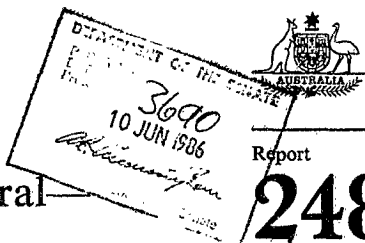


Report of the
Auditor-General
April 1985



Report

248

Joint Committee of
Public Accounts



THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA
JOINT COMMITTEE OF PUBLIC ACCOUNTS

REPORT 248

REPORT OF THE AUDITOR-GENERAL - APRIL 1985

Australian Government Publishing Service
CANBERRA 1986

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FIFTEENTH COMMITTEE

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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

This Report comments upon the responses of the Departments and Authorities to criticisms raised by the Auditor-General in his report of April 1985. Conclusions drawn by the Committee reflect remedial action taken or proposed to be taken in addressing those criticisms.

During the currency of the examination of the Auditor-General's Report of April 1985 on audits completed the Auditor-General presented an annual report for 1984-85 on his operations. This was the first time the Auditor-General had reported in this manner. The report referred to, amongst other things, a number of issues concerning the role and proper function of the Auditor-General, particularly his relationship with the Executive. The Committee looks forward in the near future to a discussion with the Auditor-General on these matters.

For and on behalf of the Committee.

Senator G Georges
Chairman

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

28 May 1986

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CHAPTER 1

INTRODUCTION

General

1.1 Each year the Committee examines published reports of the Auditor-General. Following the tabling of the Report of the Auditor-General - April 1985, the Committee sought written submissions from 10 Departments and 5 Statutory Authorities in respect of the 22 items listed in Appendix A.

1.2 Further information and clarification by way of supplementary submissions, was sought from 6 Departments and 1 Statutory Authority.

1.3 A copy of all submissions received by the Committee is included at Appendix B.

1.4 The following submissions were referred by the Committee to Sectional Committees for examination in the context of other inquiries:

- Department of Defence

Pave Tack Target Designation System (referred to the Defence Project Management Sectional Committee)

- Department of Health

Central Register of Medical Practitioners (referred to Medical Fraud and Overservicing Sectional Committee and mentioned in the Committee's Report 236);

- Department of Veterans' Affairs

National Computer Centre (referred to Automatic Data Processing Committee and will be reported in the context of the Department's acquisition of computers for Repatriation Hospitals, Report 249).

1.5 In consultation with the Senate Standing Committee on Education and the Arts, the Committee agreed to refer the submission from the Australian National Gallery to that Committee in connection with that Committee's inquiry into the 1983-84 Annual Report of the Australian National Gallery.

1.6 This report (248) is a departure from the usual practice of the Committee. Due to an increasing workload and the delay in commencing the review, the Committee decided that Parliament's attention should be drawn to the salient features of the Auditor-General's Report. Consequently, the principal matters on which the Committee sought comment are addressed in the next chapter. No public hearings were held on any of these matters.

Overview of the Auditor-General's Report

1.7 The Auditor-General now reports twice each year on audits undertaken. In addition separate reports are made throughout the year on efficiency audits performed by the Auditor-General, and annual reports on the Financial Statements and his activities.

1.8 The Auditor-General's April 1985 Report, tabled in Parliament on 16 April 1985, details audits that were completed on 23 departments and 46 statutory authorities and companies. The audits covered 125 separate matters, the most significant of which the Committee sought submissions and supplementary information. The Auditor-General reported only 8 audits which he regarded as satisfactory.

1.9 In addition, the Auditor-General drew particular attention to the status of Financial Statements. He listed 29 organisations which balanced prior to 31 December 1984, the longest outstanding being the Australian Capital Territory Transport Trust Account.

CHAPTER 2

DEPARTMENTAL SUBMISSIONS

DEPARTMENT OF COMMUNITY SERVICES

Children's Services Program

2.1 The Auditor-General in his Report of March 1984 referred to a number of special equipment grants made to organisations under the Children's Services Program in June 1983. Reference was made to the accelerated nature of the payments, which aggregated \$3.4 million, a departure from normal procedures followed by the then Department of Social Security effecting the payments without equipment proposals from the organisations and a possible breach of legislation, in respect of which that Department was seeking a legal opinion.

2.2 The audit referred to here, assessed the adequacy of Departmental actions in ensuring that expenditure control was maintained in these cases. Audit noted that the Attorney-General's Department supported Audit's own view that the making of the equipment grants in June 1983 and the associated approvals did not conform with the provisions of the Child Care Act 1972.

2.3 The Auditor-General expressed concern at the Department's slow response to recover the expenditure after being advised of the illegality of the payments. Furthermore, it was revealed that there had not been time limits specified by the Department for the acquittance of the special grants.

Departmental Response

2.4 The Department acknowledged the legal advice provided by the Attorney-General's Department and accepts that it was in breach of the legislation. In its submission, the Department stated that approximately fifty percent of the grants approved were in fact for organisations funded outside the Act.

2.5 Remedial action has been taken to tighten controls over the receipt of acquittances for all grants. Notwithstanding this, a small number are still outstanding. No action has been taken to date in relation to the waiver provisions of the Audit Act.

Conclusion

2.6 The Committee is concerned at the breach of legislation and poor financial control over the acquittances of grants. The Committee notes the efforts of the Department in addressing the Auditor-General's criticisms.

2.7 The Committee will be looking for continued improvements in the procedures adopted by the Department in issuing grants to eligible organisations under the Children's Services Program.

DEPARTMENT OF DEFENCE

Pave Tack Target Designation System

2.8 Pave Tack is a target acquisition, designation and tracking system being procured by the RAAF for its F111 aircraft. It consists of a pod with associated cockpit controls and displays and employs an infra-red sensor, laser designation and range finder. Pave Tack is intended to provide a day and night capability for stand off weapon delivery with a better accuracy than was previously available. Procurement was arranged under the Foreign Military Sales arrangements through the United States Air Force and provides for the purchase of 10 interchangeable Pave Tack pods and the modification of 20 F111 aircraft.

2.9 The audit encompassed a review of the planning, execution and review processes taken by the Department to ensure that it received a system that performs to its desired specifications within the defined time and cost limits.

2.10 Audit concluded that whilst the procurement of the Pave Tack System is progressing within the revised acquisition time and estimated cost at the time of audit of \$161.6 million, the contractual arrangements could have provided a greater assurance that the system would perform accurately when contractual obligations were finalised.

Departmental Response and Conclusion

2.11 The Committee decided that in view of the relevance of the procurement of the Pave Tack System to other matters under review by the Sectional Committee on Defence Project Management, the Department's submission should be referred to that Committee for their consideration. The Committee has therefore decided not to examine the Department's response in the context of this Report.

DEPARTMENT OF EMPLOYMENT AND INDUSTRIAL RELATIONS

Wage Pause Program

2.12 The Special Employment-related Programs Act 1982 provided for the expenditure of up to \$200 million through a Wage Pause Program of public sector job creation. The money partly represented the expected savings from the 12 month suspension of salary increases for Commonwealth employees under the salaries and wages pause legislation.

2.13 Under the established guidelines the States were required to submit employment projects to the Department of Employment and Industrial Relations and, if considered suitable, details were forwarded to the Minister for Finance for approval. The guidelines provided for funds to be made available monthly from January 1983 and to be completed by 30 June 1984. Projects which were to receive consideration for approval were required to be labour intensive and promote greater equality of opportunity, particularly for the long term unemployed.

2.14 The audit review of the scheme sought to establish whether procedures introduced to administer the program within the area of Commonwealth responsibilities were consistent with the aims and objectives. In his Report, the Auditor-General detailed his findings together with the responses he sought from both the Department of Employment and Industrial Relations and the Department of Finance. In summary, the matters of concern identified were as follows:

- in some States, approved projects were subsequently varied without Commonwealth involvement;
- program objectives in respect of target employment groups were not always achieved;
- by July 1983, quarterly reports from the States showed that very little of the funds had actually been expended, indicating that moneys had been made available well in advance of requirements;
- in one instance the State of Victoria sought to transfer funds designated for the Wage Pause Program to a State-funded employment program, with the approval of the Minister for Employment and Industrial Relations, but not the Minister for Finance; and
- neither the Department of Employment and Industrial Relations nor the Department of Finance made provisions concerning the ownership of assets at the conclusion of various projects.

Departmental Responses

2.15 As mentioned previously, both the Departments of Employment and Industrial Relations and Finance made responses to audit findings at the Auditor-General's request. Departmental submissions received and examined by the Committee did not reveal any substantial additional information. Concluding remarks drawn from those submissions are summarised as follows:

• Employment and Industrial Relations

the Department, whilst strongly defending its role and function in the Wage Pause Program, did indicate a need for prior agreement to, and formalisation of, respective roles when joint administrative activities are undertaken; and

• Finance

the Department concluded that the division of administrative responsibility leads to inferior administration. Furthermore, while the problems highlighted by audit would have been reduced had the relationship between the two Departments been addressed more closely and defined more formally, the genesis of much of the problem rested in the nature of the actual administrative arrangements decided for this program.

Committee Comment

2.16 The Committee notes that both Departments agree in part with the Auditor-General's summary of his findings. The Committee is concerned by the administrative difficulties which developed following hasty implementation of the Wage Pause Program, in particular the inadequacy of interdepartmental co-ordination.

2.17 In view of this concern and the fact that this program ceased in mid-1984, the Committee sought supplementary submissions from both Employment and Industrial Relations and Finance with respect to another similar employment program, the Community Employment Program. Whilst this program was not subject to audit, the Committee considered it important to assess the administrative arrangements governing it.

2.18 Specifically, the Committee sought information on the following:

- legislative responsibility for the financial administration of program funds;
- division of responsibilities between the Commonwealth and the States;
- arrangements for approval of projects;
- program targets and objectives;
- procedures for evaluating program effectiveness;
- method of selection of program participants; and
- statistical information.

Departmental Responses in Relation to the Community Employment Program

2.19 From the respective Departmental submissions it is clear that the administrative and financial arrangements for the Community Employment Program differ quite markedly from those applying to the Wage Pause Program. In particular, the Minister for Finance has limited executive responsibilities and the Minister for Employment and Industrial Relations clearly has carriage of the legislation and program administration. Clearer working guidelines and funding through annual appropriations has, to a large degree, clarified the obligations and responsibilities of agencies concerned.

Conclusion

2.20 Whilst the Committee recognises that there are some administrative difficulties in Government programs which involve more than one Commonwealth department together with State organisations, it does not consider this an excuse for inadequate communication and co-ordination. It is clear that greater effort is necessary in such situations to ensure that the program objectives are met and monitored in a formal manner.

2.21 The Committee wishes to draw to the Departments' attention the conclusions and findings in its reports 213¹ and 246² on income maintenance programs. Specifically, Chapter 7 of Report 213 draws attention to

- co-ordination
- legislation
- program management and evaluation.

2.22 The Committee understands that the Auditor-General is likely to report on the Community Employment Program in September 1986 or March 1987.

Adult Wage Subsidy Scheme

2.23 The aim of the Adult Wage Subsidy Scheme is to provide a period of stable employment for long term unemployed adult job seekers by making available a wage subsidy to prospective employers of such persons.

2.24 Its target group is those who have been unable to re-establish themselves in employment and whom the Commonwealth Employment Service (CES) has been unable to assist.

2.25 The scheme was introduced in March 1983 and for the year 1983/84 \$23.2 million was expended in providing assistance to 15,300 people.

1. Joint Parliamentary Committee of Public Accounts, Income Maintenance Programs (Report 213), Volumes 1 and 2, AGPS, Canberra, 1983
2. Joint Parliamentary Committee of Public Accounts, Income Maintenance Programs - Response to Report 213 (Report 246), AGPS, Canberra, 1986

2.26 An audit of the scheme was undertaken in New South Wales with the objective of examining and analysing the operation and management involved. The audit found, in summary, that:

- records maintained at CBS offices in respect of job seekers did not highlight salient work history information, eligibility status for the Adult Wage Subsidy Scheme, and current status regarding monitoring of job seeker placement;
- a high incidence of cases where the Department was paying subsidies under the scheme to ineligible employers; and
- the Department's records appeared inadequate to identify target groups for assistance.

