

Government Aircraft Factories— Response

Report

242

Joint Committee of
Public Accounts

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

242ND REPORT

GOVERNMENT AIRCRAFT FACTORIES - RESPONSE
(DEPARTMENT OF FINANCE MINUTE ON THE COMMITTEE'S 198TH REPORT)

CANBERRA 1985

c Commonwealth of Australia 1985

JOINT COMMITTEE OF PUBLIC ACCOUNTS

FIFTEENTH COMMITTEE

SENATOR G GEORGES, (Chairman)

A G CADMAN, MP (Vice-Chairman)

SENATOR THE HON DAME MARGARET GUILFOYLE, DBE	R J KELLY, MP
SENATOR B COONEY	H MAYER, MP
SENATOR G MAGUIRE	L B McLEAY, MP *
SENATOR J O W WATSON	G B NEHL, MP
	L R S PRICE, MP
	G F PUNCH, MP
	A C ROCHER, MP
	J R SHARP, MP
	DR A C THEOPHANOUS, MP
	R E TICKNER, MP

*Ex-officio member being Chairman,
House of Representatives Standing Committee
on Expenditure

SECTIONAL COMMITTEE: SUB-COMMITTEE 'B'

A G CADMAN, MP (Chairman)

SENATOR G MAGUIRE	H MAYER, MP
SENATOR J O W WATSON	G F PUNCH, MP
	J R SHARP, MP
	R E TICKNER, MP

DUTIES OF THE COMMITTEE

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

Subject to sub-section (2), the duties of the Committee are:

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth including the financial statements transmitted to the Auditor-General under sub-section (4) of section 50 of the Audit Act 1901;
- (aa) to examine the financial affairs of authorities of the Commonwealth to which this Act applies and of intergovernmental bodies to which this Act applies;
- (ab) to examine all reports of the Auditor-General (including reports of the results of efficiency audits) copies of which have been laid before the Houses of the Parliament;
- (b) to report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
- (c) to report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
- (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

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

TABLE OF CONTENTS

CHAPTER	PAGE
Preface	xi
1 Introduction and Committee Comment	1
Management Reviews	1
Reporting to the Parliament	5
Computer Assisted Accounting and Management	7
Stocktaking	9
Accounting Matters	9
Financial Year of the Factories	10
Industrial Relations	10
Internal Audit	11
The Organizational Structure of the Government Aircraft Factories	12
Future Role of GAF	14
Conclusions	15
2 Summary of the Committee's 198th Report	16
3 Department of Finance Minute on the 198th Report	19
4 Appendices	36

LIST OF APPENDICES

		PAGE
Appendix A	Answers to a Series of Questions on GAF Provided by the Department of Defence on 4 October 1985.	36
Appendix B	Implementation Steering Committee Management Paper.	58
Appendix C	Government Aircraft Factories - Industrial Accord.	63
Appendix D	Annexes A to J of the Finance Minute	66
Appendix E	The Financial Report of the Government Aircraft Factories for 1983/84.	84

PREFACE

Arrangements to ensure that appropriate action is taken in response to comments contained in the Committee's Reports have been in operation since 1952 although they have been reviewed periodically. These were known as Treasury Minute arrangements.

Following the creation of the Department of Finance on 7 December 1976 it was agreed that the arrangements should continue as before but should be known as the Department of Finance Minute.

As they now stand the procedures are:

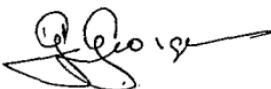
1. The Report of the Committee is tabled by the Chairman in the Senate and by a Member of the Committee in the House of Representatives. Motions are moved in both Houses of the Parliament that the Report be printed as a Parliamentary Paper.
2. The Chairman of the Committee thereafter forwards a copy of the Report to the responsible Minister and to the Minister for Finance with a request that he give the Report his consideration and inform the Chairman of the action taken to deal with the Committee's conclusions.
3. The reply received, in the form of a Department of Finance Minute, is then examined by the Committee and, together with the conclusions of the Report to which it relates, is submitted as soon as possible as a Report to the Parliament.
4. Should the Committee find during its examination of a Department of Finance Minute that certain recommendations are not fully dealt with or are subject to a further Minute, it holds an exploratory discussion with officers of the Department of Finance prior to the submission of the Minute to the Parliament.
5. In reporting a Minute to the Parliament, the Committee, except in special cases does not usually make any comment other than to note recommendations not fully dealt with or subject to a further Minute.

6. When the Committee next examines the Department concerned the Department of Finance Minute is considered by the Committee if applicable.
7. The Department of Finance furnishes the Committee with a half-yearly report on outstanding Minutes, indicating the progress made in dealing with the Committee's comments.

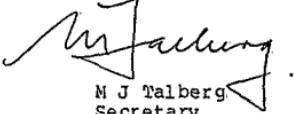
In accordance with the procedures outlined above, this report documents the Department of Finance Minute which was submitted in response to the Committee's 198th Report.

Consideration of the matters raised in this Report was undertaken by the Sectional Committee - Sub-Committee 'B' which was chaired by Mrs H Mayer, MP.

For and on behalf of the Committee,



Senator G Georges
Chairman



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

6 December 1985

CHAPTER 1

INTRODUCTION AND COMMITTEE COMMENT

1.1 The Committee's 198th Report on the Government Aircraft Factories was tabled in Parliament on 4 May 1982. A summary of the Report is presented in Chapter 2.

1.2 The recommendations of the Report together with the Department of Finance Minute relating to the Report appear in Chapter 3.

1.3 There have been significant changes concerning the Government Aircraft Factories in recent years. When the 198th Report was tabled, the Government Aircraft Factories were the responsibility of the Department of Industry and Commerce. It became the responsibility of the Department of Defence Support when that Department was created in May 1982 and then the Department of Defence when Defence Support was abolished in December 1984.

1.4 The top management of the Government Aircraft Factories has also changed with the present General Manager taking up his position in 1983 and the Finance Manager moving to the Government Aircraft Factories in 1984. It was disturbing to find that the people occupying these positions had not closely examined the 198th report of the Committee.

1.5 The production program of the Factories has also changed considerably in recent times. Production of the Nomad has ceased with 22 Nomads unsold and stored as at June 1984. The Government Aircraft Factories have now moved into a phase where they are heavily involved in assembling the new F/A-18 fighter aircraft for the Royal Australian Airforce.

Management Reviews

1.6 Since the Committee prepared its Report there has been a series of reviews focusing on various aspects of the Government Aircraft Factories. In August 1983 the then Minister for Defence Support established a Recovery Plan Taskforce to look at ways of avoiding retrenchments and means by which the Government Aircraft Factories might become more competitive and cost effective. The Taskforce consisting of representatives from the unions, factory management and external experts presented a report to the Minister in June 1984.

The Taskforce identified four major areas of concern requiring further investigations. These were:

- the organisational structure;
- the personnel practices and operations;
- the future workload of the factories; and
- the financial systems.

1.7 Tripartite project teams were established to carry out detailed investigations in these four areas resulting in a number of recommendations for change. The Reports of these teams were presented in April 1985 to the Minister for Defence.

1.8 Following the series of reviews and the many recommendations, the Factories are now moving into an implementation phase. Some positive steps have already been taken to improve the Factories' operations.

1.9 A consultant has been appointed to assist the Government Aircraft Factories in their corporate development including an appropriate framework for operating in the commercial environment. This will result in the development of a corporate plan.

1.10 It has been agreed that the personnel systems should be modernised using commercially available computer software packages to cover the payroll system and to store details on all personnel working in the Factories. This system is to be progressively introduced from 1 September 1985 and should be in place by 31 March 1986.

1.11 A marketing consultant is currently being appointed to provide assistance to the Government Aircraft Factories in determining the appropriate procedures, information sources and organisation necessary to obtain commercial workloads for the Factories to supplement fluctuations in defence orders.

1.12 A project team leader is currently being sought to implement fully the introduction of computer software packages leading to a fully integrated production facility. The consultant is expected to take two years to have all systems operational and high priority will be accorded to the implementation of basic areas such as inventory and cash related aspects.

1.13 Parallel to the extensive Recovery Reviews there was a Cost Awareness Committee established internally within the Factories in July 1983. This was an exercise in making the management of the Factories more aware of costs to the Government and seeking ways to cut those costs. A Cost Awareness Plan was drawn up with financial targets for the Factories. The main target established was to cut out all Government subsidies by the end of the 1989/1990 financial year. There has been some

scepticism expressed about whether that target is at all realistic considering the Factories' past performance.

1.14 In view of these substantial changes the Committee decided to seek current information on a number of matters. A series of seventeen questions were put to the Department of Defence and a written response was received on 4 October 1985. This response can be seen at Appendix A.

1.15 However, the Committee found that the answers to these questions were not consistent with information coming from the Factories on levels of productivity. As a result, the Committee held a public hearing on 13 November 1985 to gain evidence from the General Manager and Finance Manager of the Factories and representatives of the Department of Defence.

1.16 At that hearing a paper from the Factories' Management to the Recovery Plan Implementation Steering Committee was tabled indicating serious production problems at the Factories (At Appendix B). Whereas the Recovery Plan Targets for utilization rates¹ were:

	84/85	85/86	86/87	87/88	88/89
Targets	1100	1150	1200	1250	1300
Actuals	1028	-	-	-	-

the actual Factory Utilization Rate has dropped to the following levels in 1985/86:

June	1090
July	1044
August	1025
September	969

The paper indicated that the Factories were 26,000 hours behind their targeted schedule for the year because of poor utilization rates in the Factories.

1.17 The paper to the Implementation Steering Committee went on to indicate that the Factories are well behind schedule on most of their projects. Major problems are occurring with the production of F/A - 18 Flap and Shroud Offsets for the McDonnell Douglas Company in the United States. Deliveries of completed assemblies of Flaps and Shrouds are seven sets or ten weeks behind schedule. This means that these Offsets are now being air-freighted to the United States at a cost of \$4000 per set because the Factories are running behind schedule.

1.18 As a result of the Government Aircraft Factories running so far behind schedule, they may have to procure ten sets of Flaps and Shrouds from McDonnell Douglas at a cost of \$3.15m which is made up of \$1.41m lost income and a premium of \$1.74m for a special batch at short notice. There is a risk that these

1. The Utilization Rate is the number of hours per annum per employee that can be charged to a customer.

problems with the F/A - 18 offsets may cause the Factories to lose credibility with the United States Department of Defence and the Royal Australian Air Force. This would be unfortunate as the F/A - 18 Offsets form the major identified workload for the Bond Shop employing fifty eight people with the potential of over \$100m in future work.

1.19 The paper to the Implementation Steering Committee also indicated that the Factories were running behind schedule on the Wamira Prototype, the production of Jindiviks for the United Kingdom, flaps for the Fokker Company and stretched chords for the Boeing 757. In fact the Factories are behind schedule with virtually all of their products.

1.20 The Committee is most concerned that the written response by the Department of Defence to its questions received on 4 October 1985 conveyed a very different picture of circumstances at the Factories making no mention of the problems outlined in the paper to the Implementation Steering Committee written only ten days later on 14 October 1985.

1.21 When the Management of the Factories were questioned at the hearing on the reasons for the Factories recent poor performance they indicated that it was predominantly due to an industrial dispute during August and September of 1985. They indicated that such a problem would not reoccur as an accord had been signed by Management and representatives of unions at the Factories on 30 October 1985 that would resolve matters before an industrial dispute occurred. A copy of this accord is at Appendix C.

1.22 Because of the nature of this new evidence, the Committee decided to seek the views of union representatives from the Factories at a further public hearing which was held on 18 November 1985. Two of the union representatives were from the Joint Union Group at the Factories. The union representatives were asked to give their views on the falling Factories Utilization Rate and why the Factories were so far behind schedule on most of their projects. They dismissed the effect of the industrial dispute in August and September claiming that only four hundred hours were lost making it a very small scale dispute with a minimal effect on production.

1.23 The unions had a very different explanation of why the Factories were running late with their projects. They claimed that in relation to the F/A - 18 that every major item of tooling sent from McDonnell Douglas in the United States in early 1985 had faults. The master tooling and master references were both deficient for the radome for the F/A - 18. Then the parts sent from the United States were also faulty and would not fit the jig that had been received previously. Parts that should have taken two hours to make were taking up to twenty hours because of these problems. Kits were sent without the required number of parts and materials were out of life. The jig for the flaps and shrouds also had faults.

1.24 According to the union representatives these problems persisted for three to four months causing the Factories to run considerably behind schedule. The union representatives indicated that Management began drawing people from other projects onto the F/A - 18 project. As a result, other projects at the Factories started to fall behind schedule.

1.25 A union representative indicated that a Committee had been set up in the Factories to document the problem and make a claim against the McDonnell Douglas Company.

1.26 The Committee feels that it has been misled by the Factories Management and the Department of Defence which failed to disclose these problems when the lateness of the F/A - 18 project was discussed.

1.27 The Committee suggests that the Department of Finance become involved in examining these claims on McDonnell Douglas and in ensuring that McDonnell Douglas do not demand penalty payments for problems that were initially caused by that Company.

Reporting to the Parliament

1.28 There is no evidence to suggest that any action has been taken in regard to the Committee's second recommendation that the financial accounts of the Government Aircraft Factories be presented to Parliament as a record of the financial achievements of the Factories. The Government Aircraft Factories report to the Office of Defence Production. That report is subsumed in the reporting of the Department of Defence to the Parliament.

1.29 The Committee reiterates its previous recommendation (refer Report 198 p. 43) that the Government Aircraft Factories should report annually to Parliament.

1.30 On the issue of reporting, the Government Aircraft Factories point to the fact that their financial statements are examined by the Auditor-General. However, the Australian Audit Office has referred to unacceptable accounting procedures over a number of years. There is continuing disagreement for example on the establishment of notional costs and the value of work in progress. These matters have led the Auditor-General to state that the Factories' statements in 1982 and 1983 did not show fairly the transactions of the Factories or the state of affairs at the Factories.

1.31 The Auditor-General has also been critical of the slowness of the Factories to submit their financial statements to the Audit Office. In his report of September 1985 the Auditor-General has said :

The report of the Factories' financial statements for 1981-82 referred to delays in the preparation and submission to Audit of the statements and to deficiencies in procedures for the preparation of the statements. Generally similar observations can be made about the statements submitted by the Factories for 1982-83. They were received by Audit in March 1984, 10 months after balance date and a number of errors in the statements were referred to the Factories on 13 June 1984. After considering whether to submit revised financial statements for 1982-83 the Factories on 30 November 1984 advised that the preparation of revised financial statements would not be of any significant benefit to the Factories.

1.32 The Australian Audit Office is yet to publicly report on the financial statements of the Government Aircraft Factories for 1983-84.

1.33 The Government Aircraft Factories published financial report for 1983-84 (the most recent public report produced) is at Appendix 2. The Committee is concerned about the quality of this financial report and believes that it does not meet current accounting standards.

1.34 It is the Committee's view that the Government Aircraft Factories do not, in-so-far as disclosure requirements are concerned, comply with current commercial accounting standards. Further they do not comply with the 'Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings' issued in May 1983 and operative in respect of accounting periods ending after 1 July 1983. The Government Aircraft Factories were specifically mentioned in the 'Guidelines' as an undertaking required to keep accounts in accordance with commercial practice. The 'Guidelines' are very clear on the subject of accounting standards and in paragraph 29 state :

Undertakings required by enabling legislation or determination to keep accounts in accordance with commercial practice shall observe those accounting standards, issued jointly by the Australian Society of Accountants and the Institute of Chartered Accountants in Australia. In addition International Accounting Standards may be considered non-mandatory guides to acceptable accounting practice.

1.35 In advice to the Committee, a firm of Chartered Accountants noted that the Trading Statement and Statement of Assets and Liabilities are, apart from some minor wording

changes, in the form laid down by the Department of Finance on 20 June 1979 in exercise of powers under Section 41D of the Audit Act 1901. However the notes accompanying the financial statements do not comply with the form laid down in several major respects, resulting in the statements being very difficult to understand. They suggest that someone who was not a trained accountant with a knowledge of Government accounting would find the financial report in its current format almost impossible to comprehend. In this regard it is worth noting the 'Guidelines' suggest at paragraph 5 that financial statements should enable interested members of the public to draw meaningful conclusions about the entity.

1.36 Although not necessarily complying in every respect with current commercial accounting standards, the June 1979 report format with its comprehensive notes, provide the reader with financial statements that could be understood.

1.37 Without the accounting policy notes and the lack of other notes set out in the prescribed format, the Committee found it difficult to determine how some of the figures in the financial statements had been derived. There are instances of what appear to be inconsistencies between figures shown in the statements and figures shown in the accompanying notes, some of which do not contain the detail as set out in the prescribed format, with the result that they at best confuse and at worst mislead.

1.38 Departures from commercial accounting standards appear to be numerous, including the lack of detailed accounting policy notes.

