Disposal of Wastes

co-ordinator: Dr. P. Kang - Pharmaceutical Chemistry Section

BS 82/666

1. Lists of chemicals, stating identity and amount of each substance for disposal to be submitted to Dr P. Kang by the last Wednesday of the month. Sections should indicate whether the containers have been opened.
2. Dr Kang to review the list of chemicals nominated with a view to determining which of the following courses of action are appropriate.
  - a. Retention by NBSL Store.
  - b. Referral to other laboratories in the ACT.
  - c. De-activation and disposal.
  - d. Disposal at the Belconnen Land Fill area.
3. Dr Kang to prepare correspondence to the Department of Territories and Local Government requesting permission to dispose of chemical: in category (d) above.
4. Upon receipt of a letter of approval from the Department, Dr Kang will arrange for collection of the chemicals in question from the particular Sections and transport to the Belconnen land fill area on the morning of the day specified in the letter of approval.
5. The chemicals for disposal shall be transported on the back of an open tray vehicle (not in a van) and the driver must have the letter of approval for presentation to the staff at the land fill area.

Foot Note: Sections are to forward lists of the chemicals for disposal to Dr Kang - not the actual containers which will be collected from the Section and conveyed directly to the disposal area on the day in question.

15 JUNE 1984

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The Director,  
N.B.S.L.

Attention: Dr. R. Temple

Audit Inspection Report : NBSL

(Your BS 82/666 of 24 October 1983 refers.

The Antibiotics Section has written instructions for the disposal of waste materials. Please find a copy attached.

The arrangements for the disposal of noxious chemicals is based on their periodic removal to a land fill site at Belconnen.

Mr. Murray has ascertained from the Department of Territories and Local Government that disposal is carried out between 10 and 11 a.m. on the third Wednesday of every month. It is the responsibility of the NBSL to transport the material to the site for disposal. Prior written approval from the Department of Territories and Local Government is required before a consignment of waste will be accepted for disposal. This is obtained by providing the said Department with a list of the substances and approximate amounts of each to be disposed. Pharmaceutical Chemistry Section currently use this facility for the disposal of their waste material and it is recommended that other Sections be included in the regular collections of waste.

The following recommendations are made:

1. A letter be sent to the Department of Territories and Local Government\* requesting permission for the other Sections of NBSL to dispose of waste at the land fill site;
2. Regular collections of waste for immediate disposal from each of the Sections be instituted;
3. Each Section be responsible for obtaining written approval from the Department of Territories and Local Government\* for disposal of its own consignment of waste.

I await your advice.

*N. Rohde*  
N. Rohde  
4 April 1984

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\* Mr. Bill Mitchell,  
Department of Territories & Local Government,  
G.P.O. Box 158,  
CANBERRA A.C.T. 2601.

Disposal of Waste Solutions and Solvents

1. Aqueous solutions and water soluble solvents are to be flushed down the sink with copious water, and using a fume cupboard where necessary. Acid and alkaline solutions should be followed by prolonged flush in order to prevent pipe corrosion. Solvents which may be flushed down the sink include -

Acetone  
Methyl, ethyl, propyl alcohols  
Dioxan  
Pyridine  
Dimethylformamide  
Glycols

Other less frequently used solvents should be checked for water miscibility prior to disposal.

2. Quantities of less than 50 ml of solvents which have low solubility in water (e.g. ethyl acetate, butyl and amyl alcohols) may be flushed down the sink, using sufficient water to completely dissolve the solvent.
3. Water-immixible solvents, and quantities greater than 50 ml of those with low solubility, are to be disposed of in specially labelled winchesters which will be kept in the large white solvent refrigerator in the corridor outside room 10. These winchesters will be disposed of each month at the Belconnen Land Fill area. There are to be labelled winchesters for 4 different classes of solvent:

- (1) di-ethyl ether
- (2) esters and higher alcohols (mixed)
- (3) halogenated hydrocarbons
- (4) hydrocarbons (mixed aliphatic and aromatic)

4. Waste chromatography solvents (mixed), where water soluble, may be flushed down the sink. Water immixible solvents should be separately stored in a clearly labelled winchester, or a smaller solvent container where it is anticipated that the container will be large enough for that month's disposal.

Similarly, solutions of acids, alkalis or oxidizing agents in water immixible solvents should be separately stored in clearly labelled containers of approximate size. Solutions containing antibiotics, formulation excipients or non-reactive reagents may be added to the appropriate solvent winchester.

5. Solvents should be added to the winchesters in the fume cupboards, both for reasons of safety and to prevent congestion in the corridor near the refrigerator.

-----  
Comments (if any):

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into Auditor-General's Report, March 1984

Submission by the Department of Housing and Construction

INDEX

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1	Introduction	1
2	Description of the Departmental Accounting and Information System (DAIS) and the history of its development 1975-1984	3
3	Comments on the findings of the Auditor-General	10
4	Strategy adopted by the Department in rectifying the deficiencies identified by the Auditor-General	38

SECTION 1 : INTRODUCTION

1.0 From December, 1982 to December, 1983 officers of the Auditor-General's Office conducted an audit of the arrangements made within the Department to manage and execute the development and implementation of the Departmental Accounting and Information System (DAIS). As part of this investigation they also audited the Department's computer environment controls against the requirements stipulated in the Public Service Board's guidelines of April 1981 (as amended).

The Auditor-General's Findings

- 1.1 In his March 1984 Report the Auditor-General reported that the audit revealed:
- (a) inadequacies in the Department's overall arrangements for the development and implementation of DAIS; and
  - (b) inadequacies in the control environment for computer processing within the Department, including instances where the Public Service Board guidelines were not followed.
- 1.2 He concluded that he regarded these deficiencies as serious, that the development and implementation of the new system was not as well managed as it should have been, and that at the time of the audit (December, 1982 to December, 1983) DAIS was not being utilised with maximum efficiency.
- 1.3 The detailed findings of the Auditor-General's Office are listed at Section 3 of this Submission together with the Department's comments.

The Department's Response

- 1.4 When responding to the findings of the investigating officers of the Auditor-General's Office the Department has:
- (a) explained the unavoidable problems it encountered during the development and implementation phases of DAIS and argued that some concession should reasonably be made for the circumstances that prevailed prior to time the audit was undertaken;
  - (b) acknowledged that these unavoidable problems led to deficiencies in the development and implementation of DAIS;
  - (c) acknowledged that while there were deficiencies in the computer environment controls at the time of the audit investigation, many of the matters have since been rectified, and action is in hand to rectify remaining problem areas;



- (d) explained that the Department has consistently pursued a policy objective of enabling its seven Regional administrative units to independently process their own accounting information using a common accounting system;
  - (e) explained that DAIS is an evolutionary system and that it is progressing adequately toward the original system specification; and
  - (f) demonstrated that the Department has been able to rely on DAIS operationally as originally intended despite the major obstacles encountered in implementing the system.
- 1.5 In Section 2 of this Submission there is a description of the objectives and functions of DAIS together with a history of its development and implementation over the period 1975-1984.
- 1.6 Section 4 of this Submission provides details of the strategy adopted by the Department in rectifying the deficiencies identified by the Auditor-General's Office.

Summary

- 1.7 The Department has co-operated fully and frankly with the investigating officers of the Auditor-General's Office, has responded promptly and effectively to deal with the short-comings identified during the audit, and has instituted appropriate arrangements to ensure that the necessary remedial action is completed in a timely way and that similar problems do not recur in the future.
- 1.8 While the Auditor-General's report acknowledges that the Department encountered major unavoidable problems during the development and implementation phases of DAIS, the Department does not view the Auditor-General's conclusions as making sufficient concession for the extenuating circumstances obtaining at that time. These circumstances are documented Section 2 (paras 2.16 to 2.26) of this Submission.
- 1.9 The Department has also advised the Auditor-General's Office that, in its assessment, DAIS is operating adequately in the Department's Central Office and Regional administrative units as both an accounting and a management control tool. As should be expected, the operation of the system has improved significantly since its implementation in the period February, 1982 - October, 1982.

SECTION 2 : DESCRIPTION OF DAIS AND THE HISTORY OF ITS DEVELOPMENT SINCE 1975

- 2.0 The Departmental Accounting and Information System (DAIS) provides the following functions for the Department:
- (a) an accounting system that enables the Department to meet its statutory reporting obligations regarding:
    - (i) Warrant control
    - (ii) expenditure and commitment against Departmental appropriations
    - (iii) trust accounting operations
    - (iv) expenditure and reimbursements in respect of works and services for Commonwealth Statutory and Other Authorities that are not part of the Public Account
  - (b) a management control system that enables the Department to allocate and monitor operational budgets within the organisation
  - (c) a processing system to support administrative activities such as payment of accounts, procurement etc.
  - (d) a costing system to support the Department's works programming, capital works, minor new works, repairs and maintenance, and operational activities
  - (e) a costing system that enables the Department to cost in-house effort and consultant effort in providing services to client organisations
  - (f) a system that provides progress information and historical information on client projects
  - (g) a flexible management information system that:
    - (i) is based on a standard format for information input
    - (ii) permits extraction of information in a wide variety of formats
    - (iii) enables fast extraction of management information via:
      - On-Line Terminal Enquiry

- Standard Print-out Reports
- "Report Writer" Programs of varying degrees of sophistication

System Objectives

2.1 The objectives of DAIS are:

- . to maintain expenditure, authorisation, liability and other descriptive details for appropriation, project, trust and other accounting records
- . to provide a means of storage and retrieval of information from these records for Regions and Central Office
- . to interface with the Department of Finance central ledger system
- . to provide appropriate reporting to client departments and authorities
- . to provide warrant control against appropriations and the Services Trust Account
- . to provide for input of expenditure targets against which expenditure can be monitored
- . to provide a means of recording details of works programs and requisitions received from clients
- . to provide for subsidiary ledger functions.

Specification of the Department's Information Requirements

- 2.2 In the early 1970s the Department with the assistance of consultants undertook a review of its management information needs. In 1973 this led to a further project to design and specify an information system for the Department. The study was completed in February 1975 and the outcome was called the Regional Information System (RIS).
- 2.3 The Regional Information System (RIS) Report of February 1975 detailed the types of data, the scope and structure of the computer files, and the various reports that should form the basis of a computerised accounting and management information system for the Department. This project was intended to provide the framework against which computer programs would be developed, documented and implemented within the Department.
- 2.4 A cost-benefit analysis was undertaken of RIS covering equipment procurement, system development costs, projected operating costs and disposal of existing equipment. This analysis showed a net cost benefit to the Commonwealth over ten years and real advantages to the Department in intangible considerations such as speed of access to key information by all levels of management.

2.5 The RIS Report therefore provided the Department with an ADP Strategic Plan covering:

- . the scope of an integrated accounting and information system
- . the design parameters of the system
- . proposed solutions
- . specification of the system
- . implementation plans
- . supporting documentation.

2.6 The principal advantage of RIS was it would eventually provide a nucleus of good data base systems to support the "public works" functions of the Department. Provision was also made for ancillary systems to be related/integrated with it according to the master plan. The master plan envisaged that the data bases would provide program information and achievement against programs, expenditure, costing, and forward commitment information on a project by project basis, information on the resource use and performance of organisational and functional units within the Department, and whole-of-life information about investment in the Commonwealth's stock of assets.

2.7 At this time the Department was not able to adequately turn its basic accounting information into useful or timely management information. The clerical effort entailed in costing internal activities to projects was cumbersome and almost prohibitively expensive. Also, the time lag between payment of contractors, wages employees, and suppliers etc, and the collation of information regarding such transactions into management reports was so long as to make the reports of dubious value. These problems had to be overcome and that was RIS's principal purpose.

Development of an Automated Accounting System

2.8 In order to pursue the RIS concept the Department had to upgrade its capacity to physically process the recording of transactions (i.e. the costing of payments to contractors, wages employees etc). The Department's ledger-machine systems and the limited manpower resources devoted to the existing recording tasks could not cope with the growing workload and certainly not with demands inherent in RIS.

2.9 As a first step in implementing the RIS Report the Department established a team to develop the RIS concepts into a viable accounting records system. The outcome of this exercise was the specification for a system called the Regional Accounting System (RAS).

This specification was completed in April 1978 and was developed after experimenting with computer-based systems for Appropriation/Project/Trust Ledger records. The new system embraced most of the accounting records of the Department and its main advantage was that expenditure/ receipts and other details for Appropriation/Project/ Trust ledger records would be maintained on computer files.

- 2.10 The ability to manipulate data held on computer files was fundamental to achieving the RIS concept described above; and with RAS in place the Department would be in a position to begin pursuing the management information opportunities offered in RIS.

Implementation of the Automated Accounting System

- 2.11 .By 1979 all but two of the Department's Regional administrative units were utilising the RAS system. The two remaining Regional administrative units were Victoria/Tasmania and West Australia. Due to its relative size, the Western Australia Region was considered to still be adequately serviced by its manual facilities and, by 1979, prospective changes in the Department's computer requirements made it more appropriate to delay implementation.
- 2.12 By early 1978 it was evident that the 'Visual Card Reload Computer' (an early computerised adaptation of manual ledger machines) in use in the Victoria/Tasmania Region, could not be kept in service long enough to be superceded by RAS (the new 'Regional Accounting System' then under development). As an interim measure, the features of the Region's basic existing accounting and processing system were carried over onto the leased computer facilities as a system known as VICA (the Victorian Accounting System). This was a transitional move and the VICA system was to be replaced by RAS.

Development of the Management Information System

- 2.13 By 1980 the Department had formulated its computer hardware strategy which was to discontinue reliance on leased bureaux facilities and acquire its own computer network. In anticipation of this development, the Regional Accounting System (RAS) was being developed to incorporate more of the features outlined in the comprehensive system concepts in the Regional Information System (RIS). This further development was known as the Regional Accounting System - Stage 2 (RAS-2).
- 2.14 RAS-2 provided many additional features including the following:
  - (a) facilities for recording and monitoring Administrative Vote item expenditures and liabilities by cost centres

- (b) embraced subsidiary Ledgers of the Housing and Construction Services Trust Account e.g. Plant/Wages/Stores
- (c) facilities for recording and monitoring expenditure planning on a project by project/ activity/organisational unit basis
- (d) facilities to record works program items (i.e. projects to proceed to construction in the ensuing year).

Acquisition of the Department's Computer Network

- 2.15 The Department's ADP strategy revolved around a plan to lease bureaux facilities for several years and then to acquire its own facilities. It was always envisaged that the systems developed for application on bureaux facilities would be readily transferable to in-house facilities and that the transfer would occur progressively.
- 2.16 By January 1981 the Department had progressed through the tender and evaluation processes and had approval to purchase its own computer network which comprised a large central processor and seven smaller units for location in its Regional administrative units. Having purchased its own computing network the Department wished to phase out the use of the leased bureaux equipment as quickly as possible.
- 2.17 The Department's strategy was fully and carefully evaluated by the co-ordinating authorities and was subject to an independent assessment on their behalf by Professor C.H.P. Brooks of the University of New South Wales in May/June 1980. The Department also had the benefit of advice from the Public Service Board regarding the Service's experience in developing and implementing large and innovative ADP systems. Basically the Board had been encouraging the Department to pursue an evolutionary approach in its systems development activities.
- 2.18 The decision taken was to purchase IBM equipment and it therefore became necessary to convert the programs then operating on ICL equipment to make them compatible with IBM equipment.

Further Development of the Management Information System

- 2.19 With the acquisition of IBM equipment and the communications network features available through advanced computer software, it now became possible to enhance RAS-2 to encompass more of the Department's corporate information needs as specified in the 1975 Regional Information System Report. These enhancements were not basic to the accounting functions but rather

provided better management information for servicing the Department and its clients. The new system, although basically unaltered in its design from RAS-2, was renamed the 'Departmental Accounting and Information System' (DAIS) in order to reinforce its management information content.

- 2.20 The major advance of DAIS over RAS-2 was that the data processing function was to be undertaken in the Regions rather than at a central site. As long as the Department remained dependent upon the commercial bureau this devolution was not possible. The long-term objective had always been to have local data processing within a common accounting and management information system.

Implementation of the Management Information System

- 2.21 The Department was then faced with the problem should it:
  - convert the existing systems (RAS and VICA) from ICL to IBM and then implement the new system (RAS-2/DAIS); or
  - complete the new system using the IBM features and then implement RAS-2 on the new IBM Network.
- 2.22 The cost and time delay entailed in retaining the leased ICL facilities to convert the RAS and VICA programs and data holdings from ICL to IBM was considered unjustifiable. (Leasing charges were around \$140,000 per month). Furthermore, design of the new system was nearing completion and would soon be ready for implementation. It was therefore decided that the latter option was more economical and would prove less disruptive to users of the computerised accounting facility.

Problems Affecting Implementation

- 2.23 Project control of DAIS's development was severely hampered by substantial staff losses occasioned by the shift of the Department's Central Office from Melbourne to Canberra and a high staff turnover in Canberra. In addition the task of converting from ICL to IBM equipment in a minimum timeframe restricted the Department's capacity to achieve a smooth implementation.
- 2.24 In November 1977 the Government adopted a proposal to relocate the Central Office of the Department from Melbourne to Canberra in three phases spanning the period February 1979 to February 1981. During the drafting of plans for that relocation considerable discussion took place on the desirability of relocation of the Systems and ADP Branch along with the rest of Central Office. The advantages of co-location of all Central Office units were weighed against problems caused by loss of large numbers of ADP staff in the

relocation and likely difficulties of recruitment of suitably qualified replacements. These problems were compounded by the need to increase the ADP establishment and expertise levels in a similar time frame in order to support the Department's proposed computer network. In September 1978, after consideration of these factors, the Department decided to adopt a strategy which involved the installation of the new central computer in Canberra, the relocation of technical support staff in Canberra as the computer was installed and relocation of ADP staff involved in computer applications only when all systems had been successfully transferred from the existing to the new computer facility.

- 2.25 Special arrangements were made to defer the relocation of the Systems and ADP Branch until 1982 so as to minimize the likelihood of staff losses and maximize the period of continuing access to the commercial bureau facilities in Melbourne. A target date of 1 July 1982 was therefore set for moving off the commercial bureaux equipment.
- 2.26 During the three phased relocation of Central Office to Canberra the Department lost in excess of 75% of its Melbourne based staff on either transfer to other Commonwealth employers, premature retirement or resignation. Within the Systems and ADP Branch the loss was about 80% and seriously impaired the continuity of the conversion project. This problem was aggravated by the fact that the "system owner", viz, the Central Office Finance Branch, suffered a 100% loss of its staff during the relocation. To overcome this problem in-house resources were seconded from the Regional administrative units. This of course taxed both Central Office and the Regional administrative units at a critical stage in the Department's operations.
- 2.27 Against this background an implementation timetable was drawn up that aimed at bringing all Regional administrative units onto DAIS over a 12 month period, and it was decided that only the basic accounting features would be implemented. The management information and planning features were to be made available to individual Regional administrative units at a later date when coding and testing was completed.
- 2.28 By October 1982 all Regions had taken up DAIS and since then additional system features have been implemented progressively.
- 2.29 Not all of the features originally proposed for DAIS have been implemented nor have all the options for distribution of information by way of the Department's IBM Network yet been availed of. This will be an evolutionary process as is consistent with the approach taken over the last eight years of progressively implementing integrated operational and information systems in pursuance of the 1975 Regional Information System Plan.

SECTION 3 : COMMENTS ON THE FINDINGS OF THE AUDITOR-GENERAL

3.0 The Auditor-General's observations have been grouped into five categories:

- A. failure to achieve system objectives
- B. inadequacies in the development and implementation phases of the system
- C. inefficiencies in the DAIS system as it currently operates
- D. deficiencies in the control environment for computer processing generally within the Department
- E. deficiencies in computer system development processes generally within the Department.

This analysis should assist the reader to gain a better appreciation of the identified deficiencies and to assess the integrity of the DAIS system.

Category A: Failure to Achieve System Objectives

3.1 During the audit, officers of the Auditor-General's Office expressed concern about the ambitious scope of the DAIS system objectives and about a move away from central processing of accounting information to a system that enabled the Regional administrative units to undertake independent processing of accounting information within a common accounting system.

3.2 While this concern was not explicitly raised in the Auditor-General's March 1984 report it appears to have influenced the attitude of officers of the Auditor-General's Office toward the following aspects of the system:

- . integrity of the data recorded in DAIS
- . security of the DAIS programs
- . reliability of the DAIS programs
- . effectiveness of reports to management
- . controls over system development
- . contingency plans for system failures.

These individual points are dealt with below under Categories B to E.

3.3 However it should be noted that the Auditor-General has simply documented DAIS system objectives without further comment. He does not suggest or imply that the Department has failed to meet those system objectives. Rather, his concerns relate to:

- . the degree of management control exercised during the development phase of the DAIS system
- . the effectiveness of management control over the implementation phase
- . inefficiencies in the DAIS system as it now operates
- . deficiencies in day-to-day control over the system
- . deficiencies in computer systems development processes generally within the Department.

3.4 The Department concedes that there were shortcomings in these areas and that there are some problems still to be remedied. Although the system is neither perfect nor complete the Department is confident that the facets of DAIS that have been implemented now undertake the functions they were designed to do and that DAIS is a reliable operational system.

3.5 As Section 2 of this Submission shows, the development of DAIS is part of a consistent effort over the last eight years to pursue a system concept formulated in 1975. The Department's objective has always been to have independent processing of accounting information by the Regional administrative units within a common accounting system. But while the Department was on leased bureau facilities in Melbourne, this objective was not achievable.

Category B: Inadequacies in the Development and Implementation Phases of DAIS

3.6 The Auditor-General reports that the audit revealed inadequacies in the overall arrangements for the development and implementation of DAIS over the period 1980-1982. The matters specifically mentioned in his Report are as follows:

- (a) there were no formally approved standards for the development of computer based systems during the development of DAIS
- (b) the Department could not provide officers of the Auditor-General's Office with a copy of the systems proposal or feasibility study for DAIS
- (c) controls over software systems development were considered to be inadequate in that there were no:
  - (i) current standards in use for testing or implementing changes to software

- (ii) procedures for peer review of completed work or for an independent check of modifications effected by the Systems Software Section prior to implementation of the changes (i.e. project control)
  - (iii) formal procedures in operation for the initiation and approval of software change requests (i.e. control over modifications to programs)
  - (iv) formal procedures requiring cost benefit analyses to be performed for new software
- (d) an adequate training program did not appear to have been conducted during the development and implementation phases of DAIS (viz., to give users a good understanding of the system).
- 3.7 The Department has formally acknowledged to the Auditor-General's Office that it encountered difficulties in establishing standards for the development of DAIS i.e. adopting a consistent method for specifying the standards of performance that the hardware and software had to meet in any given ADP application and adopting a consistent method for determining whether the specified performance standards had been met.
- 3.8 In a very real sense the Department was always working to a clearly specified standard of performance, viz: the requirement for the new system to facilitate the accounting and financial management policies, practices and procedures stipulated in the Audit Act and Finance Regulations, Directions and Circulars. The new system has always met the formal requirements that govern the Department of Finance Ledger System. However the particular point at issue in the Auditor-General's Report is whether the various programs that comprise DAIS were developed according to a methodology that was appropriate to a large complex ADP application on sophisticated data processing equipment.
- 3.9 In November 1982 the Central Office Systems and ADP Branch of the Department formally adopted that part of the Australian Bureau of Statistics Manual dealing with "Standards for the Management of Computer Based Systems Development Projects". This particular "methodology" provides a well-tried framework against which to process all systems proposals for application on the mainframe network.
- 3.10 The Department's late adoption of a formal methodology for systems development and implementation is attributable to the fact that virtually all of its efforts during 1980-1981 were directed toward the conversion of several ADP applications (of long-standing) from commercial bureaux to in-house

IBM equipment. As explained in Section 2 of this Submission, DAIS was conceived in 1975 and progressively developed via a series of tried and tested systems. In essence the development of DAIS involved the redevelopment by Central Office of existing programs on the ICL equipment and their progressive release to Regional administrative units for implementation.

- 3.11 This latter point is particularly relevant to the Auditor-General's observation that the Department could not provide his officers with a copy of the systems proposal or a feasibility study of DAIS. The justification for procurement of the present network of seven IBM 4331 machines was predicated upon the strategy that DAIS would be the major ADP application on the network, that each Regional administrative unit would independently process its accounting information using a common accounting system, that Central Office would "capture" the information it needed from the Regional machines and would provide the necessary back-up and program testing facilities.
- 3.12 The Department's ADP strategy and objectives were properly documented and justified to the satisfaction of co-ordinating authorities at the time the procurement of in-house facilities was approved. As detailed in Section 2 of this Submission, the Department's proposals were carefully scrutinized and were subject to independent assessment.
- 3.13 The abovementioned considerations are relevant to the Auditor-General's comments about the absence of formal controls over the development of software systems. Because DAIS was conceived more as a conversion project than as a development project, the concern with such controls was not as formal nor as prescriptive as should have been the case. As Section 2 shows, DAIS was a development of two earlier systems, one of which was operational and the other at the point of being implemented.
- 3.14 Nevertheless the Department is satisfied that the development phase of DAIS and its predecessors was handled adequately, and that the available records point to acceptable standards of testing.
- 3.15 As far as staff training was concerned, the Department has formally acknowledged that although training was undertaken to a limited extent by members of the DAIS development team, it probably was insufficient to give all users at all levels a good understanding of the system. It is a moot point whether user training should have been provided at the development phase, and it is questionable whether all users need a detailed appreciation of the technical operation of the system.

3.16 The Department has formally acknowledged to the Auditor-General's Office that it encountered difficulties during the development phase of DAIS and that these difficulties led to deficiencies in the implementation phase of DAIS and thereafter. Basically the problem was that the Department got to a position where it could not control resourcing of the project although it was committed on economic grounds to a target of 1 July 1982 to discontinue reliance on leased bureaux operations.

3.17 The factors that contributed to these circumstances are documented in Section 2 and can be summarised as follows:

- the Department progressively developed an automated accounting and information system. Since 1975 the Department has pursued the objective of having a common accounting system with the Regional administrative units possessing the capacity to process their own accounting information and to generate their own management reports. This decision was central to the Department's computer acquisition proposal of November 1978
- the decision taken was to purchase IBM equipment and it therefore became necessary to convert the programs then operating on ICL equipment to make them compatible with IBM equipment. It was also decided to move directly to the adoption of a common accounting and information system rather than incur the additional cost of converting the existing systems onto the IBM and then implementing the new system
- a request for tender for the purchase of our own computing network and associated facilities was submitted in 1979. Government agreement to this purchase was not given until January 1981, and delivery was taken of the first IBM 4331 computer in Melbourne on 9 February 1981. The last computer was delivered on 9 September 1981. During this period the Bureaux facilities were unable to cope with the Departments growing computing workload and capacity limitations severly curtailed progress on the development of DAIS
- the Department was under tight time pressure to commission the IBM equipment and transfer off the leased ICL equipment. In November 1977 the Government adopted a proposal to relocate the Central Office of the Department from Melbourne to Canberra in three phases spanning the period February 1979 to February 1981. The high losses of staff involved have been reported earlier
- in order to consolidate all Central Office units in Canberra in suitable accommodation, it was decided to instal the Central Office's mainframe equipment in the newly acquired accommodation in Canberra

- special arrangements were made to defer the relocation of the Systems and ADP Branch until January 1982 and maximise the period of continuing access to the Commercial bureau facilities in Melbourne
  - this meant locating ADP resources in both Canberra and Melbourne and telescoping the exercise of converting existing systems from ICL to IBM equipment. A target date of 1 July 1982 was therefore set for ceasing operations on the commercial bureau facility in Melbourne
  - during the relocation of the Systems and ADP Branch to Canberra the Department lost about 80% of its staff on either transfer to other Commonwealth employers, premature retirement or resignation. This seriously impaired the continuity of the conversion project. (See para 2.26 page 9)
- 3.18 With the benefit of hindsight it could be said that it was overly ambitious to proceed simultaneously with the ICL-IBM conversion exercise and the changes required in the then existing accounting systems in order to produce a national accounting and information system. The tight time scale within which this exercise had to be undertaken (i.e. about 12 months), the problems caused by staff turnover in mid-stream, and the costs associated with continuing the lease of bureau facilities in Melbourne (\$140,000 per month), meant that the Department was forced into a position of ceasing dependence on the commercial bureau by 1 July 1982.
- Because the time constraints were not negotiable, the project, once embarked upon, had to proceed to completion at the expense of certain formal procedural requirements.
- 3.19 For this reason DAIS was implemented in Central Office and seven capital cities over the period February 1982 to October 1982 without having met the following requirements:
- prior to November 1982 the Department had no formally approved standards for the development of computer based systems generally (although there were standards in use. See paras 3.7 to 3.10)
  - there were no formal procedures for peer review of completed work or independent check of modifications to programs prior to implementation of the changes (this checking was in fact done via project teams under the supervision of senior management)
  - prior to November 1982 the Department had no formal procedures for initiation/approval of requests for program changes (this matter was handled via project teams under the supervision of senior management)

the User Manual was incomplete (viz. no Sections on error messages, report retention and distribution).

- 3.20 Given the abovementioned factors, the development and implementation of DAIS was managed under very trying circumstances. However, there was a considerable saving to Commonwealth outlays in ceasing the lease of commercial bureaux facilities, and now the system is operational.

Category C: Inadequacies and Inefficiencies in DAIS (at the time the audit was undertaken)

- 3.21 The Auditor-General reports that there were inadequacies in DAIS at the time of the audit and that the system was not being utilized to maximum efficiency.

The matters specifically mentioned in his Report are as follows:

- (a) there was a significant number of outstanding Requests for System Support (RFSS's) seeking changes to the DAIS programs

COMMENT

Requests for Systems Support (RFSS's) are formal proposals for changes in the DAIS suite of programs. The requests are generated by finance officers in the Regions and no restriction is imposed by Central Office on the ability of Regional finance officers to generate RFSS's. Upon receipt of an RFSS the Central Office DAIS Project Officer reviews the circumstances that prompted the RFSS and assesses whether the problem is in fact program-related and, if so, whether the proposed solution is viable and whether remedial action is critical.

The Department acknowledges that there were a large number of RFSS's proposing changes in DAIS at the time of the Audit. DAIS is a dynamic system designed to meet evolving project, departmental accounting and a range of administrative information needs and as such it can be expected that the number of requests for system modifications would be large and ongoing.

- (b) each Regional administrative unit is responsible for creating its own reports if a standard DAIS report does not suit. As there is no Central Office co-ordination of report generation activities, resources could be wasted in developing similar reports in more than one region.

COMMENT

DAIS was designed in such a way as to allow Central Office and the Regional administrative units to readily produce reports "on demand" in any preferred format. This is one of the strengths of DAIS as a management control tool.

Users of DAIS have a variety of ways of accessing DAIS in order to produce reports. These range in order of technical complexity from FILETAB (which any user with minimal training can employ) to COBOL (which requires programming skills)

In order to obviate the degree of duplication of effort that arises when users develop their own reports, the Regional administrative units are encouraged to interchange their report formats.

- (c) a review of report use indicated that reports were being produced by the DAIS system which were not used.

COMMENT

The present suite of 96 standard reports were designed in 1980-81 when DAIS was being developed.

These reports are designed to cover the general needs across all Regional administrative areas. They also include the essential reporting needs to fulfil Finance requirements and audit trails. Individually, Regions have developed more sophisticated reports to suit specific local needs. In some cases these reports make the original obsolete for their purposes.

Irrrespective of the level of development of the report the basic information is still being obtained from the standard Master File Records.

Reviews are constantly in hand via the Request for Systems Support process and other specific report reviews to upgrade, and, or delete the standard reports where applicable.

It is management policy to allow the Regional administrative units to produce their own additional reports. This facility was part of the original system design features of DAIS.

- (d) user support documentation is considered inadequate because Sections are incomplete

COMMENT

A revised DAIS Operations Manual was issued by Central Office in March 1984 and it includes the items of concern to the Auditor-General's Office, viz, end-of-year processing and error recovery procedures for end-of-month processing.

The index to the DAIS User Manual that is issued by Central Office, makes provision for Sections that have yet to be drafted. The



Sections specifically mentioned by the Auditor-General's Office, viz, error messages, report retention/distribution, are currently being drafted.

User Manuals have also been developed by the Regional administrative units in order to supplement the Central Office User Manual in areas where clerical and other procedures need to be tailored to meet the operational characteristics of particular Regions. These Regional User Manuals are also being revised in the areas identified by the Auditor-General's office.

It is the policy of the Department to encourage a reasonable degree of autonomy and variety in Regional operations. Consequently the Department's internal policies, practices, and procedures are not drafted in a detailed and overly prescriptive style. As a matter of practice, Central Office policy and procedural manuals concentrate on defining and explaining the requisite policy considerations and providing broad guidelines and procedural frameworks within which internal policies are to be administered.