Departmental Response

2.27 The Department's submission stated that remedial action had been taken in some areas. It acknowledged that the current manual recording system is not always satisfactorily maintained but added that improvements were envisaged with the proposed introduction of the Job Seeker computer system. This system, it stated, will facilitate the identification of eligible job seekers and matching against vacancies.

2.28 The submission also referred to the Kirby Report recommendation that the Adult Wage Subsidy Scheme be included in an integrated and rationalised wage subsidy program. To this end, the Committee sought a further submission from the Department after the Government's response to the Kirby Report was finalised.

2.29 The Department's supplementary submission advised that the Adult Wage Subsidy Scheme was integrated to form a new program called Jobstart, effective from 1 December 1985. The Department stated that, in developing this new program, special attention was given to identifying target groups of job seekers in need of assistance.

Conclusion

2.30 The Committee concludes that poor administration by the Department resulted in unjustified expenditure and ineffective identification of job seekers. The Committee does not accept that a computer system is necessary to overcome inaccurate records and prompt matching of job seekers against vacancies.

2.31 The Committee does however concede that the acquisition of the Job Seeker computer system, currently under inquiry by this Committee, can enhance significantly the administration of employment programs. Preliminary conclusions indicate that it may be some time before the full benefits are realised.

DEPARTMENT OF FINANCE

Commonwealth Superannuation Scheme - Employer Contributions by Approved Authorities or Other Bodies

2.32 The Commonwealth Superannuation Scheme is a multi-employer scheme which covers Commonwealth employees and staff employed by some 80 other employers called 'approved authorities'.

2.33 Provision is made under Section 159 of the Superannuation Act 1986 to ensure that authorities employing staff whose superannuation benefits are provided under the Act meet their share of the cost of providing those benefits. That section also empowers the Minister for Finance to enter into arrangements with authorities for payments to be made to the Commonwealth by one of the methods described below:

- emerging cost

the authority reimburses the Commonwealth for the cost of benefits as they are paid and is required to pay each fortnight an amount equal to the employers' share paid out of the Consolidated Revenue Fund to eligible past employees of that authority in that fortnight.

- pay-as-you-go

this method is the more common arrangement and requires Authorities to pay the Commonwealth fortnightly a percentage of their total salaries for superannuation purposes. This percentage is based upon actuarial assessment of the authorities' superannuation liability and is intended to be sufficient to cover the employers' share of the estimated cost of future superannuation payments in respect of the authorities' staff.

2.34 Criticisms of the effectiveness of the Department's administration of payments under the abovementioned arrangements and the effectiveness of its overall control and accounting procedures, were originally reported in the Auditor-General's September 1984 Report. This Committee noted in its Report on that Report of the Auditor-General³ that the Department had not responded at that time to Audit's request for advice. The Auditor-General's Report of April 1985, however, summarised the Department's response. A summary of further representations together with responses were provided in the September 1985 and March 1986 Reports.

2.35 Audit comments as at March 1986 referred to the following matters still being monitored:

3. Joint Parliamentary Committee of Public Accounts, Report of the Auditor-General - September 1984 (Report 241), AGPS, Canberra, 1985

- audit noted that the Department has developed a computer based system to strengthen its control over authorities' contributions;
- audit noted that the Government has now decided that authorities are to pay off deficits or receive benefits of surpluses in respect of contributions paid since 1 July 1976. The Department had advised Audit of its intention to seek actuarial investigations to arrange adjustment to rates;
- the Department advised of its further consideration to the manner in which details of authorities' superannuation arrangements are to be disclosed in their financial statements; and
- audit noted continued inconsistencies in the Department's accounting methods applied to receipt of employer contributions.

Departmental Response

2.36 Comments here include those detailed by the Department in its supplementary submission of April 1986:

- the Department stated that the computer-based system is now in the early stages of operation. During this 'bedding-down' of the system, manual checking of the timeliness of the contributions paid by authorities is continuing. The Department has requested authorities to provide explanations of any discrepancies between the amount of employer contribution estimated as due in 1984/85 and the amount paid. Analysis of reasons for discrepancies will assist in refining tolerances built into the computer system;
- action has been taken, where necessary, to adjust on-going contribution rates being paid by authorities. Further, the Actuary is currently compiling a report on the revised contribution rates for implementation from 1 July 1986;
- the Minister for Finance has approved amendments to the accounting guidelines requiring greater disclosure of superannuation arrangements by authorities; and
- examination of the accounting methods for treating receipts of contributions has been completed and as from 1 July 1986, payments from both 'emerging cost' and 'pay-as-you-go' authorities will be treated as receipts.

Conclusion

2.37 Eighteen months have elapsed since the Department was first requested to respond to the Auditor-General's criticisms. The Committee considers that many of the matters ought to have been addressed far sooner than they were. The Committee endorses the remedial action taken to satisfy audit requirements for improved control and accounting procedures of employer contributions.

DEPARTMENT OF HEALTH

National Acoustic Laboratories

2.38 The Acoustic Laboratories Act 1984 provides that the Minister for Health may establish, maintain and operate acoustic laboratories and that their general administration be the responsibility of the Department of Health. The functions of the National Acoustic Laboratories include:

- the provision of audiological services, including hearing aids to eligible persons; and
- the conduct of scientific investigation into hearing, including the design and testing of hearing aids, and the effects of noise on people.

2.39 The National Acoustic Laboratories comprise a central laboratory in Sydney and approximately 30 hearing centres throughout Australia, employing approximately 430 staff. The services of the Laboratories, which are provided through the hearing centres, include:

- audiological assessment;
- ear, nose and throat consultations;
- selection, fitting and maintenance of hearing aids, including supply of batteries; and
- rehabilitation and after care.

2.40 During 1984 an audit was conducted at the Adelaide Hearing Centre with the principal objective of assessing the adequacy and reliability of hearing centre systems and procedures supporting the delivery of approved services to eligible persons. The audit disclosed that in certain areas the Laboratories were unable to achieve a satisfactory level and standard of service. Major causes were identified as the inability to provide sufficient staff resources for the extent of the task attempted, failure to monitor some critical standards and a lack of clear direction from the Central Laboratory and the Department's Central Office.

Departmental Response

2.41 The Department in their submission to the Committee detailed remedial action taken in response to the Auditor-General's findings. The more important areas now addressed are:

- staff recruited in 1984-85 have now completed necessary in-house training and are fully operational. This has significantly reduced patient waiting time from between 9 and 11 months for new case adult pensioner appointments to 3 months. This period is considered acceptable under existing Departmental policy;
- the priorities adopted by the Adelaide Hearing Centre for treating the various categories of clients is now in accordance with approved Departmental policy;
- the Centre has established mechanisms to ensure that correct instrument calibration and maintenance practices are complied with; and
- a stocktake of equipment and hearing aids has been effected and an official assets register compiled to increase staff accountability and control over stock.

Conclusion

2.42 The Committee concludes that the unsatisfactory matters referred to by the Auditor-General have now been addressed by the Department. The Committee notes that there has been an increase in staff allocated to the Laboratories, a rationalisation of priorities and development of new management procedures. The Committee understands that these arrangements will result in a more effective standard of service being provided to clients. The Committee notes that the House of Representatives Standing Committee on Expenditure is currently undertaking a review into the National Acoustic Laboratories.

Central Register of Medical Practitioners

2.43 To assist in the correct identification of the provider of medical and pharmaceutical services for purposes of payment of Commonwealth medical and pharmaceutical benefits, the Department maintains a Central Register of Medical Practitioners. CROMP information is used, among other things, for investigating medical fraud and overservicing.

2.44 An audit of the operation of the Register through the South Australian Regional Office of the Department was completed during 1984. Principal audit findings were:

- a lack of centrally approved instructions for the operation and update of the Register;
- a lack of control to minimise the risk of payments being made to unauthorised persons; and
- poor communication with Central Office resulting in a lack of understanding of changes made to the data base.

Departmental Response and Conclusion

2.45 The submission received from the Department was referred to the Sectional Committee on Medical Fraud and Overservicing and mentioned in the Committee's Report 236.

DEPARTMENT OF HOUSING AND CONSTRUCTION

Payments to States For Housing Assistance

2.46 The Housing Assistance Act 1981 authorises the execution of the 1981 Housing Agreement (the Agreement) which sets out the terms and conditions under which the Commonwealth provides grants and loans to the States and the Northern Territory for home purchase and rental housing assistance.

2.47 An audit of housing assistance payments to the States was undertaken during 1984 with the objective of evaluating whether departmental procedures ensured that the payments were in accordance with the provisions of the Act and the Agreement and were for the purposes specified.

2.48 Whilst the Auditor-General reported that generally a satisfactory position had been disclosed, it was found however that a number of financial statements required to be furnished by the States in accordance with the Agreement had been outstanding for considerable periods of time.

Departmental Response

2.49 The Department detailed action taken to obtain all outstanding financial statements and has implemented a system to remind the States in June and October each year of the requirement for the Statements.

2.50 The Department stated that it is satisfied that the financial statements for 1981-82 and 1982-83, which were outstanding at the time of Audit, show that the States and the Northern Territory used their funds in accordance with the Agreement.

2.51 As a further measure to enhance the financial accountability of the States and the manner in which they use their funds, the Department has now developed standardised financial statements.

Conclusion

2.52 The Committee is satisfied that the Department has taken sufficient action to ensure continual compliance by the States and the Northern Territory with respect to the Commonwealth-State Housing Agreement.

DEPARTMENT OF IMMIGRATION AND ETHNIC AFFAIRS

Refugee and Special Humanitarian Programs

2.53 The Department of Immigration and Ethnic Affairs administers Government policy and programs which permit entry of refugees and people facing human rights difficulties.

2.54 The Special Humanitarian Program enables the Government to respond to people facing human rights difficulties who, for one reason or another, are ineligible for refugee entry to Australia. Applications are considered on a case-by-case basis.

2.55 The Auditor-General examined the administration of the refugee and special humanitarian programs and identified areas warranting improvement. The Department's response at the time of audit satisfied all but the following matters:

- . audit suggested that the Department modify the application form used to assess overseas based applicants by using simplified language to explain the United Nations definition of a refugee;
- . a Departmental review in 1983 identified administrative problems faced by the Determination of Refugee Status Committee Secretariat. Audit expressed concern that the Department had not taken action to implement the recommendations of that review;
- . audit noted that, at the Sydney Regional Office, delays in processing occurred when staff with Determination of Refugee Status Secretariat duties were not always been replaced while on leave;
- . audit expressed concern at the instances of breakdown in care arrangements for refugee children resulting from poor initial assessment of the child's proposed sponsor; and

- . records examined by Audit indicated that the occupancy of migrant centres had declined significantly over recent years and that the centres now constitute an under-utilised asset.

Departmental Response

2.56 The Department responded to the outstanding matters and was able to report action taken on most items as follows:

- . the Department's submission stated that a new application form using simplified language had been drafted. The Department has since advised that the new application form has now been included in a refugee handbook;
- . the administrative procedures relating to the Determination of Refugee Status Committee have been addressed and a more efficient Secretariat is now able to better service the Committee process;
- . in order to speed up processing in the Sydney Regional Office, Canberra-based staff now travel to Sydney to conduct interviews;
- . the Government approved in May 1985 a new Departmental policy enabling a cost-sharing program with State governments to provide supervision and support for all refugee minors without parents in Australia. Systematic caseworker follow-up of minors under this program should strengthen care arrangements and ensure early intervention where breakdown still occurs; and
- . the Department's submission stated that a Cabinet Submission involving a rationalisation of existing migrant accommodation, was shortly to be considered by the Government. The Department has advised that Cabinet has agreed to that submission and migrant centres at Darwin, Hobart, Melbourne and Sydney have now been closed. The migrant centre at Adelaide is undergoing refurbishment and that further proposals for other migrant centres are to be submitted to Cabinet in due course.

Conclusion

2.57 The Committee notes the efforts of the Department in addressing the areas of concern raised by the Auditor General. The Committee will be looking for evidence of continued improvement in future audits.