1.39 The Committee believes that it should be possible to produce a more conventional set of financial statements which comply with commercial accounting standards.

Computer Assisted Accounting and Management

1.40 The third recommendation of the Committee suggested that the Government Aircraft Factories examine the adequacy of their financial reporting and inventory control and seek to have them computer based. Project Phoenix which was supposed to bring about the above, cost \$931 121, of which \$450 310 went to PA Consulting Services Pty Ltd for documenting the problems at the Government Aircraft Factories. After swallowing up this amount of money, time and resources this project was overtaken by events. Phoenix sadly sank back into the ashes.

1.41 The Factories' management has now gone to the other extreme of introducing a large number of computer software packages in an attempt to overcome their financial accounting and management problems. In the financial and accounting areas, financial software packages have been brought from MSA (Australia) Pty Ltd. One of these packages, to handle the general

ledger system, was introduced in June 1985 by the Consultants and is due to be handed over to the Factories Management in October 1985. Another package has been obtained to handle accounts receivable and payable and is to be operational by December 1985. The Factories also hope to introduce another MSA package covering fixed assets which will be introduced into the Factories by March 1986.

1.42 In the area of manufacturing management the IBM COPICS (Communications Orientated Production and Inventory Control) computer package is being introduced into the Government Aircraft Factories. It is supposed to provide inventory control, monitor work-in-progress and to have an effective method of parts tracking. It is currently meeting those requirements in the F/A-18 Program. It may be more difficult to introduce this package into the older sections of the Factories. The Government Aircraft Factories have also introduced a new computer based system to monitor the issue of vouchers, goods receipts notes, and despatch advices. The IDCS (Issue Document Control System) is used to control the issue of vouchers and despatch advices while goods receipt notes are controlled by a separate computer program (GRN).

1.43 The Factories' management claims that the introduction of these modern computing resources will contribute significantly to the effectiveness of the Factories and improve the level of management.

1.44 However, the Committee has a number of concerns about this new approach. Firstly, computer packages cannot resolve the underlying difficulties that the Government Aircraft Factories have had with their financial reporting and management. They will not resolve many of the criticisms of the Auditor-General such as the treatment of notional costs and the method of treating work-in-progress. Similarly, a management information system is really only a tool to assist management assess how well they are running the Factories. They will do little to overcome the long standing management problems in the Factories in their own right.

1.45 Since April 1985, the Implementation Steering Committee (ISC) has acted as the primary co-ordinating body for the introduction of the management information system and related activities. However, there is evidence of friction and animosity between the ISC and the Office of Defence Production (ODP) in Canberra. The latter is claiming that the Government Aircraft Factories are not achieving their recovery targets and have failed to address the root problems affecting the Factories.

1.46 The Auditor-General's Report of September 1985, commenting on an ADP audit of the Government Aircraft Factories in May 1985, identified a number of weaknesses and deficiencies in the management and internal control of ADP operations. Short term planning was inadequate and there was no executive steering committee to set priorities in ADP activities. It was also found that many development projects were being undertaken outside the

control of the Information Systems Department, with the inherent risk that incompatible programs might be developed. There was also evidence to suggest that a systems development methodology which facilitates the design and implementation of ADP projects was not being used and program standards which ensure that programs are properly structured and efficient were not formalised and readily available to all programmers. It was also found that there were inadequate backup procedures for storing and retrieving master files and copies of production programs and that there was no protection against unauthorised changes to production programs and data files.

1.47 The Office of Defence Production is currently preparing a new 'Form of Accounts' to be used by all of the Government munitions factories. The firm of Chartered Accountants, Coopers and Lybrand, has prepared a report that is to be used in preparing this new 'Form of Accounts' to be consistent with current commercial accounting practices. The Committee is most concerned that it appears not to have been considered whether the material produced by the software packages being introduced into the Government Aircraft Factories will produce appropriate data for this new 'Form of Accounts'.

Stocktaking

1.48 The fourth recommendation of the Committee was that a complete stocktake of all stores at the Government Aircraft Factories should be carried out to establish exactly what is being held by the Factories. This recommendation has been rejected to date on the basis of the number of manhours required to carry out a full stocktake and the resulting cost. The Factories persist with statistical stocktakes which have shown unsatisfactory results. However, as part of the fully computerised system being developed in the Government Aircraft Factories a full stocktake is proposed for some future date for the operation of a perpetual reconciliation procedure ensuring inventory costs are minimised.

1.49 The Government Aircraft Factories have also made some attempt to have an ongoing program for the disposal of obsolete and inactive inventory which, over the past four years has resulted in the disposal of more than \$1.2 million worth of obsolete stock. Nomad stores will be retained as they would generate little interest. They will be kept pending a clear direction on future Nomad activity.

Other Important Issues Covered by Report 198

Accounting Matters

1.50 Annex D of the Finance Minute discusses a number of improvements in the accounting procedures used by the Government Aircraft Factories. It is claimed in that Annex that productivity had decreased because of a range of industrial disputes. However,

more recently with fewer industrial disputes it has been suggested that productivity has increased as indicated by the number of direct hours worked in the following table:

Direct Hours worked

1980/81	1.257 million manhours
1981/82	1.136 million manhours
1982/83	1.133 million manhours
1983/84	1.064 million manhours
1984/85	1.150 million manhours

1.51 Unfortunately, the use of "hours-worked" may be a misleading measure of productivity for it is not clear whether more hours are not being taken to complete the same job. The Committee believes that a better measure of productivity must be developed for use by the Factories. It is interesting to note that only 45% of the Government Aircraft Factories employees are regarded as direct workers.

1.52 Annex D also goes on to claim that the Government Aircraft Factories performance in processing debtors has improved significantly. However, a recent small survey has shown that it takes on average 68 days for processing from invoice date to cheque issue in the case of the Factories. This is twice as long and in some cases almost three times as long as the time for other Munitions Factories. It also indicated that many of the Government Aircraft Factories' claims frequently departed from statutory practices causing the Regional Office to refer them back to the Factories. The same study indicated inordinate delays in the settlement of outstanding amounts owed to the Factories. In August, \$181 368 was outstanding for more than three months and \$233 187 for more than 2 months. This must have an adverse effect on the Factories' working capital. Further unpaid debts may be hidden in the operations of the Munitions Production Trust Account.

Financial Year of the Factories

1.53 It is pleasing to note that the Factories have ceased to end their financial year at the end of May each year and now adhere to the more acceptable financial year ending 30 June. This has the important advantage of allowing the Factories' accounts to be matched with Parliamentary budget papers.

Industrial Relations

1.54 In its 198th Report the Committee indicated that there was considerable scope for improvement in the area of industrial relations at the Government Aircraft Factories where morale appeared to be extremely low. Since then to the credit of present management at the Factories there has been considerable improvement in industrial relations. An Industrial Relations Manager has been appointed and a Joint Consultation Forum

established. This Forum has brought together unionists, management and external experts to consider important issues affecting the Factories. This has resulted in a better flow of information to the employees.

The following figures indicate the improvement:

1980 Calendar Year	93362 manhours lost
1981 "	17037 "
1982 "	4066 "
1983 "	1100 "
1984 "	NIL
1985 (up to September)	565 "

1.55 The accord between the Management and the unions (at Appendix C), signed on 30 August 1985 is an innovative development in industrial relations and should lead to a situation where there are virtually no industrial disputes. All involved in the introduction of this accord deserve considerable praise.

1.56 The one concern of the Committee in this area is that when the Factories are required to become more commercially orientated and to reduce the size of their workforce, relations between Management and the unions must be managed positively and with a continuation of the consultative process.

Internal Audit

1.57 The Committee's Report was critical of the level of internal audit activity and the lack of staff to carry out this function in the Government Aircraft Factories. The Government Aircraft Factories as with other Munitions establishments do not have an internal audit capacity but rely on the provision of internal audit facilities by the Defence Audit Branch in Canberra. The Government Aircraft Factories are invited to nominate topics for internal audit each year and if required can make special arrangements to seek priority studies.

1.58 These arrangements for internal audit are far from satisfactory. The Auditor-General in his recent reports has said:

September 1985 - Internal Audit coverage of the Factories' financial operations and asset holdings was considered inadequate in 1982-83. It is of concern to Audit that material areas of revenue and expenditure, assets, and data processing functions within the Factories have not been covered on a systematic basis by internal audit for several years.

April 1985 - Coverage during the year ended 27 May 1984 was inadequate. The most recent internal audit was conducted in the period 24 May to 4 June 1982.

1.59 The solution to the inadequacy of internal audit put forward in the Finance Minute was that an Internal Audit Branch was being established in the Department of Defence Support. However, those arrangements have been overtaken by events.

1.60 Recent Reviews of the Government Aircraft Factories have recommended that they have their own internal audit unit. The Committee strongly supports this course of action.

The Organizational Structure of the Government Aircraft Factories

1.61 In its 198th Report the Committee said that;

...If GAF is to function efficiently in a commercial environment then many of the encumbrances of its formal attachment to the mainstream of Government Departmental administration must be removed.

It went on to say that the most acceptable solution would be to make the Government Aircraft Factories into a statutory corporation. This was consistent with the earlier recommendation of the Industries Assistance Commission in 1975.

1.62 However, the attached Finance Minute persists with the rejection of this proposal drawing heavily on the Report prepared by the 'Advisory Committee on Management and Operation of Williamstown Naval Dockyard' (The Hawke Report) and an IDC Report prepared for the previous Fraser Government. There has not been a definitive statement made by the present Government that the Government Aircraft Factories should not become a statutory authority.

1.63 The Department of Defence appears to be alone in its insistence that the Government Aircraft Factories not become a statutory authority. The Recovery Plan Taskforce consisting of unions, factory management and external experts indicated that forming the Government Aircraft Factories into a statutory authority was a desirable goal which should be pursued over the next three to five years.

1.64 A project team of consultants and representatives of the unions and management was set up to examine the factories organizational structure. The Report of that team claimed that the Factories must change in the immediate future because they are failing to meet the requirements of the aerospace industry. It indicated that in 1983/84 each of the 2 300 people employed at the Government Aircraft Factories was effectively subsidised to the amount of approximately \$21 000. The Report went on to recommend that if the Government Aircraft Factories were to move towards commercial orientation in their activities, then they would have to become an independent statutory authority with a new management structure.

1.65 The Public Accounts Committee goes further in stating that the Government Aircraft Factories will only approach commercial orientation when it becomes a statutory authority. Only then will it be able to make the quick and decisive marketing decisions required and be able to manage its human and financial resources in an appropriate manner. In essence the Government Aircraft Factories are presently prevented from achieving this by their organisational structure.

1.66 Several other issues would have to be resolved if the Government Aircraft Factories are to become a commercially oriented operation in addition to their Defence work. The Factories are also going to have to become much leaner more efficient organisations. Presently only 45% of the factories employees are regarded as "direct workers". The rest are either involved in management and supervision or the inspection and testing of products. The Factories should devise a plan to significantly reduce the number of its employees over a period of time by not replacing certain employees when they retire or leave the Factories.

1.67 Management will also need to substantially increase the workload of the Factories. This can only be done by increasing the amount of commercial work done for customers other than the Commonwealth Government. An opinion was sought from the Attorney General in 1974 on the legality of defence factories taking on commercial work. In his advice the Attorney General said;

'In K.L. Tractors Limited (1961) 106 CLR at page 333, the High Court, after referring to the need to keep defence factories in operation when immediate defence requirements did not keep them fully engaged, said that Supply and Development Regulations provide statutory authority for the Minister to authorize the acceptance of contracts or orders from a non-Government company for non-defence goods in order to keep the factories employed'.

After quoting another case the Attorney General concludes that:

'In my view the Supply and Development Act and Regulations authorize the manufacture of a considerable quantity of non-defence goods as an incidental measure to the manufacture of goods directly required for defence purposes - in order to keep the factories in good order so that they are immediately available to manufacture for direct defence purposes on an appropriate scale in a time of defence emergency'.

1.68 This advice gives the Factories the freedom to bid for a range of commercial work. The Factories may not be able to continue the luxury of only seeking work in the aerospace industry as they have done in the past. The aerospace industry may be too restrictive in Australia and the Factories may have to accept commercial work from other industries. The Committee

suggests that the Factories experiment along these lines with one or two of its production areas that are presently under-utilized. The Department of Defence should also speed up its work on a new pricing policy needed for this approach to succeed.

The Future Role of the Government Aircraft Factories

1.69 The penultimate recommendation of the 198th report suggested that a review of defence aerospace needs within the context of Australia's possible strategic scenarios be undertaken. It went on to say that the Government Aircraft Factories' role should be canvassed in this context and that the review should look at ways of encouraging Australian manufacturers to produce raw materials for aircraft maintenance and production.

1.70 The Finance Minute has little to say on this recommendation restricting itself to very generalised statements. However, the Minister for Defence has recently established two consultancies that remove the need for such a review. One of these is to be carried out by Mr Paul Dibb, a senior research fellow at the Australian National University's Strategic and Defence Studies Centre. The Minister has said:

Mr Dibb will be appointed as a consultant for 12 months. He will be asked to examine the content, priorities and rationale of defence forward planning and to advise on which capabilities are appropriate for Australia's present and future defence requirements. This will involve judgements on the appropriate balance between equipment, personnel numbers, facilities and operating costs between current readiness and long term investment and between the relative priorities given to responding to various levels of possible threat.

1.71 Mr Dibb's terms of reference suggest that he should look as far forward as practicable, possibly over a period of ten years in which decisions will be made that will shape defence capabilities up to the year 2000 and beyond.

1.72 The second review is to be conducted by Mr Robert Cooksey, a lecturer in Political Science at the Australian National University. Mr Cooksey is to prepare two reports. The first will examine Australia's defence co-operation programs. The second, which is more relevant in the context of this Report, is to review Australia's policy on the export of defence items and will consider the existing arrangements for the manufacture in Australia under licence of overseas defence equipment. He will also consider overseas markets and whether there are trade and other barriers affecting those markets and how those barriers might be overcome. He will also examine the competitiveness and capacity of Australian industry, both private and public sector, in relation to the export of defence equipment.

1.73 The reports of both of these consultancies will be highly relevant to the future role and operation of the Government Aircraft Factories.

1.74 The final recommendation of the Committee's Report on the Government Aircraft Factories suggest that greater use could be made of the Factories by other Government Departments and Statutory Authorities. The Finance Minute makes no specific comment on this recommendation.

Conclusions

1.75 The Finance Minute on the 198th report had little to say that was constructive about the Committee's recommendations. Of the six recommendations it rejected the first and fourth and paid scant attention to the last two.

1.76 The Committee accepts that there is a relationship between maintaining a strategically important defence facility and a level of subsidisation. However, the Committee believes that even accepting this relationship, gross inefficiencies and mismanagement continue at the Government Aircraft Factories.

1.77 The Committee remains dissatisfied with the management practices of the Government Aircraft Factories. The Committee expects adherence to recognised approved Australian Accounting Standards (including the Department of Finance Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings) and financial reporting procedures, acceptable methods of determining productivity, and adequate justification of ADP purchases. The Committee believes that it has been misled by the Department of Defence on a number of issues relating to the Factories.

1.78 The Government Aircraft Factories must move towards being more commercially viable while at the same time maintaining an identified commitment to Defence requirements for which an appropriate level of subsidisation should continue. In order to do this, urgent action is needed to form the Factories into a statutory authority. In addition the Factories need to obtain a higher level of commercial work and to take steps towards rationalising their workforce.

1.79 Although some matters remain unresolved and some witnesses should be called before the Committee again to provide further clarification of issues, the Committee believes it more important to present a timely Report. The Committee will closely observe action taken by the Department of Defence to resolve important issues at the Factories and may return to the subject at some future date.

1.80 While the Committee remains critical of the management of the Government Aircraft Factories it does not wish to prejudice offset arrangements currently in operation, or being planned, elsewhere in Australia.

CHAPTER 2

SUMMARY OF THE COMMITTEE'S 198TH REPORT

2.1 The inquiry into the Government Aircraft Factories was undertaken following criticism of the operation of the Factories in the Auditor-General's Report for the year ending 30 June 1980.

2.2 Following examination of the submissions from the Department of Industry and Commerce the Chairman informed both the Minister and the Secretary of that Department on the 4th April 1979 that the Committee would proceed to an inquiry on the Government Aircraft Factories.

2.3 The Committee took evidence at Public Hearings on 26 May 1981 and 2 June 1981 and visited the Government Aircraft Factories and the Commonwealth Aircraft Corporation at Fisherman's Bend in Victoria and the Hawker de Havilland Factory at Bankstown in New South Wales.

2.4 Report 198 first considered the limited nature of the aircraft industry in Australia and the level of support it receives from the Australian Government. In 1981 there were approximately 6122 people employed in the industry, many having specialised skills essential to aerospace activities. It indicated that Government involvement in the aerospace industry was substantial due to its defence requirements with the Government providing substantial capital to the industry through the 'Maintenance of Production Capability' vote.