Consequently Regional Manuals will tend to reflect some diversity of approach on policy administration matters. The Department believes that this system of administration encourages efficient and effective use of manpower and financial resources.

- (e) programming deficiencies had rendered the Outstanding Liabilities Report and the Administrative Expenditure Report unusable with regard to commitment control and led to the retention of manual commitment registers.

COMMENT

The program error in the Outstanding Liabilities and Total Commitments Report had been the subject of an RFSS and was being remedied at the time of the audit.

The revised program was released to Regions in February 1983.

Regions have since requested revisions to Commitment processing and these requests are under consideration.

- (f) the Reconciliation Report contained errors in the calculation of oncost details for some projects and the reconciliation of projects did not have regard to total proposed expenditure

COMMENT

Corrective action is being taken.

- (g) in regard to manual processing controls over the accuracy of input data, although input documents had provision for signatures of both the preparing and approving officers these were not signed. Such unauthorised forms were not rejected by data processing officers

COMMENT

Corrective action has been taken.

- (h) one of the functions of the Document History file is to ensure that documents are not reprocessed. In this regard monthly reports are produced but they were not being used. The Auditor-General's Office suggested that the report content be reviewed to make it suitable for user requirements.

COMMENT

A revised report has been released to Regions.

- (i) the cross reference file between DAIS account codes and Department of Finance charge codes was out of date. This resulted in the production of a Finance summary of payments with incorrect Appropriation charge codes necessitating manual corrections.

COMMENT

A complete revision of the Central Office DAIS Accounts Codes has been finalised and was released to Regions on 2 July 1984. Modifications to Department of Finance Charge Codes is an ongoing task within the normal financial administration of the Department. As the Department of Finance release variations to Charge Codes to Departments, codes adjustments are effected within DAIS. Rather than delay the processing of accounts the authorised officer normally corrects the Finance Summary of Charges until the new codes have been incorporated into DAIS.

- (j) instances were noted of back-up copies of master files for offsite storage being taken between 2 updates within a normal processing day. The Auditor-General's Office considered the practice to be inappropriate.

COMMENT

Offsite back-up of master files has been standardised within the end-of-day process and details included in the DAIS Operations Manual. Regions may elect

to carry out additional back-ups where for perceived local needs it is considered that the time lost in reprocessing in the event of a computer failure would be longer than taking the additional copies.

- (k) although implementation commenced in 1982 DAIS as a system had not been formally accepted by users and 5 of the 13 Systems Acceptance Criteria developed by Internal Audit Branch had not been met.

COMMENT

The Auditor-General's observations were made in respect of criteria adopted by the Department's NSW Region when the system was originally proposed for implementation. They do not take account of the evolving nature of DAIS and the departments changing information needs.

It is a fact that the system has been successfully implemented in all Regions and performs the functions it was designed to do.

- (1) staff and users would benefit from further training in the use of DAIS.

COMMENT

Further training will continue to receive priority at both Central Office and Regional levels.

3.22 CATEGORY D - DEFICIENCIES IN THE CONTROL ENVIRONMENT FOR COMPUTER PROCESSING GENERALLY WITHIN THE DEPARTMENT.

The Auditor-General identified deficiencies in the area of environmental controls, i.e. Software, Communication, Operational and Management controls. The Department acknowledged that there were some deficiencies at the time of the Audit.

- 3.23 However these deficiencies were not considered to be critical to overall security and did not jeopardise fundamental system integrity. The Department's philosophy on distribution of computer processing to its Regions prevented Audit from applying their expectations for controls applicable to a highly centralised network.

- 3.24 The specific issues reported by the Auditor-General in this area were:

- (a) Controls over software systems development, implementation, modification and review were considered to be inadequate in that there were no:

- . current standards in use for testing or implementing changes to software
- . procedures for peer review of completed work or for an independent check of modifications effected by the Systems Software Section prior to implementation of the changes
- . formal procedures in operation for the initiation and approval of software change requests, and
- . formal procedures requiring cost benefit analyses to be performed for new software proposals.

COMMENT

Following acquisition approval in January 1981, machines were delivered to the Department in July 1981. During the period 1981/82 the Systems and ADP group faced severe staff shortages through its Central Office move from Melbourne to Canberra. Although it undertook urgent recruitment action it was faced with the implementation of major applications on the new network to enable termination of expensive bureaux services by July 1982.

Extreme pressures were placed on software support groups to provide immediate services to application programmer groups engaged on conversion projects.

To a large extent software acquisition, changes, and testing formed an integral part of meeting the needs of known conversion tasks.

In a highly decentralised network, changes to both communications and operational software must by necessity be highly responsive to the specific application needs. This requirement was exacerbated by

- . the minimal timeframe in which to develop appropriate operating standards which would stand-up under high demand times
- . the added impact of the steep learning curve associated with the new network and problems associated with the lack of familiarity with the new system.

Controls appropriate to the circumstances were in place and achievements to date are indicative of their effectiveness. Daily problem coordination proved effective in monitoring changes and corrections to the network.

These emergency activities progressively gave way to establishing and formalising normal procedures as the conversion workload dissipated.

- . Procedures for facility development and change control have been developed and agreed by Internal Audit. Development and review of control procedures will continue to be guided by the Software Standards Committee.
- . A Software Standards Committee has been formed which determines standards, procedures and procedural controls to be observed in such areas as
  - software acquisition and implementation
  - software change control
  - development standards and language usage
  - documentation.

- . It has been long-standing Departmental policy that software and equipment acquisition proposals should be accompanied by an analysis of costs and benefits.

(b) Operational Controls.

Controls to ensure the adequacy of remedial procedures in the event of hardware failure were considered not adequate at the time of audit. It was noted that there was no evidence of a contingency plan for an alternative processing site in the event of a major prolonged breakdown of the computer at the Central Office.

COMMENT

The Department does not accept that this is a major risk area. While there is no definitive contingency plan for "backing-up" the central computing facilities, the impact of failure of the central site on the Department's operations is assessed as minimal because:

- . time critical accounting and payroll functions are performed at Regional computing sites. Each of the seven Regional sites are capable of backup to the others
- . backup procedures for Regional sites have been in place since implementation of the network
- . the Department has access to both public sector and commercial bureaux for processing technical computing programs important to the delivery of its Works Programs.

Overall the provision of more elaborate back-up arrangements would be very expensive and difficult to justify when account is taken of the low risks involved. Nonetheless, the Department has initiated a detailed analysis to quantify the risks and the costs/feasibility of alternative contingency scenarios.

- (c) In regard to the matter of Regional back-up arrangements the Auditor noted late in 1983 that the New South Wales Region had tested the Central Office facility for purposes of a back-up to the Region's own facility. Those tests had failed and, at the time of the audit, no further tests had been carried out to establish the suitability of the Central Office facility as a viable back-up.

COMMENT

Since the time of the audit the Regional Test Facility in Central Office (a duplication of a Regional facility) has been successfully tested as a back-up of the NSW Region's operation. Successful backups have been performed in two other Regions with full recovery to an alternate site in less than 24 hours.

Notwithstanding the fact that the Regional Test Facility is used as the first point of Regional computer back-up, at the time of the Audit the unsuccessful test is not considered of concern because:

In the event of failure on Regional Computers there are straightforward low cost and low risk options due to:

- (1) use of the Regional Test Facility in Central Office as prescribed above
  - (2) back-up files and data tapes can be transferred to the central site or any other Regional site for processing by air freight
  - (3) back-up files and data tapes can be taken to any local commercial bureau or IBM Australia Ltd facilities operating IBM compatible equipment
    - program load modules are backed up in Central Office in the event of unavailability at Regional sites.
- Data preparation entry facilities in Regions are separate to the main computers (except in Queensland which has alternative backup arrangements) so equipment failures in this area can be overcome by using other Regions to undertake data preparation or by the use of commercial facilities. The data can then be processed by the originating Region.
  - Regional facilities could be unavailable for several days with minimum impact
    - manual back-up procedures exist for the payment of wages employees in the event of equipment failure.
  - Full system backup tapes are retained off-site.

(d) The Auditor-General noted that:

- although file back-up on the Central Office computer was being carried out and the resulting tapes kept for 12 months there were no formal procedures relating to these operations;
- there were no formal procedures for the transfer of tapes to and from back-up locations in the ACT Region;
- there were no concise current instructions in the ACT Region for procedures to be followed when programs abnormally terminated or when equipment malfunctioned;
- notwithstanding the introduction of a new PABX system there was no back-up to the communication lines for access from the Regions to the Central Office computer. Documentation for proposed backup procedures was not available; and
- procedures for shut-down of the computer and evacuation of the computer room in case of emergency were not included in the Operations Manual.

COMMENTS

The Department acknowledges that procedures have not been well documented in this area. The existence of back-up data and the ability to recover from failure obviated the need for initial substantial documentation in this area.

Significant progress in the area of procedural controls and documentation has been made. Documented procedural guidelines and controls are now in place in many areas identified by the Auditor-General.

Back-up (Alternate Voice Data) communication lines are in operation and existed at the time of the Audit. While Telecom has been unable to rectify faults in the system to have it perform as designed to the Department's satisfaction, the lines have been tested successfully but do not provide reliable back-up. A consultant has been engaged to recommend alternative network communications structures to meet current and longer term computing needs.

- (e) Controls to ensure efficient utilisation of computer resources were also considered to be inadequate at the time of audit in that:
- changes to the software or hardware configuration were neither documented nor formally approved
  - there appeared to be no formal procedures to ensure users were barred from access to the system once they left a particular job or the Department
  - no specific access control procedures existed to safeguard and monitor access to powerful system software aids by software personnel. This could result in DAIS master files being amended without the DAIS Project Officer being aware of the changes.
  - the computer operating system took half an hour to disconnect a terminal that was left unattended but logged on to the computer system.

COMMENT

The Department has implemented control procedures which include approval and documentation to cover change control and deregistration of users when they have completed authorised tasks. Privileged access to software aids has been restricted to authorised officers.

Potential abuse of privileged positions can be partially obviated by pre-employment character checks, adequate audit trails and regular audit to detect breaches of trust.

The time limit for automatic disconnection of unattended terminal devices is a question of judgement. The Department believes that it is dependent on individual application requirements and while 30 minutes is the general system default option, the time limit on more sensitive data holdings is 10 minutes.

In such high risk application areas manual supervision controls are the only effective means of restricting unauthorised access to unattended terminals.

'Read Only' access is available to DAIS held information which by design is available to a broad spectrum of Departmental officers. This is in line with the philosophy of information on client projects being available to multi-discipline administrative units.

- (f) The reliability of the computer equipment was considered to be adversely affected by:
- the existence of an ongoing airconditioning problem affecting the Central Office computer site
  - the computer system log was not used to identify system or equipment malfunctions, to verify preventative maintenance cycles or to assess machine utilisation
  - a formal contract for hardware maintenance was not sighted by this Office although maintenance was being carried out.

COMMENT

It is the Department's considered view that the performance and reliability of the computer equipment at the central site has not been adversely affected by the environment. Since its installation, central site availability has been very good and certainly no less than could be expected of a new network of its magnitude.

It is a fact that the Department has had major difficulties with the air conditioning in both the main tower and the computer annex of the building. The building is leased from AMP Co. Ltd and both the Department and the Department of Administrative Services have had continual representations to the building owners concerning the quality of the air conditioning.

Upgrades to the air-conditioning are currently in hand to provide a high degree of independence from the rented building system.

System and equipment malfunctions are logged manually from the console by the computer operators and actioned immediately. The system log provides an audit trail of the malfunctions and other activity on the computer.

Thus while the Department does not use the IBM 3033 system logs on a periodic basis it makes use of the logs for system performance monitoring. As the maintenance, both preventative and corrective, to hardware is a responsibility of the supplier, IBM Australia Ltd. use the logs to schedule maintenance. The Department does not believe that these arrangements have in any way affected the performance or reliability of the equipment.

- (g) The absence of formalised administrative policies and procedures relating to data responsibility, data security, data privacy and contingency processing.

COMMENT

The Departmental Computing Security Committee has been formally approved by the Deputy Secretary and comprises

- . Director of Computer Operations;
- . Senior Inspector Systems Victoria/Tasmania Region;
- . Manager Commercial Applications;
- . Facilities Planning Manager;
- . Departmental Security Officer;
- . the Operations Manager;
- . Executive Officer (Finance), and
- . the Senior Programmer (Security and Control).

Terms of Reference and membership have been approved and the Committee meets regularly.

The Committee is responsible for Departmental policies and guidelines based on the security guidelines issued by Public Service Board. Specific issues such as Administrative Policies and Procedures dealing with Data Security and Data Privacy on the network as identified by the Auditor-General are currently under consideration.

In response to this point the Department has distributed completed chapters of the Departmental Computing Security guidelines within the Department for comment.

- (h) The audit disclosed weaknesses in controls over physical security in that there was:
- . an accumulation of paper in the Central Office computer area which was considered to be a fire hazard
  - . no formal policy or procedure for computer tape maintenance, and
  - . no log of access to the computer room. The door to the Central Office computer room was not locked.

It was noted that terminals were delivered directly to the Region in which they were to be installed and there appeared to be no formal procedures to ensure they were recorded on the system hardware list. Terminals were not recorded in the asset register. This Office also observed that the overall problem of Regional computer security had not been addressed.

COMMENT

The Department acknowledges that its computer room physical security was inadequate and action has been taken to remedy the areas of concern identified by the Auditor-General.

Procedures have also been implemented to take adequate care of terminals being delivered to Regions and to register such acquisitions.

The question of specific security concerns in the Regions has been included in the charter of the Departmental ADP Security guidelines referred to in (g) above.

- (i) The audit disclosed weaknesses in communication controls in that:
- (i) there were no formal change control procedures controlling amendments to the communication network and software
  - (ii) no back-up communication lines were available at the time of audit
  - (iii) formal evaluation had not been completed on assessing the effect of environmental disasters or equipment failures on the communication network, and

- (iv) comprehensive documentation was not available for error handling, fault reporting and system restart recovery.

COMMENT

Points (i), (ii) and (iii) have been addressed under (a), (d) and (b) above respectively.

Comprehensive documentation for error handling, fault reporting and system restart recovery have now been produced and included in appropriate procedural manuals.

- (j) The Access Control Logging and Reporting System, while recording access to the Region's system by Central Office personnel, did not inhibit such access. As there is no way to determine locally whether the access is authorised or not, this aspect was considered by Audit to constitute a breakdown in security.

COMMENT

The Access Control Logging and Reporting System simply provides the access audit trail. The Operating System (DOS) security determines whether terminal users can have access to data files and whether this access is "read only" or whether the data can be changed.

The Department's policy is that all officers should have access to financial performance and progress data on projects in "read only" mode to encourage active involvement and commitment to achieve project delivery timetables. Such an approval is essential if the benefits of the project management system adopted by the Department for the delivery of the Government's work programs are to be realised.

The Department does not agree that broad "read only" access constitutes a security risk.

- (k) Back-up arrangements were considered to be inadequate in that offsite storage was used for back-up master files but not for copies of load module production programs.

COMMENT

The Department does not agree that back-up arrangements or offsite storage of load module production programs in Regions was inadequate. Load modules of all production programs on Regional computers are and have always been backed up off-site centrally through the 3033 computer.

- 3.25 It should be noted that the Department had no in-house expertise in the area of environmental controls, at the time of the move from leased commercial bureaux facilities to the IBM equipment. The bureaux previously provided the total processing environment and associated controls. Moreover, all of the Department's software and operations staff were fully engaged in making the IBM facility available for use by the DAIS implementation date. Nevertheless some particular aspects of security and control were identified and action taken to purchase software to secure system files (RACF - Resource Access Control Facility) and to control backup and archiving (HSM - Hierarchical Storage Manager). Since that time (mid 1982) staff have been developed to review and implement environmental controls. Significant progress has been made in addressing environmental controls since the Audit.

- 3.26 Activity undertaken to remedy deficiencies identified by the Audit.

The Auditor-General reports that the Department had taken a number of initiatives since the audit to improve the processing environment and to overcome identified deficiencies.

The more significant of these measures are outlined below.

- (a) The Departmental Computing Security Committee has been approved by the Deputy Secretary, K.J. Rodda. Terms of Reference and membership have been approved and the Committee meets regularly.

The Committee is responsible for Departmental policies and guidelines based on the security guidelines issued by the Public Service Board. Specific issues identified by the Auditor-General such as Administrative Policies and Procedures for Data Security and Data Privacy on the network as are herein addressed.

Completed chapters of the Departmental Computing Security guidelines have been distributed.

- (b) A Software Standards Committee has also been formed which determines standards, procedures and procedural controls to be observed in such areas as

- software acquisition and implementation
- software change control

- development standards and language usage
  - documentation.
- (c) A review has been conducted to assess the adequacy of environmental controls against the Public Service Board guidelines and an action plan is in hand.
- (d) The Department has recently concluded a consultancy that reviewed Capacity Management. This review addressed aspects of environmental control, although for the most part, this exercise looked at the quality of the computing facility rather than the specific points raised by the Auditor-General's Officers.

Major environmental control issues that were specifically addressed in the consultancy were:

- throughput analysis
- major control initiatives in the area of disk management including archival and backup facilities
- review of facility usage and capacity to service computing requirements.

A further consultancy is underway to review the network configuration, including hardware and communication backup.

- 3.27 Increasing numbers of ADP staff are being deployed to undertake environmental control activities. Some staff now deal almost exclusively with security and control issues such as user access registration, authorisation procedures and consequent access control. Every effort is being made to progressively improve the level of environmental control. The priority is second only to keeping the computing facilities available. Not all deficiencies identified have been dealt with completely.
- 3.28 The Department is being realistic and sensible in developing controls. Rather than develop non-cost effective or short term expedient remedies, it is approaching the problems in a methodical way to ensure that adequate and appropriate controls are developed.

For example, deficiencies in Change Control were identified in a number of areas (applications, system software and communications). The approach taken here was to have a consultant develop an integrated set of control procedures for all areas.

In the meantime, existing procedures were reviewed and interim adjustments made. This included a major effort at raising awareness among staff of the requirement for adherence to vigorous change control procedures.

Whilst acknowledging that all aspects of requisite environmental controls are not yet in place, all deficiencies of significance have been addressed and will be resolved within a reasonable timeframe.

Nevertheless, the Department believes that, for all practical purposes, the risks and exposures are being contained at an acceptable level and that the present standard of environmental control is commensurate with the requirements of systems on the network.



3.29 CATEGORY E: DEFICIENCIES IN COMPUTER SYSTEMS DEVELOPMENT PROCESSES GENERALLY WITHIN THE DEPARTMENT

3.30 The Auditor-General reports that at the time of the audit there were several areas in which computer systems development processes within the Department needed review or improvement. The particular areas mentioned were:

- (a) The absence of formally approved work plans to ensure adequate consideration of the total projected resource requirements for the strategic planning process.

COMMENT

At the time of audit the Department's strategic planning processes involved:

- . the preparation of an annual strategic plan subject to Ministerial endorsement
- . senior management involvement in the direction and allocation of computing resources via the then Computer Policy Committee (Chaired by the Deputy Secretary)
- . a tiered delegation system for prior approval of resource commitment for development of new computer applications.

The strategic planning process has been revised for 1984/85 and with the agreement of the Public Service Board represents a quite radical departure from traditional ADP strategic plans. The Department's strategic plan is now structured around

- . a statement of computing objectives
- . the enunciation of broad planning principles and tactical plans, and
- . detailed forward work programs for all facets of computing activity.

Forward works programs for 1984/85 have been submitted to the Secretary and the members of his Executive (Computing) Committee (which has replaced the Computer Policy Committee) comprises:

- . Secretary;
- . Deputy Secretaries A and B;
- . First Assistant Secretary (Management);
- . Directors Victoria/Tasmania and Queensland;
- . First Assistant Secretary (Resources and Computing); and
- . Assistant Secretary (Computing Systems).

The Department also has in train the preparation of a 3 year rolling forward work program for development of new applications which will come into effect in 1985/86.

- (b) The lack of assurance to Regional staff that when Central Office programmers accessed production files to make changes, only the requested changes were made. The Auditor-General noted that:

- . Central Office used a software facility known as the General Amendment Program (GAP) to enable changes to be made to master files including those relating to Regional data
- . alterations to Regional files were made in response to requests for changes from the Region
- . however, Regional staff had no ready assurance that only those records that were requested to be amended were amended when the GAP was executed by Central Office applications programming staff.

COMMENT

The Department has advised the Auditor-General's Office that:

- . GAP produces before and after images of the records it amends and, by examining before and after file dumps, Regions can gain assurance that amendments have been made correctly and that additional changes have not been made to master files.

In addition, assurances that no other records have been changed is covered by the fact that no GAP run can take place on Regional master files without the Regional staff starting the run. Staff are then readily able to determine when (or indeed if) a GAP program is to be run, and can check the resultant changes on their direct copy of the GAP output to ensure only the desired changes have been made.

A Project Financial Inquiry facility has also been made available which enables Regions to interrogate master files at any time.

In response to a recommendation from the Auditor-General's Office, and as the requirement to dump master files and manually compare them is cumbersome, the Department has developed master file comparison programs to reduce the manual effort involved and to provide additional checking facilities for this and other control needs. These facilities are near completion.

(c) Weaknesses in data integrity controls relating to data base systems covering:

- lack of formal procedures for the notification of data base changes
- a need for a Departmental review of future information requirements.

COMMENT

At the time of the audit there were no production data base systems in place.

Since the audit the Department has introduced its first Data Base system and this is used for processing of First Home Owners Scheme (FHOS) applications. Data base program control and other administrative procedures have been introduced with this system.

A consultancy project is underway to conduct an analysis of the Department's information requirements as a basis for developing its long term computing needs. This consultancy is planned for completion in 1984. See section 4 for details.

(d) ADP staff and users in the SA/NT Region would benefit from further training in the use of DAIS; and the Central Office Systems and ADP Branch was relying on an informal chart of training/retraining of ADP personnel which had not been scheduled or approved.

COMMENT

The Department acknowledged to the Auditor-General's Office that further training would be desirable for DAIS and there is an on-going program to train appropriate staff in the Region.

The Department has always had a firm commitment to ADP specialist training and views with concern any implication that it does not provide adequately the means by which its computer "professionals" can receive exposure and training to keep them up to date - whether this be by a formal published program or by less integrated but nonetheless effective approaches.

With the development of detailed forward work programs, as outlined in (a) above, a training program is submitted to the Secretary and the members of his Executive (Computing) Committee.

SECTION 4 : THE STRATEGY ADOPTED BY THE DEPARTMENT IN RECTIFYING THE DEFICIENCIES IDENTIFIED BY THE AUDITOR-GENERAL

4.0 The Auditor-General's Office reports on the audit of DAIS and the computer environment controls have been reviewed by the Department's Audit Committee. This Committee is an Executive Committee with membership as follows:

- Mr A.S. Blunn Secretary
- Mr K.J. Rodda Deputy Secretary
- Mr M. Roger FAS (Management)
- Mr R. Egan FAS (Housing Policy)
- Mr R. Roennfeldt Director, ACT Region

The Committee is supported by the heads of the Internal Audit Branch and the Central Office Finance Branch.

4.1 The Department adopted a two pronged approach to addressing the matters outlined in the Auditor-General's Report

- (a) a short term objective of ensuring that the identified deficiencies are remedied urgently
- (b) a long term objective of ensuring that the Department's internal practices and procedures are amended so that the same deficiencies do not recur.

Task Force

4.2 As part of the short term strategy, a Task Force was established in order to expedite the task of remedying the deficiencies identified in DAIS and the computer environment controls. Membership of the Task Force is as follows:

- Mr B. Wingrove Financial Services Branch, NSW Region
- Mr D. Parry DAIS Project Officer, Central Office
- Mr K. Vaughan ADP Systems Support Group, Central Office

4.3 The Task Force reports to a senior level Steering Committee comprising:

- Mr K.J. Rodda Deputy Secretary
- Mr M. Roger FAS (Management)
- Mr D.A. Cook FAS (Resources & Computing)
- Mr K. Sweet Director, NSW Region

4.4 The terms of reference for the Task Force are as follows:

- (a) Check and report upon the progress to date in rectifying the deficiencies in DAIS and in the ADP environment that were identified by the Auditor-General.
- (b) Report upon the:
  - (i) shortcomings identified by Directors in the scope and the facilities of DAIS
  - (ii) problems identified by Directors in the way that DAIS is managed and operated as a Departmental network.
  - (iii) facilities required in order to implement the Government's recent initiatives in the area of Budget reform and improved financial management.
- (c) Recommend to the Steering Committee chaired by Deputy Secretary (A) a plan of action for expeditiously implementing within the relevant Central Office Divisions and within Regions the requirements identified in (a) and (b) above, giving priority to (a).
- (d) Report to the Steering Committee chaired by Deputy Secretary (A) on progress in implementing the approved plan of action.

4.5 The Task Force has already reported to the Steering Committee on items (a) and (b) (i) above, and is expected to report on item (c) by the end of July.

4.6 The Task Force has been able to report considerable progress in remedying the deficiencies in DAIS and in the ADP environment. However, the Department does have problems in resourcing some of the more intractable problem areas identified by the Auditor-General, and it will take many months to resolve these matters satisfactorily.

Review of the Distributed Processing Strategy

4.7 At the same time that the Auditor-General's report was being prepared, the Department was receiving from a consultant (Coopers and Lybrand) a report entitled "Development of a Departmental Policy on Distributed Processing".

Review of Information Requirements

- 4.8 This consultant report also identified the need to conduct a Departmental Information Review as pointed out by the Auditor-General. This need has been incorporated into the ADP Strategic Plan and the Forward Work Plan for 1985. Action is now underway to let a contract for the Information Analysis Project (which will be the Departmental Information Review).
- 4.9 The Steering Committee is:
  - Mr L. Boord Director (SA/NT)
  - Dr R. Hawkins FAS (Industry Policy)
  - Mr G. Clark Manager (Commercial Applications)

4.10 The Terms of Reference for the consultancy are:  
 In conjunction with Departmental staff the consultant will:

- (i) identify and document the information requirements to support the management functions of the areas of the Department concerned with works programming, Departmental accounting, resource management and project control.
- (ii) Identify and document the operational and management data required for effective functioning of the areas of the Department specified in (i) above. This will include a review of the following existing applications and identification of associated, but unsatisfied, requirements:
  - . Departmental Accounting Information System
  - . Building Cost Information (including Cost Index) System;
  - . Manpower Administration and Control System;
  - . Resource Management System;
  - . Assets Control System;
  - . Works Programming System; and
  - . Wages.
- (iii) Identify and document data in the following terms:
  - . origin;
  - . areas of usage (application and organisation function);
  - . responsibility for creation and modification;
  - . level of security required;
  - . type of usage, e.g. operational management decision making;
  - . how currently held (i.e., in what form); and
  - . where held.

- (iv) Construct a diagrammatic data model which shows interaction and relationship of data required for the areas of concern specified in (i) above.
- (v) Define or recommend appropriate application system boundaries in terms of functional requirements that are consistent with the Department's strategy
- (vi) Assess the extent to which existing application system boundaries overlap in terms of functional requirements. Recommend action for extension, amendment or redevelopment of those systems such that user requirements are met.
- (vii) Propose a strategy for implementing actions recommended bearing in mind the Department's applications strategy. The strategy should include formulation of relative priorities for development and how systems will operate in the network environment.

Immediate Response to the Auditor-General's Office reports

- 4.11 In order to meet the short term objective of addressing the specific deficiencies outlined by the Auditor-General's Office reports, several immediate actions were taken that included:
  - the development of a reporting procedure to identify individual items from the Auditor-General's report, then record periodically the action taken on those identified matters
  - the incorporation of certain matters in a simple post implementation study of DAIS that was underway
  - the initiation of action to prepare the data base area for a more production oriented role
  - the identification of a need for a common program library system.

Post-Implementation Review of DAIS

- 4.12 The Department had initiated action to carry out a simple post-implementation study of DAIS following the Auditor-General's review. The terms of reference of this study were as follows:
  - . Investigate and analyse the following aspects of the DAIS ADP System
    - computer-readable data holdings - format and strategy
    - ADP System processing strategy - run strategy
    - usage of hardware and software resources

- methodologies of access to DAIS data resources by Regional and CO staff
  - measure for security of machine-readable data.
  - . Identify and document all significant areas of inefficiency.
  - . Propose a detailed plan of action (with estimated costs) to
    - remedy inefficiencies found
    - provide for more efficient access to the DAIS data resources by Central and Regional Offices.
- 4.13 As a result of the Auditor-General's Office findings regarding data integrity and the data base cell, action was taken to ensure that the data base cell reflected a more production oriented outlook rather than a planning oriented one. Action was taken to:
- define administrative responsibilities
  - increase staff
  - formalise procedures
  - undertake a post-implementation review of the computer environment controls
- 4.14 The data base cell's reporting lines were changed to ensure that the Principal Executive Officer (Data Base) reported to the Manager (Commercial Applications) rather than the Planning Manager. This ensured that in resource conflict situations production needs became paramount
- 4.15 The staff in the area was increased immediately and plans are in hand for further increases to ensure that the area is adequately staffed. Consultants have also been utilised to meet urgent needs.
- 4.16 Effort has been devoted to establishing formal procedures for data base design, change control, relations with external Departments and assistance to all users. This exercise includes the development of appropriate documentation
- 4.17 "Post Implementation Review" of the Department's use of Cullinet products was conducted. This was done in order to place known tasks in an overall plan and to identify other tasks required for controlled and effective use of those products. Consultants were used to assist in implementing identified tasks.

The known tasks are:

- . develop change control procedures for shifting applications between test and production IDMS systems
  - . identify methods for charging IDMS users that fit within the requirements of the Capacity
  - . develop operator procedures and training
  - . selection and application of appropriate technical fixes
  - . review compilation and library control procedures relating to database.
- 4.18 A study was conducted into the provision of a single program library control system in Central Office that would satisfy the needs of all users not just DAIS users. This study incorporated the deficiencies identified by the Auditor-General.

16 JULY 1984

JOINT COMMITTEE OF PUBLIC ACCOUNTS  
INQUIRY INTO THE AUDITOR-GENERAL'S  
REPORT OF MARCH 1984

SUBMISSION BY THE DEPARTMENT OF  
IMMIGRATION AND ETHNIC AFFAIRS

CANBERRA

PREFACE

The Department of Immigration and Ethnic Affairs submitted a comprehensive submission to the Joint Committee of Public Accounts on 6 December 1983 following a request from the Joint Committee of Public Accounts arising from the Report of the Auditor-General of September 1983 on the Adult Migrant Education Program.

Part A of this submission is a revised and updated version of part of the submission of 6 December 1983.

In addition to the review arrangements explained in this submission, the Government has decided that there should be a review of the AMEP in late 1984. The Department is now planning the arrangements for that review.

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## PART A - STATEMENT OF POLICY ARRANGEMENTS AND ACHIEVEMENTS

## INTRODUCTION

The Government's policy is that all adults who do not speak English adequately for their needs must have the opportunity to learn English. This policy is implemented by means of the Adult Migrant Education Program (which commenced in 1947).

2 The Adult Migrant Education Program (AMEP) is therefore a key component of those Commonwealth policies aimed at facilitating and encouraging the effective orientation to and settlement of migrants within the Australian society. Because of its close contact with the migrant community, and its responsibility for the full range of post-arrival services, DIEA is able to identify and respond to the language needs of adult migrants, and to ensure that those needs are met as part of an integrated package of settlement services.

3 The broad objectives of the Program are to provide:

- English language learning opportunities to permanent residents of Australia who have come from non-English-speaking backgrounds; and
- information about life in Australia including information about Australia, its services and institutions, and an understanding of the rights and duties of Australian citizens and of permanent residents.

4 The Department of Immigration and Ethnic Affairs (DIEA) implements and advises on policy, arranges Program activities, funds those activities from moneys appropriated by Parliament for the purpose of adult migrant education in Australia, and co-ordinates the overall Program. Each State and Territory has established an Adult Migrant Education Service to conduct courses funded by the Commonwealth through the Adult Migrant Education Program. The Commonwealth also funds some tertiary education institutions to provide courses within the Program.

5 The DIEA does not provide teaching programs; its role is essentially an arranging and co-ordinating one. The Commonwealth has two options: to provide its own English teaching service or to use the existing educational structures for the delivery of its program. Using State education and tertiary educational facilities means that the Commonwealth is spared the considerable

cost of establishing a separate service delivery infrastructure. However that benefit imposes limitations on the extent to which the Commonwealth can expect those organisations to adjust their management practices and systems to accord with Commonwealth requirements.