DEPARTMENT OF SOCIAL SECURITY

Family Allowance

2.58 Under the provision of Part VI of the Social Security Act 1947 an allowance is payable to a person or institution having the custody, care and control of a child, subject to age and residential qualifications. The allowance may continue to be paid in respect of a dependent student child to the age of 25 years.

2.59 Audits of the payment of the family allowance system were carried out in South Australia at three Regional Offices, State Headquarters and in the Central Office of the Department. The objectives of the Audit were to review the adequacy and effectiveness of procedures and controls in respect of family allowance payments including those made under the institutional payment system.

2.60 There existed an error rate in excess of 2% in payment of family allowance to persons in receipt of unemployment benefit. Audit recommended that the Department carry out ongoing selective tests of unemployment benefit recipients under 25 years of age against family allowance records so that the need for such continuing checks can be gauged on a national basis.

2.61 Audit also commented on the continued disclosure of unsatisfactory matters in relation to output monitoring procedures and control weaknesses over the receipt and actioning of advices on education allowances received from the Department of Education.

Departmental Response

2.62 Many of the problems highlighted by Audit will be remedied by the proposed introduction of STRATPLAN, the Department's computer acquisition program. However, until STRATPLAN is universally operable in 1987, the Department advises that it is giving attention to the problem by selectively reviewing cases from both the unemployment benefit and family allowance files which meet certain criteria to identify those with a higher than average risk of incorrect payment.

Conclusion

2.63 The Committee notes that the Department has instituted a limited review mechanism but is concerned that it does not go as far as the Audit recommendation of a system of ongoing selective tests. The Committee recognises that the introduction of STRATPLAN will speed up the review process.

Family Income Supplement

2.64 The family income supplement is payable in respect of each child under 16 years or dependent full-time student aged 16-24 years inclusive, for whom other forms of income support are not payable. Audits were undertaken at selected regional offices in Victoria and New South Wales to evaluate the Department's administration of the program, from the development of policy guidelines and the promulgation of instructions and procedures, to its implementation at State Headquarters and regional office levels.

2.65 The major problem highlighted by Audit was the potential for income manipulation for purposes of assessment for eligibility for receipt of benefits under the Family Income Supplement program, particularly in respect of claimants whose rates of income could fluctuate significantly. Audit commented that the Department should explore more fully the cost effectiveness of establishing procedures for the periodic selective review of income levels of claimants during periods of eligibility for this allowance.

Departmental Response

2.66 The Department has advised that a review of the adequacy of its procedures will be undertaken in order to assess the size of any problem which may exist. An assessor's manual is also in preparation, for introduction in early 1985-86.

Conclusions

2.67 The Committee is concerned that the Family Income Supplement eligibility criteria are either not sufficiently assessed at point of application or not reviewed for continuation of the allowance for further periods. The Committee feels that procedures for verifying and reviewing income for eligibility purposes need to be strengthened.

Recovery of Overpayments

2.68 An audit of debt control procedures in the Northern Territory at that State Headquarters and two regional offices was undertaken. The objective was to review the adequacy of departmental action in the detection, recording and recovery of amounts overpaid.

2.69 Problems were identified in the identification and control of possible and apparent overpayments, control of debts, monitoring of reports produced by ADP for purposes of debt control, maintenance of overpayment files and procedures for checking and withholding unrecovered overpayments when applicants reapplied for benefits.

2.70 Audit commented that the continued level of unsatisfactory findings in relation to the recovery of overpayments is of concern. Although a national review of departmental debt recovery methods had recommended certain remedial measures, the impact of those recommendations was not evident in the audit.

Departmental Response

2.71 Recent initiatives advised by the Department to improve their recovery of overpayments performance are:

- management changes to afford the debt recovery function a more meaningful focus and an increased priority;
- procedural and systems improvements;
- the adoption of direct credit as the prime mode of paying individual entitlements;
- development of a Quality Assurance Package for regional managers; and
- the continuing development and refinement of benefit control techniques which are largely computer based.

2.72 The Department also referred to the constraint it faces in the setting of repayment rates. These are set in accordance with the client's ability to repay, which is generally low.

Conclusion

2.73 The Committee is very concerned that Audit findings in the area of debt recovery continue to reveal either inadequate procedures or non-compliance with certain procedures.

2.74 The Committee recognises that many of the problems currently being experienced will be alleviated by the introduction of STRATPLAN, and agrees with Audit that the development of a national index of overpayment cases, or cross matching facility, should receive some priority in STRATPLAN developments. The Committee reminds Departments of its findings in Reports 213⁴ and 246⁵ and will continue to monitor the Departments activities in this area.

Double Orphans' Pensions

2.75 A pension in addition to family allowance may be paid to the person or institution who has the custody, care and control of a child, both of whose parents are dead, or of a refugee child.

2.76 Following an audit to evaluate the administration of the program, Audit commented, inter alia, on the practice by the Department of effecting a change in entitlements at the beginning of a subsequent period, as opposed to on the date the claimant's circumstances had changed. In Audit's view where legislation is specific on such a matter, as the Social Security Act is, the provisions should be complied with or amendments to the legislation sought, should other arrangements seem more practicable.

Departmental Response

2.77 The Department has agreed to consider recommending amendment of the legislation to provide that eligibility will cease at the end of the relevant period or from an earlier date in special circumstances.

Conclusion

2.78 The Committee recommends that this course be pursued in order to comply with the legislation and to maintain the flexibility required by the Department.

DEPARTMENT OF TERRITORIES

Administration of the Commissioner for Housing Loans Scheme.

2.79 On 10 September 1984 the Minister for Finance, pursuant to concern expressed by Cabinet about the management of funds in the Scheme, requested the Auditor-General to perform an audit of the recent operations of the scheme in the light of recent over-commitment of funds.

2.80 Under the Housing Ordinance 1928 the Commissioner for Housing may, subject to the control of the Minister for Territories, administer schemes for providing or assisting in providing dwellings in the Australian Capital Territory (A.C.T.). In particular, under the Commissioner for Housing Loans Scheme, the Commissioner may grant loans to assist an eligible person or persons to buy or build a dwelling in the A.C.T. or to discharge an existing mortgage on such a dwelling. The Commissioner may also acquire dwelling houses and Crown leases for the purposes of the Ordinance.

2.81 Financial transactions reflecting the operations of the Scheme are recorded in the A.C.T. Housing Trust Account. During 1983-84 credits to the Trust Account totalled \$43.594 million. Outgoings of \$43.242 million in that year included \$18,084 million loaned to borrowers, \$19,459 million paid in interest to the Consolidated Revenue Fund and \$4.25 million outlaid for the purchase of residences for the rental program.

2.82 During April 1984 the Department of Territories foresaw that not all funds available for Housing would be spent in the 1983-84 financial year. The Department decided to apply the funds by:

4. JPCPA Report 213, op.cit
5. JPCPA Report 246, op.cit

- stimulating demand for loans, and
- purchasing properties for the purpose of providing rental accommodation for needy persons.

2.83 As a result of the above an over-commitment of funds occurred, requiring the Department to request approval from the Department of Finance for \$6.7 million to be made available in July 1984, in anticipation of funds being appropriated for 1984-85, from the Advance to the Minister for Finance (AMF). An amount of \$15.5 million had been sought by the Department in the financial year 1983-84 for 1984-85. Only \$8.5 million was approved. The government agreed that additional funds would be appropriated to cover an estimated shortfall of \$7.9 million, with a requirement for offsetting savings in the portfolio.

Audit Findings

2.84 1. In summary, the over-commitment of funds occurred as a result of:

- payments amounting to \$4.25 million for property purchases;
 - the media statement of 10 May 1984 and subsequent decisions which greatly increased the demand for loans;
 - operating procedures which were not adequate to control commitments, or provide reliable information on the extent of commitments made;
 - insufficient action taken to monitor and control the effects of substantial changes which occurred in the Scheme subsequent to May 1984, (the request for funds from the AMF should have prompted an immediate and detailed study of the extent of over-commitment of funds); and
 - detailed commitment information was not used as a basis for a submission for the 1984-85 Budget bids.
2. The Housing Trust Account was over-expended from 4 July 1984 to 18 July 1984 in breach of s34 of the Audit Act. Under the provisions of the Audit Act the Authorising Officer of a department has a responsibility to ensure that funds are available to meet accounts processed for payment and where accounts are chargeable to a trust account there must be a credit balance in the trust account sufficient to meet them.

3. There were deficiencies in the system for controlling commitments, specifically:

- in procedures followed when approving loans;
- inadequate records of commitments and unsatisfactory procedures for checking funds availability;
- weaknesses in the mechanisms used by Housing Branch to monitor availability of funds in the Trust Account; and

4. Audit found the estimated shortfall of \$7.9 million in funds to be unreliable.

2.85 In addition, irregularities occurred in the Spot Purchase Scheme for purchase of rental properties, with money being paid in advance of requirements and from the Trust Account. Advice received by the Department from the Australian Government Solicitor regarding the legality of the purchase indicates that the purchase of the properties was not a lawful use of Trust Account funds. The Department is currently considering the most appropriate course of action to be taken in the circumstances.

2.86 Audit concluded that the funding difficulties arose from the failure of the Department of Territories to record Stage 1 approvals as legal commitments and to serious deficiencies firstly, in records maintained by both the Housing and the Finance and Supply Branches and secondly, in procedures followed by both Branches in funding requisitions and in making payments to applicants for loans.

Departmental Response

2.87 The Department has now instituted amended procedures and practices in order to eliminate any future problems with over-commitment of funds. The measures taken include:

- the introduction of new reporting mechanisms on a weekly and monthly basis;
- procedures for control of commitments;
- availability of detailed commitment information for estimating purposes; and
- daily, weekly and monthly monitoring of funds in the Housing Trust Account.

2.88 Further, the Department has implemented a range of measures to improve the financial and administrative procedures and staffing arrangements of Housing Branch. These amended procedures and arrangements implement many of the recommendations

of the joint review of the Scheme by the Public Service Board and the Department, conducted during September 1984, and of the Fisher review, conducted during the first half of 1985. The Steering Committee for Housing loans is continuing to meet on a regular basis to implement the longer term recommendations of the joint review report and will continue to do so until all items are satisfactorily completed.

Conclusion

2.89 The Committee notes Audit's comment that these amended systems and procedures should eliminate future problems. However the Committee will continue to monitor the Department's operation of the Scheme and subject the matter to further review.

DEPARTMENT OF VETERANS' AFFAIRS

National Computer Centre

2.90 The Department of Veterans' Affairs relies heavily on ADP systems to maintain its day to day operations. Processing is centralised at a National Computer Centre located in Sydney and payments through the Centre in respect of Repatriation pensions and allowances in 1983-84 totalled \$2024 million. An audit of the Centre was undertaken towards the end of 1984 with the objective of evaluating the adequacy of physical security and the effectiveness of controls over operations.

2.91 The audit disclosed major unsatisfactory aspects, viz:

- poor physical security and security procedures;
- unsatisfactory fire precautions;
- poor security of information;
- major deficiencies in operational procedures and security; and
- computer software change control procedures for applications and system software changes were considered inadequate, as was control over file changes.

Departmental Response

2.92 The Department advised that action has commenced to upgrade and relocate the Department's central computer facility. The security upgrade was commenced and the reorganisation of management staff was completed.

Conclusion

2.93 A sectional-committee of the Public Accounts Committee has held a major inquiry into a major acquisition of computing equipment for the Department of Veterans' Affairs and will be reporting separately (Report 249).

Pension Overpayment and Other Debtors

2.94 The September 1984 Auditor-General's Report referred to an audit carried out at offices of the Department to assess the reliability and effectiveness of departmental procedures for control and recovery of overpayments and other debts due to the Department, and to establish whether the procedures being followed complied with the relevant legislation and instructions.

2.95 In October 1984 Audit sought further advice from the Department relating to dual payments of pensions and debt recovery measures. In the April 1985 Report Audit expressed its concern that the role of Central Office in monitoring standards of debtor control in the Branch Offices had still not been expanded, a control group to provide monitoring and more effective participation had not been established and little had been done to review existing practices and procedures.

Departmental Response

2.96 The results of a computer matching exercise completed in 1984 showed only 7 cases (totalling \$35,834) of dual payment of social security pensions and benefits with disability and service pensions.