2.5 The Report went on to consider problems associated with the financial statements of the Government Aircraft Factories and lack of the opportunity for the Parliament to scrutinise those financial statements. It also considered in detail each of the criticisms of the Factories by the Auditor-General in his Reports over a number of years.

2.6 The final chapter of the Report considers a number of important issues arising from the Inquiry. The Committee established that the Services do not find it essential that their aircraft be produced locally. Rather, there is a need for the aircraft industry to provide support and a selective manufacturing capability. From this perspective there appears to be a considerable amount of excess capacity within the industry, much of the cost of which is being met by the Maintenance of Production Capability appropriation. In relation to this matter the Committee was not convinced that sufficient planning had gone into matching the technological capacities being retained at the Government Aircraft Factories and the defence needs of Australia.

2.7 A further concern of the Committee was that many components required by the Australian aircraft industry and most of the raw materials were coming from overseas. This diminishes the value of having a local aircraft industry to meet defence needs in a time of national threat. Greater attention should be directed at developing Australian private industry to a level where it can produce a greater proportion of the components and raw materials required.

2.8 In the conclusions to the Report the Committee indicated that under current arrangements the Government Aircraft Factories are at a considerable disadvantage relative to their competitors because of their lack of autonomy and flexibility. The Committee expressed concern over the extra long decision making process between the General Manager of the Factories, Government Departments and other instrumentalities that have to be consulted such as the Department of Finance, the Department of Administrative Services and the Public Service Board.

2.9 The Report was most critical of the Factories Management and the responsible Department in Canberra for neglecting many of the basic accounting procedures and functions of the Government Aircraft Factories and their failure to respond quickly to the criticisms of the Auditor-General over a number of years. The Committee concluded that because of the magnitude of the problems at the Factories and the inability of Management to overcome those problems there was a need for a complete overhaul of management practices at the Factories.

2.10 In brief the six important recommendations of the Report were:

- that the Government Aircraft Factories be subject to a high level review to resolve their many and varied management problems. The most acceptable solution to these problems would be to reform the factories into a statutory corporation;
- that the financial statements be rationalised and presented to both the Production Board and the Parliament. In relation to this, consideration should also be given to a method of determining notional costs and means of establishing the value of work in progress and stores in all, of the Governments Munition Factories;
- that an expert team including private consultants should be established to examine the administrative procedures in the Government Aircraft Factories and the use of computers in this area;
- the above team should supervise a complete stocktake of stores at the Factories;

- that a review be carried out of the defence aerospace needs of Australia and that Australian manufacturers should be encouraged to play a greater role; and
- that the Government consider the greater utilisation of the production capabilities of the Government Aircraft Factories by Government Departments and Statutory Authorities.

2.11 As mentioned in the previous chapter, the Committee was not satisfied that these recommendations had been constructively addressed in the Department of Finance minute which follows in the next chapter.

CHAPTER 3

DEPARTMENT OF FINANCE MINUTE ON REPORT 198

3.1 The Department of Finance has examined the Report and has discussed the issues raised with the Department of Defence Support. The Finance Minute has been prepared on the basis of information supplied by that Department. The Minute has been structured under the six broad recommendations made by the Committee and discusses many of the wider issues touched upon by the Committee.

PARAGRAPH 5.16 STRUCTURAL REFORM

Committee Recommendation

"The Committee recommends that GAF be subject to an immediate high level review with the object of eliminating the many and varied problems that we have identified and place GAF in an environment where the possibility of their recurrence is minimised. To this end, the Committee considered the options for the structure of GAF and concludes that the most acceptable solution would be to reform GAF into a statutory corporation."(p.42)

Departmental Comment

3.2 There have been a number of general reviews of GAF and, as noted below, ongoing reviews of particular aspects of GAF are continuing.

3.3 The Department has stated that the Minister for Defence Support and the Department do not support the Committee's recommendation that GAF be reformed as a statutory corporation. This is consistent with the approach taken previously by Government in relation to a similar recommendation regarding the Williamstown Naval Dockyard by the "Advisory Committee on Management and Operation of Williamstown Naval Dockyard" (The Hawke Report). It is also consistent with a decision by the former Government in August 1977 to accept the recommendation of a June 1977 IDC report (which followed an October 1975 IAC report recommendation) not to make GAF a Statutory Corporation. The principle reasons advanced by the June 1977 IDC report were:

- The three major aircraft contractors are seldom in competition for Government orders; the work is awarded more according to location of capabilities.

- The need for the aircraft industry to work within parameters decided on by the Government for essential defence reasons reduces considerably the opportunities for autonomy in programming and management which normally support arguments in favour of the statutory corporation form of organisation.
- A significant increase in GAF's freedom in staffing and establishment matters would not necessarily result from adoption of a statutory form of organisation, given current Government policies concerning staffing restraint and co-ordination of terms and conditions of Commonwealth Government employment.
- There is no reason why GAF, working within a Department of State, should not produce its accounts on a fully costed basis.

3.4 In this context, the Department of Finance observes that in agreeing that GAF should not be made into a statutory body, the former Government also agreed that steps should be taken to increase, to the maximum extent possible within a departmental framework and consistent with relevant government policy, the operational freedom and separate identity of GAF.

Project Phoenix and Structural Reform

3.5 In response to the general comments of the Committee regarding structural reform at GAF and, in particular, Project Phoenix, the Department of Defence Support has provided detailed information on the background to Project Phoenix and issues related to structural reform at GAF. This is set out below.

3.6 Project Phoenix, with an initial active phase including a major consultancy in 1974 and 1975 was concerned with improvements in management effectiveness, including management structure and improved information systems.

3.7 Three significant thrusts were identified in the initial period of activity of Project Phoenix:

- A restructuring of management arrangements.
- Implementation of systems for financial accounting, control and some areas of production and performance reporting, including acquisition of a computer suitable for receiving business systems.

- Implementation of an integrated management information system, including monitoring of project management and the manufacturing process. This development was seen to require a major expansion of computing facilities.

3.8 The first two aspects mentioned above were developed and implemented by 1976-77. Included in these aspects were the acquisition of a new computer, the restructuring of GAF management and the first stage of development of computer based management information systems. An Information Management Systems Section incorporating systems planning, specification and development, programming and computer operations functions, was also established.

3.9 However, by the end of 1977, it was no longer considered appropriate to continue developments in the management systems areas in the context of Project Phoenix only. This was largely due to:

- A realisation that GAF's management systems status was well behind most substantial international aerospace manufacturers.
- The perceived requirement for acquisition of computer hardware and systems software to be compatible with that in use by major overseas aircraft companies.
- The extent to which Computer Aided Manufacturing (CAM) with broad ranging implications in the fields of numerically programmed manufacturing, tooling, product design, quality assurance, production planning etc, was determining the need for computer hardware and software. This situation was also forcing planning in the management information area to be on an overall integrated basis.

3.10 Against that background the proposed second phase of Project Phoenix was judged to be inadequate. In short, by 1977 it was apparent that the future combination of aircraft industry and computing technology had been inadequately perceived, and that a fresh assessment of GAF's needs was necessary.

3.11 In reviewing the position, it became clear that, given the potential involvement of GAF in a new commercial project viz manufacture, under sub-contract, of in-spar wing rib assemblies for the Boeing 757 aircraft and the New Tactical Fighter (NTF) project, GAF should be in a position to support developing

Australian Industrial Participation programs with new computer hardware and software as well as the more obvious manufacturing infrastructure. GAF's manufacturing role for both the Boeing 757 and the NTF was to be markedly different from its role on the Nomad project which involved design, development, manufacture, inservice support and marketing.

3.12 GAF has progressed significantly in the area of computing and systems since 1980 and is making substantial use of the new computer hardware in a variety of areas including CAM and planning (including Bill of Material processing). Early in 1983 GAF entered the Computer Aided Design (CAD) field. The CAD facility is currently being used for the RAAF Basic Trainer Project design and the design of printed circuit boards. GAF has developed over the years a Hybrid Computing System which represents one of the most sophisticated simulation facilities in the Southern Hemisphere. The facility partly explains GAF's pre-eminent position in auto-pilot and control system development in Australia. As well as aircraft and guided weapons simulation the facility can be used for the solution of complex problems by the use of mathematical modelling techniques. Further, since 1980-81 the gap between GAF's computing and systems capability and that of its international associates has been significantly reduced in relation to GAF's role as a sub-contractor to an overseas prime contractor.

3.13 In the wider context of management of GAF, it is emphasised that since the Project Phoenix review there have been numerous changes in the aerospace industry, particularly in the evolution of technology. These changes have produced many challenges for GAF management, not the least of which has been the increased pressures of industrial relations matters. More recently GAF management has been faced with the effect of the phasing out of the production of the Nomad aircraft. This has resulted in a surplus labour situation at the Fisherman's Bend plant and a marked decline in the overall productivity level of the factories.

3.14 The management of GAF was addressed by the Defence Review Committee (the Utz Committee) which in its interim report of May 1980 recommended the creation of 'Boards of Management' (BOM) for each of the Department's production divisions. The Report indicates a number of benefits that would accrue from such a proposal if the BOM were to:

- develop strategic, operational and a degree of corporate planning for the aerospace establishments;
- formulate and implement programs for improving the structure and efficiency of the aerospace industry; and

- monitor aspects of performance against approved programs and instigate appropriate corrective action where required.

3.15 It is anticipated that the Aerospace BOM will be formed and be operational by early 1984.

3.16 It is also expected that a Ministerial Task Force which has been set up to deal with the surplus labour situation at GAF will have an impact on the management environment. One of the proposed roles for the Task Force is to 'investigate the effectiveness of GAF management and methods of costing'.

3.17 As a general comment, the Department of Defence Support noted that all Government activities, including Government production establishments (and, in particular, reform programs), are subject to the priorities of the Government of the day. Various Governments' policies often reflect very different priorities, not only with regard to the role of GAF, but also to the balance between the public and private sectors. These have affected the development and activities of GAF. In addition, the policy of expenditure restraint pursued by recent Governments has compounded the fact that the level of resources available to GAF has not always been related directly to commercial considerations. The implications of this policy for GAF have been drawn to the attention of successive Governments.

Future plans for development of computer based systems for GAF

3.18 The General Manager, GAF is required to submit annual ADP Strategic Plans to the Department of Defence Support where, after review they form part of the five-year ADP Strategic Plan. The first year of the current plan for the Department was approved by Government in the 1983-84 budget context and is being implemented. It is envisaged that in future years consideration by the BOMs will be integral to the development of the ADP Strategic Plans.

3.19 A broad graphical summary of proposed developments of computer based systems and proposed time frames, including management information systems, is outlined at Annex A.

Timing and future system developments

3.20 Further developments proposed for 1984-85 are:

- Attention to the Inventory Control module of the Production Management and Control System - extending into control of general as well as production stocks.
- Securing of GAF's future major dependence on on-line computer systems operation and computer-based data.

- Installation of appropriate duplications into the computer hardware configuration to permit continued systems operation in the event of hardware failures.
- Substantial completion of the post-Project Phoenix computer system development era; although there will be continuing enhancements of the systems developed beyond that time.
- CAD, CAM and management systems will be interfaced to enable data to flow between these systems areas as a first step into Computer Integrated Manufacturing (CIM).

3.21 The next challenge to GAF in its computer systems planning involves:

- Shift in emphasis from management of computer systems to management of the organisation's computer data resource (via greater use of data base technology).
- Drawing together, within this resource, information from the CAM, CAD and management systems fields whilst each is itself continuing to develop.
- Taking advantage of the information generated to provide new organisations with manufacturing technology.
- Concurrent development of computer-based office systems.
- Computer and communications hardware strategies which will support these developments, including co-ordinated micro-computer usage.
- GAF's membership of the Australian Aircraft Consortium and the relationship with ARL as one of the Consortium's principal sub-contractors.

3.22 These are areas in which overseas aerospace and computing industries jointly (with government assistance) are seen as setting a new system development pace.

Constraints to computer systems development

• Finance

A hardware expenditure program which is needed to sustain computer systems developments is attached at Annex B. Unless funds are provided for this equipment the continued introduction of on-line systems will be at risk and GAF will be unable to maintain a position relative to overseas companies.

• Staffing

Throughout the post Project Phoenix period GAF systems developments have been constrained by Government imposed staff ceilings. Systems developments have been (and still are) driven by aircraft project necessity. Decisions to utilise available funding in areas of staffing requirements have also been necessary rather than investing in systems development. Effects now felt from the combination of past financial and staffing restraints are:

- Systems developments which were required in the mid-1970's are only to be achieved during the 1980's.
- Systems are now coming into operation for the F/A-18 Project with insufficient background in the area of user education and experience.
- Benefits which would normally be achieved from a static period of operations at the prevailing level of computer technology will not be forthcoming.
- User staff will still lack experience in relation to the requirements of the next level of computing technology to be used in support of systems.

3.23 The level of staffing considered necessary for future development of computer based systems on a "benefit-taking" basis (eg, in areas such as inventory control), rather than aircraft "project crisis" basis, is estimated to be:

ADP Staff	: 49 (Present staff 42 men equiv)
Other Specialist Staff	: 27 (Present staff 17 men equiv)
User Staff	: 25 (Present staff 15 men equiv)

A further review of staffing levels will be necessary in 1985-86.

3.24 Also of significance will be the contribution to be made by the new Computing and Systems Branch of Central Office. This Branch will function in accordance with overall policy guidance provided by senior management and a Departmental Computer Policy Committee. The Branch has been created to meet an increasing emphasis on forward planning and the requirement for strengthened technical review and risk assessment, together with an increased workload in areas of resource acquisition, co-ordination, monitoring and systems developments. Detailed information on the structure and activities of the Branch is attached at Annex C.

PARAGRAPH 5.17 FINANCIAL STATEMENTS

Committee Recommendation

"Irrespective of the outcome of any review of GAF, the Committee recommends that the Department of Industry and Commerce, in close co-operation with the Department of Finance and the Auditor-General's Office develop mechanisms to rationalise the financial reporting arrangements of GAF. This could include one set of accounts prepared and submitted to the Production Board as statements examined by the Auditor-General, which are then presented to the Parliament as a record of the financial achievements of GAF. In its examination, the Department of Industry and Commerce should address the related issues of the methods and formulae used to determine notional costs and a common practice for use in all factories for the valuation of Work in Progress and Stores." (p.43)

Departmental Comment

3.25 The Auditor-General's Office, on 9 August 1982, proposed that the prescribed form of accounts (determined under S41D of the Audit Act) for all Department of Defence Support factories including the GAF, be reviewed. The Department supports this suggestion, recognises that the task of reviewing all DDS factories form of accounts is a major undertaking and is currently preparing for the proposed joint review. To this end, the Department has convened an Inter-Departmental Working Party including representation from the Department of Finance and the Auditor-General's Office. The Department of Defence Support is currently working towards consolidating its views which will be put forward at the first meeting of the working party.

3.26 In this exercise, the recommendations of the Committee's report on the form and standard of financial reports of Commonwealth undertakings will be taken into consideration. In this regard, the then Minister for Defence Support wrote to the Chairman of the Committee on 20 July 1982 noting that the recommendations of that report would be carefully considered before taking any action on this matter. The Department has for some time been liaising with representatives of the Department of Finance and Auditor-General's Office on all of the relevant issues and will also take into account the "Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings" issued by the Minister for Finance in May 1983.

PARAGRAPH 5.18 ACCOUNTING PROCEDURE AND PRACTICE

Committee Recommendation

"The Committee recommends that, as a matter of priority, an expert team be formed which may comprise officers of the Departments of Industry and Commerce and Finance, the Auditor-General's Office and the Public Service Board, headed by a firm of private consultants, to examine in detail the adequacy of all administrative procedures in GAF and in particular financial reporting and inventory control procedures. This team should make recommendations on the updating of procedures with a view to the early implementation of a workable system, preferably computer based. The Committee further recommends that a prime task of the team be to supervise a complete stocktake of stores at GAF and to make recommendations on the development of new systems-based stocktaking procedures with adequate mechanisms for the identification of obsolete and surplus stock items. The Committee expects to be advised within six months of the tabling of this Report of the results of this investigation and the timetable for implementations." (P.43)

Departmental Comment

3.27 In relation to accounting procedure and practice, the Department of Defence Support established a Working Party to examine the situation and prepare an action program in respect of the items identified by the Auditor-General and the Committee. The action program identified the following area's for attention:

A. ACCOUNTING MATTERS

3.28 Arising from Auditor-General's Reports:

- lack of regular reconciliation between the control ledger and subsidiary records,

- detailed investigations required to establish appropriate procedures to guard against overexpenditure against orders,
- need for improvement in processing debtors claims,
- delays in claiming losses and repaying profits from/to Maintenance of Production Capability (MPC) appropriation.

Set out in Annex D is a discussion on each of the matters raised above.

