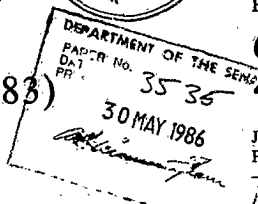


Advance to the
Minister for
Finance (1982-83)
— Response



Report

251



Joint Committee of
Public Accounts

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

ADVANCE TO THE MINISTER FOR FINANCE (1982-83)
- RESPONSE TO REPORT 228

REPORT 251

ADVANCE TO THE MINISTER FOR FINANCE (1982-83) - RESPONSE
(DEPARTMENT OF FINANCE MINUTE ON THE COMMITTEE'S 228TH REPORT)

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JOINT COMMITTEE OF PUBLIC ACCOUNTS

FIFTEENTH COMMITTEE

c Commonwealth of Australia 1986

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

DUTIES OF THE COMMITTEE

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

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

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

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

PREFACE

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 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 and should be known as the Department of Finance Minute.

As they now stand the procedures are:

1. The report of the Committee is tabled in both Houses of the Parliament and motions are moved 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(s) 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 which is 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 228th Report.

For and on behalf of the Committee.


Senator G. Georges
Chairman



M J Talberg
Secretary
Joint Parliamentary Committee of Public Accounts
Parliament House
Canberra
7 May 1986

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CHAPTER 1

OVERVIEW

Introduction

1.1 Report 228 of the Committee examined the use of the Advance to the Minister for Finance 1982-83. A summary of the report appears below. The Department of Finance Minute appears at Chapter 2.

1.2 The Committee is satisfied with the responses and undertakings offered by Departments following Report 228.

Summary of the Committee's 228th Report

1.3 The Committee presented its conclusions and recommendations arising from its examination of expenditure from the Advance to the Minister for Finance (Appropriation Acts 1982-83) in Report 228 on 17 April 1985.

1.4 The Advance to the Minister for Finance is a provision authorised by the annual Appropriation Acts and made available to the Minister. In 1982-83 amounts of \$125 million, \$100 million and \$50 million respectively were provided for this purpose in Appropriation Act Nos. 1, 2, and 3.

1.5 As a general principle, the only amounts which should remain a charge to the Appropriations for the Advance to the Minister for Finance at the end of the financial year are urgent and unforeseen expenditures which arise between the time of preparation of the additional Appropriation Bills and the close of the financial year. In its examination, the Committee seeks to ascertain whether or not expenditure from the Advance conforms to this general principle.

1.6 In 1982-83, new procedures were applied to the Committee's examination of the use of the Advance. All Departments whose applications, if accepted, would remain a charge on the Advance at the end of the financial year were required to provide sufficient supporting material to satisfy the Committee.

1.7 The Committee received statements relating to 111 items of expenditure. Supplementary material was obtained concerning 10 items, including one Department of Defence item and two Veterans Affairs items for which no explanations were offered in the applications. Three items were selected for public inquiry; these were:

- . Department of Aviation
193-2-02 Office Requisites and Equipment

- . Department of Defence
230-1-05 CMF and Cadets; and
- . Department of Transport
664-2-05 Fuel, Light and Power.

1.8 The Committee was satisfied that the use of the Advance by the Department of Aviation was appropriate. The Committee was also satisfied with the Department of Transport's explanation for the unforeseen nature of the funds required in 1982-83, but was concerned at the lack of precision in the preparation of estimates.

1.9 As a result of its public inquiry into the management and control by the Department of Defence of payments to the Citizen Military Forces, Regular Army Emergency Reserve and Officers of Cadets of the Australian Cadet Corps, the Committee found some disturbing deficiencies. Overuse of the training day allocation arose because responsible officers were not able to line up actual training days worked and payments made or due with the overall planned number of training days per head.

1.10 The control problems which permitted the excessive use of training days arose from, and were aggravated by, the lack of adequate and timely information on expenditure trends. The recently computerised pay system facilitated prompt payments of amounts due, resulting in a faster-than-expected rate of payment, but did not provide management with information for estimating purposes.

1.11 The Committee gave notice of its intention to look carefully at the Department's progress in this matter, especially given the Department's assurance that the effect of improvements would be closely monitored and further changes introduced as required.