#### LEGISLATIVE BASIS

6 The legislative basis for the AMEP is provided by the Immigration (Education) Act 1971. The Minister for Immigration and Ethnic Affairs is responsible for implementing the legislation as it applies to adults.

7 The Act empowers the Minister to make arrangements for courses in the English language and for 'courses designed to impart an understanding of the rights and duties of an Australian citizen and of the way of living of the Australian people'. Those courses may be provided outside Australia for intending immigrants or may be provided in Australia for persons who came to Australia as immigrants.

8 The Act also provides for the production, purchase and distribution of teaching and learning materials, the provision of pre-service and in-service courses for teachers, the conduct of research projects, the payment of living allowances for course members, administrative costs (including the salaries of administrative staff), cost of capital equipment, and the salaries and fees of teaching staff.

#### PROGRAM EMPHASIS

9 The Program arrangements are made within an overall philosophy and set of administrative arrangements which recognise the distinctive needs of adult learners; which emphasise English language learning in real life situations; and which encourage self-help by assisting people to learn English from their environment and from materials prepared for individualised learning.

10 The services provided under the AMEP are directed towards overcoming those problems which are inherent in being a non-English-speaking migrant. These services are provided with a view to bringing migrants to the point where they can gain equal access to mainstream services which are designed and presented to cater for the diverse Australian population from varied cultural backgrounds.

11 The development of specific English Second Language (ESL) policies within the AMEP is based on the recognition that understanding of the nature of English language learning is being added to continuously and arrangements for English language learning must be developed accordingly.

12 This process is contributed to by the Commonwealth, with its understanding of the needs of migrants and its national view; and the State adult migrant education services and other organisations providing courses, with their detailed knowledge of the effectiveness of arrangements in meeting the needs of migrants.

13 Learning arrangements within the AMEP take particular account of the following:

- (i) providing program options which accord with students' needs;
- (ii) providing a variety of learning arrangements, including formal courses, distance learning courses, courses in the work place, the Home Tutor Scheme, and individualised learning arrangements;
- (iii) the active involvement of students in the choice of learning options; and
- (iv) students accepting responsibility for their own learning.

#### PROGRAM STRATEGY

14 The Adult Migrant Education Program is aimed at helping new and earlier arrivals learn English and settle in Australia. It provides at one end of the range for people who are illiterate in their home language and extends to provisions for people who have insufficient proficiency in English (reading and writing as well as listening and speaking) to be able to make use of educational institutions provided for the community generally - albeit at the most basic level offered by such institutions.

15 The Program provides:

- (i) Orientation courses for new arrivals, delivered by Bilingual Information Officers;
- (ii) courses for newly arrived migrants from non-English speaking backgrounds and with limited or no English to assist them in gaining basic survival proficiency. People attending these courses are eligible for a living allowance; and
- (iii) a range of other learning opportunities that provide further courses for recent arrivals as well as courses and other activities directed to the needs of earlier arrivals. People attending these courses full time are eligible for a living allowance.



## PROGRAM MANAGEMENT

16 The Department places considerable emphasis on ensuring that its management, co-ordination and innovation role is carried out in an effective manner. The following exemplify this:

- (i) a Joint Commonwealth/State Committee on the AMEP has been established to provide effective support for the development of national arrangements to make the best use of available funds;
- (ii) the setting down, in some detail, of the arrangements for the Program, especially through:
  - (a) agreements being negotiated with the States and Northern Territory (Details of progress are given at paragraphs 21-24 below.);
  - (b) a national triennial plan for the AMEP,
  - (c) the AMEP handbook,
  - (d) Annual Guidelines which are to apply from 1984/85. In this context increasing emphasis is being placed on detailed objective setting and evaluation. A series of consultations have taken place over the last year with the States and tertiary institutions providing AMEP courses, to assist in the preparation of the guidelines so as to meet the needs of both DIEA and participating bodies. Although much progress has been made it should be noted that the AMEP is a complex Program; there are many issues which by their very nature are evolutionary and which will need to be worked through year by year. The consultative arrangements and strategies devised by DIEA are achieving valuable results to this end,
  - (e) the development of a nationally agreed format for the preparation and monitoring of annual funding plans and expenditure. This is now in its final stages of implementation. It provides a means for ensuring that accountability requirements are met, while, at the same time, assisting the management of the Program generally; and
- (iii) recognition that the AMEP operates in a field of technical innovation. There is not an established, agreed methodology in Australia or overseas on the teaching of English as a second language. DIEA has encouraged innovation and research within Australia, fostered the development of syllabus and

course materials, and promoted the sharing of materials and information through the establishment of the Clearing House for the Adult Migrant Education Service (CHAMES). The establishment of a National Materials and Syllabus Development Centre will further stimulate advances in this field.

## ADMINISTRATIVE ARRANGEMENTS

17 Up to 1951, the limited range of English language learning opportunities for adult migrants was provided directly by the Commonwealth. In 1951 it was agreed between the Commonwealth and each State that the State should have responsibility for the provision of educational facilities to adult migrants subject to the Commonwealth undertaking to reimburse the State for the expenditure incurred, and being responsible for the overall co-ordination of policy.

18 The Immigration (Education) Act 1971 underlined the Commonwealth's recognition of the importance of special education provisions for migrants.

19 The participation by the Commonwealth has been re-inforced by increasingly positive Commonwealth policies, particularly since 1978, to meet the educational problems of refugees and to reflect the increasing awareness of post-arrival needs.

20 This emphasis is a major consideration in establishing the new agreement between the Commonwealth and the States which replaces the 1951 agreement.

21 Preliminary discussions were held with NSW in 1981 to identify issues which needed to be addressed in the new Commonwealth/State agreement. These discussions were followed by the preparation of a draft agreement in consultation with the various Commonwealth agencies having an interest in the document, viz, Attorney-General's Department, Department of Finance, and Department of the Prime Minister and Cabinet.

22 Following detailed consultation between Commonwealth and State officers over the 1982/83 and 1983/84 financial years all States (except Qld) and the Northern Territory have given "in principle" agreement to the final draft of the agreement.

23 Queensland is still considering its position and officer level discussions are continuing. Difficulties in Queensland relate to the degree of autonomy it seeks in operating the Program. Queensland officers have agreed to intensive discussions during July 1984 with a view to finalising outstanding matters by mid-August 1984.

24 The Minister for Immigration and Ethnic Affairs has written to all State Ministers seeking their participation in a signing ceremony to conclude the acceptance of the agreement.

#### FINANCIAL ARRANGEMENTS

25 Funds for the Adult Migrant Education Program are sought in the context of the Commonwealth Budget. The development of the estimates has regard to the various components of the program and the number of non-English speaking migrants and refugees expected to arrive during the course of the year.

26 State Adult Migrant Education Services provide plans of expenditure, based on guidelines issued by the Commonwealth and their knowledge of the needs of migrants.

27 State submissions are discussed at officer level with each State.

28 Tertiary education institutions conducting courses as part of the Adult Migrant Education Program are also required to provide expenditure plans.

29 Following decisions in the Budget context on the level of funds for the Adult Migrant Education Program, recommendations on how these funds should be allocated are made to the Minister.

30 Consultations are held with each State/Territory and tertiary institution providing AMEP courses following the Budget, to finalise annual funding allocations. These allocations are then notified to the States and tertiary institutions in writing.

31 The cost of providing Bilingual Information Officers, AMEP Living Allowances, utility and other support services, is paid directly by the Department of Immigration and Ethnic Affairs. Payments are made to individuals in the case of Bilingual Information Officers and in the case of AMEP Living Allowances.

#### CONSULTATIVE, REVIEW AND EVALUATION ARRANGEMENTS

##### Consultative Arrangements

32 A well ordered set of consultative arrangements has been established to assist in the planning and development of the AMEP. These arrangements operate at the national and State levels:

- (i) at the national level the Joint Commonwealth/States Committee (JCSC) on the AMEP deals with administrative and professional matters. The

Committee advises the Minister for Immigration and Ethnic Affairs and, through State representatives, relevant State Departments and Ministers as required on:

- (a) administrative aspects of the AMEP, including:
- . financial management, accounting and control matters,
  - . the development and maintenance of a system of managerially-oriented data to be collected on a uniform basis, and
  - . promotion of AMEP course offerings to target groups,
- (b) long-term planning of the AMEP at the national level, including the development of an annual plan of action which sets objectives, priorities and directions for the following financial year. The planning takes into account:
- . Commonwealth Government decisions and policy for adult migrant education, and
  - . an analysis of client needs and AMEP capacity/scope to meet these needs based on an assessment of the outcomes of AMEP research and evaluation,
- (c) the development of the AMEP including:
- . adoption and implementation of an agreed approach to adult ESL learning,
  - . the structure and implementation of learning arrangements,
  - . the development and provision of teaching/learning materials, and
  - . teacher development,
- (ii) at the State level, Commonwealth/State Consultative Committees on the AMEP operate in most States. Through these committees the Commonwealth and the States consult on State program arrangements and the most effective ways of meeting AMEP objectives; and

- (iii) the consideration of issues at the national level is assisted by sub-committees or working parties set up by the JCSC. The Professional Development Sub-Committee plays a key role through its consideration of matters such as materials and teacher development. Another working party is considering the specialised and important area of the assessment of language proficiency and language gains.

#### Review and Evaluation Arrangements

33 Review and evaluation of the Program proceeds along a number of integrated paths:

(i) AMEP Research and Evaluation Program

This program is designed to provide, through national research and evaluation projects, a sound basis for the administration of the AMEP, and to assist in the planning process and the design of courses. Important projects under this program include community-based surveys of areas of high migrant density to identify English language needs.

(ii) Information Systems

Considerable progress has been made towards the implementation of a comprehensive information system for the AMEP. Work to date includes identification and definition of information requirements concerning students, teachers, courses, accommodation and educational equipment. Extensive consultation has been carried out with State/Territory authorities and tertiary institutions involved in the AMEP for the identification of system implementation options. The initial phases of the system have been implemented in NSW and Victoria and are expected to commence in all other State/Territories (except Qld) by September 1984.

Parallel to the national information system project, a detailed review and redesign of information collection procedures and administrative arrangements has been completed for the Victorian AMES; arrangements in other States are at varying stages and are expected to be completed in early 1984/85. These projects will ensure that the implementation of the national system can proceed smoothly.

Financial systems are continuing to be developed in consultation with the States/Territories and tertiary institutions to meet audit and management needs of the AMEP. Appropriately qualified officers have been appointed by a number of States to service the financial management needs of the AMES.

Data managers have been appointed in NSW, Vic, SA and WA to manage information collection, storage and distribution arrangements. Arrangements in other States are being supported by the allocation of key personnel, on a cost-recovery basis, from the relevant State Department.

Information to flow from the arrangements outlined above will provide a solid basis for continuous review and development of the AMEP.

34 Monitoring and evaluation arrangements have been set in place in respect of teacher/materials/curriculum development funded by the AMEP.

35 New approaches are separately funded under "program innovation" on an annual basis. A condition of funding is the requirement that all such new arrangements are fully tested and evaluated and that DIPA receives a report of each. Successful innovations are then incorporated into the main program in subsequent years.

36 As can be seen from the above, consultation, review and evaluation are an integral part of the program, assisting the continuing refinement of the AMEP.

37 In general terms, review and evaluation in the AMEP is a means of assessing:

- (i) the overall effectiveness of the Program in meeting migrants' English language objectives;
- (ii) the extent to which individual learners meet their English language objectives;
- (iii) the extent to which particular learning arrangements meet their objectives; and
- (iv) which types of learning arrangements best meet the English language needs of different groups.

38 Evaluation can be (and is) conducted at various levels:

- (i) at the State or local centre level, evaluation assists in course planning and allocation of staff and resources; it can also help to indicate where further research needs to be undertaken to determine the best approaches; and
- (ii) at the State and national level, evaluation of key elements of the Program provides the basis for meeting accountability requirements and for planning and providing the most effective set of arrangements.

#### MAJOR RECENT ACHIEVEMENTS AND DEVELOPMENTS

39 In recent years numerous important developments have taken place within the AMEP to meet the needs of migrants or to improve the general efficiency of the Program. Briefly:

- (i) on arrival in Australia, non-English-speaking migrants have an urgent need for basic information about their new environment. The provision of information in community languages to newly-arrived migrants through the Bilingual Information Officer (BIO) program responds to this need economically and effectively. Some 40 full-time and 70 sessional BIOs are engaged nationally covering 25 community languages;
- (ii) similarly, those migrants need to be able to communicate in English about everyday matters: the provision of "survival" English language courses meets this need. The number of students catered for by this arrangement has risen from 3050 in 1977/78 to an estimated 18,000 in 1983/84;
- (iii) consultation with the States and Northern Territory across the range of administrative and educational issues is essential for the efficient and effective running of the Program. The establishment of a national Joint Commonwealth/States Committee on the AMEP to deal with both educational and administrative aspects of the Program is proving effective in this regard;
- (iv) financial arrangements were reviewed and updated; a national chart of accounts has been developed and implemented; standardised expenditure planning procedures and forms have been developed and implemented; payment, expenditure reporting and accountability requirements have been standardised to provide simple but comprehensive monitoring and information collection arrangements;

- (v) information about the operation of the AMEP has been less readily available than is necessary for the effective development and management of the Program. DIPA in consultation with the States/Territories and with the assistance of expert consultants has developed a computerised information system for the AMEP to provide information about students, courses, teachers, and teaching facilities and a range of statistical and management data. Initial phases of the system were implemented in New South Wales and Victoria on 9 July 1984 and are expected to be implemented in all other States/Territories in early 1984/85. Further developments and enhancements of systems are planned for implementation over the 1984/85 financial year;
- (vi) knowledge of the extent and nature of the resources needed to provide for all migrants who need to improve their English has been inadequate. The development of an Effective Demand Model is being undertaken to achieve a better understanding of the extent of migrant English language needs and the allocation of resources to meet these needs. It attempts to bring together the results of research studies, census details and other available information systematically, to allow forecasting of the demand for AMEP services;
- (vii) for many people in suburban locations, as well as for those in remote areas, formal English language courses are not appropriate learning arrangements. The latest insights into language learning, coupled with the experience gained by tertiary institutions in recent years in providing distance learning courses for adult learners, provide the basis for a viable alternative. Work on the development of a new distance learning or correspondence course in English as a Second Language is now well advanced. A syllabus has been developed, and senior staff engaged for the project commenced work in April 1984. They will work on the project over the next 12-18 months with a team of writers supported by artists, specialists in the presentation of publications, and staff who will produce audio tapes to supplement the written material. The course will provide a close link with the Home Tutor Scheme;
- (viii) a survey of distance learning arrangements for second language acquisition, including TV, radio and other media, in the USA, Canada, UK and Western Europe was carried out at first hand during 1983 and is providing a sound basis for much of the planning and development of distance learning arrangements taking place in 1984;

- (ix) determining the level of language proficiency of second language speakers is an essential component of a planned and effective program of language learning. It is a complex and difficult issue which has been grasped by the Joint Commonwealth/States Committee, leading to the development of the Australian Second Language Proficiency Ratings (ASLPR) for assessing language proficiency. A comprehensive package including a series of videos has been prepared to train users;
- (x) the preparation of materials for students and teachers is carried out on a decentralised basis with teachers at the local centre and State level contributing their skills and insights to the development of a range of highly effective materials. To enable these materials to be shared nationally (thus maximising the benefit to the students on the Program and making the most effective use of resources) a Clearing House for the Adult Migrant Education Service (CHAMES) has been established. The Clearing House is based in Adelaide from where it arranges the exchange of materials. Plans have been formulated for extending and upgrading the arrangement in 1984/85;
- (xi) a fundamental tenet of the Program is that the needs of individuals will be catered for. However, at the time of the Galbally Report the nature of the needs was little known. The development of a comprehensive research and evaluation program is now helping the identification of the extent and nature of students' needs. This is increasingly providing a sound basis for the administration of the AMES, and assisting in the planning and design of arrangements for learning;
- (xii) there has been a major increase in the number of people for whom the Program provides. For example, the number of enrollees in all courses and learning programs has grown from 105,035 in 1977/78 to an estimated 120,000 in 1983/84. There has been an accompanying increase in the provision of educational accommodation;
- (xiii) the quality of teaching in the Program is of a generally high standard. However, the employment of a preponderance of casual teachers has produced some drawbacks. For example, staffing has been less stable than in areas of higher permanency with the consequent loss of experienced and well qualified staff. The problem is now being overcome with a major increase in the proportion of permanent teachers employed by the Program.

- Government policy is to provide for up to 65% of teaching hours to be delivered by permanent teachers, and State Governments are in the process of implementing this policy; and
- (xiv) the natural desire of many adult learners to have control of their own learning programs is the basis for the successful establishment of individual learning centres, resourced and equipped in such a way as to allow migrants to pursue learning activities independently and to practise particular language skills at times convenient to themselves.

## STATISTICAL SUMMARY

## 40 Adult Migrant Education Program

- (a) Expenditure on Program (excluding building and capital works)

	\$	\$
1983-84	39 020 822	1978-79 17 989 810
1982-83	36 627 119	1977-78 12 420 229
1981-82	32 241 697	1976-77 8 821 174
1980-81	28 773 040	1975-76 8 094 295
1979-80	23 342 349	

- (b) Student Enrolments

	1982/83 Enrolments	1983/84 Enrolments (estimated)
Courses for New Arrivals	18 965	18 000
Courses for Earlier Arrivals	74 439	75 500
Courses in the Workplace	4 026	4 400
Distance Learning Arrangements	7 147	7 100
Individual Learning Centres	6 655	9 500
Home Tutor Scheme	5 277	5 500
TOTALS	116 511	120 000

## PART B - AUDITOR-GENERAL'S REPORT OF MARCH 1984

## COMMONWEALTH/STATE AGREEMENT

41 The Auditor-General in his September 1983 report expressed concern that the Program lacked a relevant, formal agreement.

42 In this Department's submission to the Joint Parliamentary Committee of Public Accounts of December 1983, it was advised that an agreement had been accepted by three States and the Northern Territory. Some details of the negotiations and progress are covered in paragraphs 17-24 above.

43 Negotiations with the States and Northern Territory have concentrated on finalisation of a range of details, some of which resulted from policy initiatives in the 1983 Budget. These negotiations also involved finalisation of the AMEP Handbook and the reaching of agreement on the use of the information system.

44 The proposed set of arrangements was endorsed by the Commonwealth and State Ministers meeting in April 1984.

45 The present position is:

- the new agreement has now been accepted by Victoria, South Australia, Western Australia, Tasmania and the Northern Territory;
- advice on the acceptance of the agreement by New South Wales is expected soon;
- negotiations are continuing with the State of Queensland on the fundamental issues of State autonomy in the management of the Program which have thus far prevented concluding an agreement with that State. At recent consultations between Commonwealth and State officers, Queensland representations agreed to intensive discussions with a view to finalising outstanding matters by mid-August 1984;
- the agreement was discussed at the April 1984 conference of Commonwealth/State Ministers responsible for immigration and ethnic affairs, clearing the way for formal signing of the agreements; and
- the Minister for Immigration and Ethnic Affairs recently wrote to State Ministers seeking formal signing of the agreements.

46 In summary, it is expected that formal agreements with all States and the Northern Territory will be concluded and signed by the end of 1984.

## COURSES PROVIDED BY THE STATES

47 The Auditor-General in his September 1983 report indicated that there is a lack of a formal system to approve, review and evaluate individual courses of instruction under the Program.

48 In its submission to the Joint Parliamentary Committee of Public Accounts in December 1983, the Department expressed the view that it would be contrary to established practice in other educational areas if the Department was to undertake formal approval of individual courses. The States could be expected to see this approach as unnecessary and an inappropriate intervention by the Commonwealth. It also advised that the examination and approval of more than 5000 courses annually would require a large number of appropriately qualified professional staff.

49 The Department's view is that on-going evaluation of the effectiveness of the Program could be achieved more effectively and economically by:

- the setting of agreed objectives;
- a clear division of responsibilities between the Commonwealth and State/Territories; and
- monitoring and evaluation of day-to-day program arrangements by the States.

50 The Auditor-General indicates that the effectiveness of (these) procedures will be reviewed during future audits.

51 Considerable progress has been made over the past few years in developing, in consultation with the States and Northern Territory, effective course arrangements for the AMEP. The Professional Development Sub-Committee of the Joint Commonwealth States Committee on the AMEP has established clear guidelines and professional standards for setting course objectives, with particular emphasis on a needs-based approach to adult ESL. The Sub-Committee meets four times each year. Foremost amongst the developments to date has been the establishment of self-directed learning centres including the development and promulgation of more appropriate teaching and learning materials. An on-going trialling and development program for initiatives under the AMEP was introduced in 1982/83 and as an integral part of these arrangements, evaluation of all projects is carried out at State and national levels.

52 In November 1983, a Language Assessment Working Party of the Professional Development Sub-Committee was formed to specifically develop new approaches to the evaluation of English language proficiency gains in AMEP courses. The Working Party has met twice and it is expected to develop a suitable methodology for evaluating English language gains by June 1985.

53 The work of the Professional Development Sub-Committee and the Language Assessment Working Party in developing high professional standards and a process of on-going review and evaluation is considered to be appropriate, efficient and effective.

#### STUDENT ELIGIBILITY

54 The Auditor-General in his September 1983 report stated that Audit has found no evidence of procedures which would enable the Department to establish whether those persons attending the courses meet the eligibility criteria contained in Section 4 of the Act.

55 In its submission to the Joint Parliamentary Committee of Public Accounts, the Department stated that for those AMEP students who receive living allowance, residence status is ascertained by DIPA officers in the course of dealing with the claim for living allowance. For other students the assessment of resident status is made on the basis of information provided in the application for entry to a course. Where doubt exists as to eligibility, the application is referred to DIPA for decision.

56 The Auditor-General in his March 1984 report states that "The adequacy of procedures at regional offices to assess the eligibility of students to attend courses under the Program will be reviewed during future audits".

57 As indicated above, the Department, in consultation with the States and Territories, and with the aid of expert consultants, has developed the initial phases of a comprehensive information system for the AMEP. Implementation of the system, which is based on the Department's central computing facilities, has occurred in NSW and Victoria and is expected to be implemented in all other States/Territories in early 1984/85. The system is designed to provide a wide range of information about students, courses, staffing and support services, as well as a range of management-oriented data and control mechanisms. The system will enable more effective monitoring of the eligibility of applicants as it will include information on visa number and arrival date in Australia. That information will assist checks on eligibility, by reference to Departmental records where necessary.

#### PAYMENT OF LIVING ALLOWANCES

58 The Auditor-General in his September 1983 report expressed the view that regulations governing the payment of living allowances as provided for in Section 6 of the Immigration (Education) Act should be issued.

59 The Department's view had been that existing arrangements complied with the Act: funds for the payment of living allowances had been provided in accordance with Government decisions, and payments made with the authority of the annual Appropriation Acts. A legal advising on the matter was therefore sought from the Attorney-General's Department.

60 The Attorney-General's Department confirmed the need for regulations for the payment of allowances and indicated that in the absence of regulations, the payment of allowances involved breaches of the relevant provisions of the Constitution and the Audit Act 1901.

61 Following the Attorney-General's advising, the Department prepared instructions for the drafting of regulations. These instructions were forwarded to the Attorney General's Department on 17 May 1984.

62 Some technical matters of detail in the drafting of the regulations are still the subject of consultation between the Department and the Attorney-General's Department. Both Departments are giving priority to the finalisation of the regulations with a view to their promulgation as quickly as possible.

13 JULY 1984

DEPARTMENT OF IMMIGRATION AND ETHNIC AFFAIRS

Copies of the following documents may be found on Joint Committee of Public Accounts File 1984/4, Part B.

- . Letter from the Department, dated 25 February 1985, announcing the Review of AMEP.
- . Letter from the Department dated 15 October 1985, providing supplementary information.

TERMS OF REFERENCE - REVIEW OF THE  
ADULT MIGRANT EDUCATION PROGRAM

The Government's policy in regard to adult migrant education is:

- . to ensure that migrants on arrival in Australia, and subsequently, have access to information essential to their successful settlement in Australia;
- . to recognise that a critical need of non-English speaking migrants (including refugees) is the ability to communicate in English; and
- . to accept that all adults who do not communicate in English adequately for their needs must have the opportunity to learn English.

These policies are largely implemented through the Adult Migrant Education Program (AMEP).

The AMEP is part of the Commonwealth's post arrival programs and services for migrants. It provides English language learning opportunities for non-English speaking migrants and orientation information to new settlers. It is administered by the Department of Immigration and Ethnic Affairs and delivered by State and Territory educational authorities and some tertiary institutions.

Within that context, the Review will

- (a) examine the existing aims and objectives of the AMEP and assess their appropriateness in light of Government policy for the provision of English language and orientation programs for migrants. The appropriateness of Section 4(1) of the Immigration (Education) Act 1971 should also be assessed.
- (b) examine the extent to which the Program is reaching and meeting the needs of non-English speaking migrants including the needs of women, of young people, of the aged, of the disabled and of those illiterate or semi-literate in their mother tongues;
- (c) examine the appropriateness of the English language learning program in the light of current thinking relating to the nature of adult learning;
- (d) examine the appropriateness of curriculum resources used to achieve the aims and objectives of the program; the appropriateness of educational methodologies which are in use; the appropriateness of systems for the planning, monitoring and evaluation of English courses;



- (e) examine the experience, qualifications and status of teachers; their pre-service and in-service preparation; and the availability of appropriate undergraduate and postgraduate (especially Masters) courses;
- (f) examine the outcomes of the program including the levels of proficiency obtained, the development of continuing motivation, sense of selfhood and of personal growth, enhanced life-role satisfaction, equality of opportunities and the sense of alienation or attachment;
- (g) examine the program as perceived and evaluated by its clients;
- (h) assess the adequacy of planning, administration, co-ordination, financial and other arrangements at the Commonwealth and State levels for the delivery of AMEP services, including:
- the co-ordination, production and supply of English language learning materials;
  - information systems for the planning, monitoring and evaluation of the AMEP;
  - research and evaluation strategies;
  - strategies for providing access to AMEP courses for migrants who have not previously had the opportunity to learn English (the "backlog");
- (i) examine the interface of the AMEP with other educational programs/institutions, with labour training programs and affirmative action/EEO initiatives;
- (j) examine and report on the nature and effectiveness of orientation programs conducted under the AMEP; and
- (k) propose avenues for the future development of the AMEP.

11 MARCH 1985

JOINT COMMITTEE OF PUBLIC ACCOUNTSInquiry into the Auditor-General's Report - March 1984  
Submission by the Department of Social Security on paragraph 17.1  
- Unemployment, Sickness and Special BenefitIdentification of Applicants

As part of the pre-grant interview process a claimant for benefit is asked to produce documents to prove who he is and to establish that the name and address given are correct. The Department generally accepts any of the following papers for these purposes:

- an original birth, baptismal or marriage certificate or a birth, baptismal or marriage extract issued at least five years ago;
- a taxation group certificate covering a total of at least six months' full-time employment;
- a passport;
- for school leavers (including tertiary) a recent school report or reference on official school paper;
- an original motor vehicle registration form in the claimant's name;
- a credit card showing full name and current or recent address;
- a rate or water account made out in the claimant's name showing his present address; or
- an insurance policy in his name issued at least two years ago.

2 A driving licence or a savings bank passbook is not acceptable as evidence of identity, but may be useful to substantiate an address where the acceptable documents mentioned above do not indicate a current address.

3 Special arrangements exist for Aboriginal or Torres Strait Islander clients and also itinerants who tend to have difficulty in establishing their identity through the processes mentioned above. In these cases where a person is unable to prove who they are through the usual channels, approval to grant benefit rests with the delegate of the Director-General.

4 The Auditor-General has found that evidence held on file to support identification of applicants and dependants was inadequate in a substantial number of cases and that unacceptable modes of identification had been used.

5 The client identification process has been subject to review by the Department as a major consultancy project. The review is due for completion in the near future. It is disclosed that there are problems with the proof of identity system, as distinct from administrative deficiencies in specific regional offices, prompt attention will be given to the nature of changes recommended and their implications for resources and procedures.

6 The study so far has shown that identification processes for age, invalid and widows pensions are generally satisfactory. This is due, in part, to the fact that eligibility information collected reinforces identification.

7 There may be scope for improvement in identification procedure in terms of fraud deterrence, client services and client/staff relations in the USB and supporting parents' areas. Options being considered touch on the way identity is established, on pre-grant interviews, checks with employers and intra departmental verification checks. A standard national method of the documentation is also under consideration.

8 The feasibility and effectiveness of certain changes and the implications for procedures are currently being considered at both policy and administrative levels. It is of concern to this Department that clients receive their correct entitlement without unnecessary intrusion into their private affairs. The requirement to provide proof of identity is, of course, central to the protection of the public purse, but in applying this rule, the Department is obliged to ensure that those of its clients in urgent need of assistance do not suffer unreasonable delay in the grant of the legitimate claims.

#### Pre-grant Interviews

9 Pre-grant interviews are required to be conducted for all new claims of unemployment benefit. The claimant and where appropriate his/her spouse are required to be interviewed.

10 Although not an absolute requirement, interviews are generally conducted by officers at the Clerk (Class 5) level who focus their investigation on essential facts and evidence or documentation to support the facts.

11 Particular attention is directed to those aspects having a bearing on eligibility for the benefit such as:

- . proof of identity;
- . cessation of employment;
- . residence;
- . income; and
- . "work test".

12 The Auditor-General has found that some offices were conducting pre-grant interviews in only a percentage of cases and in other offices no file record of the interview was retained.

13 It is a generally accepted principle that pre-grant interviews are a vital part of the control philosophy surrounding payment of a benefit or pension, and a key element in the arrangements by which the Director-General satisfies his accountability for the funds placed in his care.

14 In order to achieve this Department's objectives of effectiveness and efficiency within this process, the usage of staff, space and time should be kept to the minimum commensurate with our responsibilities both to the client, and to the taxpayer in so far as public accountability is concerned. In order to meet these objectives effectively and efficiently only the essential elements are required; for instance answers already provided on the claim form should not be duplicated at interview unless there are sound reasons for doing so.

15 While it is desirable that a pre-grant interview be conducted in every case, quite often because of conditions prevailing in a particular office caused by either internal or external factors, this is not always able to be done. Generally Regional Managers are in the best position to be able to decide day-to-day priorities within their offices. While the Department is committed to the principle of pre-grant interviews, it is also understood that competing priorities within regional offices can at times and places have an impact on the frequency and detail of pre-grant interviews. Every effort is made to conduct these interviews on a 100% basis and as fully as circumstances dictate.

16 An instruction supplementary to that issued by Central Office in December 1982 has not been issued. However, the revised Unemployment, Sickness and Special Benefit Manual of Instructions released in August 1983 contains national instructions on the conduct of pre-grant interviews. The role of pre-grant interviews in the client identification process is currently being examined by the Department as a major consultancy project.

#### Checks with Employers

17 Basically there are two types of employer checks in the administration of unemployment benefit.

18 Departmental instructions provide that details of a claimant's last employment must be sought from the employer in writing, except where the employer is overseas. These checks are carried out by either sending a form (SU17) to the employer or by obtaining the relevant details by telephone prior to receiving written confirmation.

19 The employer checks provide additional assurance of a person's identity as well as confirming the date of cessation of employment and the circumstances under which employment ceased. Employers' reports in these circumstances are rarely used to verify income details of the applicant other than entitlements due on cessation eg holiday pay.

20 Departmental instructions also provide for the follow-up of employers' reports which are not returned or which are returned incomplete. Where the information provided by the employer is at variance with that tendered by the claimant, action is required to be taken to clarify the situation.

21 As a general rule, any earnings of a claimant or spouse should be verified unless the declared amount is sufficient to preclude payment of benefit. However, the declared earnings may be accepted without verification if they are consistent with the type of work performed in relation to the time worked and there is no reason to doubt their authenticity. This applies particularly where there is local knowledge of the award or going rates for casual or seasonal occupations occurring in the area. It is acceptable, to avoid delay in payment, to verify the amounts stated by telephone as post-determination action unless doubt exists.

22 Our checks have suggested that most offices do correctly issue and follow up returns of forms SU17. The report states only that "at one office instances were noted". Also, it is not accepted that an appropriate solution to the occasional failure to observe instructions is to introduce sample checking. If we did it for this, there would have to be dozens of other types of follow-up actions which could arguably also require such methods.

23 It is believed that the incidences of failure to follow-up checks with employers is not widespread. There appears no reason to change current instructions, but a reminder of the need for appropriate follow-up of outstanding matters including employer checks will be issued and possible improvements to Training packages will be investigated.