B. SUPPLY MATTERS

Processing of Issue Vouchers, Goods Receipts Notes, Despatch Advices

3.29 A detailed examination has been made of the times taken to process all the accounting documents involved in the supply process. Annex E tables an assessment of normal (expected) standardised processing times of GAF accountable documents as at April 1982. Annex F compares actual factory April 1982 processing times with actual times achieved in a June 1980 analysis. A substantial improvement in throughput times is evident, however it is felt that this reflects the optimum throughput times achievable under the current manual system. GAF management recognises the need for further improvement in these processing times. This should be achieved by the use of integrated computer systems as detailed elsewhere in this Minute. However, it is possible that some temporary improvement will occur with peaks and troughs in workload throughout sections and priority of other tasks of equal importance to document processing.

3.30 Examination of DDS quarterly "Report(s) to the Minister for Finance on Rectifying Deficiencies at the GAF as Raised in the Reports of the Auditor-General" also shows a steady improvement in supply document processing times. Annex G details the reported improvements in the processing of goods despatch advices. Annex H details the reported improvements in the processing of issue vouchers.

3.31 Weighted average processing times discussed at Annex E were calculated on actual times recorded against the samples. Delays beyond those which appeared to be normal were analysed and in many cases were found to be unavoidable. Accordingly, it was considered appropriate in setting standard times to allow for legitimate delaying factors.

3.32 Most documents become accountable before, rather than after the transaction occurs. Processing times are therefore influenced by physical tasks such as acceptance testing of receipts, selection, counting/cutting, packaging, outward

inspection and transport arrangements for external despatches; selection, counting/cutting, packaging for internal issues, etc. These operations are, of course, additional to the clerical steps of registering, sorting, recording, etc.

3.33 A review of the steps emphasises the complex flow and significant sectional movements of accountable documents. At each point, documents will necessarily be queued whilst action on other tasks or documents are processed. The length of the queuing depends on relative workload, staff availability, transaction activity, purchase activity, and control activities.

3.34 The initial survey was carried out on documents raised in the June 1980 period. The subsequent survey, due to the requirement to meet a deadline, commenced in early July 1983. At that time documents raised in June 1982 were in many cases still being processed and it was decided to examine results from the April period. As the May period was the last period in the financial year it was not considered representative.

3.35 The major reasons for improved throughput are:

- the reduction in volume of documents;
- the introduction of improved procedures;
- an increase in internal control as a result of the introduction of various checkpoints throughout procedures, which assist documentation flow and minimise the incidence of missing documents; and
- the production of flow charts which has assisted the education training of personnel engaged in this work.

The improvement in throughput times has been maintained.

Financial Reporting and Inventory Control Systems

3.36 The Committee recommended a review of all administrative procedures, particularly the early implementation of computer based systems for financial reporting and inventory control procedures. The results of actions already taken and in hand to update financial reporting systems and inventory controls systems have resulted in:

- about 1.8 million cost items being brought to account by computer each year; there are about 180,000 pages of computer printout per year for financial reporting, VDU file enquiry facilities are available for this purpose;

- 11 of the 15 computer based systems listed in Annex H of the JCPA's 198th Report having direct financial control aspects;
- the present movement towards production - orientated systems in line with the original Project Phoenix Development Cost plan;
- movement into production - orientated systems and with its development of improvements in completeness, timeliness and accuracy of "administrative" transactions (in the context of the emphasis on production-orientated systems) to an extent which could not be achieved by automating the administrative processes in isolation; and
- inventory control, for other than general supplies being a major aspect of the proposed production orientated system development.

A list detailing the current state of computerisation of inventory control within GAF is attached at Annex I.

3.37 Further, a number of integrating COPICS (Communications Orientated Production and Inventory Control) computer software modules have been licensed by the GAF for the new IBM 4341 computer installation. Among these is the Inventory Accounting module which has been licensed, implemented on the computer in standard form, subjected to preliminary testing and made available for internal evaluation.

3.38 At present other evaluations are being conducted by the GAF Production Engineering Staff and the Information and Management Systems staff who are examining COPICS modules for use in conjunction with Bills of Materials, Routing, Requirements Planning and Order Release so as to judge their potential to replace current manual Production Engineering recording of WIP inventory and (with suitable computer readable material and parts call-up) inventory control of WIP stores.

Indirect Work Relevant to Inventory Control

3.39 With regard to inventory control of stores stock, the software module for the IBM COPICS system has been acquired. Pilot studies to establish programming changes for effective use of this module in GAF stores are currently being carried out. It is anticipated that automated stock control will be implemented once a satisfactory program is established. The timing of this implementation will be determined by availability of hardware and the expected cost-benefit in comparison with other systems.

3.40 GAF has, as a high priority on its 1983/84 Machinery and Plant program, plans to procure additional hardware to support the introduction of inventory control systems in 1984-85. Such introduction will include Factory Data Recording (Parts Tracking) systems and General Inventory Control (including general stocks).

3.41 It should, however, be noted that these acquisitions are subject to the availability of funds provided from the Defence Outlay.

Full Physical Stocktake

3.42 The Committee was not satisfied that stores accounting procedures at GAF were of a high enough standard to justify a statistical stocktake. In this regard, as the data in Annex H demonstrates, there has been a steady and substantial improvement in the processing of GAF issue vouchers. GAF also has a system of perpetual reconciliation where at every issue and receipt the storeman counts his stock and inserts that figure on the document. This is then reconciled with the Stock ledger thus, in effect, a stocktake of that item occurs. It should also be noted that in 1980 GAF arranged a full stocktake of the Nomad spares stock store. This store had some 3,000 line items and the stocktake revealed no discrepancies.

3.43 The Committee recommended "a complete stocktake" of stores at the GAF and called for the introduction of "new systems based stocktaking procedures with adequate mechanisms for the identification of obsolete and surplus stock items".

3.44 Analysis of the required actions and resources to carry out a complete stocktake at the GAF has uncovered the following facts:

- the task of undertaking a full physical stocktake involves approximately 42,000 items for which there are stock ledger cards;
- a team of 22 people full time for one year would be required, together with the part time assistance of several others; and
- the full cost of undertaking the stocktake is estimated to be (at August 1982 prices) \$350,000.

3.45 However, in view of the Committee's comments it was decided to conduct a full physical stocktake of one section of the store which was selected by the Stocktaking Section of the Administrative Support Branch of the Department. The results of this stocktake were not satisfactory. As a result, a further stocktake was undertaken and completed by the end of July 1983.

This stocktake was undertaken on a basis totally independent of GAF management by the Department's Chief Stocktaker, Victoria who arrived unannounced and took stock of a previously undesignated area at the factory. The results revealed no discrepancies.

PARAGRAPH 5.19 MAINTENANCE OF PRODUCTION CAPABILITY

Committee Recommendation

"The Committee recommends that, in the absence of any comprehensive review of Defence aerospace needs within the context of Australia's various possible strategic scenarios, such a review be undertaken as a matter of priority. It should encompass all work currently being undertaken at GAF and related organisations including the aerospace technologies and expertise required to be retained for Australia's real defence needs in both the short and the long term. In addition, such a review should address the related issue of encouraging Australian manufacturers to produce the raw materials for aircraft maintenance and production." (p.44)

PARAGRAPH 5.20 DEFENCE PURCHASING ARRANGEMENTS

Committee Recommendation

"To secure a viable long term aircraft industry in Australia and to minimise the effects of periodic fluctuation in workloads at the Government Aircraft Factories, the Committee recommends that the Government consider, subject to normal commercial considerations, the greater utilisation by Departments and Statutory Authorities, of the production capabilities of GAF." (p.44)

Departmental Comment

3.46 The Department has stated that the question of maintenance of production capability is not one that they alone can address. The Utz Report of 1982 recommended the separate establishment of the Department of Defence Support to provide a satisfactory level of industrial and technological support, and the framework and basis for the development and expansion of the national defence support effort in the event of an emergency. A number of attempts have in the past, been made to obtain specific guidelines on the defence requirements in times of peace and war; and the various strategic scenarios which could be expected within these parameters. The necessary guidelines however have unfortunately not been forthcoming in terms of required defence industry capacity for future periods.

3.47 While the objective of a comprehensive strategic capability policy is of prime consideration to this Department, there remains in the first instance the problem of resolving issues at GAF in relation to the Nomad project, excess labour capacity and the "gearing up" of facilities, equipments and manpower to produce the Basic Trainer aircraft and the New Tactical Fighter. Also, the question of Government factories' competition with local industry must be addressed in the wider context of a defence capability industry in Australia.

3.48 A Defence Aircraft Industry Steering Group (DAISG) was established in 1977 to co-ordinate and plan the number of aircraft acquisitions being developed by Defence. Since its inception, the DAISG has reviewed several rationalisation plans proposed for the aircraft industry. However, while a draft report resulting from the latest review was produced some years ago, the document has not been issued.

3.49 Further, the Ministers for Industry and Commerce, Defence and Defence Support agreed in July 1983 to the development of a Defence Industry Development Committee. It is expected that this Committee will provide co-ordination for all Defence Support activities and industry guidance.

3.50 It should be noted that within the Defence network there is a continuous assessment of threat and capability. It may be possible to expand this assessment to encompass the resource elements necessary to achieve a planning document which would form the guidelines for development of the defence and defence related industry in Australia over the coming years.

3.51 A point however which would need to be considered in any such assessment is the susceptibility of defence planning and strategic analysis to changing circumstances, both internal and external to Australia. For example, the economic and political stability of countries in the region, the influence of major powers on developing countries and the available intelligence information on the level of threat perceived over a proposed time scale, will inject a large number of variations to any proposal. In addition, the maintenance of a "core force" policy for the defence of Australia and methods by which this end can be achieved, given budgetary and physical constraints, will have a continuous impact on planning proposals.

3.52 Finally, the subject of strategic scenarios is currently being addressed by the Minister for Defence Support and the Minister for Defence. It may well be that as a result of these Ministerial discussions a basis for development of a positive industry plan will emerge. This basis could then be further expanded by the Departmental Boards of Management in conjunction with the relevant Defence organisations.

INTERNAL AUDIT AT GAF

3.53 The Committee, in paragraphs 4.35-4.41 of its Report makes several observations on internal audit at GAF. In this regard the Department has stated that in recent years, Departmental auditors have played an increasing role in the operations of the factories. In 1982 and 1983, Internal Audit Reports were presented to GAF Management on:

- The Overseas Procurement System
- Capital Assets - Plant and Machinery
- Repairs and Maintenance - Buildings and Works
- Capital Assets - Buildings and Works
- Security of Assets
- EDP Audit Review of Data Base Administration
- EDP Review of Data Base Documentation Controls.

3.54 Meeting this level of effort at GAF has required the diversion of auditing resources from other factories, as additional auditing staff have not been available to the Department.

3.55 Further, the Internal Audit Section's activities now cover the areas of defence production, dockyards, purchasing, industry development and general administration as well as equipment, plant, buildings etc, owned by the Commonwealth but operated by private industry. This situation has placed additional stress on already scarce management resources.

3.56 Following the creation of the Department of Defence Support, the entire internal audit function has been reviewed. As a result, an Audit Committee comprising the Departmental Executive has been established and this Committee will be serviced by a proposed new Audit Branch. This proposal is currently with the Public Service Board. It is envisaged that this new Branch will comprise a large increase in personnel, particularly at senior levels. The Branch will be controlled by a Level 1 Officer and will be developed around four independent Sections. The responsibilities of each Section are outlined at Annex J.

INDUSTRIAL RELATIONS AT GAF

3.57 The Committee noted in its report that the industrial relations environment at GAF is difficult and has highlighted that to a large measure the situation is exacerbated by the lack of associated authority which is available to GAF management. This is partly so because of the effect of co-ordination arrangements which necessitate matters of substance being referred to the Department of Defence Support and hence to the Department of Employment and Industrial Relations and/or the

Public Service Board. This chain of responsibility is an inherent part of the general operating environment for all Commonwealth Government operated industrial enterprises.

3.58 The Committee's comments in the context of policy implications regarding co-ordination arrangements and other factors inherent in the corporate arrangements for GAF, eg the split management responsibility for personnel matters pertaining to Public Service Act staff, are agreed. The Committee's views on the competence of GAF management, however, appear not to recognise the restraints placed on the GAF management in the industrial relations area. In particular, management is unable to hire, fire and suspend employees in circumstances where management in private industry would take such action.

3.59 In the context of the overall industrial environment at GAF, the Department has pointed out that the GAF management sponsored a major education initiative in 1981. Eighteen (18) shop stewards and other employee representatives participated in a training course on new technology averaging 240 hours per person. The course provided an appreciation of the implications of a large programme of technology update which the GAF has engaged in to meet the requirements of the New Tactical Fighter and other new projects. Union leaders have acknowledged that the GAF leads the way in this area in the aircraft industry in Australia.

3.60 Late 1981 saw the appointment of an Industrial Relations Manager who is able to concentrate on industrial relations matters without any responsibility for routine administration matters such as compensation and personnel administration. This is consistent with the approach found necessary in most large industrial organisations. A further GAF management initiative has been the establishment of a Joint Consultation Forum comprising union officials, shop stewards and representatives of senior management. The forum was established to deal with industrial relations matters of substance before they develop into disputes.

3.61 More recently, the Ministerial Task force on GAF has noted the industrial relations climate and will examine the issues involved. Initiatives will include the exploration of possibilities for introduction of a form of industrial democracy.

I CASTLES
Secretary
Department of Finance
2 December 1983

Answers to a series of Questions on GAF provided
by the Department of Defence on 4 October 1985

Question 1.

What are the significant events and changes that have taken place in relation to the Government Aircraft Factories since the end of 1983?

1.1 External Environment

The following external events and changes have influenced the environment in which GAF operates.

- Decision to discontinue production of Nomad aircraft at No. 170 which was completed in July 1985.
- Establishment of a Defence Aerospace Board of Management (DAB) to advise the Minister on the operations of the Government aerospace facilities and the development of the Defence Aerospace Industry.
- Announcement by the Ministers for Defence and Defence Support on defence policy for Australian industry in June 1984.
- Announcement by the Minister for Industry and Commerce in 1984 of a National Aerospace Policy.
- Over the two years, there has been considerable turnover of the key executives of the Factories.
- The Administrative Arrangement Order (December 1984) which integrated the former Department of Defence Support with the Department of Defence. The creation of the Office of Defence Production (ODP) within Defence abolished the former Defence Aerospace Division and separated responsibility for private sector Defence aerospace industry from the public sector.
- The merger between CAC and HDH effective 1 July 1985.
- The decision to transfer responsibility for the Maribyrnong Trainer project to HDH.

1.2 Internal Environment

Internal events and changes at GAF in the last two years have been influenced by implementation of a co-ordinated recovery program.

1.2.1 Recovery Process

In August 1983, Minister Howe instituted a GAF Recovery Plan Task Force to determine how GAF would move towards a productive and efficient organisation. The Final Report of the Task Force identified to the Minister in June 1984.

- The question of a Statutory Authority for GAF

was a desirable goal which should be pursued over the next three to five years.

Initially efforts should be concentrated on implementing the Recovery Plan within the Departmental framework.

Overlap of roles between GAF, Central Office, Defence divisions and External Central Agencies required review.

Four major areas of concern required investigation:

- Organisation
- Personnel Functions
- Workload
- Financial Systems

1.2.2 Investigation and Recommendation

Starting in July 1984, GAF carried out detailed investigations in the above areas resulting in a number of recommendations for change being presented to Minister Duffy in April 1985.

1.2.3 Implementation Process

Since that time the Factory has been in the process of implementing the totality of these changes as follows:

- A consultant has been appointed to assist GAF in corporate development including an appropriate framework for operating in a commercial environment and to assist in development of corporate plans.
- The Financial Systems of GAF have been transferred to a commercial accounting basis using computer based software packages. The General Ledger was installed 1 July 1985, with other packages Accounts Receivable and Payable, and Forecast and Modelling due for full implementation prior to 31 December 1985. Fixed Assets are currently being procured with its full implementation planned March 1986.
- Personnel Systems have been agreed to be modernized using commercially available Computer software packages to cover both pay, personnel details and courier details. The system is to be progressively introduced from 1 September 1985 to 31 March 1986.
- A Marketing consultant is currently being appointed to provide assistance to GAF in

determining the appropriate procedures, information sources, and organisation necessary to obtain commercial workload for the factory to supplement the historic variations in defence workload.

A Project Team Leader is currently being sought to fully implement the introduction of Computer software packages covering an integrated production facility. The consultant is expected to take two years to have all systems operational and high priority will be accorded to the implementation of basic areas such as inventory and cash related aspects.

In summary, the development and implementation of the recovery plan has proceeded steadily on a tripartite basis in jointly identifying problems, planning the changes required and then jointly implementing changes. This has resulted in the following benefits to the factory:

Improved Industrial Relations
(Measured by hours lost due to Industrial disputes recorded by GAF).