2.97 Further the Department has now established a 'Pension Control Group' and the backlog of Branch Office waiver and write off submissions has been eliminated. The Department advises that it has commenced a review of all aspects of pension overpayments procedures addressing cause, corrective measures, revision of procedures and General Orders, and recovery, write off or waiver of debts.

Conclusion

2.98 The Committee notes that the incidence of dual payments is no longer a significant problem, given that a review of other debt recovery procedures has also been carried out. Recommendations on proposed changes are to be submitted shortly to the Repatriation Commission and the Committee notes that the Department's actions may redress the deficiencies noted by the Auditor-General.

AUSSAT PTY LTD

Overdrawn Bank Accounts

2.99 Aussat Pty Ltd is a company limited by shares whose primary objective is to carry on the business, in accordance with sound commercial principles, of providing a telecommunications system for Australia by the use of space satellites, and of providing space satellite facilities for use in telecommunications systems for neighbouring regions.

2.100 Clause 3(3) of the Company's Memorandum of Association provides that the Company may borrow money subject to the Treasurer's approval. However during 1983-84 the Company had overdrawings on several occasions, amounting to a maximum level of \$503 944 without the Treasurer's approval.

Conclusion

2.101 The Committee notes that approval has now been sought and obtained from the Treasurer for an overnight accommodation facility of A\$10million.

AUSTRALIAN NATIONAL AIRLINES COMMISSION

Freight Revenue

2.102 The Australian National Airlines Commission, which trades as Trans Australia Airlines, underwent an audit of its accounts and records for the year ended 30 June 1984. The most significant aspect was Audit's comment in relation to freight revenue and the lack of independent checks by the Commission to ensure that all freight revenue had been brought to account. The Commission had investigated an improved cargo accounting system based on a computerised application but had concluded that, the weaknesses inherent in the existing systems notwithstanding, the cost of tightening control in line with overseas methods was prohibitive and would outweigh any benefits that might be achieved.

Conclusion

2.103 Further advice from Audit indicates that the control system employed by the Commission in the freight revenue system equates with transport industry standards. An examination of the freight revenue system undertaken during the 1984-85 interim audit had not disclosed any instances of lost revenue for cargo and Audit has advised that their Office now considered the Commission's practices concerning freight revenue to be appropriate.

AUSTRALIAN NATIONAL GALLERY

Financial Records and Transactions

2.104 The records and transactions of the Australian National Gallery for the year ended 30 June 1984 were audited. Weaknesses were noted in accounting and control procedures, salaries and personnel administration and local purchases. Several unsatisfactory matters in relation to the Entombed Warriors Exhibition were noted, as were several unsatisfactory aspects of the development and maintenance of the National Collection.

Conclusion

2.105 The Senate Standing Committee on Education and the Arts has held a public inquiry into the matters referred to in the Auditor-General's Report. It is expected that that Committee will report.

AUSTRALIAN NATIONAL UNIVERSITY

Financial Records and Transactions

2.106 The accounts and records of financial transactions of the University for the year ended 31 December 1983 were inspected and audited. Several areas were noted by Audit as having serious deficiencies. These included problems with operating procedures, programmes and staffing of the internal audit unit, the lack of formal policies, procedures and standards in the Computer centre, accounting and control deficiencies in the investments area, problems with the administration of restricted purchase funds and deficiencies in banking operations.

2.107 In addition Audit pointed out that serious deficiencies existed in the supporting documentation for the University's 1983 draft financial statements, both in their original form and in the revised draft submitted some months later. Audit was concerned that, in some respects, the University's accounting practices were at variance with those prescribed in the Guidelines on the Form and Standard of Financial Statements of Commonwealth Undertakings, issued by the Minister for Finance in May 1983.

University Response

2.108 The University advised that resources have now been devoted to the areas of accounting, systems design and data processing and internal audit. The University recognises that further resources may have to be committed to overcome past neglect until a satisfactory level of service and performance can be maintained.

2.109 A major reform is the attention senior management is now directing to the matters raised by Audit. This is evidenced by the strengthening of the terms of reference of the University Council's Finance Committee, the formation of an audit committee and the appointment of officers to a number of senior positions.

Conclusion

2.110 The Committee notes that the University has significantly reformed its financial administration and that this reform process is continuing. The University has reacted responsibly to Audit's recommendations, particularly with reference to the inadequacies of its financial statements and the Committee anticipates continued improvement in the University's financial administration.

AUSTRALIAN SHIPPING COMMISSION

Capital Equipment

2.111 The Australian Shipping Commission was established by the Australian Shipping Commission Act 1956. The principal functions of the Commission are to establish, maintain and operate, or to provide for the establishment, maintenance and operation of shipping services for the carriage of passengers and goods.

2.112 The Commission's annual report for the year ended 30 June 1984 included financial statements incorporating the accounts of the Commission and its subsidiaries for that year and the audit report thereon. The Auditor-General noted that the report included reference to the erosion of the Commission's capital base. This was largely attributed to a change in the accounting treatment for assets under lease and the retrospective adjustment to depreciation of vessels resulting from a reassessment of their service lives.

2.113 The Auditor-General also noted that reference is made in the notes forming part of the financial statements of proceedings against the Commission regarding alleged breaches of Customs regulations related to the importation of second hand equipment.

Commission's Response

2.114 The Commission stated that, having regard to the principles set out in Australian Accounting Standard 17, it had adopted the method for accounting for assets under lease that is required by that standard from 1 July 1983. The net effect was an increase in the Commission's loss.

2.115 It was further stated by the Commission that the form of the Financial Statements of the Commission requires the approval of the Minister for Finance and that this had been obtained. A copy of the Minister's letter together with copies of the form of Financial Statements was attached to the submission.

2.116 With respect to retrospective adjustment of depreciation of vessels, the Commission stated that this had been necessary in order to return depreciation policy to the original 16 year write-off and thereby correct the error made in 1977 that modified the original policy from a 16 to a 20 year write-off.

2.117 The Commission's submission indicated that the court proceedings relating to alleged breaches of Customs regulations is still waiting to be heard. This situation remains unchanged at the time of writing this report.

Conclusion

2.118 The Committee is satisfied that the Australian Shipping Commission has responded adequately to the matters raised by the Auditor-General.

APPENDIX A

Items Examined from the Report of the Auditor-General-April 1985.

Department/ Authority	Item	Auditor-General Paragraph Ref
Community Services	Children's Services Program	5.1
Defence	Pave Tack Target Designation System	6.2
Employment and Industrial Relations	Wage Pause Program	8.1
	Adult Wage Subsidy Scheme	8.3
Finance	Commonwealth Superannuation Scheme - Employer Contributions by Approved Authorities or Other Bodies	9.3
	Wage Pause Program	8.1
Health	National Acoustic Laboratories	11.1
	Central Register of Medical Practitioners (Cromp) Data Bases	
Housing and Construction	Payments to States for Housing Assistance	12.3
Immigration and Ethnic Affairs	Refugee and Special Humanitarian Programs	13.1
Social Security	Family Allowances	18.1
	Family Income Supplement	18.2
	Double Orphans Pensions	18.3
	Recovery of Overpayments	18.5
Territories	Administration of the Commissioner for Housing Loans Scheme	20.1

Veterans' Affairs	National Computer Centre	23.1
	Pension Overpayments and Other Debtors	23.2
Aussat Pty Ltd	Overdrawn Bank Accounts	26
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Australian Shipping Commission	Capital Equipment	42

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JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report - April 1985
Submission by the Department of Community Services on
paragraph 5.1
Children's Services Program

The policy and objectives relevant to the subject of this submission relate to the Commonwealth's major commitment under the Children's Services Program (CSP) to the effective provision of children's services throughout Australia. The Commonwealth has three major priorities in the day care area, which is the major focus of the CSP:

- (a) maintenance of the viability of existing funded services;
- (b) expansion of the number of available places; and
- (c) ensuring that families are able to pay the fees for child care at funded services.

2 It was in the context of priority (a) above that the then Minister for Social Security in June 1983 approved a number of additional grants estimated at \$3.4 million to maintain the viability of certain day care centres and family day care schemes.

BACKGROUND

3 The grants were provided to services which had been operating since 1 January 1979 or earlier, on the following basis:

- for family day care schemes a grant of \$2,000 to replace equipment much of which is consumable or usable for only a limited period.
- a grant of \$200 per child place to day care centres in consideration that centres in most need or in need of additional and replacement equipment were those that had been in operation for more than 4 years.

Grants had not previously been made to services for this purpose.

Compliance with legislation

4 The department advised the Minister in June 1983 that Section 9 of the Child Care Act 1972 provides for the prior approval by the Minister of equipment to be purchased with a grant made under the Act. On the basis of its knowledge of equipment needed by services an equipment list was provided for, and approved by, the Minister. The department considered that the requirements of the Act had been satisfied by this procedure. On 7 September 1983 the Minister approved an amendment to the list of equipment which he had approved on 9 June 1983.

5 An audit review of the Office of Child Care was undertaken in July/August 1983 with a formal exit interview being held on 15 December 1983 at which the Auditor General's Office formally raised the question of legality of payments. At that time the department considered that it had acted in accord with the spirit of the Act. However, a legal advising was sought, and obtained from the Attorney-General's Department on 13 February 1984.

6 The question of legality of the payments arises from Division 2 of Part II of the Act which provides

'8. In this Division, unless the contrary intention appears

"approved equipment" means equipment approved under the next succeeding section; "the cost", in relation to the purchase by an eligible organisation of approved equipment, means the sum of the amount that the Minister is satisfied is the cost of purchasing the equipment and such amount (if any) in respect of altering, adding to or installing the equipment as the Minister determines.

9. Where -

- (a) an eligible organisation proposes to purchase equipment; and
- (b) the Minister is satisfied that the equipment is to be used for the purposes of a child care centre,

the Minister may, in his discretion, approve that equipment for the purposes of this Division.

10. the Minister may, in his discretion, on behalf of the Commonwealth, make a grant to an eligible organisation of an amount not exceeding the cost of the purchase by the organisation of approved equipment."

7 In short, the advice from the Attorney-General's Department is that the procedures used in the making of the grants did not accord with ss-9 and 10 of the Act, in that the organisations had not all formally submitted a proposal to purchase equipment.

8 Whilst the department acknowledges this position, the question of policy for grants for replacement equipment had been a matter under consideration for some time as a consequence of views advanced by organisations that they needed assistance for this purpose.

9 It should also be noted that the Report refers to 426 organisations receiving grants totalling \$3.4 million. Of these, a significant proportion were for organisations funded outside the Act and for which the provisions of the legislation are therefore not relevant. There is no question about the Minister's authority to approve grants under the general provisions of the CSP within the amounts appropriated by Parliament for this purpose.

Acquittance of grants

10 The Department acknowledges that a more satisfactory control over Commonwealth expenditure would have been provided by specifying in 1983 a time limit for acquittance of the replacement equipment grants.

11 When the Auditor-General's office conducted its follow up investigation of State Offices of the then Department of Social Security in the period June-December 1984, 113 (27%) of the special equipment grants had been acquitted. A memo was sent to all State/Territory offices in January 1985 requesting that every effort be made to obtain all outstanding acquittances by the end of March, with a report to be provided to Central Office by late April 1985. Instructions were also issued in relation to tightening the controls over the receipt of acquittances for all CSP grants. This requires organisations to acquit equipment grants within 3 months of their receipt. A further 178 acquittances had been finalised by the end of May, bringing the total to 291 (68%).

12 State Offices of the Department of Community Services are continuing to pursue outstanding acquittances. In three States all the replacement equipment grants have now been acquitted. Less than 20, (4%) of all grants have not been fully spent, and recovery of the unexpended portions is being negotiated by the State Offices concerned. In four cases refunds have been made totalling less than \$1,000. In view of the small number of organisations with unspent grant monies and progress to date, it is considered inappropriate at this stage to initiate enforced recovery by the withholding of recurrent funding.

13 As indicated in the Report, the Department's view is that withholding recurrent funding to recover grant monies approved by the Minister and expended by organisations in good faith would create financial difficulties and in some cases jeopardise their viability. The waiver provisions of section 70C of the Audit Act will be considered when final details of grant expenditure are available.