#### Liaison with Commonwealth Employment Service

24 A joint review team with officers from DEIR and DSS presented a report which detailed revised procedures whereby the continuing registration for employment of all unemployment beneficiaries can be achieved.

25 Following acceptance by senior management of both Departments of the recommendations in the report changes are being made to this Department's ADP system and clerical procedures in both DEIR and DSS are being amended.

26 It is proposed to finalise the ADP and clerical changes by the end of August 1984. The implementation of the revised liaison arrangements may be subject to the availability of staff resources in both DSS and DEIR. Until this matter is resolved it is not possible to indicate a definite implementation date.

27 The revised liaison procedures provide that any lapse of registration will be brought promptly to the attention of the delegate of the Director-General responsible for the authorisation of payment of unemployment benefit.

28 Procedures within DSS will provide that, where appropriate, beneficiaries will be requested to seek re-registration without delay. If, after a reasonable time, the beneficiary has not notified DSS of his/her re-registration a further advice will be issued to the beneficiary notifying that his/her unemployment benefit is to be reviewed. An extended period will be allowed to those beneficiaries living in remote areas.

29 Normal review procedures will then be undertaken to ascertain whether the beneficiary has satisfied the delegate of the Director-General that the requirements of Section 107 of the Social Security Act are being met with regard to efforts to find work.

30 The effectiveness of the changes will be reviewed via selective review processes, and other methods, some months after implementation.

#### Review of Continuing Entitlement

31 The Auditor-General has made a number of comments based on the contact of his officers with two regional offices.

32 It should be noted that while the perceptions of individual regional offices is one factor which is taken into account in the ongoing critical review of the Selective Review Program, other factors, including central study of nationwide results also contribute to the design of the program.

33 On the specific points raised, the following should be noted:

- the low contact rate of beneficiaries does not necessarily imply a problem with the selection criteria. Beneficiaries are expected to be actively seeking employment and to comply with this direction they would generally need to be absent from the home in that pursuit;
- the bias towards people with a history of casual earnings does not necessarily imply that the selection process is ineffective; and

- . the lack of an appropriate Management Information System over Field Officers has been recognised as a particular problem. A comprehensive Management Information System which will cover this aspect as well as a large number of others, is being developed. In the meantime, the Selective Review Program is designed to make best use of resources in this particular field.

#### Sickness Benefit

34 Instructions in the Unemployment, Sickness and Special Benefit Manual provide that the medical certificate tendered with a claim for sickness benefit should be validated through contact to either the doctor's surgery or hospital by telephone. In the process the following events should occur:

- . confirm correctness of details on the medical certificate eg full name, date, coverage etc;
- . ascertain whether the medical condition is such as to prevent interview, eg is the condition contagious or is the claimant too ill, and if so what period should elapse before the interview is undertaken;
- . ascertain the probable duration of the incapacity ie will additional certificates be issued; and
- . validate the certificate.

35 The Auditor-General has been critical of the frequency of these validations, and has found that in some cases, medical certificates were validated only in exceptional circumstances.

36 Complaints have been received from doctors and hospitals and indeed from officers of this Department concerning the validation of medical certificates. Doctors have complained about the inconvenience and the interruption to their daily work. The same applies to receptionists in doctors' surgeries. Some doctors have refused to supply the required validation unless this Department is prepared to pay a search fee.

37 Public hospitals have honorary surgeons who tend to be uncontactable and in any case, enquiries regarding medical records are generally passed to the Ward Sister where the claimant for sickness benefit was domiciled for the duration of his hospitalisation. The co-operation received from public hospitals is even less than our success rate with doctors' surgeries.

38 The constant refusal of doctors/hospitals to comply with requests for validation of medical certificates quickly gives rise to non-compliance with laid down procedures by Departmental staff. In the environment of competing priorities which exists in regional offices of this Department it becomes more important to rely on other aspects of validation to assess eligibility to benefits.

39 A survey was recently conducted by the Department's Benefits Control Branch to assess the effectiveness of validation techniques used in the assessment process. This survey has shown that only in 25% of the cases sampled were medical certificates validated. Data analysis is continuing in this area, looking at the source of the certificate (ie public hospital, GP etc) whether validated or not and the degree of correctness.

#### Special Benefit

40 Under the Migration Regulations the Minister for Immigration and Ethnic Affairs may, in such circumstances as he thinks fit, require maintenance guarantees - since 19 April 1982 known as assurances of support - to be given in relation to persons seeking to enter or remain in Australia. The maintenance of a person includes a special benefit payable under Division 6 of Part VII of the Social Security Act but does not include any other pension, allowance or benefit under that Act. A maintenance guarantee shall be given in such form and for such periods as the Minister for Immigration and Ethnic Affairs determines. Where special benefit is paid to a person during a period for which the person's maintenance has been guaranteed the amount of the special benefit becomes a debt due and payable to the Commonwealth by the person who gave the guarantee. Such a debt may be sued for and recovered by the Commonwealth in a court of competent jurisdiction.

41 There have been decisions handed down by various courts on unrelated matters affecting the status of "immigrants". The net result is that a guarantee ceases to be effective when a person loses his immigrant status. Whether a person is still an immigrant is essentially a question of fact to be determined by examining all the circumstances of the person to ascertain whether he has been absorbed into the Australian community.

42 There are certain indicia for accepting that a person has been absorbed into the community. These include length of residence in Australia, acquisition of Australian citizenship, whether the person has married in Australia, acquired a permanent home here, whether he has had remunerative employment in Australia and attempted to become part of the community such as enrolment in English classes. This list is not exhaustive.

43 Since 1982 maintenance guarantees have been replaced by assurances of support. Maintenance guarantees given prior to 1982 continue to have effect. In addition an amendment to the Migration Act was proclaimed on 2 April 1984. The general effect of the amendment is that assurances executed on or after 2 April 1984 will lapse on the grant of Australian citizenship to the person because the person then ceases to be an alien. Assurances and guarantees executed before 2 April 1984 will continue to lapse however on the person's absorption into the community.

44 Instructions are currently being amended to identify those persons who have been absorbed into the community and to simplify administration in this difficult area. Implementation of these instructions will result in more effective utilization of resources.

45 The recent amendment to the Migration Act will reduce administrative difficulties in that officers will know that the assurance of support remains effective while the person remains an alien ie he has not become an Australian citizen. However this Department is not likely to experience the full effects of this amendment for some years. Persons whose maintenance has been assured do not often apply for special benefit until some time after their arrival in Australia. A claim is usually made after some rift in the domestic arrangements has occurred or the assessor's circumstances have deteriorated and he can longer honour his obligations. In the meantime the existence of three types of guarantees, that is, the guarantee signed before 1982, the assurance signed since 1982 and the assurances signed from 2 April 1984 must increase the problems of administration. The current amendment to instructions is expected to expedite assessment of entitlement and is expected to make easy a decision about recovery. It will now be necessary however, to determine whether the guarantee/assurance is effective before we know whether the special benefit is recoverable. If recoverable, further inquiries will need to be made to establish whether the Department should proceed to recovery or write off the debt.

#### Audit Conclusion

46 The Auditor-General has suggested that priority be afforded to ensuring that controls be strictly enforced in the areas of the initial identification of applicants and the continuing eligibility of beneficiaries.

47 Both of these matters have been addressed in this submission at an earlier point. Research is presently underway in both fields and until such time as results are to hand, it is appropriate that the instructions contained in the Departmental Manuals continue to be applied.

16 July 1984

## JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

### Enquiry into the Auditor-General's Report - March 1984

#### Submission by Department of Social Security on

#### Paragraph 17.1 Unemployment, Sickness and Special Benefits

### CLIENT IDENTIFICATION AND ROLE OF PRE-GRANT INTERVIEW

#### Background

In paragraphs 12.80-81 of its 233rd Report the Committee indicated concern that beneficiaries be properly identified before receiving payment. The Department has been asked to comment on progress in introducing new guidelines to improve performance in this area and to comment specifically on the role of pre-grant interviews in the identification process.

#### Proof of Identity (POI) system

2. Changes to the 'proof of identity' system were introduced in most States in November/December 1984. In NSW they were introduced in March, 1985.

3. The aims of the new system are:

- to reduce the opportunity for fraud in the client identification process;
- to improve techniques for dealing with genuine clients experiencing difficulty in establishing identity;
- to reduce tension between clients and staff in the identification process.

4. The strategy for introducing the changes has been to introduce the new concepts and procedures. These are to be refined after a settling down period and after systems changes

have been implemented. The systems changes are to include an indicator on microfiche and computer records to show the identity status of each client, i.e. whether provisional or satisfactory identity has been established.

#### Progress

5. Earlier this year State administrations of the Department were asked to undertake an informal survey of regional offices to establish whether the new system was operating satisfactorily and whether it was being generally accepted.

6. State administrations reported that the new system was of good value and a definite improvement on the old. Early indications are that the system is efficient and effective in meeting its objectives of deterring fraud while improving the service provided to genuine needy clients. Regional offices reported a reduction in client/staff tension during the POI procedure.

7. The new system requires a pre-grant interview to be conducted for each claimant and dependant spouse of the claimant. Some allowance is made for special circumstances such as where sickness, remoteness or child care made attendance unrealistic.

8. Beneficiaries are identified before payment. However, there is provision for payment on the basis of proof of identity which is below the new standard, subject to identity being subsequently confirmed. At present this is being administered manually in the benefits area, although automatically in the pensions system. System changes to enable the automatic process are expected to be introduced by the end of the year. At that stage a post implementation review will be undertaken.

9. This, and the accompanying post implementation review, will complete the introduction of the new system.

10. Both staff and clients have reacted favourably to the new arrangements so far. The survey indicated that the new system did not have a significant impact on resources generally. Some local offices have found the resource impact greater than others and these are being assisted by State administrations.

#### Conclusion

11. The new system is being implemented satisfactorily and at this stage it appears to be both effective and efficient. It is anticipated that the system will be fully effective when USB indicators are included on microfiche and computer records and after fine tuning following the post implementation review.

#### LIAISON WITH COMMONWEALTH EMPLOYMENT SERVICE

12. The Department's submission in July 1984 advised, among other things, that:

- following acceptance of revised procedures for liaison by senior management of the Commonwealth Employment Service (CES) and Social Security, changes were to be made to this Department's ADP systems and clerical procedures in both CES and Social Security were to be amended;
- the revised liaison procedures provide that any lapse of registration will be brought promptly to the attention of the delegate of the Secretary responsible for the authorisation of payment of unemployment benefit;
- implementation of revised liaison arrangements would be subject to the availability of staff resources in both CES and Social Security and that a definite implementation date could not be advised until the question of resources was resolved.

13. To assess the extent to which additional staff resources may be required to implement the revised procedures nationally, a pilot exercise was conducted in two Social Security regional offices.

14. The pilot concluded on 21 June 1985 and the results are currently being evaluated.

15. Early indications are that additional resources would be required to implement the revised procedures nationally. In the event that these indications are confirmed CES and the Department will further review the situation and seek to identify any other options for improving liaison arrangements within existing resources.

MANAGEMENT INFORMATION SYSTEM COVERING REVIEWS OF CONTINUING ENTITLEMENT

16. Revised arrangements for the review of unemployment benefit recipients have been implemented. The new approach emphasises:

- the desirability of reviews being undertaken on a selective basis using risk analysis to make those decisions;
- that the choice of cases for review can be:
  - . by regional office staff;
  - . by the public (these are unavoidable);
  - . by selection of groups of cases from the Department's records on the basis that there is a perceived higher than average risk of wrong payment;

- the usefulness of the detailed information which is being provided about the results of reviews. This is the management information system referred to in paragraph 33 of the earlier submission and will assist in making the risk analysis decisions referred to above;

- the importance of regional offices using the appropriate mix of skills on review work (i.e. clerical resources as well as field staff).

26 July 1985

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report - March 1984  
Submission by the Department of Social Security on paragraph 8.1.  
Unemployment Benefit Administration

The Department's submission on paragraph 17.1 of the Auditor-General's March 1984 Report includes material under the heading "Liaison with the Commonwealth Employment Service" which is repeated hereunder as being also relevant to paragraph 8.1 - Unemployment Benefit Administration.

2 A joint review team with officers from DEIR and DSS presented a report which detailed revised procedures whereby the continuing registration for employment of all unemployment beneficiaries can be achieved.

3 Following acceptance by senior management of both Departments of the recommendations in the report changes are being made to this Department's ADP system and clerical procedures in both DEIR and DSS are being amended.

4 It is proposed to finalise the ADP and clerical changes by the end of August 1984. The implementation of the revised liaison arrangements is subject to the availability of staff resources in both DSS and DEIR. Until this matter is resolved it is not possible to indicate a definite implementation date.

5 The revised liaison procedures provide that any lapse of registration will be brought promptly to the attention of the delegate of the Director-General responsible for the authorisation of payment of unemployment benefit.

6 Procedures within DSS will provide that, where appropriate, beneficiaries will be requested to seek re-registration without delay. If, after a reasonable time, the beneficiary has not notified DSS of his/her re-registration a further advice will be issued to the beneficiary notifying that his/her unemployment benefit is to be reviewed. An extended period will be allowed to those beneficiaries living in remote areas.

7 Normal review procedures will then be undertaken to ascertain whether the beneficiary has satisfied the delegate of the Director-General that the requirements of Section 107 of the Social Security Act are being met with regard to efforts to find work.

8 The effectiveness of the changes will be reviewed via selective review processes, and other methods, some months after implementation.

16 July 1984

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report: March 1984  
Submission by the Department of Social Security on paragraph 17.2  
Recovery of Overpayments

As part of the examination of the Auditor-General's report for March 1984, the Department of Social Security has been asked to provide information as to the initiatives that are being undertaken to improve the recovery of overpayments arising under the Act.

2 It has been recognised that positive action is required to seek ways to increase the effectiveness and efficiency of processing and recovering overpayments arising under the Social Security Act 1947. The current situation is that in concert with a growing client base, the number of cases and the cumulative balance owing to the Department is increasing over time.

3. Furthermore, the recovery of overpayments is becoming increasingly more difficult, in the main due to the following factors:

- the socio-economic circumstances of the Department's clients require special consideration, particularly as many are not in the position to repay amounts owing;
- the increased demands on limited Departmental resources;
- the high turnover of staff has led to a lack of experienced personnel available to calculate often complex overpayments (particularly pensions);
- the transient nature of many clients makes debtor location difficult.

4 In September 1983, the Department's Executive commissioned the Management Consultancy Group of its Performance Monitoring Branch to undertake a comprehensive study of the administrative systems, organisational arrangements and foundation policy currently applied by the Department in respect of the processing and recovery of overpayments arising under the Social Security Act 1947. The objective of the study was to recommend variations to existing practices or alternative measures to improve the overall rate of recovery in a cost effective manner.

5 The current status of the review is that it is nearing finality with preliminary recommendations (as outlined below) being currently considered by all State Administrations and the Department's Central Office.



6 The preliminary recommendations made as a result of the study centre around :

- . policy;
- . administrative systems;
- . organisational arrangements.

7 In respect of policy, the study has indicated that :

- . the primary objective of the activity should be to actively pursue the economic recovery of debts but at the same time be sensitive to client circumstances;
- . in view of the significance of the resources invested and the increasing incidence and value of outstanding debts, this function needs to be recognised in its own right and accorded increased relative priority;
- . economic thresholds should be determined on an on-going basis to ensure that overpayments are pursued generally only where it is cost effective to do so.

8 In respect of administrative systems, it has been recommended that:

- . work commence to develop a new national overpayment recovery system, that is based on current and foreseeable future user needs and that is integrated with the major benefit systems as part of STRATPLAN, and that will identify the most cost effective categories of debt to pursue;
- . in the interim, develop and place into production stand alone modules that will cross-match current overpayment records with benefit records so that all possible cases are identified and action taken to recover moneys owing by deductions from benefits paid to current client debtors;
- . in the interim also, develop and place into production programs which will allow deductions currently being made from benefits as a means of recovery to be indexed with movements in benefit rates to always approximate 10 percentum which is departmental policy and currently applied manually. It should be noted that such action would not be taken where this would cause hardship to clients.

9 In respect of organisational arrangements, a number of options are presently being considered which involve:

- . the formation of a National Debt Recovery Unit within the Central Office of the Department to provide strategic planning, direction and analysis of performance on a national basis and attend to the development of policy and associated administrative systems to improve operations;
- . a re-aligning of existing and presently separated overpayment processing and debt recovery responsibilities into specialised areas within the Department; and
- . the development of a comprehensive Management Information System to assist Departmental officers at all levels to monitor performance and initiate action to remedy problems identified.

16 July 1984

Inquiry into the Auditor-General's Report: September 1984  
Submission by the Department of Social Security on  
Paragraph 19.3 - Recovery of Overpayments

As part of the examination of the Auditor-General's report for September 1984, the Department of Social Security has been asked to provide information as to the current situation with regard to initiatives being undertaken to improve the recovery of overpayments arising under the Act.

2 In considering the matter, the environment in which the Department operates and the relativities need to be observed. Whilst in absolute terms the value of overpayments is material, when considered in the context of the overall level of expenditure on benefits, pensions and allowances, overpayments represented only 0.46% during 1983/84. It should also be noted that the increase in the amount of overpayments raised during 1983-84 was matched by an equivalent increase in the number of overpayment cases identified and processed. In effecting recovery the following factors have an impact:

- the socio-economic circumstances of the Department's clients require special consideration, particularly as many are not in the position to repay amounts owing;
- the high turnover of staff has led to a lack of experienced personnel available to calculate and process complex overpayments (particularly pensions);
- the transient nature of many clients makes debtor location difficult;
- overpayment processing and recovery is often an industrial target.

3 In addressing the problems and issues the Department has taken positive action. Two major initiatives which have been designed specifically to reduce the incidence of overpayments and increase the effectiveness of recovery operations are:

- the adoption of direct credit as the prime mode of payment;
- the implementation of a number of major recommendations arising from a national review of debt recovery operations undertaken in late 1983 and continuing

through 1984. Reference to this review was made in the Department's previous submission to Committee concerning this matter.

4 There are also a number of other initiatives currently being undertaken by the Department which should have a beneficial influence on the recovery of overpayments. These are:

- the development of a corporate computer-based management information system entitled PRISM (Performance Related Information System for Managers);
- the implementation of revised procedures related to Proof of Identity;
- the development of a Quality Assurance Package to assist regional managers to monitor and improve the application of departmental policies and procedures;
- the implementation of streamlined processes in respect of the issue of replacement cheques;
- in the longer term, the implementation of the Integrated Index Facility as part of STRATEPLAN.

All of the above initiatives are briefly discussed in the following paragraphs.

5 In September/October 1984 a comprehensive feasibility study of proceeding to direct credit as the prime method of paying the entitlements of individuals by the Department was undertaken. The result of that study indicated that this option was feasible, cost-effective and brought with it significant advantages to clients. With approximately \$8m (or 12.5% by value and 22.5% by number) of overpayments being caused by original and duplicate cheque negotiations by clients during 1983/84, the adoption of direct credit will be significant in the prevention of overpayments. Following consideration of the option by Cabinet, the then Minister, Senator the Hon. D Grimes, announced on 6 September 1984, the Government's decision to move to direct credit as the prime mode of payment. Implementation is now proceeding. It is expected that the conversion of pension and family allowance payments will occur in April/May 1985, followed by Unemployment and Sickness Benefit payments in June 1985. Significant savings in administrative costs to the Department will also accrue.

6 A number of major recommendations arising from the national review of debt recovery operations, of which the

Committee was previously advised, are currently in the process of implementation. These include:

- . the development of revised practices in respect of the priority in which overpayments will be raised in regional offices and followed up by recovery personnel. In essence they will be designed to ensure that priority will be afforded firstly to those categories of debts which have a high probability for recovery and that subsequent decisions in respect of particular action to be taken will take into account the cost-effectiveness of those actions;
  - . the strengthening of the overall management capability of the function through the creation in the Department's Central Office of a small number of positions to provide strategic planning, direction and analysis of performance on a national basis and attend to the development of policy and associated administrative systems to improve operations. Further, a middle level management position has been allocated to each State to provide a focus for improvements at a local level and to ensure that policy initiatives are effectively translated into practice;
  - . in the interim, computer programs have been implemented to cross-match current overpayment records with benefit records so that all possible cases are identified to enable action to be taken to recover moneys owing by deductions from benefits paid to current client debtors;
  - . in the longer term, the development of a new national overpayment recovery computer system, that is based on current and foreseeable future user needs and that is integrated with the major benefit systems. It is likely that the system will identify the most cost-effective categories of overpayments to pursue as well as allowing for the ongoing adjustment of the level of deductions being made from benefits which is a popular means used by clients to repay overpayments.
- 7 Associated developments which will also have an impact on either the prevention, detection or effective recovery of overpayments are:
- . the implementation nationally of the management information system PRISM in November 1984. This system produces a series of reports for regional managers across the country, a number of which specifically provide information in relation to

overpayments. These reports provide details as to volumes on hand and processed, the values involved, the reasons for overpayment and recovery rates. A further 'stand alone' series of programs designed to monitor volumes of cases where overpayments have yet to be confirmed is presently being trialed in the Department's Western Australian administration;

- . following a national review conducted during the period March-November 1984 in respect of standards of information to be provided as an acceptable level of Proof of Identity, implementation of national guidelines commenced in December 1984. The consistent application of these guidelines will have an impact in the prevention of overpayments and fraud;
- . the development of a Quality Assurance Package for regional managers. In essence the package is a self-monitoring practice which focuses attention on the quality of administration of the benefit processes. The element of the package which deals with overpayment processing is designed to ensure that cases are dealt with in a timely manner, are accurately assessed and that deductions are made (where appropriate) from ongoing payments of benefits to clients. National implementation is planned for April 1985;
- . the implementation of revised procedures (following a national review) in respect of the issue of replacement cheques. The guidelines issued were designed to provide regional officers with more timely and adequate information so that they may accept or reject replacement cheque applications with a much greater confidence of the current status in respect of the presentation of the original cheque. These guidelines have the impact of reducing overpayments arising from dual negotiation of cheques by clients;
- . continuing development and refinement of other benefits control techniques;
- . in the longer term the development of the Integrated Index Facility which will bring together all information related to a client in a readily accessible database environment under STRATPLAN, will assist in both the prevention and recovery of overpayments.

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Enquiry into Auditor-General's Report March 1984

Submission by the Australian Taxation Office

RECOVERY OF TAX (Reference 22.1)

This audit was carried out in several branch offices of the Australian Taxation Office with the object of determining whether:

- Taxation Office procedures for recovery were applied correctly and staff resources were applied to areas of greatest effect,
- taxes which had become due and payable were collected promptly and an adequate information system was maintained, and
- progress of cases was monitored effectively.

2. As the Auditor-General's Report correctly states Taxation Office policy is that procedures for recovery of taxes are generally brought into operation when the amount outstanding has not been paid by the due date. Further, that extensions of time for payment are, on request of the taxpayer, used as an alternative to legal action in cases where the taxpayer is clearly unable to pay the debt when it falls due, but has the ability or potential to pay at some future date.

3. The Auditor-General also reported that at the time of the audit income tax assessments against which the taxpayer had objected or appealed made up the greatest proportion of tax subject to recovery action. He added that the policy followed by the Taxation Office in respect of these cases was to allow 50% of the tax in dispute to remain in abeyance where there was a genuine dispute and the taxpayer was co-operative in seeking its resolution.

4. As to this, recovery policies have been modified in the light of legislation changes in 1982-83, in particular, to take account of the increase from 10% to 20% in the per annum rate of additional tax for late payment and the limitation on the circumstances in which this additional tax may be remitted. In cases where the dispute involves a scheme or arrangement to avoid tax there is no "50/50" arrangement and legal recovery action is to be undertaken where tax is outstanding, and secondly, where payment of tax is deferred additional tax for late payment continues to accrue on any unpaid amount and will also be payable in the event the taxpayer is unsuccessful in the dispute.

5. Concerning the statistics presented at "Table 1" of the Auditor-General's Report six matters require mention. Firstly, the table only relates to individual and company debts; secondly, outstandings in relation to superannuation funds, \$10 million at 30 June 1983, are not included. Secondly, a different basis of

2.

calculation of the amount of "outstanding tax" was used for the years ended 30 June 1977 and 1978 than in subsequent years. A re-calculation of the 1977 and 1978 "outstanding tax" figures using the common basis reveals that the amount of "outstanding tax" for these years was actually higher than reported. The amount of "outstanding tax" in respect of 1977 and 1978 was \$586m and \$790m, not \$545m and \$688m as shown in the table. Thirdly, figures for collections have been adjusted to exclude identified collections not related to individuals and companies, in particular superannuation funds, and to include recoupment tax collections in 1982/83.

6. Fourthly, the "outstanding tax" figure for the 1983 year has been revised and the figure is now \$2729m instead of \$2604m. This is due to a revision of figures, including allowing for an estimate of credit balances of \$155m not previously taken into account and taking account of \$20m received on account of recoupment tax. Adjustments for this change are made to all other affected figures. This revised outstanding tax figure needs some qualification as processing difficulties at 30 June 1983 prevented an analysis of debit balances to be obtained; the original figure was based on the net amount of debit and credit balances, the revised figure now allows for adding back the known amount of the credit balances at 25 June 1983.

7. Fifthly, there were several minor calculation errors in respect of the percentages of tax outstanding as compared with collectable. Lastly an estimate is available of the amount of "outstanding debts relating to scheme taxpayers" for the 1978 year. This amount is estimated to be \$158m.

8. A revised "Table 1" incorporating the above revisions is attached.

9. All other preamble information to the Auditor-General's Report and the statistics reflecting the amount of tax outstanding are considered to accurately reflect the situation as it existed, subject to the above qualifications, at the time of the audit.

10. Notwithstanding the above it is considered appropriate at this point to make clear that the Auditor-General was not the first to bring to notice the large outstanding taxes situation in the Taxation Office. The fact that the net amount of all taxes and levies outstanding at 30 June 1983 was \$2.9 billion had already been reported to the Parliament in the Commissioner's 62nd Report. Similarly reports for earlier years had also disclosed the outstanding tax situation.

11. It should be noted that of the \$2.9b outstanding at 30 June 1983, \$2.6b related to income tax while most of the balance related to sales tax. The \$2.6b income tax in broad terms was split as follows:

Debts related to stripped companies which for the most part is being sought under the recoupment tax legislation. \$150m of this is penalty tax for failure to lodge returns not recoverable through recoupment tax legislation .....	\$ 650m
Debts related to trust stripping arrangements and trust participation in artificial tax avoidance schemes which are subject to challenge .....	\$ 158m
Debts related to individuals and non-strip company participation in artificial tax avoidance schemes and arrangements which, for the most part, are subject to challenge .....	\$ 829m
Total related to tax avoidance and stripping activities	<u>\$1637m</u>
Included in this total is about \$200m additional tax imposed under section 226(2) (overclaiming deductions/non full and true disclosure) which is subject to legal challenge. Also included is about \$90m in respect of additional tax for late payment.	
Debts not related to avoidance/ stripping activities .....	\$1092m
TOTAL	<u>\$2729m</u>
Less amount of credit balances at 25 June 1983	<u>\$ 155m</u>
NET Individuals and companies income tax outstanding	<u>\$2574m</u>
Included in this total is \$303m which was not due at 25 June 1983.	

Since 30 June 1983 it is estimated that these debts have been reduced by approximately \$1b., the larger part of this being through collections but some reductions occurred through other adjustments, e.g. amendment of assessments. Of the \$1b about \$0.3b was in respect of debts of taxpayers involved in avoidance and stripping activities and the rest in respect of other debts.

12. The Australian Taxation Office has long been concerned with the growth in tax outstanding since 1976-77, the year prior to the upsurge in avoidance and evasion activities. However, when the debts of taxpayers involved in income tax avoidance and evasion are excluded from the figures the relationship between the amounts of income tax outstanding and the total income tax collectable (excluding P.A.Y.E.) can be seen to be much more stable. The percentages at the bottom of the table attached reflect this.

13. To summarise the matter, when considering the statistics presented by the Auditor-General (now adjusted) it is important to understand some of the background which has led us to this situation. The following points are made :

- The total outstanding figure for each of the recent years includes a significant amount in respect of stripped company and other tax avoidance activities.
- The 1983 figures include significant amounts of penalty tax which are under challenge in the courts.
- The 1983 figures include about \$90m in respect of additional tax for late payment that was not reflected in the 1982 figures because of a change in procedures as to when this penalty should be debited.
- There have been considerable difficulties in the past in attempting to recover tax that is in dispute and there have been a number of cases where courts have given judgment but not allowed execution of judgment.
- Administrative action taken by the Commissioner since early 1983 to disallow outstanding objections in tax avoidance cases and to seek to recover the tax that has been assessed is beginning to show results.
- The amount of outstanding tax at the end of the year of income includes amounts not yet due for payment. At 25 June 1983 this amounted to \$303m.

14. As indicated in the table the debts relating to tax avoidance schemes, evasion through asset stripping activities, etc. have only become significant since 1977. This is because it has only been possible to raise assessments after detailed investigations of often very complex arrangements have been carried out. These investigations have been continuing for a number of years and hence the outstanding debts relating to these cases have continued to increase. This continued action reflects the Commissioner's resolve to challenge these schemes and arrangements.

15. Turning to specific matters raised in the Auditor-General's Report.

#### DEFICIENCIES IN RECOVERY PROCEDURES

16. Audit found in the Brisbane Office that a number of weaknesses existed in control over the preparation of computer input forms for the imposition and remission of penalties. These included

- input forms could be returned to the preparing officer after authorisation

- authorised forms were placed in an easily accessible position
- correction fluid was commonly used on the forms
- there was no provision for re-authorisation where the same form was re-input following rejection, and
- there was no check of authorisation to a list of authorised signatures."

17. Since the audit all officers associated with the preparation, authorisation and input (including re-input) of computer input forms (i.e. the first four points), and in particular accounting transactions, have been reminded of the correct procedures that they are to follow. These procedures are well documented and contained in manuals dealing specifically with these matters.

18. In relation to the fourth point, concerning re-authorisation for re-input of rejected transactions, there is no provision on input forms for re-authorisation following rejection of a transaction because, except in very exceptional circumstances, a fresh input form would always be prepared for these rejects.

19. Subsequent to these matters being reported the Deputy Commissioner in Brisbane has had an in-house audit conducted of the areas concerned and is satisfied that a more than adequate level of control now exists.

20. On the fifth point there is a requirement that input forms be checked to ensure that they have been signed by authorised officers. However, it must be said that signature checking of this type cannot be relied upon as a total control measure. A number of other checks, or control measures, exist in the processing system to ensure that only valid transactions are processed. These additional controls include:

- (a) serially numbered input forms, the issue of which are controlled and recorded;
- (b) computer edit checks on the validity of input form preparation;
- (c) routine checks carried out on refund transactions in the general course of processing;
- (d) additional checks carried out on large refunds before they are allowed to issue; and
- (e) special criteria incorporated into the computer system which reports certain refund transactions for scrutiny by internal audit officers.

It is considered that the non-checking of signatures is a relatively minor matter when viewed against the range of compensating controls present.

21. During a review of recovery files in the Sydney Branch, Audit noted that documentation standards were not satisfactory in all cases. Specifically -

- "Difficulty was experienced in following a sequence of events from case documentation, correspondence was not always clearly addressed, signed or dated, legal documents were loose in the files, approval signatures were not always decipherable and file cover markings, particularly the recording of recovery action codes, were not always completed."

22. The Deputy Commissioner acknowledged that personnel not familiar with the work of the area may have some difficulties in reading certain folios of recovery files mainly because of the use of abbreviations and jargon. He said, however, that files do follow a chronological sequence and all actions taken are evidenced by copies of letters to taxpayers, memoranda, submissions and the like which are sequentially folioed.

23. Notwithstanding the foregoing comments the Deputy Commissioner agreed that complete and tidy documentation is essential and has issued an instruction directing staff to ensure that all submissions and reports on recovery files are signed in a decipherable way and are presented in a fashion that is understandable to any officer who in the course of duty may be required to review the files.

24. He also added that the proper documentation of cases is covered in training manuals and is emphasised in training courses. In addition, recovery team leaders and more senior supervisory personnel are constantly monitoring the procedures during the normal performance of their duties.

25. In relation to the provision of action code information on recovery file covers he said that there are many cases when bulk handling of files is required and it was not always economic to enter details manually on each case. This he added was not considered to hamper efficiency in any way as other facilities exist to readily determine the current position of any particular recovery case.

26. On Audit's comment that legal documents were loose in files the Deputy Commissioner said that these documents were copies of the originals that had been lodged at the courts and are kept loose at the back of recovery papers for ease of reference. Audit's concern, which is presumably that they may be lost, is, in the experience of senior experienced taxation officers, unfounded.