1980 Calendar Year	93362 manhours
1981 " "	17037 "
1982 " "	4066 "
1983 " "	1100 "
1984 " "	NIL
1985 (up to September)	565 "

Direct Hours worked

1980/81	1.257 million manhours
1981/82	1.136 "
1982/83	1.133 "
1983/84	1.064 "
1984/85	1.150 "

Reduced subsidy from Government (including Nozad Production Assistance)

1980/81	\$22M
1981/82	\$33M
1982/83	\$42M
1983/84	\$32M
1984/85	\$25M

Question 2.

What are the recent developments that have occurred in your management information systems for the factories?

2.1 MIS Definition, Development and Implementation

From Recovery Plan recommendations, the requirements of consultation, participation, adherence to relevant guidelines, education and training have been reinforced as integral elements of MIS definition, development and implementation.

Since April 1985, the Implementation Steering Committee (ISC) has acted as the primary co-ordination body for MIS related activities.

Acting upon Recovery Plan recommendations, external consultants were engaged in May 1985 to review the effectiveness of COPICS as a basis for GAF Manufacturing Management systems. Their report, presented in June 1985, found that the COPICS concept is suitable to GAF. It further found that the individual COPICS modules were suitable. The consultants found no economic alternative systems to COPICS.

2.2 Systems Implementation

2.2.1 Financial & Accounting. Systems based on ISA software are in course of implementation. The General Ledger system is now in use under implementation team control and due for handover in October 1985. ISA based Accounts Payable system is currently in testing prior to production implementation. Phased implementation of ISA based Accounts Receivable, Fixed Assets and Financial Forecasting, and Modelling systems are progressing to plan. It is confidently anticipated that these systems will significantly improve GAF accounting and financial reporting and enhance management and information for decision-making.

2.2.2 Manufacturing Management. Systems based on the IM COPICS concepts and using elements of COPICS modules are in course of phased implementation. The COPICS Bill of Material (BOM) and Routing modules, have been successfully implemented for Configuration Management and Assembly Planning activities associated with F/A-16 project. These modules provide the product definition elements of the MIS data base and are being progressively loaded for all current projects. Various project or activity specific sub-systems have been or are, in course of implementation to meet urgent operational and/or contractual GAF requirements, eg F/A-16 Non Conformance Reporting, F/A-16 GSE and TE control, Purchase Order system for POP, F/A-16 Pan Stock Control System, F/A-16 Kitting and Receiving.

Phased implementation of general CCPICS based systems covering all projects, building on the installed EO/I/Routeing base, is now planned to commence in November 1985. A Project Team Leader (Manufacturing Management Systems) is currently being appointed from Industry to have all modules installed on a staggered basis over a two year period.

2.2.3 **Personnel Management.** The CASPAY and CASHRP computer based systems were investigated and recommended for introduction into GAF. These systems provide GAF with detailed knowledge of each person's qualifications, work experience, and personnel details in order to assist manpower planning, together with all the information necessary to facilitate accurate timely payment of wages to employees at minimum overhead cost.

Presently the software and hardware for CAS have been procured with a proposed full implementation timetable completing December 1985.

In summary, there has been greater emphasis on the introduction of modern computing resources to support the administrative functions, and thereby contribute effectively to the dual goal of improving management information and effectiveness without additional overhead costs.

Question 3.

How does the COPICS software package assist in inventor; control and monitoring work-in-progress?

3.1 General Comment Re COPICS

The COPICS concept embodies a number of application specific software modules operating in conjunction with a common data base and with necessary intercommunication links between modules provided.

COPICS module availability is dynamic, with additional modules being developed and released as the user need and demand justifies.

No single user organisation is likely to need all of the available modules, and, of the modules offering benefit to a specific organisation, implementation priorities will vary with the business environment. Similarly implementation priorities will vary between organisations.

3.2 Inventory Control

Among the modules within COPICS, Inventory Management (Planning, Forecasting and Accounting) has a special place. It can be considered the keystone of the overall system, as its outputs form the basis of all subsequent production planning and all manufacturing, as well as procurement activity.

The primary function of the Inventory Management System is to generate information on which inventory order actions will be based. The system is designed to determine:

- Inventory items that should be ordered, and in what quantity.
- The timing of each order release, and order due dates.
- Changes in quantity or due date (re-scheduling) of orders already planned.
- Orders previously released that should be cancelled.

Changes in customer requirements, new product introductions, engineering changes, excessive scrap, etc, demand a system that can react quickly, minimise shortages, support the required factory output, and still maintain a minimum capital investment in inventories.

For these reasons, this COPICS software uses real-time transactions ensuring immediate updating of the inventory data and net change - entry of only "plus or minus" change to orders and requirements, thus ensuring that the effect of these changes is known immediately, and management action taken in a timely manner.

Thus, full implementation of the COPICS Inventory Management software can be confidently anticipated to significantly improve GAF inventory control.

3.3 Monitoring Work-in-Progress

The monitoring of WIP is assisted by the interaction between multiple modules of the COPICS software.

The COPICS MRP software will schedule 'planned' travellers and purchase orders to satisfy Customer demands. (Travellers are the shop work: authorizing documents).

The travellers are opened by the COPICS Shop Order Release Module if the MRP generated start date falls within a specified opening horizon. This allows for timely release thus reducing WIP to the optimum level. The Shop Order Release (SOR) Module manages the traveller release function including material issue and the generation of traveller documentation.

Once released the travellers are scheduled sequentially by the Shop Loading and Recording Module (SL & R).

Shopfloor bookings feedback through the Plant Monitoring and Control (PM & C) Module are used by both SOR and SL & R to provide full traveller status information. Expediting lists highlight late and held orders. Production receipts are recorded through the SOR module which also handles the closure of travellers.

Question 4.

Are the computing facilities in the factories being dominated by technical matters with less emphasis on management control systems?

4.1 Computer Applications

GAF has now acquired computer hardware in the form of an IBM 4300 mainframe and in June 1985, acquired MAS 6023 mainframe. Both computers operate in a loosely coupled mode providing backup and disaster protection for the full factories software applications.

The introduction of these two mainframe computers has provided GAF with the necessary capability to support both technical and managerial applications. As indicated in question 1, recent moves to strengthen GAF's management control have been undertaken with:

Management Control

• COPICS	Manufacturing Process
• CASPAY CASMP	Personnel Systems
• NSA Financial Packages	Financial Administration
• IBM 8100 Part Tracking	Parts Control

Technical Support

- Numerically Controlled Production Equipment
- Computer Aided Design and Manufacture

GAF believes that its present ADP Strategic Plan provides the balance necessary for an effective computer integrated production facility, with particular emphasis over the previous two years in improving information requirements for management.

Question 5.

Have there been recent improvements to your stocktaking procedures?

5.1 Stocktaking

Stores Stock Check procedures was re-issued in April 1983 requiring that frequent checks at irregular interval be carried out on sensitive, critical, high cost or high usage items. These checks, performed on the basis of maintaining 5% coverage on selected sections.

The Regional Stocktaking team conducts statistical stocktakes independent of the above in-house actions. In the last year for which figures are available, July 83 to June 84, they carried out checks on twenty eight sections. The stocktakes covered 9695 inventory items and the results, in all cases, reported discrepancies, have been within the established acceptable parameters. The total value of discrepancies was \$53.32 for 4 items. The results reinforce GAF's view that the present inventory procedures of ensuring stockholdings are working satisfactorily.

As part of the full implementation of COPICS a full stocktake is scheduled and this will form an accurate base for the operation of a perpetual reconciliation procedure. As advised in the Department of Finance minute of 2 December 1983, 42,000 items would have to be examined by a team of 22 people at a cost of \$350,000.

GAF's perpetual reconciliation procedure has been revised to obtain increased control, effective storekeeping standards and accountability.

Question 6.

Is there now a system in the Factories for parts-tracking?

6.1 Parts Tracking

A parts tracking system was introduced into the Factory in 1979. This permitted data collection on the shop floor and was batched to the mainframe on overnight update. Information on parts locations was available from the data base using terminal access.

In November 1984, the system was replaced by an IBM 8100 parts tracking system which provided the Factory with enhanced capabilities in regard to more accurate and current status of parts tracking information, in that:

- real time update of the data base.
- automatic error corrections of input data by comparison to second source information.

The IBM 8100 will integrate with the COPICS modules to update the 'corporate data' base and facilitate in prioritising work within cost centres, and facilitate accurate management control over the total production process.

Question 7.

What has been done about obsolete spare parts within your stores?

7.1 Disposal of Stores

Supply department has an ongoing programme relating to the disposal of obsolete and inactive inventory, which has over the past four years resulted in disposal action of in excess of £1.2 million value of stock.

Currently a number of inventory items considered to be surplus to the Normal Production requirements have been retained in store, pending a final decision on whether renewed overseas interest in the aircraft will result in a potential need for the items held in store. As the items will generate little revenue by their disposal, they have been retained at this stage pending clear direction of future Normal activity, ie within the next six months.

The introduction of the COPICS Inventory module will enable a closer monitoring of stockholdings with automatic facilities to bring to notice slow moving or non-moving items. This, coupled with the COPICS Bill of Material module, will enable rational and effective reviews of inventory to be undertaken to ensure inventory costs are minimized.

Question 6.

How would you describe industrial relations at present in your factories?

6.1 Industrial Relations

Stemming from the GAF Recovery Process, there has been a considerable breaking down of confrontations attitudes between management and unions within the Factory. The process of tripartite consideration of important issues affecting the Factory has contributed significantly to better information and communication to, and between the total workforce, providing a less hostile and more trusting industrial climate.

The following figures recorded at GAF, indicate the improvement:

1980 Calendar Year	93362 manhours lost due to industrial disputes				
1981 " "	17027	"	"	"	"
1982 " "	4066	"	"	"	"
1983 " "	1100	"	"	"	"
1984 " "	Nil				
1985 (up to Sept)	565	"	"	"	"

It is not intended to imply that traditional union/management, union derarction disputes do not occur. However all parties have a more responsible approach to the method of resolving problems, and a general commitment to minimize the impact of such disputes on the workforce.

Question 5.

Previously there were very long delays in handling Issue Vouchers, Goods Receipt Notes, Despatch Advices. What is the situation now?

5.1 Document Processing

In order to establish the current position a random sample was obtained of accountable documents processed during April, May and June 1985. These months were considered as being reasonably representative of throughput times during an average accounting period.

The results compare favourably with those recorded in 1982, particularly in view of:

- the additional workload due to an increase of 25 percent in the volume of transactions of accountable documents from 36,000 in 1983/84 to 45,000 in 1984/85; and
- the additional processing time due to the Supply Department being currently located away from the factory premises.

Development of control procedures, disciplines and emphasis on document processing cycles are continuing to improve on past performance.

Question 10.

Are the Factories computers being used to monitor the issue of Vouchers, Goods Receipt Notes and Despatch Advices?

10.1 Document Processing using Computer Facilities

CAF presently uses the IDCS (Issue Document Control System) to control the Issue Vouchers and the Despatch Advices. Goods Receipt Notes (GRN's) are controlled by a separate computer program (GRN).

Both systems are currently on the Factory's computer, and provide a matching and reporting function across the spectrum of activities required by each document. The systems in place do not replace the manual activities of each document or process transaction.

It is proposed that with the electronic transfer of information via the COPICS system, together with its integration with the NSA system, much of the information content of present documentation will be transferred to a single data base and used to update appropriate 'corporate' data. This will substantially reduce the manual effort and the time to process documentation.

Question 11.

What over expenditure against orders has occurred recently?

11.1 Over expenditure

For 1984/85 financial year net losses of £0.362 million were identified in the Factories' accounts. This amount includes pricing and usage losses/profits on the various projects being undertaken in the Factories. The figure of £0.362 represents costs incurred that cannot be recovered from customers.

In comparing the magnitude of losses against a Sales Volume of £501, it represents 0.73%.

Question 13.

How is productivity measured and has the level of productivity increased in your Factories since 1983?

13.1 Productivity - Definitions

Productivity is a term which has different meanings and derivations peculiar to the specific company/industry under review. GAF uses the term 'utilization' as its principal measure of work effort, together with a term efficiency which relates to hours worked against contract hours.

By way of introduction, 45% of GAF employees are regarded as 'direct' workers. The balance are classified as overheads. This ratio appears at first to be high, but an appreciation of the change in the aerospace industry is required to understand the effort required in producing highly engineered aircraft parts using the latest in high technology, requires high overheads for: detail planning and change monitoring, quality control throughout all stages of production, inspection and testing; and, program management.

13.2 Direct Hours - Utilization

For the direct bookers, utilization reflects the ratio of direct hours booked (revenue-earning) as against total hours available. The intent of GAF is to push its utilization levels up to stated targets over the next five years, thereby improving the Factories commercial position.

	84/85	85/86	86/87	87/88	88/89
Targets	1100	1150	1200	1250	1300
Actuals	1028	-	-	-	-

13.3 Indirect Hours

It is of some importance to note that indirect hours do not reflect non-productivity. GAF includes in indirect activities the following productive basis because they are not directly relate to revenue earning.

- Discounting of apprentice hours.
- People acting in supervisory or foremen positions.
- Indirect work for other cost centres.
- Handling of materials.

Non-productive hours are considered by the Factory to be:

- Waiting Time
- Cleaning, Repair and Maintenance
- Participation in Industrial Democracy Activities/Recovery Program.
- Industrial Disputes.
- Union Activities/Representations
- Unoccupied Capacity
- Production/Maintenance of Expendable Tools

Question 14.

What are the arrangements for internal audit for your Factories?

14.1 Internal Audit

GAF, as with other GDF Establishments, does not have Internal Audit establishment, but rely on the provision of Internal Audit services from the Defence Audit Branch.

CAF is invited to nominate topics/terms of reference for Internal Audit each year, and if required can make special arrangements to seek priority studies.

Internal Audit reports are forwarded directly to GAF General Manager with copies to the GDF Executive. Where necessary the Internal Audit report may be considered by the Defence Audit Policy Committee.

GAF responds directly to Defence Audit Branch on the issues raised together with identifying how corrective action (if required) is to be implemented within a timeframe.

A recent review of GAF organisation undertaken in the Recovery Process, recommended that GAF establish its own Internal Audit function. This is currently being considered by the Department in the implementation of the recommendations of that report.

Question 15.

Guidelines issued by the Minister for Finance say that Government Factories should follow commercial practices in their accounting procedures. How close are your accounting practices to those used in commercial practice?

15.1 Commercial Practices

In order to answer this question it is necessary to break it down into four elements which make up the accounting philosophy of the Factory - Costing, Pricing, Budgeting and Audit.

15.2 Costing

The introduction of MSA software this year has provided a fully commercial accounting package to capture at cost centre/responsibility area (CC/RA), all pertinent costs, eg wages/salaries and direct expenses.

Furthermore, MSA fixed assets software will ensure proper apportionment of capital use in the CC/RA.

The apportionment of overheads, as with all accounting systems, requires appropriate cost allocation parameters. The MSA system provides the capability to perform accurate cost allocations once the exact parameters are provided. Furthermore, these parameters can be automatically monitored to actuals to exclude quarterly/annual adjustments.

15.3 Pricing

Increasingly, GDF has placed greater emphasis on market intelligence concerning the bidding for work. This has required rational discussion on short and long term workload impacts and the necessity for the retention of capabilities. This mechanism is consistent with a commercial organisations approach to pricing for future work.

The MSA system is able to continually report performance against contract and lower levels of the contract structure.

15.4 Budgeting

Historically, GAF varies from commercial establishments in that it is required to work at production levels in peace time, well below maximum capacity. This requirement for subsidy, 'Maintenance of Production Capacity' is not akin to commercial practices. It should be noted that CAC and DDM also draw subsidy from Commonwealth appropriations.

Within GAF, the MSA system of providing on-line detailed costing at CC/RA level now permits the employment of responsibility budgeting at lower levels of the organisation consistent with commercial accounting practices.

15.5 Audit

GAF's financial statements are audited by the Commonwealth Audit staff consistent with commercial accounting principles. In this regard, Auditor Generals staff, GDF and the Factories continually have disagreement over the treatment of notional in the accounts. It is hoped that the recent study by Coopers and Lybrand into GDF Establishments Financial Statement will resolve the present areas of concern.

15.6 Summary

GAF believes that the NSA packages have significantly improved the depth of accounting procedures in the Factory, in Costing, Pricing and Budgeting. Subject to early resolution of the notional accounts issues, GAF is well placed to mirror commercial accounting practices.

Question 16.

What are your views on GAF's accountability, the reporting of its financial matters and the tabling of its financial reports in the Parliament?

16.1 Reporting:

As with all areas of the Defence Department, GAF is accountable to the Secretary of the Department for its financial affairs, and through the Secretary to the Minister for Defence.

GAF therefore complies with the accountability requirements of the Department of Defence, and in relation to the production of financial statements, GAF complies with the format determined by the Auditor-General, Departments of Finance and Defence.