1.12 A number of other items which remained a charge on the Advance in 1982-83 were affected by the Administrative Arrangements Orders, in particular that of 10 March 1983. Directions were made under section 35A of the Audit Act 1901 to transfer moneys between Departments in accordance with the related transfers of functions, and action to clear the outstanding warrants from the Advance in respect of some transferred functions was overlooked. This was the second occasion on which section 35A had been used, and its first use in the period leading up to Additional Estimates.

Conclusion

1.13 The main matter of concern reported by the Committee was the administration of Department of Defence item 230-1-05 - Salary and payments in the nature of Salary, CMF and Cadets. The Committee notes that since its inquiry a number of actions have been taken to improve management and control, and that the item continues to receive close scrutiny.

CHAPTER 2

DEPARTMENT OF FINANCE MINUTE

2.1 This Minute has been prepared on the basis of responses received from the Departments of Aviation, Defence and Transport.

2.2 In this chapter each of the Committee's recommendations and conclusions is reproduced in turn and is followed by the response.

BACKGROUND AND GENERAL CONCLUSIONS

The new procedures require Departments whose applications, if accepted, would remain a charge on the Advance at the end of the financial year to provide sufficient supporting material to satisfy the Committee's requirements. Despite these clear instructions the Departments of Defence Support and Veterans' Affairs did not offer any explanation with their applications. The Committee would have expected the Department of Finance to have insisted upon sufficient documentary material for it to be satisfied that an urgent and unforeseeable requirement for funds from the Advance was warranted, prior to approval being finalised. It was necessary for the Committee to request additional information.

Response by the Department of Finance

2.3 The Department of Finance provides copies of 'approved' AMF applications to the Committee on an 'as received' basis. While the detail to support the applications from departments is not always comprehensively set out in their written requests, the information held by the Department of Finance as a result of the budgetary process and/or obtained through its normal oversighting role, ensures that adequate material is available to assess applications for funds.

2.4 Additionally, the following guidelines exist to ensure that adequate information is available to satisfy the urgent and unforeseen requirement:

. Finance Circular 1981/8 outlines the conditions that apply to the issue of warrant authority from the Advance to the Minister for Finance.

An annual circular is issued to departments outlining procedures and emphasising the requirement for departments to ensure their applications contain, or are appropriately supported, by sufficient detail so as to demonstrate that the requests comply with the 'urgent' and 'unforeseen' criteria.

Departments are also required to submit adequately supported applications for funds to the Department of Finance. In some instances time constraints dictate that less than full applications are accepted and data from the Department of Finance's records is accessed to assess the merits of the case.

DEPARTMENT OF AVIATION

Office Requisites Expenditure

CONCLUSION

While the Committee is concerned that the AMF was used here for payment of routine, planned expenditure items because of early delivery, it does commend the Department for its prompt payment of the accounts.

The Committee recognises that circumstances can arise when delivery of goods and services can be accelerated and are beyond the control of the ordering authorities. However, the Committee reminds departments and authorities that in accordance with its recommendations in Report 151 and Finance Regulation 55 and Directions 8/2, 8/6, 8/7 claims for payment shall be dealt with expeditiously. The Committee remains convinced that delays in payment of accounts could cause liquidity problems for creditors. If a claim is properly due and payable and there are insufficient funds available in the appropriation, then a request for funds from the Advance should be made. The Committee is pleased that the Department of Finance has reissued guidelines (Finance Circular 1985/2) on the prompt payment of accounts (see Appendix 7).

The Committee is satisfied that the use of the Advance by the Department of Aviation in this instance was appropriate.

Response

2.5 The conclusions drawn by the Committee have been noted by the Department.

DEPARTMENT OF DEFENCE

Salary and payments in the nature of Salary, CMF and Cadets.

CONCLUSIONS

The information provided to the Committee by way of submission and public hearing highlighted some disturbing deficiencies in the administration of this item particularly associated with the inability to match expenditure of a resource with the overall balance of the allocation. The Committee appreciates that budgetary systems are becoming more rigorous and requirements more stringent as pressure is exerted to increase financial controls generally and notes the efforts being undertaken by the Department of Finance and the Public Service Board in the promulgation of the Financial Management Improvement Program (see Appendix 8). The Committee also appreciates that such changes evolve over time. However, it is concerned at the admission that procedures were disregarded and reforms to correct the problem took over a year to effect. The Committee was also concerned that the computerised pay system was not designed to provide management with information for estimating purposes.