27. Audit testing of the imposition of additional tax for late payment in the Sydney Branch disclosed an unsatisfactory situation in that instances were noted where additional tax imposed was inaccurate, calculations had not been checked, a "period of grace" was not uniformly allowed and documentation standards had not been met.

28. In relation to this criticism the Deputy Commissioner said that the audit findings were based on a relatively small sample. Out of 25 cases sampled, two were found where the seven days period of grace had not been taken into account. The Deputy Commissioner further said that it was neither possible nor productive to check all late payment penalty calculations but all those over \$100 are checked as well as those below \$100 where the calculation is made by an inexperienced clerk.

29. The documentation standards referred to by Audit relate to the signing and updating of penalty calculation forms and to the endorsement of the input serial number. Recent sampling undertaken show that these omissions no longer exist.

30. The Deputy Commissioner has advised that the difference in approach in allowing a "period of grace" occurred between the Recovery and Revenue Control sections and that procedures in Revenue Control have since been adjusted to conform.

31. The audit in Sydney further disclosed two specialised areas of recovery in which difficulties had arisen:

- . "there was a significant number of cases where recovery had not been effected on excess or dual credits of tax instalment deductions allowed to taxpayers", and
- . "with regard to recovery of court fines (mostly under \$100), it was noted that cases of 1975 origin had yet to be finalised."

32. As indicated in the response provided by the Deputy Commissioner there are some difficulties associated with collecting amounts where there has been a dual or excess allowance of tax instalment deductions. Debts which arise in this manner require special action as distinct from normal action as for income tax debts because they represent losses of public monies.

33. The majority of individual debts involve less than \$500 and the total value of cases is generally less than \$200,000 at any time. Because most of these debts are of low value and they are often collected by absorption of credit arising in subsequent year assessments they are not afforded a high priority.

34. Also the questions raised regarding police court fines have been addressed with those cases being isolated from other

work to ensure, as far as possible, and as resources permit, they are given attention in a timely manner. It should be noted that many of those fines are the responsibility of the State Courts Administrations to collect and as such are outside the direct control of the Taxation Office. Of the balance, the majority are less than \$50 and due regard has to be given to the cost-effectiveness of proceeding with action to collect these debts when resources are scarce and many larger debts exist.

35. The audit in the Melbourne Branch revealed that considerable delays in re-activating recovery proceedings would occur where cheques in settlement of accounts were dishonoured. In one instance, the recovery case was closed on receipt of a cheque for an amount in excess of \$1000 from the taxpayer but the cheque was subsequently dishonoured and recovery action was not re-activated until more than 4 months later.

36. New procedures have now been introduced to ensure cases falling into this category are re-activated in a timely manner. The Deputy Commissioner advised that with the introduction of the procedures, closed recovery cases can be re-activated in little over a week following advice of a dishonoured cheque. This is considered to be more than adequate.

#### DELAYS IN PROCESSING RECOVERY ACTION

37. Audit of recovery units in several branches disclosed difficulties in coping with the workload. In particular Audit noted that the Brisbane unit had severe backlogs in the area of reviewing compliance with arrangements, following-up on correspondence and reviewing cases generally. These problems were most noticeable in the area handling cases where collection of tax has been deferred for some reason. This area also handles recovery of tax where assessments are in dispute. In these cases it is policy, where avoidance schemes are involved, to regularly calculate the amount of additional tax for late payment that is accruing, bring the account up to date and advise the taxpayer. Audit found that this action was in arrears.

38. As indicated by the Deputy Commissioner in his response to Audit, additional staff have been deployed to the "Deferred Tax Unit" to overcome the backlogs in that area and there has been considerable success in updating additional tax.

39. Further, control of unanswered correspondence in that area has now been included in an office wide correspondence control system which will ensure that in future there is an adequate follow-up of all recovery related correspondence, in particular that relating to arrangements for the payment of tax. In this regard it is a policy objective of the Australian Taxation Office that a reply to taxpayer correspondence be issued within 28 days of its receipt. The Deputy Commissioner has taken steps to ensure that this objective is met.

40. Audit noted considerable delays in bringing appeals in tax avoidance scheme cases to conclusion in the Sydney Branch.

41. There is of course much that the provision of additional staff can do to overcome backlogs and this step has been taken by the Deputy Commissioner but in a large number of cases action and eventual finalisation, particularly in the more complex appeals cases, must await the often protracted processes of law.

42. As indicated in the audit report the Deputy Commissioner noted that where tax avoidance cases are involved there is a need to obtain detailed evidence for test cases. Further there are difficulties created by the complexity of the financial systems involved in the various tax avoidance schemes encountered and in the way some taxpayers sought to take advantage of all available legal options to defer payment of tax.

43. At the time of the audit in the Perth Office extensive delays were being experienced in obtaining replies for opinions from the Deputy Crown Solicitor's office. One request noted by Audit had been outstanding for over 4 years. Delays were also apparent in action by the Deputy Crown Solicitor's Office on requests for preparation of writs and prosecutions.

44. The Deputy Commissioner has advised that since the criticism by Mr Costigan of the Deputy Crown Solicitor's office in Perth there has been a significant improvement in the service provided to this Office. Further, assistance requested in obtaining judgment in defended actions has been prompt and efficient and there have been no inordinate delays in responding to requests for opinions in recovery matters.

45. Some cases involving the issue of Writ of Summons were noted in the Brisbane Branch where the inability of the Taxation Office to correspond directly with the taxpayers concerned had contributed to delays in finalising recovery action. In these cases the correspondence had to be channelled through the office of the Deputy Crown Solicitor. As Audit noted, this matter was the subject of correspondence with the Registrar of the Queensland Supreme Court in 1981 but was not favourably received at that time. The situation in Queensland has not changed since then and nothing has indicated any change in attitude of the Queensland courts on this matter.

#### DEFERMENT ARRANGEMENTS

46. Audit noted that the Income Tax Act provides that income tax is recoverable even though an appeal or reference is pending on an assessment. It should be noted that the Taxation Office has taken the view that recovery action will not be commenced where an objection, as distinct from an appeal or reference, has been lodged against an assessment whilst that objection remains undetermined.

47. The Taxation Office policy of deferring legal recovery action where a taxpayer, with an appeal or reference pending on an assessment, agrees to pay 50% of the tax in dispute together with the tax not in dispute is referred to in the audit report. As mentioned in the pre-amble to this response two important points need to be taken into account. Firstly, in cases where the dispute involves a scheme or arrangement to avoid tax this policy does not apply and legal recovery action is to be undertaken where tax is outstanding. Secondly, where payment of tax is deferred additional tax for late payment continues to accrue on any unpaid amount and will also be payable in the event that the taxpayer is unsuccessful in the dispute (additional tax for late payment is currently calculated at the rate of 20% per annum).

48. Legal recovery action in cases where appeals or references are pending on assessments has in most cases been ineffective because whilst courts will give judgment on the debt the usual practice is for the taxpayer to seek a stay of execution pending resolution of the dispute and such requests are usually granted. It was not until last year that a court decision enabled effective recovery action in one of these cases. The particular case involved a debt which arose following disallowance of a tax avoidance arrangement by the Commissioner, judgement was granted, the taxpayer sought leave to appeal to the High Court but this was denied. Current policy reflects the success in this case. It should be noted that Taxation Office policy in this area was modified in April 1983 following that court decision.

49. Audit enquiries in Brisbane revealed a number of deficiencies in the operation of the deferment arrangements. These included:

- different bases for calculation of the amount to be deferred
- lack of evidence of the basis of the arrangement entered into in some instances
- cases where full deferment was granted, and failure by taxpayers to comply with deferment arrangements entered into.

50. As reported by the Auditor-General in respect of points one, two and three the Deputy Commissioner has made extra resources available and this has resulted in considerable success in formalising deferment arrangements where these were previously non-existent or incomplete.

51. In relation to the fourth point the audit enquiries were made before the court decision in April 1983 was handed down. Taxpayers' advisers were well aware of the difficulties the Taxation Office had in effectively recovering tax by legal processes where disputes on assessments existed and hence they were quite prepared to dishonour any arrangement they may have



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entered into to pay the tax outstanding. It is clear that attitudes are now changing in this regard and it is likely that the factors contributing to this change are:

- . the increase in the rate of additional tax for late payment to 20¢ p.a., and
- . changes to the law limiting the Commissioner's power to remit additional tax.

In closing on this matter it is mentioned that the Deputy Commissioner has, to the greatest extent possible, made available additional staff to follow-up non-compliance with deferment arrangements.

#### MANAGEMENT INFORMATION

52. The audit in Brisbane indicated some areas where reports on the performance of the Recovery Section could be improved. The existing performance monitoring system did not include reports on cases finalised as a means of assessing effectiveness. A weekly report detailing outstanding workload had not been produced for some months. In addition, there were no reports on taxpayer compliance with deferment arrangements.

53. The Deputy Commissioner has re-instituted the weekly report detailing outstanding workload. Additionally Taxation Head Office is developing a series of monitoring reports which are to be introduced progressively as computer systems permit, and which will provide Deputy Commissioners with a more detailed overview of collection performance.

#### CONCLUDING COMMENTS

54. The Committee may be interested to know what, if any, significant things are outstanding in relation to matters raised in the Auditor-General's Report. In this regard the major matter not yet completed is a total review of recovery activities, this is being pressed ahead with some urgency. Following initial research in all major offices a conference was held earlier this year at which the major identified deficiencies were discussed at length. Arising out of that conference were a set of priorities to be adhered to when actioning recovery cases, performance standards for settling recovery cases for various levels of debt and clearly defined work segregation arrangements for recovery cases. Following on from that conference work is being done to review staffing numbers and classification together with a number of other matters in the recovery area.

55. In conclusion, it must be said that much of what has been reported relates to relatively minor procedural matters which because of the complex nature of recovery actions, the volume of cases being handled, the number of staff involved and the high staff turnover rates being suffered, can, to some extent, be

12.

expected. Branch Offices run quite comprehensive recovery staff training programmes, check all the work of inexperienced clerks and the work of other clerks is subject to sample checking. It can be seen from the foregoing that the Taxation Office has responded to Audit criticisms in a responsible manner.

13 JULY 1984

Table 1

## INCOME TAX OUTSTANDING AND COLLECTIONS (a)

30 June	\$ MILLION						
	1977	1978	1979	1980	1981	1982	1983
A. Outstanding Tax	586	790	1 095	1 421	1 801	2 512	2 729 (b)
B. Collections for Year	5 245	5 581	5 437	6 279	6 106	6 840	6 950
C. Total Collectable tax	5 831	6 371	6 532	7 700	7 907	11 352	11 679
D. Outstanding debts relating to scheme taxpayers	Not Avail.	158	434	711	973	1 458	1 637
E. Collections from scheme taxpayers for year (estimated)	Not Avail.	0	0	0	106	183	592
OUTSTANDING TAX AS PERCENTAGE OF TOTAL COLLECTABLE TAX							
All Debts	A	9.88%	12.4%	16.76%	18.45%	18.18%	22.13%
Excluding A-D	C	-	10.17%	10.84%	10.16%	9.38%	10.85%
Scheme Cases C-D-E							11.56%

Notes: (a) Only relates to individuals and companies. Excludes pay-as-you-earn tax instalment deductions, and dividend and interest withholding taxes.

(b) The outstanding tax figure for 1983 has been derived by adding back \$155m on account of credit balances at 25 June 1983.

A and D: Includes a component due after 30 June.

D and E "Scheme taxpayers" are taxpayers involved in tax avoidance schemes.

JOINT COMMITTEE OF PUBLIC ACCOUNTSEnquiry into the Auditor-General's Report - March 1984Submission by the Attorney-General's Department

This submission relates to the following two matters raised in the Auditor-General's Report - March 1984, at page 177.

- (a) Delays by the Deputy Crown Solicitor's Office, Perth, in responding to requests by the Perth Branch of the Australian Taxation Office for opinions (paragraphs 2-9 below).
- (b) The issue of Writs of Summons by the Deputy Crown Solicitor's Office, Brisbane, (paragraphs 11-13 below).

Delays by the Deputy Crown Solicitor's Office, Perth

2. The relevant paragraphs in the report are as follows -

'In the Perth Branch, extensive delays were being experienced at the time of the audit in November 1982 in obtaining replies to requests for opinions from the Deputy Crown Solicitor's Office. One request noted by Audit had been outstanding for over 4 years. Delays were also apparent in action by the Deputy Crown Solicitor's Office on requests for preparation of writs and prosecutions.

The Attorney-General's Department has advised that since the time of the audit steps have been taken to ensure that delays of the kind referred to do not occur again.'

Context of the Audit

3. The audit of the Perth Branch of the Australian Taxation Office upon which the first quoted paragraph is based, took

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place shortly after -

- (a) the tabling of the 4th Interim Report of the Costigan Royal Commission on the Activities of the Federated Ship Painters and Dockers Union ('the Costigan Report' - tabled in the Senate on 24 August 1982); and
- (b) at the time an examination of the Deputy Crown Solicitor's Office, Perth, was being conducted by Mr A.F. Smith, the then Treasurer of the Law Council of Australia - his report ('the Smith Report') was tabled in the Senate on 2 June 1983.

4. The Costigan Report made a number of findings critical of the Crown Solicitor's Division, particularly in relation to the handling by the Deputy Crown Solicitor's Office, Perth, of a matter relating to revenue fraud. Detailed discussion of that criticism took place during the Senate Estimates Committee hearings on 13 September 1982 (Hansard Report of Senate Estimates Committee A, pages 242-284).

#### Steps taken

5. Disciplinary proceedings were brought under the Public Service Act against three members of the legal staff of the Deputy Crown Solicitor's Office, Perth. As a result, one officer was compulsorily transferred, another officer was

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demoted and a third officer was recommended for dismissal. Acting on that recommendation, the Public Service Board dismissed the third officer. An appeal is pending to the High Court in respect of the Board's decision to dismiss the third officer.

6. An examination by the Public Service Board of the staffing and other resources available to the Crown Solicitor's Division was conducted in late August and early September 1982. The examination noted, amongst other things, a need for increased staff for taxation and revenue matters. The examination also observed the need for further work on the implementation of the recommendations made by the Joint Management Review of the Crown Solicitor's Division (June 1980). In October 1982, the then Government approved a staff ceiling increase for the Department, the effect of which was to increase the 1982-83 staff ceiling for the Crown Solicitor's Division from 439 to 509, with the reservation that the increase would be subject to revision as implementation of the Joint Management Review progressed.

7. The Smith Report found ground for criticism of the Deputy Crown Solicitor's Office, Perth, but expressed support for the initiatives that were being taken in the Office in implementation of the Joint Management Review. The Smith Report proposed certain additional measures. Steps have been taken to implement the majority of the measures recommended by

the Smith Report, in particular, the provision of additional staff and accommodation, the improvement of office procedures and client liaison arrangements and the elimination of backlogs of work that gave cause for concern.

8. New procedures were introduced for the monitoring of work of the Crown Solicitor's Division. These procedures have been modified to ensure their effectiveness and efficiency and now require each Director of Legal Services (the designation 'Director' replaced the designation 'Deputy Crown Solicitor' following the Department's re-organisation) to furnish to the Secretary a Monthly Management Report, one objective of which is to ensure that any important matters the subject of delay is brought to attention and steps taken to correct the position. These procedures are being kept under review.

9. An indication of the improvement in the Deputy Crown Solicitor's Office, Perth, is to be found in the following extract from a letter that the Royal Commissioner, Mr F.X Costigan, Q.C., wrote to the Department in August 1983 referring to the fact that the Deputy Crown Solicitor's Office in Perth had acted in legal proceedings in which the Royal Commission was concerned and that it had 'so acted at the highest level of professional competence'.

The issue of Writs of Summons by the Deputy Crown Solicitor's Office, Brisbane

10. The relevant paragraphs in the Report are as follows -

'Some cases involving the issue of Writ of Summons were noted in the Brisbane Branch were the inability of the Taxation Office to correspond directly with the taxpayers concerned had contributed to delays in finalizing recovery action. In these cases the correspondence had to be channelled through the Office of the Deputy Crown Solicitor.'

'The Attorney-General's Department advised that, although in other States most Writs in Superior Courts are issued by the Taxation Office, in Queensland the Supreme Court Writs are issued by the Deputy Crown Solicitor's Office by reason of a practice of the Queensland Supreme Court. The Court declines to accept for issue process in the name of a corporate entity (in which category it places the Deputy Commissioner of Taxation) unless the process is filed by a Solicitor of the Court. A proposal that the Deputy Commissioner of Taxation should issue his own process was placed before the Registrar of the Supreme Court in 1981 but was not accepted.'

11. The delays to which the paragraphs on the Report refer are confined to those cases in which a defendant seeks to enter into negotiations for extension of time to pay the debt claimed or to make other representations to the Taxation Office and seeks to do so through a Solicitor. While the Attorney-General's Department does not dispute the proposition that the greater number of persons involved in effecting a communication, the greater likelihood that there will be delay, it does dispute any suggestion that significant delays occurred in the Brisbane Deputy Crown Solicitor's Office in referring tax payers' representations to the Brisbane Taxation Office or

6.

in conveying the Taxation Office's response to tax payers. Moreover, although the volume of such Writs issued by the Brisbane Deputy Crown Solicitor's Office is large (in the order of 2,000 per annum in Brisbane and Townsville) it is estimated that the percentage of those cases in which such communications or representations occur are no more than 5%.

12. A copy of the correspondence between the Deputy Crown Solicitor's Office and the Registrar of the Supreme Court relating to the proposal that the Deputy Commissioner of Taxation should issue his own process form Attachment A and B to this submission.

Measures to improve the standard of service provided by the Department in revenue matters

13. The Department is concerned to ensure that all necessary resources (staff or otherwise) required to perform tax work in a timely and efficient manner are available.

14. The recent creation of a Revenue Branch in Central Office reflects the Department's concern. The Revenue Branch has been established to give priority to revenue enforcement matters, in particular to co-ordinate with relevant revenue agencies litigation strategies on revenue enforcement matters. The Branch presently consists of one Senior Assistant Secretary, two Principal Legal Officers and one Steno-Sec Grade 1. The

7.

structure of the Branch is being reviewed with a view to expanding it.

15. More recently a survey of the resources available for tax work in the Department's Regional Offices has commenced with a view to ascertaining what further steps may need to be taken to ensure that the Department provides a high standard of service in a context where the demands on it in this area are increasing.

12 July 1984

ATTACHMENT A

-2-

The Registrar  
Supreme Court  
BRISBANE 4000

16 April 1981

Dear Sir,

ISSUE OF PROCEEDINGS BY THE DEPUTY  
COMMISSIONER OF TAXATION

I refer to the meeting in your office on 14 April 1981 when I discussed with you certain proposals concerning the future conduct of litigation by the Commonwealth involving the recovery of unpaid income tax.

As advised the Commonwealth proposes that, in the near future, all cases for the recovery of income tax that are presently conducted by the Commonwealth Crown Solicitor would be conducted by the staff of the Deputy Commissioner of Taxation. At present this office handles all cases for amounts above the jurisdiction of the Magistrates Court and this involves the issue of Writs out of the Supreme Court.

The proposed new arrangements would involve the issue of proceedings by the Deputy Commissioner of Taxation in the Supreme Court and possibly the District Court.

I would draw to your attention some relevant provisions of the Income Tax Assessment Act 1936 (Commonwealth). Under Section 208 of that Act -

"Income tax when it becomes due and payable shall be a debt due to the King on behalf of the Commonwealth, and payable to the Commissioner in the manner and at the place prescribed."

The position of the Deputy Commissioner of Taxation is that he is a Commonwealth public servant and by virtue of Section 209 of the Act -

"Any tax unpaid may be sued for and recovered in any Court of competent jurisdiction by the Commissioner or a Deputy Commissioner suing in his official name."

The High Court considered the position of, a Deputy Commissioner of Taxation as a plaintiff in an action for recovery of tax in the case of James v. Deputy Commissioner of Taxation (1957 97 CLR 23). There it was said at p.35 that a Deputy Commissioner of Taxation "may proceed in his own name but he sues for the Crown and as plaintiff or actor it is not in his own right but that of the Crown that he proceeds."

The Deputy Commissioner of Taxation is thus not a corporation sole as is, for example, the Commissioner for Railways. This suggests that there is no reason why the Deputy Commissioner of Taxation himself could not conduct such recovery actions as are contemplated in both the Supreme Court and District Court.

Officers of the Deputy Commissioner of Taxation in New South Wales have for some 30 years issued process out of the Supreme and District Courts of New South Wales. At the moment the majority of the process in that State is issued out of the District Court where the jurisdiction goes to \$20,000. From enquiries I have made from Deputy Crown Solicitors, no other Registrar of a Supreme Court of any of the States has exhibited opposition to the suggested new arrangements.

I would appreciate your advices as to your attitude as Registrar of the Supreme Court and the District Court to the proposal set forth above.

Yours faithfully,



(J.O. JERKS)  
A/DEPUTY CROWN SOLICITOR



MJC:MK

*Registry, Supreme Court  
Box 107 P.O. North Quay  
Brisbane, 4000*

16th June, 1981

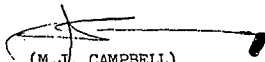
Dear Sir,

Re: Issue of proceedings by the Deputy  
Commissioner of Taxation

I acknowledge receipt of your letter of 16th April, 1981 and as previously discussed I have to advise that the contents of your letter were discussed with the Honourable The Chief Justice.

His Honour is in complete agreement with me that the proposals contained in your letter are unacceptable to this Registry.

Yours faithfully,

  
(M.J. CAMPBELL)  
Registrar.

J.O. Jerks Esquire,  
Acting Deputy Crown Solicitor,  
Commonwealth Crown Solicitor's  
Office,  
Box 1408 G.P.O.,  
BRISBANE, Q. 4001

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Enquiry into Auditor-General's Report March 1984

Submission by the Australian Taxation Office

WOOL TAX (Reference 22.2)

56. This audit was conducted at the Sydney Branch with the object of reviewing legal compliance, financial regularity and cost effectiveness aspects associated with wool tax collection.

57. Wool tax is a self-assessing tax which is collected by the Australian Taxation Office. The tax is collected to fund the activities of the Australian Wool Corporation in relation to wool research, wool use promotion and wool marketing.

58. The Auditor-General's report raised several matters of concern in relation to wool tax processing arrangements in the Sydney Branch Office and each of these was answered by the Deputy Commissioner. For the most part his responses are accurately recorded in the report. However, further comments are warranted on some of the matters either to clarify certain points or to provide the current position regarding the correction of certain deficiencies noted in the report.

Computer System

59. The Deputy Commissioner noted that the computer system through which wool tax transactions are processed and on which records are kept was not specifically designed for wool tax and this has led to a number of processing difficulties.

60. The present system fits within the National Taxpayer System (NTS) operated by the Taxation Office. This system was designed primarily to suit the processing requirements of income tax (not including Pay-As-You-Earn or Prescribed Payments). When originally developed it was intended that the wool tax part of the computer system would do no more than provide the basis for recording collections of wool tax. It was recognised that the overall wool tax processing system would continue to be a manual system.

61. It has long been accepted that the computer system could do more but priorities have had to be assigned to areas of most importance in terms of where the greatest savings can be achieved or collections increased. At this stage wool tax, which is a self-assessing tax, raising \$142 million from 3,016 returns lodged each year and costing less than \$0.5 million annually to collect cannot be regarded as having a high priority in deciding where scarce computer programming resources are to be allocated, particularly when compared against areas such as P.A.Y.E., Prescribed Payments, other income taxes, sales tax, etc., which each raise far more revenue, cost far more to administer and concern a far greater number of taxpayers.

62. Turning to the specific matters raised in the Auditor-General's report.

#### Investigations

63. Audit was critical of the small amount of investigation activity in the wool tax area and the lack of any planning in this area. The Deputy Commissioner in replying to Audit agreed that there was not a wool tax investigation programme and given resources available it was unlikely that a formal programme, if devised, would have been achieved in recent years. The need for this lies in the need to use relevant personnel on sales tax investigations, particularly those where avoidance arrangements were believed to be involved.

64. Audit comments could easily be interpreted to mean that the Taxation Office has carried out very few wool tax investigations even though there is evidence of considerable under payment. It is not the case that there is evidence of considerable under payment. A review of all wool tax investigations carried out by the Sydney Branch office since 1 January 1978 provided the following information:

Number of investigations	-	52
Number where no underpayment detected	-	40
Number where underpayment detected less than \$500	-	4
Number where underpayment detected between \$500 and \$2000	-	4
Significant underpayments of following amounts : \$4,731, \$5,435, \$17,024 and \$138,724	-	4

65. It should be noted that in the largest case identified the office had been provided with information from an external source and that that investigation was not carried out as part of a programme of investigations. Its inclusion in the statistics distorts the total picture. Experience has therefore shown that wool tax returns are, for the most part, accurate and little additional revenue is obtained from regular investigation projects. On this point it should be remembered that wool tax is in the main paid by brokers out of the proceeds of sales on behalf of growers. Moreover, the proceeds from wool tax are applied to wool research and wool use promotion and, in more recent years, to finance the administrative marketing arrangements of the Australian Wool Corporation. Because of the assistance the proceeds of the tax provides to the wool industry itself, there is less incentive to minimise or avoid its payment than is the case with other taxes.

66. It should also be noted that the Australian Wool Corporation closely monitors activities within the wool industry and, following changes to the legislation under which that body operates, it is now possible for it to provide non-compliance information to this office. The report noted that the Deputy Commissioner proposes to have discussions with the Australian Wool Corporation to make arrangements for supply of information. These discussions have not yet taken place but they will in the near future.

#### System Weaknesses

67. Audit noted a number of procedural problems in this section of the report. These problems included lack of up-to-date documentation, non-adherence to procedures in one situation, some minor delays in moving returns from one section to another, some duplication in movement of documentation within the office, lack of a permanent register of final demands issued and the lack of account postings in certain situations on computer records.

68. None of these matters has affected the overall administration of wool tax nor has it resulted in any loss of revenue. Of those matters which do not require any computer modifications the Deputy Commissioner in Sydney has advised that appropriate corrective action has been taken. Specifically the Deputy Commissioner has had the wool tax procedural manual reviewed and updated to reflect the current processing arrangements. Further, written instructions have now been issued and these have eliminated the duplication of documentation reported by the Auditor-General as well as the instances, where the under-remittance procedure was not followed. Lastly the written instructions now ensure that final notices are issued in all cases where returns are not received within 10 calendar days of the due date. The Deputy Commissioner has also advised that a permanent register of the final notices issued is now maintained in the file control lodgments area. With regard to those matters requiring computer system changes, as indicated earlier, a review is planned but priorities at this time are such that this cannot be done for some time. There is a recognised need to modify the existing computer system to provide more assistance to those responsible for wool tax processing.

#### Internal Control

69. Under this heading there were two matters mentioned of a trivial nature, both related to lack of evidence of certain checks being carried out. The Deputy Commissioner advised that appropriate action had been taken to satisfy Audit desires in this area. A third matter mentioned related to the granting of extensions of time to pay wool tax by an officer without such authority.



70. For the record, the specific facts surrounding this latter case were recently obtained from the Deputy Commissioner in Sydney and they are set out in the following paragraphs. It will be seen that technically the officer exceeded his authority but given the circumstances of the case the action was completely correct and no revenue was placed at risk.

71. The taxpayer involved was a wool dealer located in the western area of New South Wales who ceased business in March 1981 and secured part-time employment with the local Pastures Protection Board. The balance of wool tax outstanding at that date amounted to \$1,297.77. Following a number of telephone calls the taxpayer, in February 1982, forwarded a statement of assets and liabilities accompanied by a cheque for \$500 and a proposal to pay the balance at the rate of \$20 per month. In view of the nature of wool tax and the taxpayer's meagre assets the proposal to pay was approved by the appropriate authorised officer.

72. A letter issued to the taxpayer on 10 February 1982 advising him that the office was prepared to accept payment of \$20 per month for a period of six months when the position was to be reviewed. At the expiration of the period of six months the position was reviewed by the Wool Tax Internal Examiner who, unfortunately, did not submit the matter to the authorised officer but continued the arrangement. There is no doubt approval to continue the arrangement would have been given by the authorised officer. In April 1983 the matter was again considered by the appropriate authorised officer who gave continuing approval to the arrangement.

73. The taxpayer, except for the months September 1982/December 1982, has adhered to these arrangements and in a letter just received said he would, on receipt of advice as to the balance outstanding, clear the account. This matter is being attended to.

74. Whilst this was an isolated instance, the Deputy Commissioner has taken steps to ensure that such actions should not occur in the future.

#### Legal Compliance

75. Three matters were reported under this heading. These were -

- (a) Failure to give notice to taxpayers when they cancel their registrations;
- (b) A significant number of returns are lodged after the due date; and
- (c) Additional tax for late payment was generally not charged.

76. The first matter is a minor one and has been corrected. On the second point the results of Audit sampling and a survey conducted by the Sydney Branch Office differ considerably. Audit arrived at their conclusions by using a sample of twenty-five taxpayers who lodged 312 returns in a year and the Sydney Branch surveyed all the returns lodged during two months. The Audit sample indicated that only 5% of returns were lodged by the due date whereas the Sydney Branch survey put this at 35% with a further 49% lodged by the end of the month (i.e. within ten days of the due date). Under existing procedures final notices are sent where the returns are outstanding beyond the end of the month.

77. Audit commented that the different results obtained by the Audit tests and the Sydney Office survey indicate a need for this office to keep the matter of lodgment of returns under review. This is now being done.

78. The third matter was due to procedural deficiencies in the wool tax processing area and has now been corrected. The number of cases where additional tax for late payment is imposed is small and the failure to notify wool tax taxpayers of the amount would have resulted in only a very small loss of revenue. In this respect it is noted that since the matters have been corrected (about seven months ago) the amount of additional tax notified to taxpayers for late payment of wool tax is approximately \$8,400 and of course some of that would have been notified in any event. It is mentioned however, that there has been a noticeable improvement in lodgment patterns and, whilst it is not possible to state a reason positively, it may have been due to the more consistent approach to notifying additional tax for late payment now being followed.

#### Matters raised with Taxation Head Office

79. Following Audit examination of the Sydney Branch Office several questions were put to Taxation Head Office for response and comment. For the most part the comments attributed to the Taxation Office on these matters (see pages 182 and 193) of Auditor-General's report) are a fair summation of the responses. However, the following additional comments are provided to complete the picture.

#### Additional Tax

80. Audit queried whether consideration was being given to increasing the rate of additional tax for late payment of wool tax from 10% to 20% to bring it in line with that applying to income tax. Audit was advised that this had been recommended to, and accepted by, the previous government and that the present government has said it will proceed with this measure.

#### Responsibility for Wool Tax Administration

81. Audit sought comment on whether consideration had been given to passing responsibility for wool tax administration to

another department. Little more needs to be added to what has been included in the report other than to say that no further consideration has been given to this matter at this stage.

#### Disclosure by Farmers

82. Audit sought Taxation Office comments on the feasibility of comparing income from wool sales shown in income tax returns with sales disclosed by brokers in wool tax returns.

83. This question relates more to income tax administration and in this regard the Commissioner of Taxation has wide powers to obtain information. Indeed these powers are used when necessary either in the investigation of individual cases or in the carrying out of projects in particular industries as envisaged by Audit. The report accurately reflects Taxation Office comments on this point.

#### Confirmation that all Wool Tax has been paid

84. Audit sought information on whether the Taxation Office satisfied itself by reference to information available from other agencies that all wool tax that should have been paid was in fact collected. The comments in the report attributed to the Taxation Office are a fair representation of the response and no more needs to be added. In short, it is considered that deficiencies in available external information are such that any attempted reconciliation would be inconclusive.

#### Forms Design

85. The final point made by Audit concerned the outmoded wording still present on the return forms. As indicated this matter has been noted and is being taken into account during the annual review of these forms which is currently taking place. In this regard, the Taxation Office wrote to the Wool Council of Australia on 17 May 1984 seeking its views on the use of metric measurements in return forms. To date a reply has not been received.

#### Concluding Comment

86. Audit did not identify any matters which would have had any serious effect on revenue collections. All matters identified requiring remedial action have been noted and, except for the redesign or modification of the computer system, have been corrected or are receiving attention. In the case of the computer system priorities at the moment do not allow resources to be devoted to that project. Notwithstanding this it is considered that wool tax is being administered in a reasonably efficient and controlled manner.

13 July 1984

### JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS ENQUIRY INTO THE REPORT OF THE AUDITOR-GENERAL - MARCH 1984 SUBMISSION BY THE DEPARTMENT OF VETERANS' AFFAIRS ON PARAGRAPH 23.1 - CHEQUE PRODUCTION AND DISTRIBUTION

#### CHEQUE PRODUCTION

During 1982/83 the Department issued 11,031,624 cheques, which represented about one-eighth of the total number of cheques issued by the Commonwealth.