GAF budgets as an entity; reports performance as an entity; places its financial position, as an entity, before the Chief of Defence Production; and submits itself for audit by the Auditor-General's staff. In these terms, GAF is more openly accountable to the Secretary, than most other areas of Defence outlay.

In relation to tabling of financial reports in the Parliament, GAF's accounts are subsunmed as an element of the Departments reporting to Parliament activities. The question of reporting at micro-level of departments activities is a policy decision over which GAF has no control.

Question 17.

While it is acknowledged that there have been some problems in the past with GAF Financial reports, a number of actions have been undertaken (others are currently underway) at both Central Office and GAF to rectify these problems.

17.1 Financial Reporting

As a result of the decision to revoke the Section 4D requirement regarding the issue of Financial Statements and the issue by the Minister for Finance of "Guidelines for the Form and Content of Financial Statements" in May 1983, and revised in February 1985, a consultancy was undertaken by Coopers and Lybrand to develop a draft set of financial statements which would meet commercial standards, while recognising the statutory requirement of the Audit Act and Minister for Finance Guidelines. The statements are to be used by all establishments under ODP control. At the time the consultant was engaged, copies of the terms of reference under which the consultant would operate were provided to the Auditor-General's Office and Department of Finance. Since that time consultation with these authorities has been maintained.

The consultancy was completed in May of this year and the draft statements provided have formed the basis for development of modules, which will allow a positive approach to financial reporting.

Currently, ODP Central Office is further developing these modules into revised accounting principles for use by GAF and other establishments. This task is considered by ODP to be of the highest priority and it is anticipated that a full proposal will be provided to the Auditor-General's Office and Finance in March 1986, to obtain approval for the financial statements to be compiled in the new format from 1985/86.

IMPLEMENTATION STEERING COMMITTEE MANAGEMENT PAPER
FACTORY PERFORMANCE DURING RECOVERY

Introduction

Much has been said about the recovery process at GAF. During 1984/85, the Factory was able to support the thrust, directions and resources for Recovery activities on the basis that GAF was turning around performance, reducing its subsidy, reducing the effect of industrial confrontations by closer management/union contact, and, a number of recommendations across a wide front to be implemented.

The Recovery process was not a 'one-off', but a continuing direction to commercial operation and long term survivability in a new environment.

Despite setbacks early in 1985, and the bureaucratic process which still manages to control us, I believe that the Implementation Process has achieved milestones and significant events as follows:

- Team Leader appointed on Corporate Development
- Marketing consultants started work
- Personnel system based on CASPAY/CASIMP is underway
- Financial System Team approaching full implementation
- Semi Autonomous Work Group activity being pursued
- Study Circles implemented and expanded
- Manufacturing Information Systems Team Leader currently being interviewed

All of the above I believe indicate that action and commitment to implementation is apparent by both management, unions and staff associations.

Purpose of this Paper

Much of the assistance and support to change has been sustained by the commitment of GAF's workforce to maintain improvement and to ensure a commitment to cost and schedule over 1985/86 was maintained. The ISC Agreed Implementation Plan included this commitment.

I believe it important for the ISC to consider where we are in terms of satisfying their commitment.

Details

Utilization

It has been reported to all quarters that in 1984/85 the following improvements were achieved:

-	wages	748 to 958	+28%
-	salary	1107 to 1210	+ 9%
-	Factory total	910 to 1078	+18%

The Factory utilization was 1090 for the last period of 1984/85 in June.

The Factory utilization for the first two periods of 85/86 are:

-	July	1044
-	August	1025
		58

Despite the ISC attempts since May 1985 to have CC get involved in the process of supporting the need to collectively review utilization performance, positive action to do so is now a further three-four months away.

ISC has been cautioned that unless action is taken now to show positive and continued performance improvement the ISC (and therefore the Recovery Process itself) is in danger of undue external criticism. This was evident in May and is equally as evident today.

Hours Booked to Direct

The Factory budget (and therefore the subsidy level of \$14m) was based on improved utilization consistent with 84/85 improvements. Workload of 1.270 million manhours were predicated.

At the end of August period, the Factory was some 26000 hours (\$900K additional subsidy cost) behind schedule, largely due to poor utilization results over the Factory.

We are all aware of the Industrial Dispute in Period 3 which will have the effect of enlarging the behind budget hours and the additional subsidy to be sought from Government.

Schedule Performance

F/A-18 Flap and Shroud Offset

All ISC members should be aware that GAF has the opportunity to participate in up to 900 shipsets of offset production providing it can satisfy McDonnell Douglas of our ability to maintain cost and schedule.

This is the major identified workload for the Bond Shop, and in total represents 58 jobs this year and well over a \$100 million future work.

The F/A-18 Project Manager has advised the following:

"THE FACTORY IS ABOUT TO LOSE THIS WORKLOAD"

Present Position

- deliveries of completed assemblies are 7 sets or 10 weeks behind schedule
- manufacture of bonded parts is about 12 weeks behind schedule
- manufacture of some detail parts is up to 9 months late
- all offsets are now being airfreighted to the USA at a cost to GAF of \$4000 per shipset. This is necessary to support the MAC assembly line
- the flaps for aircraft AF8 and AF9 at Avalon were delivered right on the "last ditch" date ie the Avalon line was on the point of being delayed

Immediate Future

- production rate must increase to 5 sets per month by end November 1985 to satisfy contract
- current performance indicates by end November 1985 the factory will be an additional 4 sets ie a total 11 sets behind schedule
- at the end of October 1985, GAF has to advise the quantity required to buy from MAC to make up any schedule shortfall. This is to protect the MAC and Avalon assembly lines
- MAC have already put 3 sets into work for this purpose
- MAC have the capability to make the total quantity of flaps and shrouds in-house

Primary Impact

- the conclusion is that GAF will have to procure at least 10 sets of components from MAC
- the cost will be \$3150000 which is made up of \$1410000 lost income through loss of work and a premium of \$1740000 for a special batch on short notice. This will be a request at Additional Estimates for extra subsidy
- our customer McDonnell Douglas has been very lenient and supportive considering the level of non performance of GAF. Nevertheless our credibility has suffered.

Secondary Impact

- immediate loss of credibility with US Department of Defence
- strong possibility of being declared an unsatisfactory supplier to US Department of Defence which could have immediate ramification on our attempts to sell our NOMADS to US Government under their rules
- immediate loss of RAAF Spares orders for F/A-18

Wamira Prototype

- A roll-out date of 10 December 1985 is required to be met for the prototype. This is important for political and schedule considerations. GAF is currently two weeks behind schedule to achieve this.

Jindivik for UK

Aircraft 807 and 808 were scheduled to be delivered on 30 September 1985. A senior UK mission were told that they would be delivered on this date on 30 September 1985.

They were delivered on 9 October 1985.

The wings for a/c 816 and Sp2, the last UK aircraft are scheduled to be complete in MAW by end October 1985 if scheduled delivery of these aircraft to the UK in March 1986 is to be achieved.

These wings are currently running two months late to meet this schedule requirement.

Fokker

Delivery of Flaps to Fokker are within days of holding up their aircraft assembly line. The last shipset was delivered as a single unit. Normally two units are shipped together.

Fokker are now pressing GAF for a recovery schedule to which we will stick. The existing schedule is one which Fokker were reluctant to accept as it allows for little time between delivery and their assembly requirements.

757

Non supply of stretched chords to schedule to HDH has caused them severe problems in loading their Machine Shop. They have had to adopt work arounds.

RAAF and Other Customers

The uncertainty of GAF's ability to supply to schedule has wrecked GAF's credibility. The customer is nervous and does not want to do business with GAF.

This is reflected in statements from elements of Defence that they do not want GAF to be prime on any order, eg Wamira, refuelling tanker (707 conversion). Boeing have stated unofficially that they will not place another order on GAF whilst deliveries cannot be guaranteed.

Summation

At the end of Period 2 the following have been identified:

- \$900000 increase in subsidy due to utilization
- \$1740000 increase in subsidy due to Flap and Shroud plus other costs

I am conscious that Industrial action in Period 3 will significantly add to these identified claims.

- Furthermore all of our traditional customers are currently concerned with our schedule performance

- McDonnell Douglas and US Government (F/A-18 - Nomad)
- UK MOD (Jindivik)
- Fokker
- Boeing (757-747)
- Hawker de Havilland (757 - Wamira)
- RAAF

I cannot recall in my time at GAF when we have been in such a state.

Proposed Actions

The ISC has been set up to ensure that the recovery process proceeds, and therefore I regard the issues raised in this paper are of such magnitude that they pose a threat to the Recovery Process itself and therefore they must be dealt with: quickly, positively, and in a joint management/union approach.

If the ISC can react and solve the issues then it would have substantially proven that the Recovery Process is serious, has teeth and has power to make things happen.

In this regard, the following actions are suggested for agreement by the ISC:

- (a) Reaffirmation by the ISC that Factory performance to schedule and cost is the major immediate short term factor which needs Factory attention.
- (b) Full support of the ISC in communicating to both management and all Factory employees the present status and level of risk of the Factory today. (Recovery Update/Study Circles/Staff Notices to be used, or other means of communication to be used.)
- (c) Total management and JUG commitment to ensure that all identified actions take place immediately they are identified.
- (d) A universal acceptance by the workforce that industrial disputes which may arise, are to be discussed, negotiated and settled without involving the need to stop work on critical items. (As part of our Industrial relations it is hoped that the ISC would endorse that no stop work should occur while negotiations are still occurring.)

14.10.85

GOVERNMENT AIRCRAFT FACTORIESINDUSTRIAL ACCORD

This Accord is an agreement between GAF Unions, Associations and Management. This Accord covers all the GAF workforce.

1. Management agrees to consult in the monthly Executive/JUG consultative forum on the following matters:
 - the introduction of technological change
 - the introduction of planned plant, machinery, production process or clerical process
 - on the future introduction of plant, machinery, production or clerical process, renovation and relocation of work areas
 - existing and future workloads of employees
2. Management agrees to consult with GAF Unions in the development of guidelines for:
 - transfer and relocation of PS Act and S&D Act employees
 - disciplinary actions
3. While the consultation process is incomplete no changes will be implemented.
4. Unions agree to:
 - agenda items for the Executive/JUG meeting items deemed as requiring consultation
 - address with Management productivity and schedule issues
 - consult with Management before taking any industrial action that will effect production
 - formalise with Management a dispute settling procedure (incorporating principles of the 38 hour week agreement and PSB policies)
 - take no industrial action during the dispute settling procedure
5. DISPUTE SETTLING PROCEDURES

The procedures outlined below are to apply to all grievances raised by individual employees or Union representatives on individuals behalf or on behalf of a group of employees, except for demarcation issues.

Whilst this procedure is being followed:

- (a) no industrial action will take place and normal work will continue
- (b) the status quo shall be maintained

STEP 1

Line/Shop Management will endeavour to resolve any grievance by the end of the employees next working day. If by way of circumstances preventing Step 1 to proceed (such as unavailability) a consultation may occur to allow additional time to bring the parties together.

STEP 2

If Line/Shop Management is unable to resolve the matter it shall be referred by the employee/Union delegate to the Industrial Relations Section. The Industrial Relations Section will attempt to resolve the matter within 48 hours by calling a meeting of all affected parties including Line Managers, the Executive of the local Union organisation and State Union Officials if required. Subject to all parties attending as required, consultation may occur to allow additional time to bring the parties together.

STEP 3

If the Industrial Relations Section is unable to resolve the matter it shall be referred to the Personnel Manager and appropriate Executive Manager. As necessary a meeting with all affected parties will be convened.

STEP 4

If Step 3 fails to resolve the matter, a meeting will be convened with the General Manager, Line Management, Departmental representatives, State Union Officials and representatives of the local Union organisation.

STEP 5

If all the above steps fail the matter should be referred to the ACTU (or ACPA) as appropriate for resolution.

6. DEMARCACTION ISSUES

1. Prior Consultation

Where demarcation issues are recognised to exist in the alterations of current work practices, prior consultation of effected parties is to occur:

STEP 1 - Demarcation Issues are identified by either Union or Management

STEP 2 - Industrial Relations Manager to arrange consultation between effected parties and agreement reached

STEP 3 - If an agreement cannot be formulated quickly, interim agreements are to be negotiated with the parties concerned, and the issue referred for settlement by

- Organiser/Official
- ACTU

2. Where demarcation issues arise without prior consultation the following process is to be followed:

STEP 1 - Demarcation Issues notified to Industrial Relations Manager

STEP 2 - A meeting with all effected parties within the Factory will be convened

STEP 3 - If STEP 2 fails, the next meeting is to involve the appropriate Organisers/Officials

STEP 4 - If STEP 3 fails, the issue is forwarded for resolution by the ACTU

While the above process is in train, no industrial action will be taken, and the status quo remains.



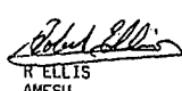
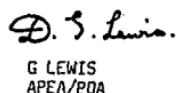
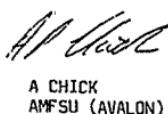
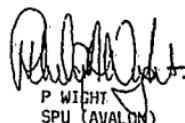
J R C PASCOE
GENERAL MANAGER



D J PHILLIPS
PERSONNEL MANAGER



S PANDOS
JUG COORDINATOR


Howard Ingram
for
G SAMPSION
JUG COORDINATOR.
A ANGELLO
SPU
R ELLIS
AMFSU
John McBeth
R GRAHAM
ADSTE
D. S. Lewis
G LEWIS
APEA/POA
R. Rigby
D RIGBY
ACOA
G TONNA
VBEF
A CHICK
AMFSU (AVALON)
P WRIGHT
SPU (AVALON)

APPENDIX D

ANNEX A

COMPUTER SYSTEM NEED	1982-83	1983-84		1984-85
ADMINISTRATIVE AND GENERAL SYSTEMS				
1. Financial Ledger Keeping	-----			-----
2* Project Cost and Production Reporting for F/A-18 Project	-----			-----
3. Debtors/Creditors Enquiry/Control	-----			-----
4. Advanced PERT for RAAF Trainer Project	-----			-----
5. Factory Data Recording - *Job times - Attendance - *Parts Tracking	-----			-----
6. Re-development of Phoenix Systems	-----			-----
7* Use of Administrative Word Processing	-----			-----
PRODUCTION MANAGEMENT AND CONTROL SYSTEMS				
8* Bill of Materials and Routing using McAIR - provided data on F/A-18	-----			-----
9* Materials Requirements Planning	-----			-----
10* Shop Order Release	-----			-----
11* F/A-18 Configuration Control	-----			-----
12* Control of McAIR in-aid items	-----			-----
13* Shop Loading and Resource Allocation				-----
14. Inventory Control (including general stocks)				-----

COMPUTER SYSTEM NEED	1982-83	1983-84		1984-85
COMPUTER-AIDED DESIGN				
15. Structural Analysis and RF Circuit Design Software			—	—
16. Telemetry Data Acquisition for Trainer	—	—	—	—
17. Fourier Analysis, Micro Processor Development and Laboratory Instrumentation	—	—	—	—
18* Support of F/A-18 Electrical Checkout	—	—	—	—
19* Flat Parts Nesting (for fibreglass cutting)	—	—	—	—
20. NC Parts Programming of Sculptured Surfaces	—	—	—	—
21* Process Control in Bonding and Chemi-Milling	—	—	—	—
22. Centralised Program Loading of NC Machines				—
23. Defect Analysis	—	—	—	—

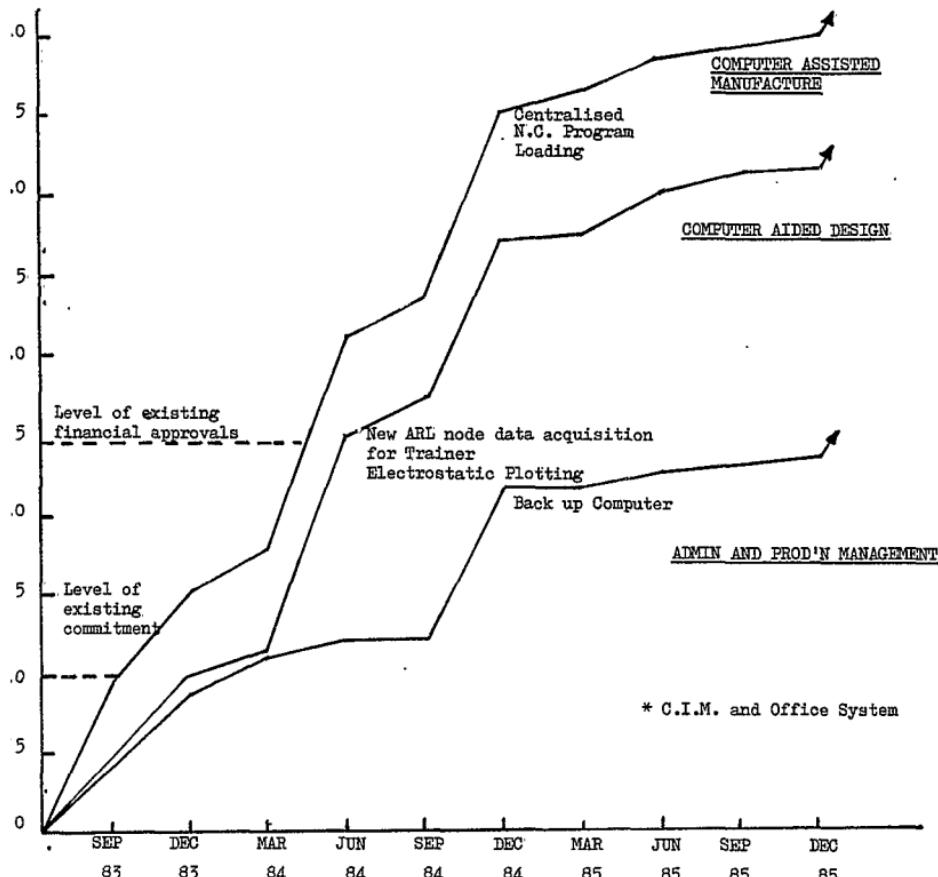
Almost all developments listed above were commenced in 1982-83. Those marked with an asterisk (*) have 1983-84 deadlines and are related to G.A.F. capability to perform on the F/A-18 Project.