14 The Report acknowledges the Department's undertaking to avoid any uncertainty in future by ensuring that all proposals to fund equipment for centres are processed in accordance with the procedural provisions of the Child Care Act.

15 The subsequent introduction in July of revised fee relief arrangements for day care centres and family day care schemes, which constitute the bulk of grants under the Program, resulted in standard instructions being issued to organisations in relation to accounting for day care grants. To some extent the widely varying basis of grants under the Program had led to different accounting standards; different requirements had also been necessary for organisations subject to audit by State Auditors-General.

Equipment needs of Organisations

16 In 1982-83, information had been received from State Offices that many organisations had expressed concern at the lack of provision for replacement equipment grants, particularly as most services had limited financial resources to meet replacement costs. This situation had caused hardship to many centres (some of which had been operating for up to 9-10 years), and the need to make provision for replacement equipment in operating budgets had led to increased fees with the likelihood that the cost of care would be beyond the reach of some parents. Lack of appropriate equipment could also jeopardise the renewal of a service's licence.

17 In order to overcome these problems the department's policy on future replacement equipment grants was also modified from 1 July 1984. Day care centres are now permitted to include in their annual budgets provision for the replacement and repair of equipment. Family day care schemes are also permitted to accrue surplus funds which can be applied to the repair and replacement of equipment. With sound management accounting practices in organisations the circumstances which existed prior to June 1983, when sponsors were largely unable to replace equipment, should not arise again.

18 The Auditor-General's report comments that his Office considers that a standard list of acceptable equipment which can attract Commonwealth grants should be as firm as possible, commensurate with the level of funding provided for eligible organisations and State licensing requirements.

19 Control of expenditure on equipment for new child care centres is influenced by several factors. State Government licensing authorities determine the minimum standards in quantity, type and quality of equipment. The minimum licensing requirements vary between States and vary within States as a consequence of the age range of children attending the service. The Commonwealth contribution towards equipment costs in 1983 had remained at \$200 per child place since 1972 and provided an effective control on Commonwealth expenditure since it was not sufficient to meet the minimum standards imposed by the States.

20 The main categories of equipment can be broadly classified as, indoor play equipment for 0-3 year olds, indoor play equipment for 3-5 year olds, general indoor equipment, teaching aids, outdoor play equipment, sleeping and eating equipment, equipment required for baby care, toilet equipment, laundry equipment, cleaning equipment, isolation room equipment, health requirements, eating and food preparation, office, staff, reception and general equipment.

21 There is a very substantial variation in the type, quality and cost of equipment under these various categories. Any attempt to control the detail (eg. the type of soft toys for babies) would duplicate State licencing activities, eliminate choice from sponsors and lead to excessive costs of administration in a situation where the Commonwealth controls its overall liability by an upper limit of grant.

22 Nevertheless, the department considers that it is possible to develop, without being absolutely prescriptive, a national list of classes of equipment which will be eligible for Commonwealth funding. Work is proceeding on this matter.

23 The Social Security and Repatriation Legislation Amendment Bill 1985, Part IV, proposes (in part) to amend the Child Care Act 1972, Sections 8, 9, 10 and 21. The proposed amendment would enable departmental administration in respect of grants for equipment to be revised. The matters raised by the Auditor-General's Department would be considered during the course of the design of the revised procedures.

24 In summary, the Department has acknowledged the views submitted by Audit, and considers the action taken and proposed as a result of those comments will result in a general tightening up of procedures and controls in relation to acquittance of grants to organisations funded under the Children's Services Program.

June 1985

SUPPLEMENTARY SUBMISSION

REPORT OF THE AUDITOR-GENERAL, APRIL 1985
CHILDREN'S SERVICES PROGRAM
YOUR 1985/1 OF 26 AUGUST 1985

The following information is provided in response to your request of 26 August 1985. Responses provided below are in the same order as the 11 questions you have raised.

1. Apart from the usual Children's Services Program application forms, there was no formal procedure for applications for replacement equipment grants. The Children's Services Program had been in operation for approximately 11 years at the time the equipment grants were approved in June 1983. The department through its regular contact with organisations knew that a need existed for assistance towards replacement equipment. The development of policy and procedures for replacement equipment grants had been under consideration for a considerable period, but had not been finalised. In this situation, formal applications had not been lodged by organisations. However, it was evident that organisations which were approved for funding in the years 1972 to 1979 would have equipment that, through normal wear and tear, was in need of replacement. There had been enquiries from funded organisations, and from State Offices, about financial assistance for such replacements. When this pressure was mounting and it became evident that funds would be available in 1982/83 for this purpose, a decision was made to provide the replacement equipment grants.

2. The Children's Services Program was administered by several departments prior to its transfer to the Department of Social Security in 1976. Following that transfer, a standard application form was introduced which covers both recurrent and capital applications for funding. The latter category includes equipment grants as part of an Organisation's initial application for funding, although as indicated previously, there was no provision at that time for replacement equipment grants for existing services. Organisations are given guidance by State licensing authorities as to the type of equipment they should install to meet State Government licensing requirements.

3. Slightly more than fifty percent of the grants approved were for organisations funded outside of the Act. These organisations were mainly Family Day Care Schemes and Outside School Hours Care services, which do not qualify for funding under the Child Care Act for the reasons mentioned in para 4 below.

4. Para 9 of this Department's submission referred to a significant proportion of the subject grants being made 'for organisations funded outside the Act and for which the provisions of the legislation are therefore not relevant. The Child Care Act provides authority to fund Organisations directly for services for pre-school age children other than for care in the child's or another person's home (Section 4(1)). Authority to approve equipment under the Act is limited to equipment that is to be used for the purposes of a child care centre funded under the Act - Sections 9-10.

The Children's Services Program funds:

- (a) centres covered by the Child Care Act; and
- (b) a range of services which do not qualify under that Act, eg. Family Day Care schemes which provide care in private homes and Outside School Hours Care services. The authority for funding such services has its base in the annual Appropriation Acts and Ministerial authority to approve funding within those Appropriations. Such services are not therefore subject to the provisions of the Child Care Act. It is practice however, for such services to submit a list of equipment for consideration by the Minister prior to Ministerial approval, although this was not done for the subject grants for the reasons outlined in para 4 of our earlier submission, and
- (c) services funded through payments to the State Governments.

5. This information is covered in para 3. In total, 474 organizations received grants, of which 252 were funded outside the Act. The bulk of the services to which these grants were provided are Family day care schemes. A number were funded through payments made to State Government; these payments are automatically outside the Act, which provides for payments direct to local government or community group sponsors.

6. Instructions to tighten controls over the receipt of acquittances for all CSP grants were issued to all State/Territory offices of the Department in January 1985. Those instructions were intended to apply from the date of their receipt in State offices. Since the issue of those instructions in January 1985, it has become apparent that a three month time limit for receipt of acquittals for equipment grants may not be appropriate. In country areas in particular, where the equipment must be obtained from cities or large provincial centres, it is not always possible for equipment to be ordered, delivered and invoices produced within 3 months.

In all locations, organisations require some time to canvas equipment suppliers to ensure that they purchase equipment at the most competitive price, then submit invoices, arrange delivery and payment, and provide final documentation to the Department. In the case of Family Day Care Schemes it is usually several months before service providers have a clear picture of the age patterns of children using their service. It is clearly impractical with such service types to require the purchase of all equipment and acquittal within 3 months. It is intended to review the three month time limit to enable a realistic time for ordering/supply and production of necessary accounting documents to verify purchase/receipt of the equipment, consistent with the general requirement of obtaining acquittals as soon as possible.

7. Latest advice regarding acquittal action is that a small number* of grants may not be fully acquitted until January 1986. A report covering the final outcome of acquittal action will be provided once all organisations have responded to Departmental requests for acquittal documents. Any action taken or proposed to be taken under section 70C of the Audit Act will be advised in that report. No action has been taken at this stage in relation to the waiver provisions of the Audit Act.

8. A copy of the standard instructions for day care centres and family day care schemes is attached (Attachment A). These instructions have operated since July 1984, and were referred to in our earlier submission to indicate that provision for the replacement of equipment is now an eligible item for inclusion in a service's budget. These budgets are used to determine the fee levels to be charged to service users. (Page 28, Item 11.3 refers.)

9. Current estimates of the total equipment cost per child place vary from \$375 to \$460, excluding white goods such as stoves, refrigerators etc. Actual costs vary from State to State depending on State Departments' licencing requirements. Within States costs vary depending on the type of service, age mix of children using that service etc. A typical list of equipment for a 36 place centre showing estimated costs is attached, (Attachment B).

10. The list of classes of equipment being developed by this office is scheduled for completion by the end of October 1985. A copy of that list will be provided to the Committee at that time.

11. The Child Care Act was amended on 5 September 1985. A copy of the Bill, an unofficial reprint of the Act and a paper outlining the key features of the amendments are all at Attachment C.

* 10%

JOINT COMMITTEE OF PUBLIC ACCOUNTS
INQUIRY INTO THE AUDITOR-GENERAL'S REPORT, APRIL 1985
SUBMISSION ON PAVE TACK TARGET DESIGNATION SYSTEM BY
THE DEPARTMENT OF DEFENCE

INTRODUCTION

The attachments to this submission have not been included in the report, but are held on Committee files.

1. Project Air 65 was raised to satisfy a RAAF requirement to improve the operational effectiveness and weapons delivery capability of the F111C aircraft. In December 1980, the Government approved the acquisition of the Pave Tack/Guided Weapons System (PT/GWS) covering the acquisition of ten Pave Tack pods, prototype development of integrating avionic components, modification of one deployed F111C aircraft in the US to a PT/GWS configuration, necessary hardware to modify 15 additional aircraft in Australia, and acquiring support equipment, training, spares and technical data to support the aircraft in service. Subsequently, in February 1981, the Government approved the acquisition of four attrition F111A aircraft and the hardware to also modify them to a PT/GWS configuration.

2. The Pave Tack system provides an expanded and improved weapon delivery and navigation capability for the F111C aircraft, derived from an infra-red sensor and laser range-finder/target designator contained in the Pave Tack pod. The infra-red sensor allows detection and tracking of targets

by day and night and under relatively adverse weather conditions by providing the infra-red image on a television-type display in the cockpit. The laser range-finder/designator allows designation of targets from stand-off ranges for precision delivery of laser guided weapons and provides accurate slant range information for improved conventional weapon delivery and for accurate aircraft positioning. In addition to the Pave Tack System, Project Air 65 provides a capability to employ Harpoon weapons and the basic provisions to later employ the GBU-15 2000 lb guided glide bomb system when that is acquired under a separate project.

3. The Pave Tack pod is 4.14m long, 0.51m diameter, weighs 575kg and is installed in the bomb bay of F111C aircraft on a cradle which can rotate 180 degrees about its longitudinal axis, thereby allowing the pod to be retracted into the bomb bay when not required. The Pave Tack system and Harpoon system are controlled by digital electronics, whilst the F111C aircraft is based on analogue electronics, which is older technology. To permit these digital electronic weapons systems to function on the analogue F111C, it was necessary to design and integrate two unique interface units, an Analogue Interface Unit (AIU) and a Harpoon Interface Unit (HIU).

a. The AIU converts analogue aircraft data, such as airspeed, altitude and attitude, to serial-digital data for the Pave Tack pod and HIU, and vice versa.

b. the HIU accepts serial-digital data from the AIU and re-formats it for acceptance by a dedicated Harpoon computer on board the aircraft, and vice versa.

4. Cabinet approved Project Air 65 at an estimated cost of \$A129m in November 1980 prices. In approving the acquisition of the four attrition F111A aircraft, Cabinet approved a further \$A4m in January 1981 prices for hardware to modify those aircraft to accept the PT/GWS. The Minister for Defence in June 1981 approved a further increase in the project's cost to \$A146.1m in May 1981 prices, and again in August 1983 to \$A161.69m in April 1983 prices. These increases were solely due to changes in economic conditions. Notwithstanding recent changes in economic conditions, the Department is confident the project can be contained within existing approval of \$A161.69m.