2. In 1983/84, despite a growth of almost 25,000 in the total number of payees, the volume of cheque issues was significantly reduced. The final total of cheque issues is not yet available but is expected to be of the order of 6.53 million. Based on present trends, 5.1 million cheques will be issued during 1984/85. These reductions follow significant initiatives during 1983 to encourage use by pension payees of the direct crediting facilities which are now offered by the various financial institutions.

3. The number of cheques produced each fortnight has been reduced from over 400,000 to fewer than 200,000, largely as a result of three invitations to payees to switch voluntarily to the direct credit method of payment. Although there is a continuing trend towards the direct mode, consideration is being given to options which involve stronger action to reduce further the number of small-value cheques issued.

4. The options include:
- . periodic lump sum payments
  - . lump sum 'payout'
  - . compulsory direct credit payment (with certain exceptions) of small pensions
  - . withdrawal of the cheque payment option.

5. The Department is anxious to avoid heavy-handed action in its efforts to reduce the cost of cheque-production and issue. It will continue to take positive steps to educate contact staff and to stress to beneficiaries the advantages of the direct credit method of payment. Although a certain number of beneficiaries will not be persuaded, they will be in a reducing minority as there is increasing community acceptance of electronic banking.

#### PENSIONS PROCESSING SYSTEM

6. The Department has acted to remedy the deficiencies in the existing pensions processing system. A comprehensive data model has been developed to provide support for all phases of dealings by clients with the Department. It covers registration of clients, processing of claims, determination of eligibility,

provision of benefits and the control of and support for procedures used in Central and Branch Offices. It is anticipated that implementation of the system will rationalise data holdings and eliminate the data redundancy that exists presently.

7. An independent analysis of the project, the All Pensions and Allowances (APAA) system, was undertaken by Doll Martin Associates. Their report endorsed the strategy being followed. In addition, it strongly recommended that a more suitable data processing environment be introduced in which APAA and subsequent systems should be developed. The report also provided projections of resource capacity and future funding commitments.

8. In line with these recommendations, funds had been sought in the 1984/85 estimates for the evaluation and acquisition of a new data base structure.

9. The Department is aware of the need to move quickly to overcome present problems in this area. If funding is approved, it is planned to use a phased implementation of the system to deliver solutions to problems involving disability pensions and treatment eligibility and to allow integration of service pensions in the 1985/86 financial year. Further facilities would be progressively implemented and development completed in 1987. If funding is not forthcoming, the Department will have to rely on its present data base structure and attempt to overcome the present deficiencies using its current facilities. It is an inescapable fact, however, that the price will be longer lead time and greater resource commitment.

#### DISASTER PLAN - NATIONAL COMPUTER CENTRE

10. In response to the audit observation that the Department did not have a disaster plan for the Sydney computer centre, the Department stated that it intended to undertake a consultancy study to investigate possible options. It became apparent that the recommendations from the proposed study would be materially affected by the location of the National Computer Centre (NCC). The NCC is currently sited within the N.S.W. Branch Office. However, relocation may shortly become necessary. As a decision on the long-term location appeared imminent during 1983/84 the consultants study was deferred so that the terms of reference accurately reflect the current situation. The matter of the location has not been resolved. The Department believes it can no longer defer the consultants' study and now proposes to modify the terms of reference and undertake the study in 1984/85.

#### INTERNAL CONTROLS

11. To improve security arrangements, the Access Control Facility is being progressively implemented.

12. Steps are being taken to improve control over program changes. All crucial programs now carry a version number on the program listing and hardcopy output. When such programs are subject to requested changes, Branch Offices are informed of their impending implementation and the new version number. The National Computer Centre is then authorised to place the new version into production.

13. The revised test system, which provides for user acceptance testing of programs before implementation, is being introduced as part of the Income Assets system. It is intended to extend the features of the test system to other systems to improve the level of control over changes to programs.

14. The control over access of software programmers to the computer room is complicated by the layout of the NCC and the need to provide unimpeded access to the fire escape stairs in line with fire regulations. Accommodation for the programmers outside the operations area is the subject of current negotiation with the management of the Grace Building in which the N.S.W. Branch is located.

#### ADP ENVIRONMENT

15. The Systems Division has responded positively to the recommendations of the environmental audit. In a number of areas covered by the audit, action has already been taken or is scheduled for attention.

13 JULY 1984

DEPARTMENT OF VETERANS' AFFAIRS

Copy of a letter from the Department, dated October 1985, providing supplementary information may be found on Joint Committee of Public Accounts File 1984/4, Part B.



THE DEPARTMENT OF  
THE PRIME MINISTER AND CABINET

CANBERRA, A.C.T. 2600

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

I refer to your memorandum of 14 June 1984 concerning a possible inquiry based on the Auditor-General's report on the administration of telephone rental concessions to pensioners.

The Department of the Prime Minister and Cabinet is not exercising any co-ordinating function in respect of the question of telephone rental concession to pensioners. Co-ordination responsibility lies with the departments principally concerned, and it would seem that this is being discharged by establishment of a working party of representatives of the Departments of Social Security, Veterans' Affairs and Telecommunications.

We would be assuming that following the meeting of the working party members will arrive at an administrative solution satisfactory to the Committee. Were this not to be the case, then the matter might become one for consideration here.

A handwritten signature in cursive script, appearing to read 'Stuart Hamilton'.

(Stuart Hamilton)  
First Assistant Secretary  
Parliamentary and Government Division

16 July 1984

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report - March 1984  
Submission by Department of Social Security on Paragraph 24.1 -  
Telephone Rental Concessions to Pensioners

In its examination of the Auditor-General's Reports for 1980/81 and September 1982, the Committee considered submissions from the Departments of Social Security and Veterans' Affairs and from the Australian Telecommunications Commission (Telecom), regarding telephone rental concessions to pensioners. The matter was again referred to in the Auditor-General's March 1984 Report, and the Committee has requested further submissions from the three organisations concerned.

2 The eligibility conditions for the concession are contained in a Determination under the Telecommunications Act of 1975. The application of the eligibility conditions is the responsibility of Telecom. The cost of concessions allowed is reimbursed to Telecom by the Department of Social Security and the Department of Veterans' Affairs.

3 The present role of the Department of Social Security in the administration of the scheme is also to provide the means by which basic eligibility for the concession (an income which qualifies the person for Pension, Health or Benefit concessions) can be confirmed. It does not include administration of the household income test as is implied in the comments of the Auditor-General's office.

4 The Department has been very aware that the arrangements for the administration of the scheme are less than satisfactory. An inter-departmental working party of officials from Telecom, Veterans' Affairs and Social Security was formed to review the scheme.

5 The working party adopted the approach of seeking a long term solution to the problems associated with the administration of the scheme, so that it could operate effectively and require minimal changes in the future.

6 Active consideration is being given by that group to a number of remedial measures that can be taken to ensure the effective administration of the scheme in the most economical manner. Particular attention is being given to eligibility checks and payment of Telecom accounts. Those proposals were discussed with Audit staff prior to publication of the Auditor-General's March 1984 Report in order that his officers were aware of the efficiency, effectiveness and economy aspects of the initiatives under consideration.

7 The Department considers that as a result of the working party deliberations and other positive action it is taking, the current problems with the administration of the scheme will be overcome.

16 July 1984

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

Enquiry into the Auditor-General's Report - March 1984  
Submission by Department of Social Security on Paragraph 24.1 -  
Telephone Rental Concessions to Pensioners

Background

In its Report No 229 the Joint Parliamentary Committee of Public Accounts noted that many reports of the Auditor-General (the latest being the March 1984 Report) have referred to the potential for overpayments and administrative difficulties, and to the need for review of the continuing eligibility of pensioners in receipt of telephone rental concessions.

2 The Committee has expressed its concern that this matter continues to be unresolved and stated that, in response to Report 229, it expects to be informed of significant results arising out of the Working Party which had been formed to review the administration of the concession.

Working Party Deliberations and Present Position

3 The Working Party, comprising officers from Telecom and the Departments of Veterans' Affairs and Social Security, was formed with a charter to explore options and make recommendations to ease or eliminate the problems with the existing administrative arrangements.

4 Details of the Working Party's deliberations are attached. In summary:

- the Working Party identified several options
- Social Security examined and abandoned the option of developing a computer matching system
- a difference of view between Veterans' Affairs and Social Security on the one hand and Telecom on the other, has emerged over the Departments' preferred option of having Telecom assume both responsibility and accountability for the concession
- the Government is actively pursuing the matter to determine the most cost effective option from the Commonwealth perspective.

6 The Department will report back to the Committee as soon as the future direction for the administration of the concession has been determined.

26 July 1985

ATTACHMENT

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

Enquiry into the Auditor-General's Report - March 1984  
Attachment to Submission by Department of Social Security on  
Paragraph 24.1 - Telephone Concessions for Pensioners

WORKING PARTY DELIBERATIONS

- . The initial meeting in September 1983 identified a range of options. Following investigation and consideration of these options the Working Party, at its 2nd meeting in March 1984, focussed on an option which provided for tighter follow-up of inter-agency liaisons, Telecom to bulk-bill Social Security and Veterans' Affairs, and regular reconciliations of the 3 agencies' concession records.
- . This option foundered on advice from the Department of Finance that, as Telecom is not subject to Finance Regulations, it would not be possible for Social Security Certifying Officers to rely upon the controls and procedures employed by Telecom, and that consequently a (sample) check of the concession claims would be required under this option.
- . Social Security examined the feasibility of computer matching along similar lines to the ADP system developed by Veterans' Affairs. However, this option was abandoned for both technical and administrative reasons:
  - major difficulties with the Telecom tape format, coupled with incomplete and inaccurate data
  - the substantial additional resources that would be required for its on-going operation.
- . The 3rd meeting of the Working Party in September 1984 considered a new option which provided for :
  - Social Security and Veterans' Affairs clients entitled to 'fringe benefits' to be invited to approach Telecom and claim the concession, and to be provided with suitable means of verifying their status
  - the grant and administration of the concession to be handled by Telecom without the need for further reference to the 2 Departments.

- . While Social Security and Veterans' Affairs favoured this proposal, Telecom's response in January 1985 expressed reservations that :
  - the proposal was inconsistent with current and planned systems
  - there would be increased administrative costs for Telecom
  - it was in conflict with Telecom's perception of the concession as a social welfare initiative.
- . This difference of view prompted a referral of the matter to the Government, following which Telecom has reiterated its concerns with the latest option.
- . The Government is now actively pursuing the matter to determine the most cost-effective option from the Commonwealth perspective.

26 July 1985

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry Into The Auditor-General's Report Of March 1984

Submission by the Australian Telecommunications Commission (Telecom)  
Concerning Telephone Rental Concessions To Pensioners

1. The Introduction to Paragraph 24.1 of the abovementioned report indicates that submissions on the administration of the pensioner rental concession scheme have been made by the Department of Social Security and the Department of Veterans' Affairs in respect of earlier reports of the Auditor-General's Department. Telecom has also made submissions in this regard, specifically on 17 December 1981 and 3 June 1983.
2. Concerning "eligibility checks" effected within the Department of Social Security, since August 1983 Telecom has been providing magnetic tapes in support of its monthly claims. Whilst Veterans' Affairs have been using such tapes to match against its own computer records of eligible beneficiaries, Social Security has not proceeded to this point. One reason for not so doing, it is understood, is that the State boundaries of Social Security's records do not align with Telecom's State billing boundaries. Large numbers of disparities would thus arise in the matching exercise. Veterans' Affairs utilise a national data base and problems of major disparity in this regard do not arise.
3. Under "Payment of accounts", the Department of Social Security is reported to have advised that follow up to ensure receipt of credits claimed from Telecom was made difficult by the fact that only the composite amount of credit received was notified and not individual details of accounts. This comment arises from a particular arrangement in New South Wales whereby, based on an agreement between Telecom and Social Security officers, the total amount disallowed in a Telecom claim is shown as a credit in a later month's claim. The detail supporting such credits would be available within the Social Security office.
4. In relation to the section of the Auditor-General's report relating to Telecom's statement that it was not in a position to effectively administer the household income test provision, this is based on a Telecom advice to that effect to the Auditor-General's Department on 27 January 1984 which confirmed an earlier advice of 8 September 1977. This matter was also addressed in the Auditor-General's Report 1980/81 and Telecom's submission of 17 December 1981 (Paragraph 3) to the Joint Committee of Public Accounts stated in part:-

"Whilst the surrounding provisions are contained in a Determination under the Telecommunications Act, Telecom has never taken any action to verify a person's eligibility under these provisions. With its major functions related to the provision and maintenance of telecommunications services, Telecom does not consider it appropriate for it to investigate matters related to particular customers' personal domestic arrangements."

5. In summary, Telecom and the Departments of Social Security and Veterans' Affairs all recognise that the procedures associated with the dual control of the rental concession scheme will continue to cause administrative and operational difficulties. To some degree such problems impact upon the pensioners themselves. The special Working Party has been established to address a long term solution in this matter and its aim is to make recommendations that will provide an acceptable and efficient system for administering the concession scheme.

13 JULY 1984

## INQUIRY INTO THE AUDITOR-GENERAL'S REPORT OF MARCH 1984

Additional Information Provided By The Australian Telecommunications Commission (Telecom) In Relation To Its Submission Of 13 July 1984 Concerning Telephone Rental Concessions To Pensioners: Results Of The Interdepartmental Working Party.

1. The Working Party was established under chairmanship of the Department of Social Security for the purpose of reviewing the existing administrative arrangements pertaining to the telephone rental concession (TRC) scheme and recommending changes that would heighten controls over eligibility and remove many of the disadvantages of the current scheme, including those which impact upon the pensioners themselves.

2. The Working Party consisted of representatives of the Departments of Social Security and Veterans' Affairs and Telecom Australia and initially met on 7 September 1983.

3. Various options have been considered by the Working Party but no one particular proposal has received sufficient general support among members to enable an agreed recommendation to be put to the managements of the three organisations concerned.

4. One aspect of the rental concession scheme on which there has been general consensus within the Working Party is the impracticability of authenticating declarations by pensioners concerning the household incomes provisions. As previously reported upon in the Report of the Auditor General of 1977/78 Telecom is not in a position to enquire into the private lives of pensioners and, if required to do so, would propose to delete the residential restriction from the Tariff Determination made under the Telecommunications Act.

5. At the September 1984 meeting the Social Security member, who was also Chairman, tabled a proposal formulated within his Department and which provided for the administration of the TRC to be transferred in its entirety to Telecom; participation by Social Security and Veterans' Affairs to be confined to the issue of identity cards to those persons entitled to a TRC. The main elements of the proposal were:-

- Eligible pensioners to be issued with an entitlement card by the Department of Social Security or the Department of Veterans' Affairs - a new card to be issued each year in November.
- Applicants for a new telephone service to produce the card at a Telecom Business Office or Post Office to prove entitlement to the TRC.
- Each year, entitlement to the TRC would need to be re-established upon receipt of the first telephone bill received after November by the pensioner presenting his entitlement card to a Telecom Business Office or a Post Office.
- Bills (quarterly) issued in the interim to incorporate a statutory declaration which would be signed by the pensioner to indicate continuing entitlement to the TRC.

6. No prior agreement to the above proposal or to any proposal embodying similar concepts had been given by the Telecom representative on the Working Party and Social Security members were verbally advised at the time of Telecom's opposition to the proposal.

7. In response to a request for a formal comment on the proposal, Telecom wrote to Social Security on 25 January 1985 identifying reasons why the proposal was unacceptable from a point of view of disadvantaging the pensioners concerned and being incompatible with Telecom's billing operations. The main points on which the proposal is opposed are:-

(i) Disadvantages to Pensioners:-

At present, once a pensioner lodges an application for a concession and it is approved, no further action is required of the pensioner in this regard.

Under the proposal the pensioner will be required to establish continuing eligibility by producing an Entitlement Card on a regular basis - at least yearly but possibly each time a bill is paid (quarterly).

This imposes an inconvenience upon pensioners many of whom have physical disabilities. Many will also overlook the requirement to regularly re-establish their eligibility and the resultant withdrawal of concession rates will lead to confusion and inconvenience.

The requirement to regularly present Entitlement Cards will deprive pensioners of a payment facility otherwise available to them - use of Telecom's Pay by Phone facility whereby credit card holders may lodge a free call to Telecom and quote the credit card number in settlement of the bill. This facility would be particularly welcome to people of advanced years who may also have mobility problems. Furthermore, pensioners would not be able to mail in their payments in situations where their Entitlement Card is to be personally presented.

It will be noted that the aims of the Working Party as indicated in Paragraph 1 of this submission, were to heighten control over eligibility and to remove disadvantages of the current scheme, including those which impact upon the pensioners themselves. The proposal under discussion effectively transfers a substantial portion of the eligibility checking workload from the paying Department to the pensioners who would be required to regularly produce entitlement cards or complete statutory declarations, as the case may be. Such an approach does not satisfy the stated aims of the Working Party.

(ii) Incompatibility with Telecom's Computerised Billing System

The proposal would require significant changes to be introduced to Telecom's billing system. These could not be considered for the current billing system (TEL/DRS) which is being replaced by a USA-based package known as CABS - Customer Accounting and Billing System.



CABS is due for progressive implementation commencing in August 1985 and extending over a 2-3 year period. It has thus reached an advanced stage of development and, as the changes required to accommodate the proposal emerge as being substantial, affecting programs and master file design, the provision of the facility would seriously impair the CABS conversion program.

Even if CABS were to be amended, the proposed concession system could not be extended to those pensioners who continue to be serviced by TEI/DRS pending cutover to CABS. This is viewed as a most unsatisfactory situation from both Telecom's point of view as well as that of the pensioners affected.

8. Notwithstanding the real disadvantages of the proposal, as identified in correspondence to Social Security, with copies to Veterans' Affairs, action at Ministerial Level led to the Expenditure Review Committee agreeing on 16 April 1985 (Decision No 5326 (ER)) that the administration of the TRC be transferred to Telecom provided that the Ministers for Communications, Finance, Social Security and Veterans' Affairs accepted that the transfer would reduce overall administrative costs, 1 January 1986 being identified as the date of effect. This Decision was endorsed by Cabinet in Decision No 5924 of 13 May 1985.

9. On 10 May 1985 Telecom's Managing Director wrote to the Minister for Communications re-affirming Telecom's opposition to the proposal (which had been earlier conveyed to the Department of Communications). This advice, which identified, in approximate terms, the cost to Telecom if the proposal proceeded namely a net \$812,000 additional annual costs plus once-only billing development costs of \$500,000, also more importantly highlighted the fact that resolution of the matter should not proceed simply on the basis of relative costs within the respective organisations. Due recognition should be given to the serious disadvantages to pensioners and the inability to introduce the scheme throughout Australia until the new CABS billing system was fully implemented in 2-3 years hence.

10. As advised to the PAC in previous submissions, Telecom arranged for the provision of magnetic tapes to the Department of Social Security and Veterans' Affairs, in support of its monthly claims for reimbursement, as from August 1983. The development of such tapes, which required the deployment of specialist resources over quite some time, was arranged at the specific request of the Department of Social Security. However, as advised to PAC on 13 July 1984, that Department has not taken any action to enable it to process magnetic tapes against its data base of pensioner records and thus automatically validate individual telephone customer's entitlement to the concession.

11. The Department of Veterans' Affairs, on the other hand has developed a system which does process Telecom's tapes. This has not been effected without some difficulty and the level of rejects has been high with resultant costs of follow-up within Telecom. A significant factor in this regard is Telecom's inability to feature the pensioner's name on the magnetic tapes and errors do occur in the main identification key - the entitlement number. However, with Telecom's new CABS system, customer name and address will be provided on tape and thus the work-load associated with validating entitlement and following up items of reject would be significantly reduced in both the paying Departments and Telecom.

12. Whilst this matter, specifically the proposal espoused within the Department of Social Security and now endorsed by Cabinet (subject to the original conditions of acceptance by the four interested Ministers) has reached an advanced stage for resolution, Telecom firmly believes that the proposal which has adverse political implications regarding the welfare of pensioners as well as operational impracticabilities within Telecom, should not proceed.

13. Telecom believes that its current provision of magnetic tapes should be used to effectively check eligibility by computer and, with the enhanced and more accurate information to be included on tapes generated by CABS, the ancillary clerical effort associated with the validating process within both the paying Departments and Telecom will be minimised.

14. On 24 June 1985 Telecom again approached the Department of Social Security in this matter seeking a high level discussion on a more practicable solution as a matter of urgency before the Ministers endorsed a scheme containing the disadvantages outlined in this advice.

Australian Telecommunications Commission  
24 July 1985

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS  
ENQUIRY INTO THE REPORT OF THE AUDITOR-GENERAL MAY 1984  
SUBMISSION BY THE DEPARTMENT OF VETERANS' AFFAIRS ON  
PARAGRAPH 24.1 - TELEPHONE RENTAL CONCESSIONS TO PENSIONERS

The 100% computer check of Telecom claims has now been in operation for 8 months.

2. In the early stages some operational and administrative problems were experienced. These have been largely overcome and the quality of the information relating to concessionaires is such that an ever-increasing percentage of the amounts claimed is paid without the need for query with Telecom. The Department is confident that there are very few ineligible concessions being paid.

3. The verification of household income is not seen as a responsibility of this Department. It is considered that our officers must accept, at face value, statements made in applications for the concession and that little more can cost-effectively be done than confirm prima facie eligibility from information held on our ADP client data base.

4. The Working Party, comprising representatives from Telecom, Social Security and Veterans' Affairs, is still considering a range of options in relation to possible administrative changes to the existing scheme. All parties agree, however, that the household income provisions are difficult, if not impossible, to police effectively and are indeed of questionable value in restricting the concession to 'those in need'.

11 July 1984

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS  
INQUIRY INTO THE AUDITOR-GENERAL'S REPORT - MARCH 1984  
SUBMISSION BY THE DEPARTMENT OF VETERANS' AFFAIRS  
ON PARAGRAPH 24.1: TELEPHONE RENTAL CONCESSIONS  
TO PENSIONERS

The Committee has sought information concerning the results of the Interdepartmental Working Party established to address a solution to expenditure on telephone rental concessions. The Committee has asked in particular for an outline of any administrative changes made to the existing scheme as a result of that Working Party's deliberations.

2. As far as this Department is concerned, procedural changes in its handling of the telephone rental concessions scheme have been made. As was previously advised, arrangements were made with Telecom to match their accounts tapes with our Client Data Base in order to verify the eligibility or otherwise of persons claiming concessions before payment was made to Telecom.

3. Variations in income and assets can mean that eligibility may come and go as far as some of our clients are concerned. The procedures which we have introduced ensure that these variations are taken into account. In fact, as previously advised we now maintain a 100% computer check of Telecom claims. As a result all amounts claimed by Telecom are validated before payment.

4. In respect of the Working Party's activities, no agreed outcome has been reached although various options have been considered. The option most favoured by the Department of Social Security and this Department involves the regular issue of eligibility cards which would be checked by Telecom at the time of accounts payments. Telecom has not been prepared to agree to this proposal. In the ultimate, the most cost effective option could be the transfer of the total administration of the pensioner telephone concession scheme to Telecom and this possibility is to be examined.

JULY 1985

JOINT COMMITTEE OF PUBLIC ACCOUNTS

INQUIRY INTO THE REPORT OF THE AUDITOR-GENERAL : MARCH 1984

SUBMISSION BY THE AUSTRALIAN BROADCASTING CORPORATION

- 1.0 The March 1984 Report to the Auditor-General contained comments under five headings:

Control of Assets  
Procurement  
Hiring and flying of aircraft  
Commonwealth Games Unit  
Accounting and personnel controls

- 1.1 The following submission details the matters raised and responses given to these items.

2.0 CONTROL OF ASSETS

On 21 November 1983 Mr C.T. Monaghan, First Assistant Auditor-General wrote to the Minister for Communications on the Australian Broadcasting Commission's audit for the year ended 30 June 1983 and included the following report on this item:

"The report of 20 September 1982 on the inspection and audit for the year ended 30 June 1982 referred to continued deficiencies in asset recording procedures, arrears in stocktaking and delays in the processing of write-off transactions. Following representations by this office, the Commission had advised of action taken or proposed to overcome these deficiencies.

Further audits during the year confirmed an improvement in these areas but disclosed other unsatisfactory aspects relating to the control of assets. These included control deficiencies and weaknesses in respect of:

- . loans of assets
- . items of equipment on personal issue
- . slow moving stock
- . asset recording
- . stocktaking practices, and
- . non-adherences to prescribed procedures

This Office has been advised of remedial action taken or proposed in respect of certain of these matters but information from the Head Office of the Corporation is still awaited on others."

- 3.0 This correspondence was subsequently referred to the Chairman of the ABC by letter of 7 December 1983. The Chairman responded on 27 January thus:

"The matters listed under this heading are raised in respect of the ABC's activities in NSW. The necessary corrective action was taken and the NSW Office of the Auditor-General was advised to this effect in a letter dated 18 November 1983 from the ABC's Acting Assistant General Manager (Management Services)."

- 4.0 In that letter of 18 November 1983, the ABC's Acting Assistant General Manager (Management Services) gave the following response to the Chief Auditor:

"1. Assets in New South Wales

a) Loans Register, TV Engineering Store, Gore Hill

The equipment issued on loan is either being returned to store or being formally commissioned into service by the raising of Engineering Work's Authorities as appropriate. The Controller of Engineering proposes to ensure that from now on equipment will not remain on loan from store for more than four months.

b) Slow Moving Stock, Radio Engineering Store

The current situation is that the number of Audiosound Stereo Amplifiers (Type A750) in the Store has been reduced from 28 at the time of your check to 19. Ten of the remainder are required for our proposed new Wagga studios, but difficulties in obtaining a suitable site continues to delay their installation. The balance of the amplifiers is required for house monitoring purposes in our premises at 171 William Street, Sydney, but this work has been delayed due to a shortage of installation staff and the fact that the installation of house monitors has in consequence had to receive a lower priority than urgently needed studio projects. In addition, there are plans to refurbish portions of this building in the present financial year and it would be unwise to effect equipment installations in the interim.

We consider that "actual or partial obsolescence" is not applicable in this instance as these amplifiers are essentially the same as those that we would buy today, as the technology for this equipment has remained unchanged since this particular batch was produced.

c) Items on Personal Charge

The problem of staff leaving the employ of the ABC without returning items held by them on personal issue has again been discussed with our Personnel Department. Additional procedures have been instituted to ensure that Personnel Officers raise staff clearance notices, notifying the Assets Section of all cessations of employment, where these have not been raised by Departmental Heads. In addition, telephone advice of all exits from the service are given by the Personnel Department to the Assets Section.

The importance of this matter has again been emphasised to Personnel Units in the Head Office/NSW area."

4.1 Since the above letter of the Acting Assistant General Manager (Management Services) of 18 November, 1983, we can advise on the following matter in respect of:

a) Loans Register, TV Eng Store, Gore Hill

The appropriate instruction has been issued by Controller Engineering and has been implemented.

b) Slow Moving Stock, Radio Engineering Store

The number of audiosound Stores Amplifiers type A750 in this Store has now been reduced from 19 at the time of the last report to 9. It is expected that those will be used in house monitoring installations in 171 William Street, following the renovation of that building later this year, or in other installations that are carried out ahead of that project.

c) Commonwealth Games Assets

The re-check of all items transferred interstate from Brisbane following the Commonwealth Games was completed earlier this year. Approval was given on 18 April, 1984 for the write off of 13 items, costing \$4,417 which could not be located.

5.0 PROCUREMENT

In his letter of 21 November previously cited, the First Assistant Auditor-General made the following comments:

"Audits of the procurement function in the London and New York Offices of the Commission disclosed unsatisfactory features relating to quotation practices. Remedial action has been taken or is proposed in London, but, at the date of this report, a response was awaited from New York.

In Queensland, unsatisfactory features disclosed during the year included the following aspects:

- failure to adhere to prescribed procedures particularly in regard to the obtaining of quotations and the raising of Certificates of Inexpediency;
- undesirable practices in the awarding of cleaning contracts;
- non-compliance with official policy and procedures in the hiring of equipment including failure to consider properly the relative economic advantages of purchase versus hire;
- widespread use of confirmatory orders with or without supporting quotations, and
- on occasions officers exceeding the upper limit of their expenditure delegation.

In response to Audit's representations regarding these matters the Corporation's Queensland Branch has advised of remedial action taken or proposed. A response is still awaited from the Head Office of the Corporation."

6.0 The Chairman of the ABC's response on 27 January was:

6.1 "In regard to the audit of the New York Office, the points raised by the Chief Auditor have been taken up with our Manager, North America. There has been a review of financial delegations afforded to appropriate officers located in the various overseas offices of the ABC. This action and strict adherence to the procedures of the ABC's Manual of Administrative Procedures should eliminate the deficiencies found in the New York Office by the Chief Auditor.

6.2 In respect of the deficiencies noted in the purchasing procedures in our Queensland Branch, a positive program was initiated in 1983 to ensure that all necessary and proper procedures were being followed. The Head Office response to which you refer was forwarded to the Assistant Auditor-General by our Acting Assistant General Manager (Management Services), on 17 November 1983."

7.0 In this letter of 17 November 1983 the ABC's Acting Assistant General Manager (Management Services) said:

7.1 "I am writing in reply to your letters of May 20, July 20 and November 9 which sought advice as to action proposed to correct unsatisfactory procedures identified in the audit of the Queensland Branch. I apologise for the delay in our response.

I expect you will have seen the full correspondence between your office in Brisbane and the ABC's Chief Manager for Queensland, which has now concluded.

7.2 I would like, however, to list the following positive actions which have been taken in the Branch:

(a) The ABC's Accountant in Queensland, Mr Russell Loos, is a former Commonwealth Auditor and in August this year, the Chief Manager invited him to attend all Board of Management meetings until at least the end of this financial year, so as to advise members of the Board on Audit procedures.

A recurring item on the Board's agenda has been instituted to ensure that proper administrative procedures are being followed and expenditure is being satisfactorily documented.

(b) An appointment has been made, after internal and external advertising and a lengthy interview process, to the position of Supervisor of Administrative Services. This post is crucial in supervising the area which was most criticised by the Auditor, and, with the appointment of an external applicant, who takes up his position on December 1, we are confident that there will be an improvement in this section. In the meantime, much has been done to follow up matters raised, but again, by an acting incumbent to the position. The Supervisor of Administrative Services reports to the Principal Executive Officer, who has also taken up his substantive position relatively recently.

(c) In other areas (such as Engineering), the substantive occupants have returned to their positions after secondment to the Commonwealth Games Unit, and we believe a good deal of stability has returned to the Queensland establishment, which has allowed more thorough follow-up procedures to be adopted than was possible when so many staff were away from their regular positions.

(d) The use of casual cleaners has been converted to the employment of part-time cleaners. All cleaning contracts have been reviewed; specifications are being re-drafted and tenders will be re-let progressively from January 1984.

(e) Arrears in stock-check program have been rectified and more consistent attention is being applied to this activity.

(f) Discussions have occurred between the ABC and officers of the Department of Construction to establish the basis for period contracts for maintenance services.

(g) The position of the ABC in respect of a staff member, who used his skill in the capacity of a pilot, was clarified.

7.3 I hope you will accept from the above that a positive program has been initiated in Queensland to ensure that all necessary and proper procedures in connection with the expenditure of public money are being followed.

The Chief Manager in Queensland is also in regular contact with our Chief Internal Auditor to assist in this follow-up of your Department's report."

8.0 Since the 18 November, 1983, the following has occurred:

(a) The Accountant no longer attends Board of Management Meetings as the previous shortcomings have been rectified.

(b) There are now permanent occupants in positions of Executive and Supervisor Admin Services thus allowing a closer supervision of prescribed procedures.

(c) As for (b) above and there is no evidence that procedures are not being followed.

(d) New contract cleaning specifications have been drawn up, public tenders called and a complete new set of tenders let.

(e) The executive Officer Qld believes the stock check program is only just on schedule, a prolonged absence of one staff member for six months prevented any ground being gained. The staff member has now retired and has been replaced and the program will be expedited.

(f) Period contracts for the following services have been let: electrical, plumbing and general building maintenance.

(g) Further information has recently been supplied to the Commonwealth Auditor in regard to item G of the above letter of 17 November, 1983.