The Committee is encouraged to hear of the Department's improved performance in managing this item. Together with the management improvements referred to earlier, there has been more dissection of the Reserve pay aggregate as a result of additional levels of detail provided by the Department of Finance ledger system. Notwithstanding, the Committee will look carefully at the progress of the Department in this matter particularly since it was given the assurance that the Department would closely monitor the effect of improvements and introduce further changes as required.

Further, the Committee is disturbed to note that the Department indicated that revised procedures introduced in November 1982 were not understood at the unit level. It remains unclear to the Committee how these modifications could both be responses to a recognised control problem and at the same time the unfamiliarity with them at the unit level be considered 'substantially' responsible for those deficiencies. It is quite apparent to the Committee that both the promulgation of procedures to unit level and the training of unit administrative cadres need to be improved.

Response

2.6 As stated in the Departmental submission before the JCPA in June 1984, new procedures and reports were introduced in 1983/84 to allow this item to be more effectively controlled through enhanced monitoring and more timely management information.

2.7 Since the hearing in June 1984 further actions have been taken to improve management and control. These include:

- a. amendment to existing instructions to improve the level of understanding of management reports from the computer pay system at unit and formation level;
- b. introduction of the requirement for units and formations to provide and update forecasts of training day usage for each month to provide a basis of assessment of progress throughout the year; and
- c. monitoring of manual reports of training day use to ensure their accuracy.

2.8 This item continues to receive close scrutiny. A detailed study of all aspects of Army Reserve administration was conducted in 1985. The report on this review recommended several further improvements which impact upon training day and financial control. The major recommendations in this category were:

- a. that certificates of attendance be introduced to tighten control and reporting of attendances by members at units other than their parent unit;
- b. that pay coupons be held by units rather than members in order to ensure reconciliation between roll book and pay documentation; and
- c. that current instructions be rewritten to improve readability and simplicity.

2.9 The effects of these measures have not yet been fully reflected in end of year performance.

DEPARTMENT OF TRANSPORT

Administrative Expenses, Fuel, Light and Power

CONCLUSIONS

The Committee was satisfied with the Department of Transport's explanation for the unforeseen nature of the funds required in 1982-83. The Committee, however, was concerned at the lack of precision in the preparation of estimates which led to the underestimation of requirements for funds for this item in both the original and Additional Estimates.

The Committee is aware of the difficulties encountered by departments when experienced staff are lost and when accounting systems have to be split, due to the reorganisation of administrative responsibilities. The Committee also welcomes the assurances of the Department of Finance that the Financial Management Improvement Program and the development of a program approach to accounting were expected to ease future transfers of elements between organisations.

Response

2.10 The department notes the background to this application namely, the need to seek funds was due to difficulties arising from changes to the Administrative Arrangements occurring in May 1982 and March 1983. The major problems which occurred were a lack of experienced staff and the availability of timely, relevant information. Notwithstanding this, the Department has taken positive action in an endeavour to overcome such problems in the future.

2.11 In 1983-84 the Department transferred to full operation on the Department of Finance's computer-based IMS Ledger System and all obligations are being recorded on that system as they are entered into. This will ensure that financial reports provided through IMS will include accurate, up-to-date information on both expenditure and outstanding obligations.

2.12 The Department also undertook a comprehensive review of its chart of accounts maintained on IMS which resulted in a completely new and improved chart of accounts being implemented for the 1984/85 financial year. The emphasis on the restructured chart of accounts was the provision of relevant and timely financial reports on a regular basis to line managers and senior management and the provision of costing data to assist in the preparation of estimates. Expenditure performance against available funds is also reviewed on a monthly basis.

2.13 The above steps have ensured that unusual or unexpected expenditure trends are detected at an early date and have provided a reliable base on which more accurate estimates can be prepared.

2.14 Recent financial reforms have also improved the situation. In particular the consolidation of administrative/operational appropriation items has provided the Department with greater flexibility in the management of available funds.

2.15 Additionally, revised delegations have been approved to the Department of Transport under Finance Direction 48C permitting a more adequate quantity of supplies to be procured.

M S KEATING
SECRETARY
Department of Finance