5. Project Air 65 acquisitions are being realised primarily through Foreign Military Sales (FMS) cases arranged between the US and Australian Governments. The FMS cases are being managed by the US Air Force (USAF) through their Aeronautical Systems Division (ASD) at Wright Patterson Air Force Base, Dayton Ohio. From late 1981 until late 1984, four RAAF Officers were positioned in ASD for the purposes of project management, as well as airworthiness, operational and engineering design approval activities associated with the project. The RAAF resident project team comprised the Resident Project Manager/Deputy FMS Case Director, Aircraft Systems Support Engineer, Avionics Engineer and Operational

Requirements Flight Test Director, all of whom reported jointly to the USAF FMS Case Director at ASD and the Department of Defence (Air Force Office) in Canberra. Overall Commonwealth project management resides with the Chief of Air Force Materiel in Canberra.

6. The RAAF F111C aircraft in the US has been modified with the PT/GWS and is currently undergoing flight testing over US instrumented weapons ranges. The first F111C to be modified in Australia with the PT/GWS is approximately 50 percent complete at Amberley and the second aircraft entered the modification programme on 1 June 1985. The modification programme is scheduled for completion in December 1987.

TOPICS RAISED BY THE AUDITOR GENERAL

7. The Auditor General commented on several aspects of the management and control of the Pave Tack project; the full Audit report by topics, and the Defence response now tendered, are contained in the following paragraphs.

CONTRACTUAL ARRANGEMENTS

Audit Findings

8. Audit recognises that Pave Tack is not a discrete system and there is a complex interaction between the

individual elements and the existing aircraft avionics that may have limited the ability of the suppliers to guarantee total system performance. Nevertheless Audit concluded that the contractual arrangements could have provided a greater assurance that the system would perform accurately when contractual obligations were finalised. Among other things it was noted that:

- a. the main supplier was engaged as an associate contractor rather than as a prime contractor and consequently was not responsible for the total integration and operational performance of the system
 - b. contract documents specify only design and weapons delivery accuracy goals and do not impose a requirement on the main contractor to ensure overall system performance
 - c. during the performance evaluation phase which is designed to test the accuracy of weapons delivery, the main contractor is required to provide support only, and
 - d. the true performance of the Pave Tack system will not be known until evaluation in Australia by which time contractual obligations will have been finalised.
9. Defence advised that if the main supplier had been engaged as a prime contractor, RAAF might have obtained

performance guarantees. However, this would have required other contractors to become sub-contractors to the main supplier; a situation that these contractors were reluctant to accept. Moreover, RAAF estimated that additional charges in the region of \$6 million would have been sought by the main supplier as recompense for the greater management effort required of it as prime contractor. In Defence's view the order of additional cost indicated that pursuit of performance guarantees was not warranted and the option was not put to Government.

Audit comment

10. Audit noted that the USAF strongly recommended that the RAAF adopt prime rather than associate contractor relationship for the Pave Tack program because, in USAF's experience, disputes which had affected equipment performance had been difficult to arbitrate under associate contractor arrangements.

11. Although Defence assessed the technical risk associated with the project as low the cost risk was regarded as high. Engagement of the main supplier as prime contractor would have increased overall cost of the project by about 5% (\$6m) but Audit considers that, in the absence of guarantees regarding final operational performance and weapons delivery accuracy, this option should have been canvassed in the Department's submission to Government seeking approval for the project.

Defence Response

12. As recognised by Audit, Pave Tack is not a discrete system whose performance is measurable as an entity. There is a complex interaction between the new equipment, the existing equipment in the aircraft, the weapons, and finally the aircrew. Whilst each of the mechanical/electronic devices has a measurable accuracy as a discrete assembly, and therefore a total system accuracy can be computed by summing all the individual tolerances, the 'accuracy' of the aircrew in interpreting and acting on information displayed to them by the system is not measurable in the same terms. Furthermore, the accuracy and repeatability of mechanical/electronic devices is dependant on the level of serviceability of each component. For a contractor to guarantee total system performance to the degree where that performance is usable, he must have control over the performance of the individual elements that make up that system. In the case of the main Supplier, General Dynamics Fort Worth Division (GD/FWD), the Company would have no control over the performance of the existing F111C systems or the aircrew.

13. As Audit noted, the Department advised that the RAAF might have obtained performance guarantees if GD/FWD had been made a prime contractor. However, as also noted, the additional cost of about \$6 million was only to recompense GD/FWD for the greater management effort required of it as prime contractor; extra funding in addition to the \$6 million would have been necessary to obtain a performance guarantee.

The Department perceived that a performance guarantee would require greater management effort again to that required for just a change from associate to prime contractor, and decided that the additional funding that may have been required was not commensurate with any benefits that might accrue. By specifying design and weapon delivery accuracy goals under an associate contractor agreement, the RAAF was able to establish realistic benchmarks which USAF experience had indicated the system should be able to achieve. GD/FWD has strenuously pursued those goals and initial results indicate they have been successful. The real measure of weapon delivery accuracy can be determined only by launching a representative number of weapons to develop a statistical base. Therefore, the true performance of the Pave Tack system in RAAF service will take some years to determine due to the limited number of operational weapons available for training and testing in any one year.

14. In summary, the Department's decision to use an associate contractor arrangement for Pave Tack has been justified on the performance results to date and at least \$6 million has been saved. Canvassing an option to Government which involved added cost without an assurance of an accompanying performance benefit was considered by the Department to be inappropriate.

ANALOGUE INTERFACE UNIT (AIU)

Audit Findings

15. The project requires that an AIU be developed by the main supplier to enable integration of the digital technology in the Pave Tack system with the analogue systems in the F111 aircraft. The audit disclosed that in March 1984 reservations were held whether the revised completion date of December 1987 would be maintained because of problems being experienced by the main supplier in relation to the development and integration of the AIU. These problems concerned possible degradation of performance as a result of computer software limitations, especially the growth capacity of the AIU, and possible limitations on time available to fully test integration of the AIU with other F111 systems and equipment.

16. Concern was expressed by both the RAAF and USAF that there was insufficient growth capacity in the AIU to make software changes that were usually necessary as a result of flight evaluation. In addition it was feared that this limitation would preclude the inclusion of a future capability for the delivery of infra-red guided weapons. The Department advised that an assurance had been received from the main supplier that the most recent computer software implemented in the system overcame Air Force concerns and left a growth capacity for software in the AIU of 30 to 40%. The RAAF was to verify whether this had been achieved during the Functional Verification Phase.

Audit comment

17. At the time of the audit the Functional Verification Phase had not been completed and Audit was unable to establish whether residual growth capacity had been achieved. Audit is concerned that AIU growth capacity was not a contractual requirement and that this may limit realisation of the full capability of the system particularly in terms of future development.

Defence Response

18. As stated earlier, use of the Pavetack system on the F111C aircraft required a means of translating analogue data to digital form and vice versa to enable the digital Pavetack pod to operate with an analogue based aircraft. This requirement is unique to the RAAF F111C as the USAF F111F aircraft, used for US Pavetack operations, has a digital avionics system.

19. This data translation requirement was to be met by the development of the AIU as part of the design concept. At the initial design phase it was possible only to estimate the required functions of the AIU. From that point onwards, as additional information became available, and existing data was further refined, the AIU design went through a number of iterations. AIU design requirements were becoming firm at the time of the Audit review. The design review of the system highlighted that most of the available memory and processing capacity had been absorbed by the known functions to be

performed by the AIU. However, the AIU was still in the form of a developmental model. Consequently the RAAF strongly contended that the Contractor was expected to provide adequate growth capacity as a basic tenet of good electronic system design.

20. Since then, the AIU development and test has been completed and the final software has been optimized. On completion of successful functional flight testing, memory reserve growth was 33% and processing growth capacity ranged between 15% and 70% spread over seven functional speed groupings. This level of growth capacity appears to be adequate.

21. The Audit expressed concern that AIU growth capacity was not a contractual requirement. However, at the time of drafting the developmental contract to integrate the Pavetack system with the F111C aircraft, the methodology to be employed by the Contractor to meet the data translation requirement was not clearly defined. If the Contractor had employed means other than a microprocessor controlled system, growth would not have been in question. When it became clear that the design of the AIU was to be based on the use of a microprocessor, growth capacity became an issue which was pursued both by the RAAF and the USAF throughout the program.

COST PENALTY

Audit Findings

22. The audit disclosed that the original cost estimate for the project of \$129 million (at November 1980 prices), included a penalty in the order of \$3.9 million. However, this amount was not separately disclosed in the submission seeking Government approval prepared by the Department. Audit noted that details of other cost penalties which might have been incurred under the various options considered in the submission were separately disclosed. Enquiries revealed that the penalty of \$3.9 million was incurred because negotiations were not finalised before early October 1980 when the original Letter of Offer and Acceptance (LOA) expired.

23. The Department advised that on 1 October 1980 only part of the project detail was available and LOA's were awaited for other major elements. Accordingly it had decided not to seek Government endorsement for part of the project in the absence of information on the total project cost implications.

Audit comment

24. Audit observed that LOA's for all major elements of the project had not been received by December 1980 and cost uncertainty still existed when Government approval for the

project was sought. The decision not to seek Government approval at the earlier date resulted, therefore, in an additional cost of \$3.9 million.

Defence Reponse

25. The Department's decision not to seek Government approval in September 1980 was due largely to programming pressures caused by increases in the indicative cost of the New Tactical Fighter. Consequently, the Department concluded that any cost penalty that may be incurred because the pod LOA was not accepted by 10 October 1980 would have to be accepted.

26. The additional cost of \$3.9 million was incurred as a main contractor advised the USAF contracting agency there would be a break in production between completion of equipment for the USAF's Pave Tack programme, and commencement of equipment for the Australian programme. The break in production claim was disputed on the RAAF's behalf and an audit of the contractor's records is to be made by the USAF. There is therefore a possibility that the \$3.9 million penalty will be refunded in full or in part.

GBU-15 GUIDED GLIDE BOMB

Audit Findings

27. The integration of the Pave Tack system with the F111 aircraft includes specific modifications to provide the

facility to deliver GBU-15 bombs. Audit noted that the proposal to purchase GBU-15 training stock had been deferred for decision until 1985-86 and that lead time for delivery of stocks was about 2.5 years from the order date. Current estimates provide that the first F111 modification will be completed by August 1985 with the last one completed in December 1987. Should these estimates prove accurate, RAAF will have a capability to deliver the bombs for a significant period during which there will not be training stock available. Audit noted that the Pave Tack system will be tested using bombs made available from the USAF inventory.

28. The Department acknowledged the situation described above and stated that the lack of training stocks was the effect of a Defence decision based on programming pressures and capital equipment acquisition priorities.

Defence Response

29. At the time of initial consideration, GBU-15 compatibility with the F-111C had not been demonstrated. The Department preferred that a demonstration should occur before seeking Government approval for the purchase of GBU-15 training and reliability monitoring stocks. The proposed implementation programme in September 1981 allowed six months between the completion of the flight test in the USA and acceptance of an LOA for stocks of GBU-15s (June 1984 and December 1984 respectively), and a further 2.5 years before delivery of the first weapon, June 1987. This schedule recognised a six month

gap between delivery of the first GBU-15 and the completion of the last Australian modified F-111C Pave Tack aircraft in December 1986. Subsequent to this schedule, the commencement of the prototype Pave Tack aircraft modification programme was delayed by one year because of USAF negotiation difficulties with GD/FWD. By November 1983 the GBU-15 programme had slipped by 1.5 years, partly because of revised assessments of the time required to request, receive and approve an LOA, but mostly because of a decision by Force Structure Committee to defer the programme for one year, due to its lack of priority in view of the immature stage of the Pave Tack project.

30. Pave Tack flight testing in the USA is due for completion in August 1985. The GBU-15 testing programme should be completed by late June 1985 and Government approval for stocks of this weapon would ordinarily be sought in August 1985. In this event, delivery of the first weapon could be expected 3.5 years later in December 1988, one year after modification of the last Australian F-111C. This timing achieves the Department's preference for demonstrating weapon capability before seeking government approval for further purchases. However, in March 1985 the Force Structure Committee decided to further defer the GBU-15 purchase by one year to its present timing of FY 86/87 because of programming pressures caused by competing equipment priorities.