#### 9.0 HIRING AND FLYING OF AIRCRAFT

This matter was also raised in the letter of 21 November 1983 from the First Assistant Auditor-General to the Minister for Communications. The comments were:

9.1 "During the audit of the Queensland Branch of the Commission in May 1983 Audit noted a number of unsatisfactory aspects connected with the hiring of aircraft and the flying of hired with aircraft by an officer of that Branch. In particular it was noted that:

- on a number of occasions there was a lack of documentary evidence available in relation to the requirement and authorisation for the aircraft hire;

- there was no evidence from documentation sighted that quotations for the hire of the aircraft had been obtained, and
- on a number of occasions an officer had exceeded his delegation to approve expenditure.

In addition Audit sought information on:

- the need for a Commission officer to pilot the hired aircraft
- whether consideration had been given to the Commission's responsibilities in the event of an accident while the officer was piloting the aircraft, and
- the position regarding insurance risk while the officer was carrying out the duties of pilot.

Although a generally satisfactory response to these matters has been received, the Queensland Branch of the Corporation has advised that the matter of flying insurance has been referred to the Industrial Relations Department in Sydney. Audit is awaiting further advice from the Corporation."

9.2 The Chairman of the ABC, on 27 January, replied thus:

"Our response on this matter was contained in a letter of 8 December 1983, to Mr. B.R. Beasley, Assistant Auditor-General, also from the Acting Assistant General Manager (Management Services)."

10.0 In this letter of 8 December the ABC's Acting Assistant General Manager (Management Services) advised that:

"In regard to item 2, about the position of the ABC in respect of a staff member who used his skill in the capacity of a pilot, may I advise that our Controller of Industrial Relations, to whom this matter was referred, took the view that where a staff member is required by the ABC to pilot a hired aircraft, he is in the course of his duties. He would then be covered by the ABC's insurance policy, unless the policy specifically excluded pilots. This view was conveyed by the Controller of Industrial Relations in a memo dated August 4, 1983. In the case discussed in the audit, the ABC's Regional Program Manager in Rockhampton flew hired planes with the agreement of the ABC, and after obtaining the necessary approval from the appropriate delegate."

11.0 On 6 March 1984 Mr. I. McPhee, Acting Assistant Auditor General wrote to the Managing Director following up the response of 8 December 1983 above seeking advice on the following matters:

"5. Whether the relevant insurance policies held by the ABC provided cover for ABC staff who fly hired aircraft with the agreement of the ABC or are they excluded, and if so, are there any other measures taken in respect of the ABC's responsibility toward such staff.

- whether in the context of the abovementioned determination a requirement to fly in an aircraft may be considered synonymous with being required to pilot an aircraft;
- whether the use of aircraft in the circumstances noted during the interim audit of the Queensland Branch of the Commission involved, in the opinion of the General Manager, risks greater than those involved in normal air charter operations.

6. Your advice is also sought as to whether the requirement for the officer to pilot aircraft was formally documented or as your letter appears to suggest, a matter of agreement between the officer and the ABC."

12.0 The Managing Director responded on 5 April 1984 thus:

"5. The Special Flying Duties policy does specifically exclude pilots. This is the sole policy held by the ABC in this respect.

A requirement to fly in an aircraft is not considered synonymous with being required to pilot an aircraft.

It is considered that greater risks were involved in this instance than would be experienced in normal air charter operations.

6. The decision that the officer concerned pilot aircraft was not formally documented."

13.0 COMMONWEALTH GAMES UNIT

The first Assistant Auditor-General wrote to the Minister for Communications on 21 November 1983 advising that:

"Following the close of the Commonwealth Games in October 1982 the Commonwealth Games Unit was wound up and, in accordance with the decision of the then Government, its assets are being purchased by the Corporation. Audit noted that a stocktake of those assets had not been performed at the conclusion of the Games and that several Branch offices of the Corporation had not acknowledged receipt of the former Games Unit assets issued to them. These matters have been taken up with the Corporation but a reply has not yet been received."

14.0 The Chairman of the ABC responded on 27 January thus:

"Follow-up action was initiated early in 1983 to ensure that acknowledgements had been provided by each State Branch for equipment transferred to them following conclusion of the 1982 Commonwealth Games. This matter is now being pursued to finality. Advice to this office was contained in our letter of 18 November 1983, from our Acting Assistant General Manager (Management Services) to the NSW Office of the Auditor-General."

15.0 In his letter of 18 November 1983 the ABC's Acting Assistant General Manager (Management Services) provided the following comments:

"2. Commonwealth Games Unit Assets

(a) Stocktaking

It is true that no stocktake of CGU assets was conducted at the completion of the Games. However, asset items were recovered from the various venues in Brisbane and placed in security areas until they could be packed and despatched in accordance with the prescribed distribution list. All subsequent transfers to the ABC were covered by Transfer Vouchers and the numbers of the latter and the equipment's destination entered in the CGU master equipment register.

(b) Items Transferred to States

Our Engineering Division is currently performing a complete re-check of all CGU assets, utilising the CGU master register and the files of transfer vouchers raised in that Unit. Lists of those asset items whose receipt had not been confirmed by transfer voucher have been prepared and forwarded to each of the States concerned, and a separate check is being made for those items which do not appear to have been covered by transfer vouchers. This matter will be pursued to finality.

Unfortunately, the equipment distribution lists to which you have referred do not enable us to resolve these discrepancies, as these lists contained only item description, destination and quantity."

16.0 COMMONWEALTH GAMES ASSETS

The re-check of all items transferred interstate from Brisbane following the Commonwealth Games was completed earlier this year. Approval was given on 18 April, 1984 for the write off of 13 items costing \$4,417 which could not be located.

17.0 ACCOUNTING AND PERSONNEL CONTROLS

The first Assistant Auditor-General included the following comments in his letter of 21 November 1983 to the Minister for Communications:

"The report of 30 September 1982 on the inspection and audit of the Commission for the year ended 30 June 1982 referred to unsatisfactory aspects in the accounting controls over revenue and personnel controls over salaries, wages and allowances. Those aspects had been referred to the Commission for advice of remedial action.

The Commission subsequently advised this Office of the action it had taken or proposed to take in order to overcome these deficiencies and Audit reviews during the year have indicated that a satisfactory position now exists in these areas."

18.0 No further reply was deemed necessary to this letter.

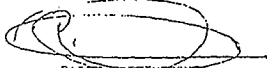
11 July, 1984

ABC - INTER-OFFICE MEMO

From State/Dept: REGS./R/TON. Phone Ext: 13 Date: 14th April, 1982.  
 Our Ref/File No: RE:JP. Your Ref/File No: \_\_\_\_\_  
 s.c. CHIEF MGR. QLD Subject: TRANSPORTATION OF ABC STAFF AND EQUIPMENT BY LIGHT AIRCRAFT.

Further to discussions following the Advisory Committee Meeting on Tuesday, 6th April, in reference to the position of the Commission and staff in respect of transport by light aircraft, the following should clarify the situation :-

1. As pilot, I have in excess of 800 hours in command, 200 of which are in twins and 66 at night.
2. I hold an unrestricted licence and a Class 4 instrument rating.
3. I am endorsed to fly all single engined aircraft with fixed and retractable undercarriages and constant speed props.
4. My twin endorsements cover Piper Seabee, Cessna 337's and 366's, Britain Norman Islanders, Partnavia and Cessna 310's.
5. The latter group of twins are operated by licenced charter companies and each aircraft carries a full charter insurance as required by the Department of Transport Air Navigation Orders. Whilst the total third party liability can differ, the seats in each aircraft are insured for a maximum of \$200,000. The insurance on a Cessna 310 is \$2,000,000 third party.
6. Before I am permitted to operate any of the twin aircraft on my licence, I have to have both company and insurance approval and to have completed a minimum of 500 hours in command. All this criteria has been met.
7. Consequently, any passenger in any of the aircraft types flown by me enjoys the same insurance and liabilities cover as if they were flying with a pilot solely employed by the charter operating the aircraft.
8. All Regional staff understand that they have the option to refuse to fly with me in command: an option that to date has not been taken up.
9. Assignments are flown either during the registered shift or in excess travelling time.



RALPH ELPHINSTONE,  
 Regional Program Manager,  
 Rockhampton.



Sunbird  
 Airlines

SUNBIRD AIRLINES PTY. LTD.  
 45, ADDISON ST. ABERDEEN  
 TELEPHONE 0911/2 530000 FAX 0911/2 530000  
 REGISTERED OFFICE: 71/1522

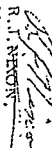
15th April, 1982.

The Australian Broadcasting Commission,  
 236 Quay Street,  
 ROCKHAMPTON QLD 4700.  
 ATTENTION: Mr. Ralph Elphinstone.

RE: RALPH ELPHINSTONE PILOTING C-310 L  
REGISTRATION VH-DTJ

The above aircraft has carrier risk & 3rd party policy to the value of two million dollars with the Australian Aviation Underwriting Pool. Mr. Ralph Elphinstone has been checked out and endorsed to fly the above aircraft on behalf of Sunbird Airlines and as such is accepted by the Australian Aviation Underwriting Pool.

Yours sincerely,

  
 R. J. NELSON  
 MANAGING DIRECTOR,  
 SUNBIRD AIRLINES.





COMMONWEALTH OF AUSTRALIA  
AUSTRALIAN AUDIT OFFICE

Can Moore and Rudd Streets, Canberra City ACT 2601

Address correspondence to  
Auditor-General  
Box 707, GPO Canberra 2601  
Telephone "Gonsouli"  
Telex 61653 Comeud  
Telephone 484711

Please quote  
F84/462

3 April 1985

The Managing Director  
Australian Broadcasting Corporation  
GPO Box 9994  
SYDNEY NSW 2001

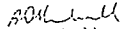
Attention: Mr A. Le Gallant

Dear Sir

I refer to previous correspondence between our organisations concerning Australian Broadcasting Corporation staff piloting aircraft whilst on duty. So that this matter may be finalised your advice of the following matters would be appreciated.

- (a) Whether the ABC has a policy regarding the piloting by staff of Corporation owned, leased or hired aircraft and if so details of that policy.
- (b) If the Corporation policy permits ABC staff to pilot aircraft whilst on duty:
  - whether the Corporation has carried out a study of the financial and practical implications of that policy
  - details of procedures for approving and formally documenting such flights, including those where other staff members are carried
  - details of ABC insurance or other arrangements in respect of staff involved.
- (c) Whether, in practice, ABC staff continue to pilot aircraft whilst on duty.

Yours faithfully

  
B. T. Kimball  
Assistant Auditor-General

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BROADCAST HOUSE 145-163 ELIZABETH STREET SYDNEY 2000 TELEPHONE (02) 339 0211

AUSTRALIAN BROADCASTING CORPORATION



Head Office

17 May, 1985

Mr B T Kimball  
Assistant Auditor-General  
Australian Audit Office  
GPO Box 707  
CANBERRA ACT 2601

1094:CP:JF

Dear Mr Kimball,

I refer to your letter F84/462 of 3 April 1985 concerning ABC Staff piloting aircraft whilst on duty.

The following should provide the answers to your enquiries.

The ABC's general policy on flying duties is set out in the attached Industrial Service Memorandum (ISM) No. 658 dated 9 June 1981 (re: para. 6.)

With regard to ABC staff acting as pilot/aircrew, no specific policy has existed other than what is provided in the ISM. In the past, the matter of whether an ABC staff member piloted an aircraft on charter to the ABC was handled mostly at the local level of management. The ABC relied on the charter operator to assess the competence or otherwise of the ABC staff member seeking to hire the aircraft albeit on behalf of the ABC. Such an "endorsement procedure" is common practice amongst charter operators.

However, the ABC has now assessed the circumstances in which ABC staff may be allowed to pilot fixed wing light aircraft whilst on duty. As you may be aware, the ABC does not employ "pilots" in the proper sense. Any staff member now wishing to volunteer their services to pilot an aircraft whilst on duty must hold a Commercial Pilots Licence with a Class One Instrument Rating (IR). Staff members with a lower standard of Licence will not be allowed to pilot any aircraft whilst on duty. In such circumstances the ABC will engage both pilot and aircraft from the charter operator. The ABC believes, on the advice given to it by independent professional pilots/aviation organisations, that a CPL Class 1 IR will provide a high level of aeronautical knowledge, skill and experience not found in lesser categories/classifications of licence.

The advantages to the ABC, other than the obvious direct costs, are difficult to assess. Convenience of utilisation, particularly in the outback and regional areas of Australia, is the best advantage. The real benefit would only be evident to program makers wishing to utilise an ABC staff member, if and when the circumstances permit. Given the low number of staff who hold a CPL Class 1 IR, the number of flights is expected to be infrequent. In fact in the last 12 months to date there have been only three occasions, all in the Northern Territory, where an ABC staff member has acted as pilot whilst on duty. Local management will be required to check the staff member's licence classification. The endorsement check will, of course, still be carried out by the charter operator.

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At present the ABC's Special Flying Duties insurance excludes persons acting as pilot/aircrew. The ABC has received advice from the insurance brokers that they are prepared to remove this exclusion from the policy and thus extend the cover to any staff member acting as pilot/aircrew. With such an arrangement, the ABC approving delegate will need to document the passenger manifest, identifying the "ABC pilot" separately to other passengers. This documentation/approval will occur prior to the proposed flight in the present manner required for the Special Flying Duties Insurance coverage. Where the flight is not considered to be affected by the Special Flying Duties Insurance, e.g. a regular transportation operation, then the program-maker/pilot will need to obtain approval from a higher authority within the Branch prior to the flight.

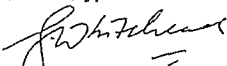
With regard to third party person/property liability, most charter operators carry private insurance to cover the hire of their aircraft. The general standard of insurance coverage ranges from \$1m - \$2m per accident. The ABC will require, as part of any charter agreement, that the operator maintains such coverage. This public risks liability insurance applies irrespective of the pilot's employment origin, i.e. ABC or charter operator.

The ABC's maximum liability to the staff members flying as passengers (including an ABC staff member acting as pilot) of a chartered aircraft is \$150,000 per person provided the nature of the flight conforms to the special flying insurance provisions. If the flight does not conform, the maximum liability is limited to \$100,000 per person.

On the matter of aircraft owned by the ABC, there are only two; the A350B 'Squirrel' helicopter based in Sydney and the Bell 'Jetranger' based in Melbourne. The pilots of these aircraft are provided by companies under contract to the ABC. The pilots are not employed by the ABC, consequently, there is no liability to these persons in the event of an accident. The ABC's liability to passengers on ABC owned aircraft is identical to chartered aircraft, i.e. \$150,000 and \$100,000 respectively. The contracts require mutual indemnification against actions by third parties for injury or damage to persons and property which may be caused by the helicopters. Accordingly, a joint public risks insurance policy is held by the ABC to the extent of \$5m.

I have sent a copy of this letter to the Secretary, Joint Parliamentary Committee of Public Accounts.

Yours sincerely,

  
 GEOFFREY WHITEHEAD  
 Managing Director

Australian  
 Broadcasting  
 Corporation



41 Sherwood Road,  
 Toowong, Brisbane.  
 G.P.O. Box 9994, 4001

Ref..... CG:HK  
 32/176

March 19, 1985

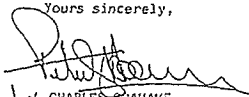
AIRCRAFT ACCIDENT 24.10.83 - CESSNA 310-L:VH-DTJ

Please find attached a copy of the Air Safety Investigation Aircraft Accident Report on the fatal aircraft accident involving ABC Staff members -

Ralph Francis Walker ELPHINSTONE  
 Joseph Mooney  
 William Edward FRYER  
 Bruce Stephen Fadden ANNING

Also for your information, the Coroners Inquest resumed at the Coroner's Court, Brisbane at 10.00 a.m. on 16.4.85.

Yours sincerely,

  
 FOR CHARLES GRAHAME  
 General Manager for Queensland

COMMONWEALTH OF AUSTRALIA  
BUREAU OF AIR SAFETY INVESTIGATION  
AIRCRAFT ACCIDENT REPORT

This accident was investigated in order to obtain information to enhance aviation safety. As a consequence, this report is confined to matters of safety significance and may be misleading if used in any other process; different considerations may come into play if serving other objectives.

The Director of the Bureau of Air Safety Investigation authorised the investigation of this accident and the subsequent publication of this report pursuant to his delegated powers conferred by Air Navigation Regulations 278 and 283 respectively.

RECORD NUMBER: 8311069

AIRCRAFT TYPE: Cessna 310 L                      REGISTRATION: VH-DTJ

LOCATION OF ACCIDENT: Fletchers Awl QLD

DATE: 24 October 1983                      TIME(local): 1108

DEGREE OF DAMAGE TO AIRCRAFT: Destroyed

DEPARTURE POINT: Rockhampton QLD              DEPARTURE TIME(local): 0919

DESTINATION: Kenlogan QLD

PURPOSE OF FLIGHT: Private Business

CERTIFICATE OF REGISTRATION HOLDER: R.J. NIXON  
13 Rigby Crescent  
GLADSTONE QLD.

CREW:

NAME	ROLE	AGE	CLASS OF LICENCE	HOURS ON TYPE	HOURS TOTAL	DEGREE OF INJURY
Ralph Francis Walker ELPHINSTONE	Pilot	43	Private	125 (Apprx)	820 (Apprx)	Fatal

PASSENGER:

NAME	DEGREE OF INJURY
Joseph MOONEY	Fatal
William Edward FRYER	Fatal
Bruce Stephen Fadden ANNING	Fatal

CIRCUMSTANCES:

The aircraft was being used to convey ABC staff from Rockhampton to Kenlogan Station in order to carry out filming of that and neighbouring properties as part of a planned television program. On arrival in the Kenlogan area the pilot was unable to locate the airstrip and after searching for about 30 minutes a diversion was made to Cumberland Downs (which is now known as Fletchers Awl).

Witnesses on the ground at Fletchers Awl watched the aircraft as it arrived and made three circuits of the strip. The landing gear was observed to be extended during the third circuit. The witnesses lost sight of the aircraft as it passed behind rising ground. Shortly afterwards smoke was observed, and it was found that the aircraft had struck the ground about 800 metres short of the strip. A fierce fire had broken out and engulfed the wreckage.

The geographical position of Kenlogan as depicted on the appropriate Aeronautical Chart was some 9 km east-south-east of the actual position. Whether this was known to the pilot before the flight could not be established. Examination of the wreckage was hampered because of the extensive fire damage. Although the engines were delivering little or no power at the time of impact, no defect or malfunction with the engines or airframe was found which might have contributed to the development of the occurrence. The cause of the accident remains undetermined.

Bureau of Air Safety Investigation, Canberra  
5th March, 1985

COMMONWEALTH OF AUSTRALIA  
BUREAU OF AIR SAFETY INVESTIGATION  
AIRCRAFT ACCIDENT REPORT

This accident was investigated in order to obtain information to enhance aviation safety. As a consequence, this report is confined to matters of safety significance and may be misleading if used in any other process; different considerations may come into play if serving other objectives.

The Director of the Bureau of Air Safety Investigation authorised the investigation of this accident and the subsequent publication of this report pursuant to his delegated powers conferred by Air Navigation Regulations 278 and 283 respectively.

RECORD NUMBER: 8311069

AIRCRAFT TYPE: Cessna 310 L                      REGISTRATION: VH-DTJ

LOCATION OF ACCIDENT: Fletchers Awi QLD

DATE: 24 October 1983                      TIME(local): 1108

DEGREE OF DAMAGE TO AIRCRAFT: Destroyed

DEPARTURE POINT: Rockhampton QLD              DEPARTURE TIME(local): 0919

DESTINATION: Kenlogan QLD

PURPOSE OF FLIGHT: Private Business

CERTIFICATE OF REGISTRATION HOLDER: R.J. NIXON  
13 Rigby Crescent  
GLADSTONE QLD.

CREW:

NAME	ROLE	AGE	CLASS OF LICENCE	HOURS ON TYPE	HOURS TOTAL	DEGREE OF INJURY
Ralph Francis Walker ELPHINSTONE	Pilot	43	Private	125 (Apprx)	820 (Apprx)	Fatal

PASSENGER:

NAME	DEGREE OF INJURY
Joseph MOONEY	Fatal
William Edward FRYER	Fatal
Bruce Stephen Cadden ANNING	Fatal

CIRCUMSTANCES:

The aircraft was being used to convey ABC staff from Rockhampton to Kenlogan Station in order to carry out filming of that and neighbouring properties as part of a planned television program. On arrival in the Kenlogan area the pilot was unable to locate the airstrip and after searching for about 30 minutes a diversion was made to Cumberland Downs (which is now known as Fletchers Awi).

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Bureau of Air Safety Investigation, Canberra  
5th March, 1985

AUSTRALIAN BROADCASTING COMMISSION  
**INDUSTRIAL SERVICE MEMORANDUM**

BRANCH MANAGERS,  
DIVISION HEADS,  
FEDERAL DEPT. &  
SECTION HEADS

NO: **658**

ISSUED: 9 June, 1981

INSURANCE FOR SPECIAL FLYING DUTIES

DETERMINATIONS NOS 4 OF 1948, 61 OF 1953, 111 OF 1967 AND 502 OF 1978

1. PREAMBLE

The present clause, common to Determinations 4/48 (Clause 17), 61/53 (Clause 24A) 111/68 (Clause 12A) and 502/78 (Clause 13), reads as follows:

- (1) A member who in the course of his duties is required to fly in an aircraft in circumstances which in the opinion of the General Manager or an officer authorised by the General Manager may involve risks greater than those involved in normal air charter operations shall either be insured by the A.B.C. for an amount of \$50 000 in addition to the amount specified in sub-section 14(1) of the Air Accidents (Commonwealth Government Liability) Act 1963 as amended from time to time, in the event of death arising from an accident while performing such duty, and in the event of partial or total incapacity or injury for amounts considered appropriate by the General Manager having regard to usual insurance practice, or in lieu shall be covered by the Commonwealth for an equivalent amount.
- (2) Provided that no special insurance or cover shall apply in the case of a member -
  - (a) in respect of duty involving carriage by aircraft used by the Commonwealth for VIP flights; or
  - (b) in respect of flights by charter aircraft where the type of aircraft chartered is one which may customarily be used on schedule flights and where no physical work is required of the member of the flight."

Questions have arisen concerning the practical application of this clause. The purpose of this ISM is to consolidate all the interpretative memos issued to date. No change in principle is involved.

2. INTERPRETATION

- (1) Sub-clause 1 provides in effect that special flying insurance is provided if, in the delegate's opinion greater risks than those involved in normal air charter are involved. Given the imprecise nature of the discretion granted the delegate, particularly by the words underlined, the A.B.C. has adopted the following general rule for guidance: An employee should be denied special insurance only if the answer to BOTH the following questions is "yes".
  - (i) Is the air service to be used by the employee(s), available to members of the general public? and,
  - (ii) Does the service to be used fly to and from Department of Transport controlled airports/airfields?
- (2) There are some exceptions to the above general statement. One is recognised by C.2(a): Special flying insurance is not provided in respect of Commonwealth VIP flights. Another exception is in respect of State VIP flights, and flights in large Defence Department aeroplanes. However flights in smaller military planes may attract insurance, depending on the delegate's assessment of the risks involved.
- (3) If the work to be performed in flight adds to the risks (e.g. filming by cinematographer) then the delegate should take this into account in the exercise of his discretion.

3. DELEGATION FOR APPROVAL OF ADDITIONAL INSURANCE FOR SPECIAL FLYING DUTIES

The approval in writing of the following delegates is required before staff may engage in duty on aircraft that may involve higher than normal risk:

<u>Head Office</u>	-	CR&E, Federal Program Department Heads, Director of Engineering, SEM&S, NSW News Supervisor or Senior Journalist-in-Charge of News Room, ExecProd "Nationwide"/"Four Corners".
<u>Victoria</u>	-	ChiefMgr, Mgr(TV) and (R), News Editor, Senior Journalist-in-Charge of News Room, SupTVProdOps, CRA, DEng
<u>ACT</u>	-	Mgr, DEng, Senior Journalist-in-Charge of News Room
<u>Queensland</u>	-	ChiefMgr, Mgr(TV) and (R), News Editor, Senior Journalist-in-Charge of News Room, DEng, ExecProd PAff(TV).
<u>South Australia</u>	-	ChiefMgr, Mgr(TV) and (R), News Editor, Senior Journalist-in-Charge of News Room, DEng, ExecProd PAff(TV)
<u>Western Australia &amp; Tasmania</u>	-	Mgrs, Program Directors, News Editors, Senior Journalist-in-Charge of News Room, ExecProdPAff(TV), DEng.
<u>Oceania</u>	-	ABC Mgrs for Europe, Asia and North America

Where the nominated delegates are required to travel they would need approval from a higher authority.

Arrangements have been made with an insurance company to provide a cover for special flying duties.

Staff should address all queries regarding this insurance to HdPersS and should not contact the insurance company.

4. PROCEDURE

HO/ISW - When approved by the delegate, a copy of the form of approval should be forwarded to HdPersS.

Branches - Delegates forward copies of their forms to their Personnel Department. The forms are to be retained by the Personnel Department and then forwarded to HdPersS at the end of each year stating the number of staff involved and the total man-hours flown.

5. GUIDELINES AS TO APPLICATION

For the purposes of administering these Determinations, the A.B.C. and its insurers have interpreted the word "aircraft" to include helicopters, gliders and balloons.

6. MANAGEMENT STATEMENT

The opportunity is also taken to state A.B.C. policy in respect of situations where employees face possible risk in the performance of their duties. It is considered impossible for the A.B.C. to lay down in detail firm directives that would apply inflexibly to the many and varied circumstances that face employees in the exercise of their duties during a non-scheduled flight. However, some guidelines in the nature of general policy may be stated.

As a matter of firm policy the A.B.C. forbids all employees from engaging in flying assignments in circumstances that involve breaches of any applicable law, regulation or directive from a responsible authority, relating to air flight.

The A.B.C. further holds the view that it is the responsibility of Supervisory Staff of the A.B.C. to ensure as far as possible that staff involved in non-scheduled flights are not working in situations involving unreasonable risks to life or body. In the planning and conduct of all non-scheduled flight situations full regard should be had to the safety of employees concerned.

Notwithstanding strict adherence to the above two points of policy, the A.B.C. recognises that because of the inherent nature of this industry, detailed planning and supervision of the work of staff is not always possible on location, and occasions shall arise where only the employee concerned is in a position to decide the risks involved in a work situation. The A.B.C.

affirms that it is the right and duty of all employees to ensure that no act of their own endangers their personal safety. Employees should never be asked, or upon their own initiative, place themselves in a position where they hold reasonable doubts for their own safety. The A.B.C. further affirms that where employees refuse duty in such circumstances, their decisions should be respected, and in no way should the fact of their refusal be held detrimental to their career or their standing in the organisation.

7. CANCELLATION OF ISM 602

This ISM supercedes the interpretation provided in ISM 602, issued 19 May, 1978.

8. LIST AND INDEX

(a) List Under 1981 add;  
"658 Insurance for Special Flying Duties"

(b) Index Under "I" insert "Insurance for Special Flying Duties -658."  
Determinations 4/48, 61/53, 111/68 and 502/78



ROSS A. PEARSON

Controller of Personnel & Establishment

Inquiry into the Auditor-General's March 1984 Report

Submission by Australian National Railways Commission.

INTRODUCTION

Australian National Railways Commission is a Commonwealth Government owned statutory authority which has as its primary function the provision of railway services in accordance with the Commonwealth's powers over railways as set out in the Constitution. The Commission is to conduct its operations safely, efficiently and, subject to directions given by the Minister and its duty to pursue policies to achieve its financial target, in a manner that accords with sound commercial practice. The Commission is required to develop and review and revise from time to time corporate objectives, strategies and policies for ensuring that it fulfils its duties under the Act on a long term basis.

ACQUISITION AND DEVELOPMENT OF COMPUTER BASED SYSTEMS

1. In the Auditor-General's March 1984 Report reference was made to various matters relating to the acquisition and development of computer based systems. Before presenting comments on each matter referred to it is necessary to bear in mind the background to the introduction of the Cost Management Information System (CMIS) in Australian National.
2. At the end of 1979 when the initial feasibility study for the CMIS project was commenced Australian National had only been constituted for a relatively short period by the amalgamation of the Commonwealth Railways, the Tasmanian Government Railways and the country services of the South Australian Railways.
3. There were three administrative systems in existence. There was a dearth of management information coming out of each system. As the proposals to initiate the project indicate, we fully recognised the need for extensive rationalisation in the administrative procedures and their amalgamation into unified systems.

To achieve the principal corporate objective of breaking even on commercial operations in 1987/88 we needed information concerning the business in order to introduce greater efficiency, reduce costs and compete more effectively in the market place.

We envisaged the CMIS project as one of the means of achieving these goals by permitting us to

- standardise information systems
- rationalise administrative procedures
- produce timely up-to-date information
- redeploy clerical staff

We needed to get the CMIS project under way in as short a time as possible and therefore appointed management consultants to undertake phase 1 of the project.

4. Australian National's evolution from three separate conventional railway bureaucracies to a single commercial business enterprise needs to be properly understood.

This has involved great trauma for Australian National management and staff and their ability to accommodate change has been severely tested, not least in the introduction of data processing (ADP). In doing so recognition has to be given to the efforts to involve and assimilate Australian National staff, which has resulted in significant delays. These delays are due to a combination of inexperience in ADP and a quite inadequate documentation of traditional practices (or rather three sets of practices). In some cases fear of change has resulted in less than active co-operation. This situation has been treated with understanding wherever possible but it has, as acknowledged, caused delays.

5. We agree with the summary of the audit findings in that the Commission embarked on the project in 1980 without realising its size and complexity as a consequence of the deficiencies in the feasibility study and of the urgent need for extensive rationalisation in the administrative procedures and for management information. This was subsequently recognised and brought to our notice in the consultant's report of June 1982.
6. We do not agree that the approach suggested by the consultant was inadvisable. We accepted the consultant's recommendation of adopting an evolutionary approach to the development of systems in the CMIS project. The rationale behind this was that of introducing initially a bare-bones version of each system which management and staff would gradually learn to use to satisfy their information needs. Since it was recognised that the accounting and administrative procedures needed to be rationalised this was a means by which they could be examined on a progressive basis while the system was developed and extended.

Management believes that this has been and will continue to be the correct approach to the development and implementation of systems in Australian National until the basic CMIS project has been implemented and we have appropriate, fully documented, accounting and administrative procedures.

For most of the reasons stated, namely resistance to change, inexperience in ADP and inadequate documentation of existing practices, it would not have been possible to have attempted to introduce fully developed integrated systems.

Many Australian National managers, particularly those whose careers have been exclusively in railways, were not fully aware of the type of information required to properly control their functions in the highly competitive and tight budgeting situation which now confronts us. It will take time for them to learn what they should receive and how to use it. Giving them complex reports immediately the individual systems in CMIS are introduced would achieve little purpose. They have already gone through a period of rationalisation during which their accustomed practices have been radically changed. Commencing with simple straightforward reports which they can get used to and subsequently expanding the scope and complexity of the reports will be the only means of achieving success in this area. With regard to ADP, we are convinced that to have attempted to have introduced a fully integrated management information system would have been unwise in the extreme.

7. Australian National has not been successful in meeting our expectations of timing for CMIS but it certainly is not due to our having adopted an evolutionary approach. The project was commenced with a totally unrealistic implementation program. The reasons for this have been a resistance to change by management and staff, the inexperience of Commission staff in data processing, inadequate documentation of existing practices and inadequate accounting practices. As can readily be appreciated these were not problems which could be overcome in the short term but require a change of attitude on the part of management and staff, a result only achieved over a lengthy period of time.



As explained in paragraph 3 above Australian National's evolution from three separate conventional railway bureaucracies to a single commercial business enterprise needs to be properly understood. This itself has meant that Australian National management and staff have had to have significant changes made to their normal working practices. It must be remembered too that it 1980 when phase 2 of the CMS project commenced the integration of the separate rail systems was still a major activity; both management and staff needed to assimilate the changes that had been made.

It may be suggested of course that the very fact of the pressures resulting from amalgamation and rationalisation dictated a deferral of action in regard to the introduction of computerised information systems. While those risks were appreciated it was the view that the need to address the problem of inadequate and delayed information could not be deferred, particularly since a system of three types of reporting had to be rationalised and a duplication of effort had to be avoided if possible. Also, a climate of upheaval was considered to be the best time to introduce change.

8. It should also be remembered that the Public Service Board's 'Guidelines on Internal Controls for Computer Based Systems' was first published in April 1981, some nine months after phase 2 of the project commenced.
9. The Commission agrees with the Auditor General's criticisms of the consultants who carried out the initial study. We acknowledge that

an over-emphasis was given to accounting aspects of the project

the experience of Commission staff was overestimated

the size of the project and the likely problems were underestimated, and

an unrealistic implementation program was presented

These shortcomings in the initial study were drawn to our attention by the consultants themselves during phase 2 of the project. They also made us aware that the study had been deficient in not specifically recognising the need to review accounting practices before implementing the accounting systems. Remedial steps were taken as the issues were raised and before the audit took place last year. However, since many of the difficulties are inherent in the organisation they will not be overcome in a matter of months.