KEY

— Development (Current and Future)

— Implementation

HARDWARE EXPENDITURE PROGRAM



COMPUTING AND SYSTEMS BRANCH

The Branch comprises four Sections:

- Strategic Planning and Co-ordination
- Systems Development
- Systems Support
- Manufacturing Consultancy

The major activities of the Branch are as follows:

- Planning and co-ordination

Determining computing and information systems policies and plans within the Department and the defence industry where activities and facilities are funded by the Commonwealth.

Co-ordinate input to the FYDP process:

- Liaison with Planning and Programming Branch to establish financial and other guidance relevant to computing budgets and long term plans.
- Provision of guidance to divisions and establishments in the preparation of resource requirements and supporting statements for FYDP and Forward Estimates.
- Analysis of bids of Divisions and establishments against authorised programs.
- Briefing of the Minister, Executive and senior officers on computing and information systems issues and requirements.
- Monitoring of utilisation and control measures.
- Liaison with Defence program authorities, PSB and Department of Finance representatives.
- Executive support for the departmental Computer Policy Committee and representatives on Defence and other external committees.
- Forward planning, in accord with directives of the PSB, the Departments of Defence, Administrative Services and Finance, through participation on divisional and other committees and in consequence of Branch research and initiatives.

- Systems development and support

Advise on the more advanced technologies, monitor performance and provide advice and assistance to the Executive and Boards of Management.

- Co-ordination of computing and information systems activity, through participation on divisional and other committees and through Branch initiatives.
- Extensive liaison with management units through the provision of computing bureau services.
- Contact with the operational areas in the provision of technical advice and the promotion of advanced and integrated technologies.

- Manufacturing Consultancy

- Ascertain needs for productivity improvement. Develop and implement Industrial Engineering solutions and systems.
- Develop Physical Distribution Systems.
- Promote the economic use of computer assistance in manufacturing and as an aid to design and production processes.
- Provide a robotics information, referral and advisory service and participate in robotics investigations.
- Promote the use of Value Analysis and participate on assignments.

ACCOUNTING MATTERS

1. RECONCILIATION OF CONTROL LEDGER AND SUBSIDIARY RECORDS

Following the comments of the Auditor-General, GAF progressively established starting bases for each of the accounts which required reconciling. To ensure that regular reconciliations were carried out, a Control Ledger Statement which identified all relevant accounts was introduced in October 1980. Instructions for the attachment of all supporting working papers to this Statement were also issued.

Following reconciliation of all outstanding accounts, it was decided that future reconciliations should be completed within six weeks of the end of each accounting period.

The following remedial action was implemented to facilitate performance target achievements:

- Following acquisition of additional computer facilities, control procedures and detailed data related to the creditor's ledger were placed on the computer. This in turn has assisted performance of reconciliations by readily providing essential data which previously had to be located manually.
- Regular monitoring by Supervisors (including the responsible Division at Central Office) has been intensified. To this end, the Department and GAF Management are advised of achievements and irregularities on a monthly basis.
- Training of staff has been improved by the introduction of educational programs and discussions. Procedures have also been simplified by the use of flow-charts.
- Internal control procedures are now strictly followed.
- Reports by the Internal Audit Section are usefully employed as a management aid.

In the light of these actions, performance has been consistently satisfactory. It should be noted however that at the end of each financial year the records at GAF are kept open to ensure that all transactions occurring during the year are brought to account. As a consequence, the reconciliations for the first period in the new financial year are inevitably delayed.

2. OVEREXPENDITURE AGAINST ORDERS

Overexpenditure may occur due to:

- Shortages, ie, non-availability of materials, specific components, planning data and other data essential to timely completion of milestones in the overall factory project plan and individual projects.
- Incurring of costs prior to project approval. This situation may arise where there is a need for development to solve problems related to the product to satisfy operators and the airworthiness authorities, and to support the aircraft in the field to ensure its continued viability, safety standing and competitiveness. Many of these problems must be dealt with promptly to avoid down time of aircraft or the imposition of restrictions on the use of the aircraft. Work authorities must be issued urgently, and if there is a delay in the approval of the additional work, costs may be incurred before approvals are available.

It is proposed that in future, submissions seeking forward approval for estimated requirements will be made, eg, a submission will be made at the end of 1983 seeking provision for development work in support of Nomad aircraft in the field for the period following July 1984.

Departmental project approval procedures will be reviewed with a view to reducing the time to gain such approvals.

Constant monitoring of projects which will indicate whether an overexpenditure will occur has been progressively developed. In particular, the management reporting system now in operation provides for quarterly reviews of major projects, with a view to predicting and reassessing project costs against estimates. Reports based on those reviews will be furnished to Divisional Management and the Production Board.

Additionally, a position has been created for the full time employment of an officer to analyse predicted overexpenditures and hasten identification of causes. Early recovery action can then be implemented.

In carrying out this duty the occupant of the position will have access to all management accounting records. He will establish where and why overexpenditure has occurred, and report his findings to the Commercial Manager.

- Deterioration of Productivity.

The major cause of overexpenditure has been identified as the continuing deterioration of productivity. Such deterioration is due, in the main, to go-slow programs and other areas of industrial disruption, particularly in the context of the redundancy issue which has been current since May 1982.

Performance measurement systems enable actual performance to be compared with allowed hours, however provision for such deterioration is not included in project estimates.

GAF Management considers that the deterioration in productivity is directly related to the lack of authority of local management to hire, fire and suspend employees in circumstances where management in industry would take such action - particularly in situations where GAF is forced to carry surplus employees for long periods.

The current Supply and Development Act and Regulations provide the Manager of an undertaking with the authority to:

- engage or discharge employees.
- do all other things necessary and proper for the conduct of any undertaking under his charge.

Powers for discharge also exist under Clause 11 (2) of PSB Determination No 39 of 1951.

At GAF however, the General Manager is restricted in the engagement of employees due to the requirement to seek the approval of the Controller, Defence Aerospace to do so. The discharge of employees is also an area of concern. Although under normal circumstances such action can be carried out locally, any issue likely to be of industrial sensitivity is subject to scrutiny at various levels both inside and outside the Department.

The application of Clause 11 (2) is further complicated by the difficulties in taking standdown action (interpretation of "usefully employed") especially for part of a day.

The authority of the General Manager under the Supply and Development Act and PSB Determination 39 of 1951 has been progressively reduced by Government policy changes which has led to decreased autonomy in industrial matters.

The Utz Report of 1982 envisaged that the Department of Defence Support would be able to concentrate its efforts on improving the performance of the factories, through a consistent and vigorous management approach to factory problems, pursued in a production-oriented, management environment.

In this light, it appears that the situation would be arrested by:

- (a) restoration of powers to GAF Management under the Supply and Development Act and Regulations;
- (b) development/improvement of industrial relations; and

(c) development and implementation of a properly functioning production performance allowance. (A draft scheme has been negotiated, and is awaiting final departmental and union agreement. This scheme has been identified as one of the offsets in negotiating the 39 hour week package for GAF.)

3. DEBTORS

The performance of GAF in processing debtors has improved significantly since the JCPA investigations. Resources are being directed towards debts where there is a greater chance of recovery with a view to clearing this backlog prior to working on debts where the chances of recovery are less. Consequently, the value of debts outstanding fell from \$6.39m on 29 March 1981 (a total of 773 debts) to \$2.57M (a total of 593 debts) on 25 July 1983.

4. DELAYS IN CLAIMING LOSSES AND REPAYING PROFITS FROM MAINTENANCE OF PRODUCTION CAPABILITY (MPC) APPROPRIATION

In response to the comments of the Auditor-General, GAF stated that before profits and losses could be isolated, various operations have to be performed by other Sections of the Factories.

In particular, losses against customers' orders are declared only after all matters related to the task have been investigated to determine that the costings are correct and the potential to recover costs from customers has been exhausted.

The action to credit amounts to the MPC appropriation is dependent on, inter alia, the liquidity of the Trust Account at the time credits are required. Such funds have, on occasions, not been available due to delays in receipts and sales not being achieved in accordance with expectations. To assist in the rectification of the situation, a position has been created for the full time employment of an officer to analyse overexpenditure and speed up identification of causes. As a result, recovery and related action will be hastened. The officer will have access to all management accounting records, and he will establish where and why overexpenditure occurs and then address the respective issues.

AN ASSESSMENT OF NORMAL (EXPECTED) STANDARDISED PROCESSING TIMES OF GAF ACCOUNTABLE DOCUMENTS

DOCUMENT	MOVEMENT FROM	MOVEMENT TO	PROCESSING TIME REQUIRED	EXPECTED WEIGHTED AVERAGE PROCESSING TIME REQUIRED (WEEKS)
Goods Received Note (GRN)	Goods Delivery	Accounts	3.0 weeks for 70% 5.0 weeks for 20% note 1 7.5 weeks for 8% note 2 12.0 weeks for 2% note 3	3.9
Issue Requisition (I/R)	Receipt in General Store	Computer Input	2.8 weeks for 60% 3.4 weeks for 30% note 4 4.0 weeks for 10% note 5	3.1
Goods Receipt and Issue Note (GRIN)	Goods Delivery Goods Issue	Accounts Computer Input	2.6 weeks for 60% 2.8 weeks for 30% 3.0 weeks for 10%	2.7
Return to Stock Docket (RSD)	Raised	Computer Input	2.6 weeks for 60% 2.8 weeks for 30% 3.0 weeks for 10%	2.7
Traveller	Stamped at General Store	Computer Input	4.2 weeks for 70% note 6 5.0 weeks for 25% note 7 6.0 weeks for 5% note 7	4.5
Despatch Advice	Raised	Accounts	3.0 weeks for 70% 3.4 weeks for 25% 4.0 weeks for 5%	3.2

AN ASSESSMENT OF NORMAL (EXPECTED)
STANDARDISED PROCESSING TIMES OF GAF ACCOUNTABLE DOCUMENTS

Notes Accompanying the Table

- Note 1. The increase of 2 weeks provides for extended quality testing cycle including manufacture of test pieces, treatment and other processes for metallic raw materials.
- Note 2. This allows for retest of raw materials which fail marginally on initial test; deliveries of materials and parts without appropriate release documents certificates from suppliers.
- Note 3. G.R.N.'s held while negotiations underway on rework repair, rejection, and disposition etc.
- Note 4. This increase mainly comprises additional time for the issue of sheet raw material, stored off-area, and requiring fork-lift equipment. The remaining element in this time-scale covers non-raw material discrepancies on the perpetual reconciliation system.
- Note 5. This increase allows for discrepancies on raw materials, and other discrepancies not easily reconciled.
- Note 6. Travellers are presented to store in advance of schedule, and held by store until material required by Plants. The time-to-process is based from date of receipt at Store, so there is a period where travellers are held, pending schedule date. This is why this document is a comparatively longer time cycle than others.
- Note 7. Travellers are sometimes presented to Store for issue, but when schedule date arrives, material is not available for issue for various reasons, e.g. awaiting release documents from suppliers; still in quality assurance cycle; etc.

COMPARISON OF ACTUAL THROUGHPUT TIMES FOR GAP ACCOUNTABLE DOCUMENTS

DOCUMENT	MOVEMENT FROM	MOVEMENT TO	ACTUAL AVERAGE PROCESSING TIME AS AT APRIL 1982 (weeks)	ACTUAL AVERAGE PROCESSING TIME AS AT JUNE 1980 (weeks)	REDUCTION IN THROUGHPUT TIME (weeks)
GRN (Project)	Goods Delivery	Accounts	3.1	10.6*	7.5
GRN (General Supplies)	Goods Delivery	Accounts	1.8	10.6*	8.8
I/R (Project)	Receipt in General Store	Computer Input	3.0	5.9*	2.9
I/R (General Supplies)	Receipt in General Store	Computer Input	3.2	5.9*	2.7
GRIN (Issue)	Receipt in General Store	Computer Input	2.7	5.4	2.7
GRIN (Receive)	Receipt in General Store	Accounts	2.1	2.1	-
RSD	Raised	Computer Input	4.3	8.2	3.9
Traveller	Stamped at General Store	Computer Input	6.3	14.1	7.8
Despatch Advice	Raised	Accounts	3.5	4.2	0.7

* General Supplies and Project documents were not separated in June 1980 report.

IMPROVEMENT IN THE PROCESSING OF GAF GOODS DESPATCH ADVICES

(as reported in DDS Quarterly Reports to the Minister for Finance on Rectifying Deficiencies at the GAF as Raised in the Reports of the Auditor-General)

ITEM	TARGET	COST PERIOD ENDING	TARGET	ACTUAL
			(advice)	(advice)
"Procedure for control of goods despatch advices were defective and a relatively large number of these documents were not accounted for" (A-G's Report 1979-80, Paragraph 2-19-3)	Less than 10% of documents raised to be outstanding for more than one period.	30th May 1982 (Period 11)	69	17
		25th April 1982 (Period 11)	80	10
		28th March 1982 (Period 9)	78	72
		28th February 1982 (Period 8)	82	69
		24th January 1982 (Period 7)	87	51
		29th November 1981 (Period 6)	97	112
		25th Octoberr 1981 (Period 5)	300	123
		25th September 1981 (Period 4)	300	106
		30th August 1981 (Period 3)	300	300

IMPROVEMENT IN THE PROCESSING OF GAF ISSUE VOUCHERS

(as reported in DDS Quarterly Reports to the Minister for Finance on Rectifying Deficiencies at the GAF as Raised in the Report of the Auditor-General)

ITEM	TARGET	COST PERIOD ENDING	TARGET	ACTUAL
			(advises)	(advises)
"A significant proportion of issue vouchers for materials issued to production were not brought to account" (A-G's Report 1979-80, Paragraph 2-19-3)	Less than 5% of documents raised to be outstanding for more than one period.	30th May 1982 (Period 11) 25th April 1982 (Period 10) 28th March 1982 (Period 9) 28th February 1982 (Period 8) 24th January 1982 (Period 7) 29th November 1981 (Period 6) 25th October 1981 (Period 5) 27th September 1981 (Period 4) 30th August 1981 (Period 3)	157 195 190 183 165 162 200 200 200	41 115 185 202 316 211 198 214 334

ANNEX I

COMPUTERISED SYSTEMS FOR INVENTORY CONTROL CORRECTLY OPERATING AT GAF

• OPUS System

- reports of orders outstanding to inventory requirements (not delivered and part delivered);
- time phased reporting of outstanding financial commitments for inventory items within various commodity groups at each project level (time scale 3 months to +35 months);
- weekly report of accumulated order value by individual budget code;
- data base contains dues - in information necessary for inventory control.

• Work-in-Progress (WIP) System

- CWO3 report identifies at document level values of transactions between General Stocks and WIP, summarises issues to WIP and returns by Supply commodity control group;
- CP11 report on Finished Product to Store Advice (FPTSA) progressively accumulates values and quantities of item transfers from WIP to Nomad Spares stock, with work order, document number and Supply control group identified;
- CP23 FPTSA period report provides the total value of transfers at document level, records authorisations for work which will be placed in WIP Stores on completion; the documents/travellers also authorise withdrawal of stocks from WIP Stores for work, estimated and actual costs (labour but not materials) are collected progressively against the authorisations; required and actual quantities are also recorded.

• Parts Tracking System

- provides an identification of the location of WIP which is outside stores and tracks it until the completed work is placed under stores control;

- identifies at document level work authorisations which are awaiting stock availability from WIP stocks or general stocks to production.
- Issue Document Control System
 - applies to Issue Requisitions, Returns to Stores Dockets, General Stores Travellers, Goods Receipt and Issue Notes, Despatch Advices;
 - ensures the bringing to account of the value of issues at document level;
 - provides time phased reports of documents required to be brought to account;
- Goods Receipt Note (GRN) System
 - users suppliers' accounts to ensure that GRN's have been raised to record receipts into stock at document level.
- Lifed-Materials (Nomad) System
 - maintains information on lifed materials inventory;
 - highlights for action those materials whose life is shortly due to expire;
 - ensures continuity of availability against requirements.
- Materials to Contractors Control System
 - reports on materials outstanding to contractors against each order placed on such contractors.