31. The provision of a GBU-15 capability in the F-111C was relatively insignificant in terms of cost and effort in comparison to the Pave Tack and Harpoon elements. The Pave

Tack project incorporates the basic provisions only to enable later utilization of the GBU-15 weapon system which is to be procured as part of Project Air 58 - Precision Guided Munitions for the Strike and Fighter Forces.

DEFENCE SCIENCE AND TECHNOLOGY ORGANIZATION (DSTO)

Audit Findings

32. Audit observed that DSTO had provided a technical report on the project, Flllc/Pave Tack Integration Study, before the project had been approved. It was also noted that although DSTO had been formally requested by RAAF to provide assistance during the project, DSTO's role was limited by the lack of opportunity for direct contact with the main supplier. Instances were also observed where DSTO had incomplete information with which to assess program related options. In these circumstances Audit doubts whether full use was made of DSTO expertise. Defence commented that both project staff and DSTO staff now recognised that fuller use could have been made of DSTO expertise. However, there was no mechanism which could have improved the information to DSTO.

Audit comment

33. Audit considers that in view of the cost risks associated with the project identified in 1980, suitable mechanisms should have been developed to enable more effective use to be made of DSTO expertise.

Defence Response

34. Although the Department has indicated that greater use of DSTO may have been possible, there is still no clear perception as to how that might have been achieved. When consideration was being given to DSTO involvement in the early days of the project, the subjective judgement of project staff was that it would have been impracticable to arrange a DSTO presence in GD/FWD's design and development site. That judgement has been reinforced with the passage of time as resident RAAF and USAF project staff have not been able to obtain freedom of entry to that sensitive area. However, limited access was granted to a private company participating under an AIP agreement, as discussed in the next topic.

35. Considerable doubt still exists as to whether DSTO expertise could have had any significant influence on GD/FWD's solution to the design requirements or the technology and methodology finally employed. In addition, GD/FWD had accepted a very stringent and tight program schedule which prevented the opportunities for a third party to monitor and review the developmental activities in a timely manner without impacting that schedule.

36. In retrospect, the Department feels that the judgements reached earlier in the Pavetack project with regard to DSTO involvement have been vindicated.

AUSTRALIAN INDUSTRY PARTICIPATION (AIP)

Audit Findings

37. In its response to Audit representations the Department advised that the Pave Tack project had included AIP activity involving transfer of technology to Australian industry which, in co-operation with DSTO, would enable support for the Pave Tack system during its operational life.

38. Audit's examination disclosed that Australian engineers did participate with the main supplier in the development of the system but that additional costs were incurred to ensure this participation. Although Defence sought AIP equivalent to 30% of the value of the contract price the overall level of achievement was low. The value of the AIP achieved through the participation of Australian engineers with the main supplier represented a very small proportion of the total commitment.

Defence Response

39. A high level of achievement of AIP was difficult for a system which was developed for the USAF and which essentially was an extension of the USAF production line for the RAAF. The AIP which was achieved related only to development of the interface systems elements that were not common to the USAF. However, British Aerospace Australia's (BAeA) involvement with the project has led to some tangible benefits.

40. BAeA engineers who participated in the limited Pave Tack developments at GD/FWD have since utilised their skills to the benefit of the RAAF. The engineers acted as specialist systems advisors during both phases of the prototype test flying program in the USA and are presently assisting with the installation of Pave Tack systems at Amberley. Once these on-site activities are complete at Amberley, the engineers will provide the basis for BAeA follow-on support for the Pave Tack system. A BAeA engineer also assisted the DSTO study of the AIU and HIU operation and developed the AIU operational manual.

41. As a result of the AIP activities, BAeA is now in a sound position to become involved with the maintenance/manufacture of Pave Tack support equipment. Early indications are that AIP achievement for the acquisition of Depot Level Maintenance support equipment will amount to 60% of the total value, currently estimated at \$A10m.

PROGRESS REPORTS

Audit Findings

42. In August 1981 the Chief of Air Force Materiel issued a direction that the project manager in the USA submit quarterly written reports to the RAAF Project Office covering various matters associated with the Pave Tack project. Audit noted that only 5 reports were submitted during the period from October 1981 to December 1983 and at the time of the audit a report had not been received covering 1984 activities.

43. Defence stated that quarterly reports were not required to advise senior management of project progress but rather to form an historic record of the project activity undertaken by the overseas team. It also contended that, in view of the limited resources available, reports on project activities on a day to day basis addressing progress and problems in a timely fashion should take precedence over historical reporting.

Audit comment

44. Audit acknowledges that communications between personnel in the USA and Australia on a detailed level are adequate and allow effective daily control over the project. However as senior management is not always consulted on day to day issues, regular reporting should provide an overview to ensure that major issues are drawn to the attention of senior management. Audit also considers that if resources are limited then the contents of the report could be tailored accordingly.

Defence Response

45. The Department's comments are premised on the extensive range of regular reports received from the office of the Resident Project Manager which, although not omnibus and quarterly, provide present status of all significant activities. These reports include monthly financial status summaries, preliminary message comments followed by the authorised minutes of all reviews conducted with the USAF and

contractors, visit reports resulting from project office discussions with contractors, and frequent telephone or message contact on high priority issues. In addition, major program reviews are regularly held between the Australian and the US based project staffs.

46. The US project team, including USAF management representatives, has visited Australia annually since Feb 82 to conduct formal and informal discussions with all of the Defence agencies involved with the Pave Tack program. Australian project staff and senior management have also regularly visited the US to attend major contractual milestone reviews and to review progress at contractors facilities. The formal reports stemming from these visits and reviews are widely distributed within Defence. Regular project management reviews are also conducted by the Project Director in Australia which disseminate the consolidated project status to all interested organs.

47. All written reports received from the Resident Project Manager are viewed by senior management to one star level. Collectively, the reports present all of the information which was expected in summary in the quarterly response. The currency, frequency and variety of Pave Tack reports received from all sources has led project management to direct the Resident Project Manager to cease quarterly historical reporting where such reporting adversely impacts on the timely progression of other activities in the project.

48. Resulting from Pave Tack reporting experience, the Chief of Air Force Materiel now directs overseas staff to provide reports at a frequency which he reserves the right to vary.

CONCLUSION

49. Management decisions taken during this project, or any other project, were made on the basis of information available at the time and with due cognizance of the practicalities of the situation. The Pave Tack project was unusual in many respects and, containing a developmental component, it involved a certain degree of risk. Nevertheless, the Department of Defence maintains that judgements made and measures taken took due account of the risk factor and provided appropriate safeguarding of the Commonwealth's interest. In short, the Department of Defence contends that the Pave Tack project has been managed in an entirely acceptable manner and that the objectives of the project are being achieved.

Department of Defence
Canberra

JOINT COMMITTEE OF PUBLIC ACCOUNTS Inquiry into the Auditor-General's report, April 1985, relating to the Wage Pause Program and the Adult Wage Subsidy Program Submission by the Department of Employment and Industrial Relations

Wage Pause Program Introductory Comments

- 1.1 Essentially the Auditor-General made comments concerning three main areas
 - . Financial Management
 - . Administrative processes
 - . Targeting to the long term unemployed and disadvantaged groups.
- 1.2 The principal point to note is that the issues highlighted by the Auditor-General must be seen in the context of the general agreement on the Program structure and administrative framework reached between responsible Commonwealth and State Ministers. The Government of the day made a specific policy decision that the structure and administrative procedures be designed to give maximum flexibility and control to the State Governments, who were to be responsible for Program delivery. Therefore the guidelines and agreements on Administrative Arrangements were modelled along the lines of a "Block Grant" arrangement giving control of Program directions and administration to the States, and a minimum support and information role to the Commonwealth.
- 1.3 A secondary factor contributing to some of the issue raised by the Auditor-General were affected by the divided responsibility at the Commonwealth administration level, between this Department, in relation to employment aspects, and the Department of Finance, in relation to the financial administration of the Program funds.

- 1.4 Detailed comments, relating directly to the findings of the Auditor-General are below. For information, a copy of the guidelines and other Program documentation is attached.

DETAILED COMMENT

Background

- 1.5 No comment required.

Audit Findings

Commonwealth participation in approval of projects.

- 1.6 The Commonwealth's role with respect to individual projects and their approval is best detailed on page 2 of the Administrative Guidelines for WPP, as agreed by State/Territory and Commonwealth Ministers.
- 1.7 "Even though the Commonwealth will not be involved in the scrutiny of individual projects, it does wish to obtain information upon individual projects to enable the Commonwealth and the States to assess the overall impact of the programs".
- 1.8 The degree of Commonwealth involvement beyond this was a matter of agreement with the States/Territory. The situation throughout Australia varied, as evidenced by our representation on some States recommending Committees. This extended our charter beyond that set by Ministers in the original program framework. Guidelines consistency was to be obtained through self-regulation by States, with the backing of internal State/Territory verification through their Auditor Generals' Departments.

Victorian Procedures

- 1.9 In Victoria, a total of \$52.6 million was provided to the State Government for the purposes of job creation. This total grant was administered by two State Departments, ie.

Department of Management and Budget which was granted \$32.6 million for the creation of jobs within State Government Departments, and \$20 million to the Ministry of Employment and Training for job creation within local councils and community organisations.

- 1.10 In initial discussions between the State Departments (Management and Budget and MEAT) and the Commonwealth, it was evident that State officials clearly intended to have greatest say in both the design and approval of projects funded by Federal Wage Pause Funds. An Interdepartmental Committee of State Government officers which had existed to consider the funding of projects under the State EIP, was reconvened to recommend funds provided under WPP. The only change made to this Committee was the addition of a Commonwealth Officer from DEIR whose main role was to comment on projects' meeting the various guidelines set for the Wage Pause Program. This officer had no control over the selection of projects tabled at each meeting, nor any control or input into the final decision to fund projects, a power which was the preserve of a State Government Backbench Committee. Some projects were funded, others rejected, contrary to the recommendations made by the Interdepartmental Committee members.
- 1.11 Financial variations were made to projects with no reference by the State to the Commonwealth, which was consistent with the viewpoint that this was entirely a matter for the responsibility of the State.
- 1.12 It should be noted that the provisions under the CEP require the involvement of the Commonwealth, jointly with the States/Territories, in all stages of the assessment and approval process.

Queensland Procedures

1.13 With respect to the situation in Queensland it is agreed that the role of the Regional Director, and the information to be provided to him should have been agreed prior to Ministerial agreement to the Program. However, the Queensland and Commonwealth Ministers responsible at the time agreed on the broad State Program proposal on 7 and 10 February 1983, respectively, before administrative details could be sorted out between Departments.

Assessment of the Program

- 1.14 Although the guidelines referred to employment of the long term unemployed "where practical"; it was not mandatory. The actual interpretation of 'practicality' was shared by
- . sponsors;
 - . administering State Government Departments; and
 - . the CES.
- 1.15 This Department was not in a position to control who was employed on projects. Registration with the CES was not mandatory and employers could refuse CES referrals who were considered to be unsuitable. Further, as identified at the beginning of this response, there were two principle target groups
- youth
 - older unemployed AND other disadvantaged in the labour market.
- 1.16 There was no minimum registration period required, which meant that, where there were no applicants acceptable to the employer from special target groups, other suitable qualified/experienced persons could be referred and placed. Further, the objective of achieving equal opportunity in placements for women is a factor which works against the achievement of a high proportion of people who have been registered unemployed for 8 months or more, as women seeking to return to the workforce, who may need special assistance to obtain work experience, have not necessarily been registered continuously for long periods.