The Auditor-General's staff carrying out the audit last year fully acknowledged that the shortcomings had been raised and that such remedial action as was possible had been taken. In paragraph 6 of their letter of 20 September 1983 they stated that

"The effects of these deficiencies have been brought to the Commission's attention by its consultants during the progress of the project and various remedial steps have been taken."

#### 10. Initial emphasis on financial systems

Three basic types of information need to be distinguished. Accounting information required for billing, budget monitoring and statutory purposes. Detailed cost information for monitoring cost efficiency and expenditure accountability and detailed revenue information for analysing market trends. Finally, physical performance information relating to train operations and resource and maintenance productivity was and is required to reinforce expenditure accountability, the achievement of productivity and customer service goals.

We agree that the project was given an accounting bias during phase 1. This deficiency was recognised soon after the commencement of phase 2 and we adopted a recommendation from the consultants that the matter be rectified by giving non-accounting information appropriate importance in the systems and reports prepared.

It was agreed with the consultants that the proposal in phase 1 that only the general ledger, payroll and stores be considered in phase 2 should not be adhered to, but that all the systems envisaged as being eventually included in CMIS should be undertaken in phase 2. The reasoning was that the non-accounting aspects of systems such as project costing and fixed assets, budgeting, responsibility and profitability reporting were of vital concern to Australian National in the drive to upgrade overall management of the organisation.

The consultants advised against the inclusion of any further major systems such as maintenance scheduling, since the project was already complex and extensive. The effort required to implement the project would tax management and staff to the utmost. As it was, there was a danger that the changes to the organisation already effected as a result of the amalgamation together with those resulting from the CMIS project would tend to be excessive.

It was recognised, given the broader scope of the project, that the project should be independent of the then Manager, Finance and Supply (later, Assistant General Manager [Finance and Supply]). As a first step in setting up information services as an independent function, a consultant was appointed as Management Information Co-ordinator, reporting to the General Manager. Recently, the Commission has agreed to the creation of a senior staff appointment of an Information Services Manager to replace the Management Information Co-ordinator, with the overall responsibility for data processing functions including CMIS.

11. Failure to recognise calibre of available Commission staff

The fact that the phase 1 report prepared by the consultants did not recognise the calibre of staff in the user areas or in Computer Information Services (CIS) was also drawn to our attention by the consultants during phase 2 of the project.

This resulted in a serious under-estimation of time to complete the project. When taxed as to the reasons for this error in assessment the consultants advised that while they have been engaged on similar projects for other government departments in the past, the calibre, or more particularly the experience, of staff has never been as limited as that encountered in Australian National.

It has to be recognised that the railway industry by virtue of its history, size and political and social significance, has been and is still subject to a diverse matrix of constraints which have severely inhibited change and modernisation. This is reflected in the management structures and processes and has been particularly apparent in traditional internal management succession. As a result, adoption of and adaptation to new management methods, such as computing, has been very slow.

This is not a reflection on railway managers and staff as individuals. They are among the most dedicated to be found in any industry, private or public. It is rather a commentary on the environment which has not, until fairly recently, fostered the changes and adoption of new methods so necessary to meet the challenges of a competitive commercial environment.

It is regrettable that the situation which confronted the consultants in the development of CMIS is typical of many situations which have emerged as senior management in Australian National endeavour to upgrade and place increasing pressure on staff to perform to the levels required in order to achieve the corporate goals which have been set.

In order to overcome the problem with regard to user staff, we have recruited outside for certain senior positions when it is evident that the available Commission staff do not have the required knowledge and experience. We will continue to do so when necessary.

The problems in attracting and retaining suitably qualified staff in the data processing area are typified by the problems encountered in filling the position of Manager CIS since the CMIS project was initiated.

The incumbent at the start of the project resigned in May 1980. His successor was recruited in August 1980 from RHP Whyalla but he resigned in October 1981. The position was filled in an acting capacity by Australian National's Stores Controller but while he had adequate administrative capability he was not experienced in data processing, and the fourth incumbent in the position since the commencement of the CMIS project was finally recruited from CSR after an extensive search, in June 1983.

The above history of change in the position of Manager CIS has had a detrimental effect on the project. The consultant has brought this to notice from time to time and in order to ensure as far as possible that a suitable manager was located, the consultants were actively involved in the recruitment of the appointee.

The current Manager CIS (retitled, Data Processing Manager) received approval for the recruitment of senior and other suitably qualified and experienced staff from outside the Commission in order to rectify the situation in that area.

#### 12. Under-estimation of the size of the project and the likely problems to be encountered

In addition to the failure to recognise the limitations in computing expertise in Australian National, the consultants' study was also deficient in not specifically recognising the need to introduce standard accounting and commercial practices before implementing the accounting systems.

They failed to take into account the difficulties that would be encountered in resolving the problems associated with having more than one accounting and payroll system.

The problems are that the systems are either entirely manual, or where they have been computerised, the computer has been used in a manner inconsistent with its full potential but rather as a calculator and tabulator. In both cases procedure manuals do not exist with the result that practices are not consistent among the clerks performing the tasks.

Both these problems linked with the fact that Commission staff are, because of their very traditional railway services background, slow in recognising the need for changes, have been the principal causes of the extended period required for the development and implementation of the systems.

We agree that due to the deficiencies listed above the consultants seriously under-estimated the size of the project. At the outset of the project we did not have staff with the necessary experience to recognise this fact.

#### 13. Unrealistic implementation program

Some months after the commencement of phase 2 of the project it became evident that the proposed implementation plan was unrealistic. This is a consequence of paragraphs 10, 11 and 12 above.

However, the consultants themselves drew our attention to these deficiencies in the initial study. Indeed the points in paragraphs 10 to 13 are basically those listed in a report submitted by the consultants in June 1982.

We have taken what remedial steps we can to deal with all these points but since many of the difficulties are inherent in the organisation their effect will only diminish gradually as experienced staff are recruited and Australian National learns to accommodate the major changes implicit in the systems being implemented.

14. Because of the particular circumstances prevailing in Australian National at the time we do not agree that the omission of a detailed cost benefit analysis was a deficiency in the initial study. At the end of 1979 when the study was undertaken Australian National had only recently been constituted by the amalgamation of the three railways; there were three administrative systems in existence. There was a need for extensive rationalisation in the administrative procedures and their amalgamation into unified systems. For us to have carried out the task of defining common standard systems we would have had to anticipate to a fairly large extent the work that in due course had to be undertaken by the separate application systems teams.

It would therefore have been impractical to have carried out this detailed analysis in that it would have extended over a lengthy period of time and required extensive resources in staff, and delayed the commencement of the CMIS project.

A detailed planning and cost-benefit review of the CMIS project was undertaken in June 1983. The project plan arising from this study indicated that development and implementation would continue until the end of 1986 although the majority of the work would be completed by mid-1986. A strategic definition for all ADP activities in Australian National has recently been completed. This confirms that the CMIS project will not be completed until the end of 1986.

15. We fully acknowledge that the feasibility study undertaken in 1979/80 was limited to the Cost Management Information System project and did not cover the overall ADP needs of the Commission; it was not intended to do so.

The terms of reference given to the consultants restricted their study to the CMIS project only. There is a limit to the amount of change that any organisation can absorb. The introduction of radical changes in administrative procedures as a result of the CMIS project coming immediately after the inevitable changes

consequent upon the amalgamation of the three railway systems would put a strain on any organisation. This was compounded by the limited calibre and experience of Commission staff, as explained in paragraph 11 above.

It would therefore have been unwise in the extreme for the Commission to have undertaken extensive ADP development outside the CMIS project. Apart from a Wagon Monitoring System being developed no other significant data processing projects are under development.

A strategic plan for all ADP activities in Australian National has recently been completed, as mentioned in paragraph 14 above.

16. In the Auditor General's March 1984 report it is stated that current estimates are that phase 2 of the project will be completed by mid-1985 whereas the study estimated August 1982.

This is not in line with the planning we have carried out. As stated in paragraph 14 above the project plan indicates that development and implementation will continue until the end of 1986 although the majority of the work will be completed by mid-1986.

The implication in the report is that the project is three years behind schedule. Seeing that it has been recognised for some years now that the initial feasibility study undertaken by the consultants proposed an unrealistic implementation plan, we do not believe that a comparison of the current estimated date of completion of the project with that made in the feasibility study is meaningful. Furthermore, the experience gained by the consultants and the Commission staff in overcoming the problems that have been encountered over a number of years has enabled us to make more realistic estimates than would have been possible under any circumstances in a feasibility study extending over a few months.

17. It is further stated in the report than an estimate of \$2.4 million for external costs to complete phase 2 is likely to be exceeded by at least \$2 million.

As commented in paragraph 16 above continued comparison to the initial feasibility study which has been recognised for some years now to contain deficiencies is not meaningful in our opinion.

Contract staff are being used in the QMIS project and Computer Information Services. The Data Processing Manager has recruited and will continue to recruit suitably experienced staff until he has built up the required team. Since the Commission ADP staff did not have the necessary experience and the number of staff needed was greatly in excess of those available there was no alternative but to use contractors.

The estimates for the completion of phase 2 of the project and the estimates of the additional external costs are in line with the strategic plan recently prepared.

It should be noted that a more efficient initial study would have shown the cost of the project and its time span to be similar to that now reflected in the ADP strategic plan. The effect of the deficiencies in that initial study would have altered the situation only insofar that we would have been aware of the size and complexity of the project must earlier and that we would have been able to take more appropriate action at an earlier stage than we did in developing the project. Furthermore, as stated in paragraph 3 above the need for QMIS was such that we had no alternative but to proceed with a project of the nature of QMIS.

It should be acknowledged that when it became apparent that the initial planning and costing was inadequate a review was initiated. This resulted in the June 1982 Report. Subsequently, and prior to any involvement by the Auditor General's staff, a detailed costing and further review was commissioned which has recently been repeated in the broader environment of an Information Systems Strategic Plan.

18. It should be noted that all the issues raised by the Auditor-General's staff had been raised by Commission staff or by our consultants and that corrective action had been taken in all cases before the audit was carried out last year. This was acknowledged, where appropriate, in a letter dated 10 February 1984 from the Auditor-General's South Australian Branch Office.

Where problems have been identified every endeavour has been made to rectify the situation within the constraints of the flexibility of the organisation and the abilities of the management and staff to deal with the matters.

19. The Data Processing Manager, appointed in June, 1983, has been instructed to establish formal procedures for the comprehensive examination of ADP proposals.

The Information Systems Strategic Plan has determined the priorities for information requirements against which new proposals will be evaluated.

As acknowledged, a proprietary information systems methodology, Method/1, was acquired at the end of last year. We are fully aware that this methodology does not fully provide all the necessary standards. We have analysed Method/1 in conjunction with the Public Service Board's guidelines in order to determine its deficiencies. The Data Processing Manager has examined this analysis and will determine any additional standards that are required.

A Standards Committee has been set up by the Data Processing Manager. Although their brief is to look at standards of all areas of data processing they will initially concentrate their efforts on standards for programming, consolidating and extending the work already undertaken in QMIS, and examining the additional standards required to satisfy the shortcomings of Method/1 with respect to the Public Service Board's guidelines.

We believe that the criticisms raised by the Auditor General's staff in relation to these points and to the fact that no standards had been provided for use by the consultants do not properly recognise the status of evolution of ADP within Australian National or the standards, planning, control and specifications which have been implemented in relation to CMIS. This is not to say that planning could not have been better or that much more rigorous control will not be necessary to ensure proper standards in the future as ADP applications extend to other functions.

The point to be recognised is that the major application of ADP in Australian National originated with CMIS. It was envisaged that this would be the primary preoccupation for up to five years, that the technicalities of development would be adequately handled by our consultants and that any separate ADP development prior to completion of CMIS would be minimal and be reviewed on an incidence basis. It was never seriously thought that major development would take place until CMIS was largely operational.

Provided control of CMIS was adequate therefore, and here we were largely in the hands of professional consultants, then control of ADP was adequate. This, we believe, was largely the case.

20. We acknowledge that there has been limited internal audit involvement in the Commission's ADP activities. The CMIS team have consulted the internal auditor on his requirements since the initiation of the project. We had identified the need to strengthen the team in the area of data processing. We fully recognise that internal audit involvement in systems development is a desirable aim. At the same time, however, it must be recognised that currently we do not have a suitably qualified DP auditor.

An appointment has recently been made to this position; the appointee will commence duties during the month of July. Steps will be taken to ensure that the DP auditor is fully involved in the development of both CMIS and CIS systems.

21. We acknowledge that three evaluations were undertaken for the acquisition of the computer hardware.

- a. It was recognised in the feasibility study that extensive computer hardware would be required to achieve the implementation of the project and various strategies were proposed by the consultants in their report at the end of phase 1.

The tender document, prepared by the then CIS Manager, was based on the strategy recommended by the consultants. However, the strategy contained in the final tender document of 24 March 1981 differed in a number of respects from that of the initial tender document prepared at the end of 1980.

The first evaluation of hardware, undertaken by the CIS Manager, appears to have followed fairly closely the strategy expressed in the tender document.

- b. The evaluation, prepared by technical personnel, recommended:

- "1. ... that the larger of the two IBM options is accepted ...  
2. To avoid the obsolescence problem ... it is recommended the equipment be leased ... "

This recommendation was unacceptable commercially because, inter alia:

- a) the marginal technical advantages defined in the evaluation did not warrant the significant cost difference  
b) other cost factors, eg training, were ignored

- c) IBM's "lease" offer was in fact a rental (i.e. ownership of the computer did not change) with annual prices increases, and "obsolescence" was the only factor considered in recommending leasing.

IBM subsequently altered the terms of their rental offer but also suggested a number of alternative leasing schemes through third parties. Facom offered a five year lease, or third party schemes. The Steering Committee decided that outright purchase was preferred so the investigation and development of firm alternative financing/leasing proposals were not proceeded with. Australian National had capital funds arranged to permit initial payments in 1981-82 and final payments to complete the purchase in 1982-83 although this in itself did not represent a commitment to the purchase option.

- c. The consultants evaluation was based on premises differing from the hardware strategy stated in the tender document.

Their evaluation was rejected for a number of reasons relating to the age and history of the machine, lack of technical support and its lack of general compatibility with CMIS systems' software.

Univac originally tendered to supply a large new machine with installation 12 months ahead and to install a secondhand machine immediately for use in the interim 12 months. Their revised proposal was to sell the secondhand machine outright (with no contractual follow-on sale). The secondhand machine was known to be about four years old and had been used by the State Rail Authority of NSW where it had not been trouble free. It required more power and air conditioning to run than the smaller, technologically more advanced brand new alternatives.

Furthermore, in terms of support Univac had, and still has, no presence in Adelaide. Apart from initial implementation all software and hardware maintenance, support and training had to come from Sydney at Australian National's expense.

In addition, the recommendation was unacceptable in that the proposed machine was not fully IBM compatible.

Since IBM have the major proportion of computer installations world wide MSA, and most other third party package suppliers, adopt the policy of developing IBM versions of their packages first and subsequently converting these to other suppliers equipment. As a consequence IBM and IBM compatible hardware has an advantage in this regard over other suppliers.

At the time of the computer selection the latest release 21 of MSA's Financial Information Control System (FICS) had not yet been converted to Univac. In addition, the latest version of MSA's QPAC payroll package had only shortly before been converted to Univac. Furthermore, MSA stated in a letter that in Australia they were only prepared to support the QPAC package on IBM or IBM compatible equipment. In addition, they stated that it would have been twelve months before the release 21 of the FICS package became available on other equipment and that the system to be installed on the Commission's computer would be release 21. We therefore believed that IBM compatibility was essential in our environment.

At the time that the consultants presented their recommendation for the acquisition of hardware we were of the opinion that a two year time scale was inappropriate in that it was too conservative. From a technological point of view hardware of the type tendered could be expected to have an economic life of around five years from the date of purchase. Considering the economic aspects of maintenance the computer should have a life of five to seven years from the date of purchase.

By the time the third evaluation was undertaken we had re-considered the matter and decided that a two year period was appropriate for purposes of the evaluation.

d. The final evaluation was undertaken by the Stores Controller in an acting capacity since the CIS Manager had resigned. It was based on a similar strategy to that assumed in the consultants' evaluation.

22. We are concerned by the statement in the report that

"the Commission failed to purchase a computer of sufficient capacity to meet its needs over the intended period of four to five years".

As we have explained to the Auditor-General's staff on several occasions, the Facom M160F computer purchased in March 1982 for the CMIS project was never intended to be sufficient to satisfy the total computing needs for a four to five year period.

It was expected that almost all our resources would be required to introduce the CMIS project, the Wagon Monitoring System and a few other minor systems successfully over the next four to five years. The hardware which could cater for these systems was all that was required given that this corresponded with the currently accepted life of such installations.

In selecting the computer we ensured as far as possible that it could be upgraded with respect to memory, disc storage, peripherals and central processor without major re-programming of the applications. In addition, we made sure that the supplier did not have a history of introducing a new series of computers which were incompatible with a previous series and thus did not permit an easy transition to the new equipment.

It can be clearly seen that it was never the intention that the FACOM M160F computer purchased in 1982 would not be upgraded. In fact since the initial purchase it has already been upgraded with regard to memory and disc storage.

The cost of this computer together with additional memory and discs which have been acquired subsequently, is less than half the cost of hardware recommended by the consultants in their initial report. Since processing requirements increase as systems are put into production, the acquisition of computing power greatly in excess of that required at the initiation of the project would have reflected poor judgement. We ensured that the initial computer could be upgraded; this has in fact been done in respect of memory. Additional computer facilities have recently been acquired. The cost of this additional equipment together with the upgraded initial computer still remains less than the amount estimated by the consultants in their initial report.

The critical nature of a payroll system requires that adequate back up facilities are provided. The only practical means of doing this is to have redundant peripheral equipment and a second computer of similar characteristics on site. The additional computer recently acquired will provide this essential back up as well as providing additional computing power. To have acquired this second computer at the initiation of the project would have served no useful purpose.

23. We fully agree that a Steering Committee is the most desirable mechanism for monitoring progress of an ADP project in most situations.

To this end a CMIS Steering Committee was formed at the outset of the project. The first meeting took place in February 1980. Through lack of experience and understanding and a failure to recognise the importance of the project on the part of some senior management, it was found that the meetings were not contributing to the progress of the project as anticipated.

The ineffectiveness of the Committee was compounded by the differing perspectives held by Australian National's Finance Branch and the consultants, and the poor co-operation between CIS and CMIS personnel. As mentioned earlier this arose in part because of the inevitable evolution of CMIS beyond an accounting base.



It was therefore decided in September 1982, as an interim measure only, to suspend the Steering Committee and to enforce greater co-operation by an informal but more frequent series of meetings involving the Assistant General Manager (Finance and Supply), the Project Co-ordinator and the General Manager. Users were to be involved on an ad hoc basis.

In the event this did not resolve all the conflicts and it was decided to completely sever Finance control of the CMIS project. Subsequently a decision has been made to transfer management of all data processing to a senior manager answering directly to the General Manager.

Formal meetings of the Steering-Committee were resumed in September 1983 with the Committee consisting of the Information Services Manager (on appointment), Data Processing Manager, the two consultants co-ordinating the CMIS project and a senior consultant as the corporate representative of the consulting firm involved, under the chairmanship of the General Manager. Senior management will be required to attend as user representatives to discuss progress on systems of direct concern to their respective functions.

The meetings now cover all aspects of data processing and are not restricted to the CMIS project.

We have found from experience that users co-operation and involvement is not achieved by means of the Steering Committee which considers all facets of the project. It is preferable for the project leader of the individual CMIS systems being developed to hold regular meetings weekly or fortnightly with the Assistant General Manager and senior staff responsible for the system. The consultant attends the meeting when it is considered advisable for him to do so.

It is worth noting that the appointment of a professional Data Processing Manager twelve months ago has brought about a marked improvement in the liaison between the Commission's ADP

personnel and the CMIS project team. In due course both these functions will be placed under the responsibility of the Information Services Manager, reporting directly to the General Manager.

The poor co-operation between CMIS and CIS personnel and the differing perspectives held by the Commission staff on the one hand, and the contractors and consultants on the other were due to a combination of inexperience on the part of CIS staff in modern data processing and overloading of the consultant co-ordinator which precluded adequate attention to staff training.

24. The Data Processing Manager has introduced formal reporting and review arrangements for regular monitoring by management of ADP operations.
25. The Commission is satisfied that some problems relating to payroll are unique to the payroll system and will not be encountered in the remaining CMIS systems. As discussed in paragraph 26 below there are many problems that are common to all the CMIS systems.

The difficulties encountered in developing the payroll system have been:

- a. The need to define precisely the procedures relating to each pay category, each type of leave and the general features of the payroll system.

The payroll for the ex South Australian Government Railway employees is entirely manual and no procedure manuals exist. The calculation of the gross pay is manual for the ex Commonwealth Railway employees and no procedures manuals exist.

With no current procedure manuals it becomes extremely difficult to determine current practices with any certainty since these often vary between pay clerks.

The CMIS team has had recourse to the appropriate awards, acts and industrial and administrative circulars in order to ensure that the CMIS system follows the correct procedures. A number of deviations from the awards or acts have been discovered.

In many instances procedures need to be duplicated in order to deal with both Commonwealth and State provisions.

The extent of this task should not be under-estimated.

- b. Most payroll procedures are unique to the organisation and are therefore not specifically catered for in a payroll package.

The additional programming is extensive to deal with the unique procedures and to provide a system which incorporates many features to facilitate the tasks of the payroll clerks.

- c. The payroll system incorporates the maintenance of all leave balances. They are extensive to define and to program.

Australian National personnel management and payroll staff have had no previous experience in preparing for the implementation of a major system. Consequently, they have taken longer to understand their functions and commence effective working.

26. Certain remedial action can be taken to minimise problems in the development of other systems in the CMIS project.

The needs and problems in modernising the management of Australian National has been discussed elsewhere. It is a problem which was recognised at the outset of amalgamation and while it is being addressed by way of outside recruitment and internal training, it is a fact that it will take a generation to fully convert the ethos of the railway from that of a traditional bureaucracy to that of a self sufficient, efficient and fully productive business enterprise. This obviously places a serious constraint on the organisation's ability to absorb new technology.

It must be recognised that many of the difficulties experienced so far will be encountered in the development and implementation of the remaining systems in the CMIS project since these are due to inherent problems in the current accounting and administrative practices in Australian National. Allowance for this has been made in the revised program for completion of CMIS. They are in many ways symptomatic of the urgent need for the system and the accompanying rationalisation.

The Commission has recognised the need for a full review of financial accounting practices in Australian National as a related issue. For this purpose we have appointed a consultant to propose financial accounting policies, procedures, practices and standards, and, after approval, to prepare the appropriate manuals.

27. The appointment of an Information Services Manager (currently being recruited), reporting to the General Manager, and responsible for the overall co-ordination of data processing development in Australian National will significantly strengthen the ADP management team.

#### REVENUE, EXPENDITURE AND FIXED ASSET CONTROLS

28. Since the amalgamation of the three Railway systems in 1975 and the publication of the first combined accounts in 1978 the Commission has pursued a policy in keeping with its legislation which requires the keeping of -

" Proper accounts and records of the transactions and affairs of the Commission in accordance with the accounting principles generally applied in commercial practice. "

The Commission's objectives in this area are the publication of accounting statements which meet the information needs of Parliament, are clear and concise to other users, are adequately explained in notes thereto, give full disclosure of all relevant matters and meet to the greatest extent possible, the standards laid down by the Accounting Bodies.

In keeping with these objectives the Commission welcomed the issue by Department of Finance in May 1983 of the publication "Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings" and whilst not agreeing with every aspect of the Guidelines adopted them without hesitation. Indeed whilst the effective date of implementation was 1 July 1983 the Commission's accounts for 1982-83 were prepared on the basis of generally meeting the requirements of the Guidelines.

29. In the normal course of audit by officers of the Auditor-General's Office, many areas of our activities are investigated and discussions with our Senior officers are a common feature in this exercise.

It has been normal practice over some years that during the audit of our end of year accounts, various matters raised during the audit are submitted in writing and the Commission responds as to action taken or contemplated.

As an indication of the matters raised the following are attached :

- . Appendix A - Chief Auditor's letter of 4.10.1983
- . Appendix B - AN's reply dated 26.10.1983
- . Appendix C - Chief Auditor's letter of 12.12.1983
- . Appendix D - Chief Auditor's letter of 5.1.1984
- . Appendix E - AN's reply dated 25.1.1984.

The above matters are considered in keeping with the normal relationship that exists between Auditor and Client and the matters raised did not effect the issue of the Auditor-General's report dated 28.11.1983 to the Minister for Transport.

#### INTERSYSTEM REVENUE

30. On 1 July 1982 all Australian Railway systems introduced the multipart freight consignment note for intersystem traffic, generally referred to as RADAR (Railways of Australia Documentation Accounting and Reconciliation System).

Since that date, revenue settlement for each system has been processed through a central Railways of Australia Clearing House.

This Clearing House function is carried out by the Victorian system on behalf of all systems.

31. A tape containing details of every intersystem consignment note raised is sent to the Clearing House on a weekly basis. Copies of the consignment note are also forwarded to the receiving system who acquit the consignment note in the normal manner and include details on a tape to the Clearing House for matching with the tape data previously supplied by the forwarding system. Revenue settlement between the systems is based on this matching process and is supported by a hard copy settlement statement.

Each week the Clearing House forwards a tape containing detail of all intersystem consignment notes effecting AN. The four tapes of an accounting period form the basis for determining AN intersystem freight earnings for that period.

Hard copy detail of consignment notes matched, unmatched and mis-matched are supplied weekly.

32. AN does not have access to consignment notes for through traffic on its system, viz, traffic originating in, say, Victoria and consigned to Western Australia.

The Auditor-General's concern is in relation to ensuring the Commission receives all the revenue from intersystem traffic to which it is entitled.

33. The matter of an audit of the Clearing House has been under notice since early 1982 and the following details are submitted :

Appendix F - Copy of letter dated 9.3.1982 from Comptroller of Accounts, Victorian system to the Auditor-General, Victoria. At that time Mr McGowan was Chairman of the Steering Committee responsible for implementation of the system.

Appendix G - Copy of letter dated 25.2.1983 from Solicitor for Railways, Victoria in relation to the legality of the Victorian Auditor-General carrying out an audit of the system. He had expressed the opinion that he could not audit the Clearing House for the Victorian system in isolation from other rail systems.

Appendix H - Copy of AN letter dated 4.5.1984 to Manager, Group Accounting, State Transport Authority, Victoria, to express our concern to reach a decision on this matter.

Appendix J - Copy of AN letter dated 4.6.1984 to Manager, Group Accounting, State Transport Authority, Victoria, to express our concern as to the urgency of this matter.

Appendix K - Copy of letter dated 7.6.1984 from Group Manager, Accounting, State Transport Authority, Victoria, to indicate position.

The Commonwealth Auditor-General's Office has been kept fully informed of the position in this matter.

34. While we are satisfied that existing controls within the system are adequate and the quality control performed by system further strengthens the accuracy and completeness of data input we support the concept of an overall audit of the system.

In the event the Victorian Auditor-General's Office cannot carry out this function we see the matter being referred to Railways of Australia Committee seeking Commissioner's approval to engage an outside Auditor to carry out the function.

LAND TITLES

35. The transfer legislation establishing the Australian National Railways Commission (Railways Agreement (South Australia) Act 1975 in respect of South Australia and Railways (Transfer to Commonwealth) Act 1975 in respect of Tasmania) entitles the Commission to the prior rights to lands used for railway purposes held by the State or by the previous State railway system (in respect of South Australia this applies to lands used for non metropolitan railway purposes).

South Australia

36. Agreement was largely reached early after amalgamation between the State Transport Authority and Australian National on which lands are to be considered lands used exclusively for the purposes of the non metropolitan railways and which other lands previously held by the South Australian Railway should remain with the State. There are some minor detail areas yet to be resolved.

37. In respect of these lands, to be vested in Australian National, the next formal step is to engage the paid services of the Australian Survey Office to survey for title purposes. This involves substantial cost but there is no practical benefit to Australian National in obtaining surveyed title as distinct from simply enjoying unfettered use of the lands for railway purposes. Australian National has, therefore, not put the total survey work into action.

38. The Transfer Agreement arrangements do not permit Australian National to sell vested lands from the South Australian Railway area. The legislation requires that where such lands are no longer required for railway purposes they are to be returned to the State free of charge.

Practice is that where the State through the State Transport Authority wishes to dispose of land previously under the control of the South Australian Railway which has since been identified as land to remain with the State Transport Authority or revert to the State, specific action to create the titles needed is undertaken.

39. Lack of resolution of detailed boundaries has not led to disputation about lands required for Australian National operations, and the operations of the railway have not been impeded by the lack of formal title arrangements.

Tasmania

40. In Tasmania, the Commission utilised the services of the Department of Administrative Services for handling land matters from 1978 until the end of 1983.

The Department of Administrative Services withdrew their services at the end of 1983 following Australian National's exemption from the Lands Acquisition Act 1955.

Since February 1984, an officer from the State Transport Department, Tasmania has been seconded to perform title tasks related to land in Tasmania.

41. During the period 1978/1983 the Department of Administrative Services resources did not allow for the work involved in obtaining Certificate of Title to land vested in the Commission. To date therefore, as in South Australia, survey and gaining of title has not been pursued unless some immediate need such as sale of the lands justifies the expense of action existed.

42. In Tasmania as in South Australia, the transfer legislation is clear in respect to the rights of the Commission to land used for railway purposes. The Commission is, therefore, of the opinion that the gaining of titles generally has no direct benefits and if pursued other than on a needs basis would have an immediate heavy cost. It is considered that in both States the "as required" basis of achieving title is the most cost efficient means of approaching the matter. The lack of holding title has not inhibited Australian National's commercial functions.

11/7/84.

Copies of the following documents may be found on Joint Committee of Public Accounts File 1984/4, Part B.

- . Appendix A - letter to ANR, dated 4 October 1983, from the SA Branch, Auditor-General's Office, re Audit of 1982-83 Financial Statements.
- . Appendix B - letter from ANR, dated 26 October 1983, to the SA Branch, Auditor-General's Office, re Audit of 1982-83 Financial Statements.
- . Appendix C - letter to ANR, dated 12 December 1983, from the SA Branch, Auditor-General's Office, re Financial Statements 1982-83.
- . Appendix D - letter to ANR, dated 5 January 1984, from the SA Branch, Auditor-General's Office, re AM Retail.
- . Appendix E - letter from ANR, dated 25 January 1984, to the SA Branch, Auditor-General's Office, re letter dated 12 December 1983.
- . Appendix F - letter from Victorian Railways, dated 9 March 1982, to the Auditor-General of Victoria, re auditing a new system of accounting and settlement of freight traffic between States.
- . Appendix G - letter to Victorian Railways, dated 25 February 1983, from Christopher Berry, Solicitor for Railways, re R.A.D.A.R. System and Auditor-General.
- . Appendix H - letter from Victorian Railways, dated 4 May 1984, to State Transport Authority - Victoria, re Audit of the Clearing House.
- . Appendix J - letter from Australian National, SA, dated 4 June 1984, to State Transport Authority, Vic, re Audit of the Clearing House.
- . Appendix K - letter to Australian National, SA, dated 7 June 1984, from State Transport Authority, Vic, re AM 97 Audit of the Clearing House.

DATE OF HEARINGS, LIST OF WITNESSES AND OBSERVERS

The item, Department of Health, National Biological Standards Laboratory (para 11.1) was made the subject of a public hearing at Parliament House, Canberra, on 15 May 1985.

The following witnesses were sworn or made an affirmation and were examined by the Committee at the public hearing.

Department of Health

Dr L F Dodson	First Assistant Secretary Therapeutics Division
Mr W G Turk	Assistant Secretary Resources Branch
Mr D Kentwell	Director (Legislation)
Dr R W Temple	Assistant Director National Biological Standards Laboratory
Dr J Cable	Chief Chemist National Biological Standards Laboratory
Mr R W Tribe	Chief Inspector National Biological Standards Laboratory
Mr J Withell	Acting Assistant Secretary National Biological Standards Laboratory

During the public hearing the Committee was assisted by the following observers:

Mr R Alfredson	Australian Audit Office
Mr R Chantler	Australian Audit Office
Ms P Gaughwin	Department of Finance
Mr P Roberts	Public Service Board