ANNEX J

DEPARTMENT OF DEFENCE SUPPORT AUDIT BRANCH - SECTION
RESPONSIBILITIES

- AUDIT OPERATIONS AND ADMINISTRATIVE SECTION
 - evaluate the efficiency, effectiveness and integrity of the Department's management of its operations; and
 - co-ordinate the administration of the internal audit function for the Department.
- AUDIT PROGRAM DEVELOPMENT AND CONTROL SECTION
 - continuously review auditable areas of the Department;
 - update and refine the Strategic Audit Plan;
 - assess audit resources and plan their maintenance and development;
 - research audit and efficiency review methodologies for adaptation to departmental needs;
 - participate in planning and implement efficiency review and audits; and
 - implement an audit and efficiency review of a quality assurance program for the Department.
- EDP AUDIT SECTION
 - assess the system for purchasing computer equipment;
 - evaluate security of computer installations and data;
 - assess the systems development cycle;
 - assess the processing environments contribution to promoting performance efficiency of computer systems; and
 - evaluate whether user needs are being efficiently and effectively met by specific applications.
- MANUFACTURING AND MANUFACTURING SERVICES SECTION
 - Ongoing management of audits of:
 - production planning and control;
 - production performance and shop-floor control;

- inventory control (production aspects);
- capital equipment (plant and machinery, buildings, works and services);
- acquisition and purchasing;
- estimating (for contract purposes);
- quality assurance in production and materials;
- materials control (quality and quantity);
- tooling;
- metrology;
- repairs and maintenance;
- stores control;
- strategic and other reserve stocks;
- Defence plant facilities and equipment loaned to industry;
- CAD/CAM applications; and
- sub-contractor production performance.

MEMORANDUM TRADING STATEMENT FOR THE YEAR ENDED 27 MAY 1984

FACTORY OPERATING COSTS	NOTE	1983/84	1982/83
Cost of production			
Direct Labour (Direct manhours			
- current year 550 019		21 965 066	17 633 753
- previous year 647 927			
Direct material		9 320 179	12 508 447
Sub-contract work		369 246	287 307
Other direct expenses		21 826 000	20 257 000
Total Cost of Production		53 480 491	50 686 507
Nomad spares - Purchased for resale		701 466	539 858
Nomad warranty - Direct payments		23 939	25 201
Nomad loss on sale Secondhand Aircraft		0	227 691
Reserve Capacity Cost		14 315 000	14 690 000
Total Factory Operating Costs		68 600 896	66 169 257
NOTIONAL OPERATING COSTS			
Audit fees		79 629	115 561
Administrative support		1 455 777	1 402 768
Depreciation		2 330 290	1 637 734
Interest on capital		5 412 172	6 493 060
Superannuation		5 939 245	5 813 089
Repairs and maintenance		618 676	1 122 346
Insurance		392 118	331 170
Other expenses		1 883 971	2 002 071
Total Notional Operating Costs		18 111 878	18 922 819
NON-OPERATING EXPENSES		640 271	287 229
EXTRAORDINARY EXPENSES		252 526	0
TOTAL COST OF OPERATION AND SUPPORT FOR THE FACTORY		87 605 571	85 379 305
LESS INCOME			
OPERATING INCOME			
Sales			
Defence		7 535 640	7 434 140
Overseas		22 749 753	15 202 981
Commercial		5 802 840	5 172 780
Dept. of Defence Support		6 068 927	2 513 270
Total Operating Income		42 148 160	30 866 171
NON-OPERATING INCOME		205 693	75 827
EXTRAORDINARY INCOME		0	381 698
INCREASE/DECREASE IN:			
Net work in progress		4 562 701	-18 620 447
Finished Goods		-8 282 633	12 452 247
Nomad Warranty		137	-14 269
TOTAL INCOME		38 634 058	25 141 227
NET COSTS OF OPERATING AND RETENTION OF FACTORY		48 971 513	60 238 078
<i>This cost is met by:</i>			
Factory Cost Subsidy		34 642 334	44 319 419
National Cost Subsidy (contra to			
Notional Operating Cost)		14 329 179	15 918 659
GOVERNMENT COST OF OPERATION AND SUPPORT FOR THE FACTORY		48 971 513	60 238 078

MEMORANDUM STATEMENT OF ASSETS & LIABILITIES AS AT 27 MAY 1984

AUSTRALIAN GOVERNMENT FUNDS		NOTE	1983/84	1982/83
Working capital advance			35 336 223	40 481 223
Factory cost subsidy advance			900 000	900 000
Government investment in fixed assets				
less notional depreciation			85 351 280	56 761 571
Net Government Funds Invested			<u>121 587 503</u>	<u>98 142 794</u>
These funds are represented by:				
CURRENT ASSETS				
Balance in Trust Account			8 050 765	1 162 400
Cash at bank			330 000	330 000
Cash on hand			30 307	27 573
Trade and other debtors			14 612 690	20 818 703
Stocks			35 312 725	36 484 951
Prepayments			2 292 131	3 992 989
Notional provisions			12 076 865	10 192 894
Total Current Assets			<u>72 705 483</u>	<u>73 009 511</u>
LESS CURRENT LIABILITIES				
Trade and other creditors			2 248 539	7 166 427
Accrued liabilities			16 800 905	14 531 279
Customers advances and equity			15 419 816	9 929 906
Advances repayable within 12 months			0	0
Accumulation payable to Commonwealth Revenue			0	0
Total Current Liabilities			<u>36 469 260</u>	<u>31 628 287</u>
WORKING CAPITAL (excess of current assets over current liabilities)			36 236 223	41 381 224
FIXED ASSETS				
Land and buildings less notional provision for depreciation			48 641 984	32 995 713
Plant and machinery (including office furniture and equipment) less notional provision for depreciation			28 677 783	16 167 799
Other fixed assets less notional provision for depreciation			841 254	201 977
Net Fixed Assets	1		<u>78 161 021</u>	<u>49 365 489</u>
Plus Prepayments (advance payments against fixed assets yet to be received)			9 802 561	7 515 006
Less Liabilities (amounts owing on fixed assets already received)			2 612 302	118 924
Net Government Investment in Fixed Assets			<u>85 351 200</u>	<u>56 999 411</u>
TOTAL NET ASSETS			<u>121 587 503</u>	<u>98 380 64</u>

Note 1

SCHEDULE OF FIXED ASSETS

COSTS AT HISTORICAL COSTS

Cost at the beginning of the year

Additions during the year

Disposals/write-offs during the year

Cost at the end of the year

PROVISION FOR DEPRECIATION

Provision for depreciation at beginning of year

Depreciation for year

Depreciation on disposals

Provision for depreciation at the end of year

Written down value at end of year

Note 2. There are a number of minor compensation claims as at 27 May 1984 which are impossible to quantify at this time. The following major claims are intended for court action for which no provision has been made in the accounts as they do not have a high probability of success. (a) Legal action has been initiated by the wife of a pilot of Missionary Aviation Fellowship and the missionary following a crash of a Nomad in Iran Jaya on 23 July, 1979 for \$1,500,000 and \$600,000. (b) East West Airlines and Reprographics Pty. Ltd. have lodged claims of \$596,000 and \$91,570 for losses incurred due to the late delivery of Nomads. (c) Hughes Corporation (U.S.A.) has lodged a claim of \$24,000,000 to recover expenses incurred as a Nomad distributor.

Note 3. The financial statements have been prepared in accordance with the books of accounts and other records maintained on historical costs with the exception of notional costs (costs incurred by the Department of Defence Support and other departments on behalf or in support of the factory for which recovery from the factory is not sought).

LAND	BUILDINGS	PLANT & MACH.	OTHERS	TOTAL
306 704	38 045 299	29 199 717	302 893	67 854 613
0	15 961 883	14 861 371	746 230	31 569 484
0	12 321	518 608	3 600	534 609
306 704	53 994 861	43 542 400	1 045 523	98 889 488
0	5 356 290	13 031 918	100 916	18 489 124
0	303 291	1 832 699	103 353	2 239 343
0	0	6	0	0
0	5 659 581	14 864 617	204 269	20 728 467
306 704	48 335 280	28 677 783	842 254	78 161 021

Note 4. The costing and pricing policies recognise, under the heading Reserve Capacity Costs, the need for the maintenance of defence production capability (facilities and skills) in excess of those required for peace time production.

STATEMENT BY GENERAL MANAGER AND PRINCIPAL ACCOUNTING OFFICER

To the best of our knowledge and belief the accompanying memorandum statement of assets and liabilities and memorandum statement of profit or loss have been drawn up so as to give a fair and reasonable view of the state of affairs of the government aircraft factories at the 27 May, 1984 and a fair and reasonable view of the trading results of the year then ended.

J.R.C. PASCOE, GENERAL MANAGER

W. SHEEHAN,
PRINCIPAL ACCOUNTING OFFICER

EXPLANATIONS TO THE TRADING AND ASSETS AND LIABILITIES STATEMENTS

1. Cost of Production

- 1.1 There has been a significant increase in sales value in 1983-84 mainly due to the increase in the chargeable rates (manhours rates). A total of 1,051,120 hours were charged to work orders in 1983-84 against a total of 1,122,962 hours in 1982-83.
- 1.2 The loss on operation in 1982-83 was \$4.06M and increased by \$0.979M to \$5.04M in 1983-84.
- 1.3 However, the Reserve Capacity Cost decreased by \$0.375M from \$14.690M to \$14.315M in 1983-84.
- 1.4 Overall the Factory Cost Subsidy decreased by \$9.677M mainly due to the decrease in Production Assistance for Nomad by \$11.0402M.

2. Cost of Production \$53.548M

- 2.1 Direct Labour \$21.965M
Wages Time bookings totalling \$50,018.8 hours were charged to work orders at a cost of \$16.865M. The balance of \$5.100M represents a loss due to variation and absorption.
- 2.2 Direct Material \$9.320M
This amount represents the cost of materials charged including factory supply leading to projects during the year.
- 2.3 Subcontract work \$0.369M
The amount of \$0.369M represents the amount paid to contract personnel. The amount charged to projects is \$0.561M resulting in a profit of \$0.192M.

3. Notional Cost \$18.112M

Notional Costs of \$18.112M has been added on to the cost of production to reflect the costs:

- (a) the costs attributable to the use of Capital facilities and
- (b) costs incurred by other Government Departments on behalf of the Factory.

- 3.1 Administrative Support \$1465M
This amount represents 2.12% of the total cost of production to cover the cost of administrative support provided by other Government Departments including the Department of Defence Support.
- 3.2 Depreciation \$2.330M
Plant and machinery and buildings have been depreciated at 27% and 2% of cost respectively. Leasehold land has been amortised at 10% per annum.
- 3.3 Interest on Capital \$5412M
Interest on Capital has been calculated at 14.803% (long term bond rate) on working Capital Advances.

4. Non-Operating Expenses \$0.640M

This amount represents Bad debts (net) of \$0.027M, Stock losses of \$0.579M and Stock adjustment losses of \$0.034M.

- 2.4 Other Direct charges \$21.826M
Salary time bookings totalling to 501,100.8 hours were charged to work orders at a cost of \$21.525. The balance of \$0.301M represents costs unabsorbed.
- 2.5 Reserve Capacity Cost \$14.315M
The total capacity costs were \$53.780M of which the amount recovered by production was \$39.465M, variations due to spending and absorption was a loss of \$5.990M resulting in costs of \$14.315M representing the cost of reserve capacity (Maintenance of production capability).

3.4 Superannuation \$5.939M

Superannuation has been computed at 20% of the annual Wages and Salaries Costs.

- 3.5 Repairs and Maintenance \$0.619M
The total expenditure on repairs and maintenance was \$0.619M funded by the Department of Housing and Construction including work for the value of \$0.106M done by the Factory.
- 3.6 Insurance \$0.392M
The cost of fire and general insurance have been computed on the historic cost of buildings, works, plant and machinery, stores stock including work-in-progress at rates used by the Insurance Council of Australia.
- 3.7 Other Expenses \$1.884M
This amount represents the increase in Furlough provision of \$1.911M and a decrease in the provision for Doubtful debts of \$0.027M.

5. Extraordinary Expenses \$0.253M

This amount represents losses due to fluctuations in foreign exchange rates.

6. Operating Income \$42.148M

Included in this Defence Support figure is an amount of \$3.437M representing work done by the factory funded directly by appropriations.

- 6.1 Sales to overseas customers \$22.741M
There has been a significant increase in the work for overseas customers mainly due to the F/A-18 project.

7. Non-Operating Income \$0.206M

Included in the above figure is an amount of \$0.192M representing the profit on contract labour. The balance represents discounts received and other non trading (non operating) income.

8. Factory Cost Subsidy \$34.642M

The Government subsidies received during the year total to \$34.642M made up as follows:

To Maintain Production Capability (Reserve Capacity Costs)	\$ 14.315M
To fund loss on operations	\$ 5.303M
To fund non operating expenses	\$ 0.640M
To fund extraordinary expenses	\$ 0.253M
To fund Production of Nomad Aircrafts and Spares for Nomad Aircrafts	\$14.337M
less: Recoveries by Non operating income	\$34.848M
Factory Cost Subsidy	\$ 0.206M
	\$14.642M

9. Notional Cost Subsidy - Reversed \$14.329M

Notional Cost of \$10.112M was added to Cost of Production of which \$14.660M has been reversed retaining \$3.783M recovered during the year as follows:

On Cost recovered from Sales	\$3.083M
By Phasing of losses on production	\$0.700M
	<hr/>
	\$3.783M

10. Australian Government Funds \$121.587M

This amount represents the total funds invested by the Australian Government as at 27 May 1984.

10.1 Working Capital Advances \$35.336M
Advances by the Australian Government towards working capital as at 27 May 1984 was \$35.336M. \$5.145M was repaid during the financial year ended 27 May 1984.

10.2 Government Investment in fixed assets \$85.351M.
The investment in Fixed Assets by the Australian Government as at 27 May 1984 was \$85.351M. An amount of \$31.569M was invested during the year as follows:

In Buildings	\$15.962M
In Plant and Machinery	\$14.861M
In other fixed assets	\$ 0.746M
	<hr/>
	\$31.569M

Of these, \$0.012M, \$0.519M and \$0.004M were written off from Buildings, Plant and Machinery and Other Fixed Assets. A sum of \$9.803M had been prepaid for the purchase of Fixed Assets and a sum of \$2.612M was payable to suppliers of Fixed Assets as at 27 May 1984.

11. Current Assets \$72.705M

The total current assets as at 27 May 1984 were \$72.705M of which \$8.411M were liquid assets, \$12.077M a Notional provision (sicitious asset) contracted to current liabilities, and the balance of \$52.217M represents stock (including Work-in-progress and finished Nomad Aircrafts), Debtors and Prepayments.

11.1 Debtors \$14.613M
This amount is made up of Trade debtors (net of provision for doubtful debts) of \$6.582M, Treasury for claims on Reserve Capacity Costs at \$3.915M and Accrued leave of \$4.115M contracted to Accrued liabilities.

11.2 Stock \$35.312M
This amount is made up as follows:

Stock of finished goods - Nomad Aircrafts in storage	\$ 6.634M
Work-in-progress at selling price	\$23.775M
Nomad spares	
Less: Production Assistance claimed	\$5.385M
	<hr/>
Stock at weighted average cost	\$ 4.903M
	<hr/>
	\$35.312M

11.2.1 Valuation of Finished Goods \$6.634M

Nomad Aircraft in storage have been valued at net realisable value less on-cost repayable and warranty. The net realisable values of N22B and N24A are \$600,000 and \$750,000 respectively.

11.2.2 Nomad Spares NIL value

Nomad spares are at a book value of \$5.385M which has been fully subsidised by Production Assistance.

11.2.3 Valuation of Work-in-progress \$23.775M

All Work-in-progress has been valued at cost or net realisable value. Production assistance claimed effectively reduces the costs reflected in Work-in-progress. Included in Work-in-progress is a figure of \$796,600 representing the net realisable value (less on-cost repayable and warranty) of 3 development aircrafts (L 5 55, 124 & 120), 2 development aircrafts (L 5 26 & 42) have been shown at a NIL value.

All Nomad aircraft in production have been valued at Net Realisable Value less on-cost repayable and warranty. All additional costs to be incurred on Nomad Production will be funded by Production Assistance.

12. Current Liabilities \$36.469M

This sum represents Trade creditors of \$2.664M, Accrued liabilities of \$2.763M, National Contas and current assets of \$15.120M and progress payments received against work done for customer of \$15.420M.