- 1.17 It is agreed that these provisions did not provide optimum conditions for ensuring that the long term unemployed, or other special target groups, were the main beneficiaries of the Program. Again however, it must be stressed that this was contrained by the guidelines agreed between the Commonwealth and State/Territory Ministers. These difficulties have not been built into the CEP guidelines and it is clear that the CEP procedures have increased the effectiveness of the targetting for the CEP. The Auditor General mentioned (para 3 p39) the possibility of comparing placements on WPP projects with recipients of Unemployment Benefit (UB) to ascertain the proportion of genuine 'unemployed' who benefited.
- 1.18 In our view this would not be appropriate. In the first instance, it would be naive to assume that receipt of UB is the only indication of 'genuine' unemployment status; there are many reasons why persons registered unemployed with, and actively seeking work through the CES do not qualify for UB. These include spouse/defacto working; receipt of other income; receipt of another DSS pension or benefit (eg. supporting parents wishing to return to the workforce) and pride (some people elect to take part-time work, not necessarily in their chosen area, rather than "remain on the dole").
- 1.19 Further, the CES is not always able to identify which of its clients are in receipt of UB. This data is not available to this Department from Social Security files because of confidentiality constraints, and any attempt on the part of CES to enquire as to receipt of UB in conjunction with provision of referrals to notified vacancies would be construed by the public as possibly disadvantaging the employment prospects of those who, for reasons such as given above, are not in receipt of UB.
- 1.20 The issue of prior receipt of benefits is, however, covered in the BLMR's participation survey, although it should be noted that the purpose of including the question in the survey was to allow the estimation of the net budget costs of the Program, rather than to check on participants presumed eligibility.

Meeting of Grant Conditions

- 1.21 The Auditor-General commented that DEIR appeared to have no established system to monitor whether or not grant conditions were met, citing in support of this assertion two cases in South Australia,
- one relating to apparent non payment by the sponsor of a required sponsor contribution; and
 - the other relating to a claimed "variation of a submission from agreed guidelines".
- 1.22 As a general comment, it should be understood that, since the Guidelines approved by Ministers gave full responsibility for administration of the Program to the States/Territories, the procedures varied from State to State. However it must be said that in all States and Territories, the responsibility for post approval monitoring of projects was solely the responsibility of the administering State Department.
- 1.23 Regarding the first cited example, in South Australia (the only State which formally required a sponsor contribution) the levels were monitored by the responsible State Department's Job Creation Unit, as part of the normal process of examining claim forms submitted by sponsors for reimbursement for expenditure. To the best of our knowledge sponsors were required to produce evidence of both sponsor and grant expenditure. Where the sponsor contribution had not been met as originally estimated, discussions were held with sponsors to ascertain the reasons for the shortfall. Resulting action could then range from
- variation of the original grant/sponsor contribution levels (if warranted); to
 - additional payment of moneys by the sponsor,

- 1.24 In a large number of cases, the level of sponsor contribution exceeded the amount originally estimated, and in the particular case cited, our advice is that the sponsor contribution eventually represented 25%, as against the minimum 20% required under SA guidelines.
- 1.25 The second example cited related to a project submission (application) which the Auditor General indicated was at variance with the agreed guidelines. It is our understanding that this relates to a construction project in Thebarton which, in its initial application did not meet the required guidelines relating to labour intensity, but which was considered to have excellent job creation potential. Initial concerns were resolved by negotiation with the sponsor on a reworking of the project budgeting proposals, and specification of certain conditions. Following acceptance by the sponsor of these conditions, the project received a unanimous recommendation for approval from the Grants Committee.
- 1.26 In this respect, we would add that it is normal procedure for project proposals which do not initially meet basic guidelines, but which do have a real potential for employment creation and community benefit, to be extensively reworked in consultations between the administering authorities and the sponsors, and this case was no exception.

Advances of funds

- 1.27 It is the view of this Department that financial management for the Wage Pause Program rested with the Department of Finance.
- 1.28 The legislative base for the initiation of the Wage Pause Program, namely the 'Salaries and Wage Pause Act 1982' and the 'Special Employment-Related Programs Act 1982' were assented to on 23 December 1982
- both Bills were submitted by the Minister for Finance

1.29 The Department of Finance was specifically responsible for the appropriation under the Special Employment-Related Programs Act, namely

- arranging for disbursement of Wage Pause funds to the States/Territories
- monitoring of expenditure by the States/Territories on Wage Pause Program projects, at Program level (not project level)
- ensuring that the overall financial guidelines of the program were adhered to by the States and Territories
- control the acquittal system of financial returns for the program (legislative Commonwealth Accounting requirement).

1.30 While the matter of the advances was therefore primarily one for the Department of Finance, we offer the following comments.

1.31 The guidelines agreed to by Commonwealth and State Ministers on 19 January 1983 provided for funds to be disbursed to the States in 12 equal monthly instalments ending 31 December 1983, unless otherwise determined by the Minister for Finance in consultation with the Minister for Employment and Industrial Relations.

1.32 Initial payments to the States and the Northern Territory under the Program were made immediately following the 19 January 1983 Ministers' for Labour meeting so as to ensure that State/Territory Governments could immediately implement the program. (See details of Government intentions outlined in the Joint Press Release of 19 January 1983).

1.33 Payments to the States were suspended in July 1983 by a decision from the Minister for Finance after consultation with the Minister for Employment and Industrial Relations, after consideration of the level of funds being held by the States, and noting that the build up of approvals was less than expected, and the lag between approvals and commencements was greater than had been expected.

1.34 You will note that the payments systems for the CEP have been based upon a principle of need assessed for the ensuing months rather than one of equal instalments.

Allocation of funds to State funded programs

1.35 Following discussions between Commonwealth and Victorian State Ministers, agreement was made:

- to allow up to \$5 million of WPP funds to be transferred to fund existing Employment Initiative Program projects (EIP) in Victoria

: these EIP projects were required to meet WPP guidelines

: this action was to release \$5 million of State funds for the specific purpose of allowing the Victorian Government to meet the requirement of a 30% contribution for State sponsored projects under the Community Employment Program.

- for the Victorian Government to meet the estimated \$5 million needed to fund WPP projects that would run beyond 30 June 1984, the Commonwealth approved an additional WPP project (the Special Municipal Youth Employment Project) to the value of \$5 million.

1.36 In return, the Victorian Government agreed to meet these commitments to WPP projects which would continue beyond 30 June 1984, and that these commitments would be met until 30 September 1984, when all such projects would cease. This

arrangement ensured that all Commonwealth WPP funds would be expended 30 June 1984. This is all that was required by the legislation, which did not, and could not, prohibit State Government expenditure on employment in the projects beyond 30 June 1984.

- 1.37 Further, the point is made that not only did the guidelines not rule out funding of projects previously planned for support under State funded programs, but expressly allows for such inclusions under certain conditions. We refer to the 3rd paragraph on page 3 of the Wage Pause Guidelines where provision is made for the eligibility of "new projects under existing State youth employment programs" -provided that the additionality of activities and young persons to be assisted was clearly identified.

Evidence of Expenditure

- 1.38 As the Department of Finance had clear responsibility for financial matters this Department has no further comment to make regarding this particular audit finding.

Ownership of Assets

- 1.39 Since the inception of the Program this Department took the view that it was up to the State/Territory Administering Departments to determine at the time of making the grants the conditions of the grants, including the ownership of assets purchased with program funds. The Commonwealth reserved the option to declare at the time of project recommendation any interest in recovering assets at the conclusion of the project. (Relevant instructions which were agreed with the Department of Finance were sent to Regional Offices in October 1983.)
- 1.40 To date, no such interest has been so declared by any of the Regional Offices. In South Australia, by State Government policy, all assets were purchased through the

State Purchasing Authority, and were declared to be the property of the Program, Settlement or disposal of the assets at the close of projects is the responsibility of the same Authority.

Audit Comment

- 1.41 The Auditor-General commented that the inter-departmental co-ordination of administrative effort was inadequate, and indicated a need for prior agreement to and formalisation of respective roles when joint administrative activities are undertaken.
- 1.42 This Department fully supports the latter statement, but in relation to the former observation, would wish to say that both the Department of Finance and this Department were involved in the initial development of guidelines and administrative arrangements, and in the vetting of State Programs.
- 1.43 While the Minister for Finance and his Department had primary financial responsibility for the program the role of this Department was to provide advice to the Minister, and Department of Finance, as appropriate, on matters relating to the employment objectives of the Program. Thus, the guidelines, and administrative arrangements provide for this Department to undertake such responsibilities as:
- advise the Minister for Finance on:
 - whether the programs (not projects) submitted by the States/ Territories were consistent with agreed guidelines (specifying the policies and procedures for employment generation);
 - progress of the State/Territory Departments in the actual implementation of their programs, for the purpose of assessing the overall impact of the

Program. This was also used in determining whether payments should be advanced "in equal monthly instalments", or held till further funds may be required;

. operational tasks, such as:

- commenting on the projects being approved by the State/Territory Governments, to advise State Officials of our views of project compliance with the agreed State program guidelines, as well as the general WPP guidelines.
- provision of the services of the CES as a referral agency, for approved projects, where the sponsor required it (note however, that this was not a mandatory requirement of the Program, and some project sponsors chose to recruit for vacancies by other means).

1.44 The relationship between the Department of Finance, and this Department was covered in the agreed Program Guidelines, and Administrative documents, which were all publicly available. At the time of their development it was not considered necessary by either Department to more formally document the arrangements. We contend, however, that the relationship remained constructive throughout the period.

1.45 The Committee will be aware that the Department of Employment and Industrial Relations has the responsibility for the administration of the Community Employment Act 1983, which means, of course, full responsibility for the financial administration of the program, as well as determination of the 'employment' related policies and procedures.

Joint Committee of Public Accounts
Inquiry into the Auditor-General's Report - April 1985
Submission by the Department of Employment and Industrial Relations

Adult Wage Subsidy Scheme - Paragraph 8.3

Background

2.1 The Adult Wage Subsidy Scheme (AWSS) was announced by the then Minister for Employment and Industrial Relations, the Hon Ian Macphie MP on 9 December 1982. In the accompanying press release the Minister stated that "The initiative (ie AWSS) responds to the growing number of long-term unemployed adults in the labour market, and will help re-establish participants in stable employment in the private sector". The Scheme was introduced in March 1983. Prior to the introduction of AWSS, the availability of wage subsidies had generally been restricted to unemployed job seekers less than 25 years through the provisions of the Special Youth Employment Training Program (SYETP).

2.2 The general objectives and provisions of AWSS can be described as follows. The aim of the Adult Wage Subsidy Scheme (AWSS) is to provide a period of stable employment for long-term unemployed job seekers aged 25 years and over by making available a wage subsidy to prospective employers of such persons. The Scheme has two subsidy components:

- . standard provisions - a subsidy of \$100 per week for 17 weeks followed by \$75 per week for 17 weeks is payable in respect of job seekers aged 25 years and over who have been unemployed for at least 8 of the previous 12 months;
- . extended provisions - a subsidy of \$125 per week for 52 weeks is payable in respect of job seekers aged 45 years and over who have been continuously unemployed for at least 12 months.

- 2.3 In 1983/84, expenditure under the Standard AWSS provisions was \$18.527m and 13,074 approvals for assistance were recorded. Estimated expenditure for Standard AWSS in 1984/85 is \$25.2m and it is anticipated some 12,000 approvals will be made. In 1983/84 expenditure under Extended AWSS provisions was \$4.673m and 2,279 approvals for assistance were recorded. Estimated expenditure for Extended AWSS in 1984/85 is \$10.4m and it is anticipated some 2,400 approvals will be made. A significant proportion of the expenditure in 1984/85 reflects the expenditure commitments arising from approvals made during 1983/84.

Current Status of Scheme

- 2.4 On 20 December 1983, the Minister for Employment and Industrial Relations, the Hon Ralph Willis MP, announced the appointment of a Committee of Inquiry chaired by Mr Peter Kirby to "assess the extent to which the range of training and work experience programs inherited from the previous Government meet the labour market objectives of the present Government and make recommendations on necessary improvements". The range of labour force programs covered by the Inquiry included AWSS. The Report was released in January 1985 and recommended, amongst other things, that the existing range of wage subsidy programs including AWSS be integrated and rationalised into a single wage subsidy program with standard eligibility and subsidy provisions. The Minister has indicated that the wage subsidy recommendations will be considered in the context of the 1985/86 budget and an overall response to the Kirby Report recommendations will be presented in the forthcoming session of Parliament.

Delivery of AWSS

- 2.5 Set out below is a summary of procedures followed in offices of the Commonwealth Employment Service (CES) to ensure that eligible job seekers are referred to appropriate vacancies, including a reference to the nature of the agreement which the CES enters into with a prospective employer, which is designed to safeguard the parties concerned, including the subsidised employee.

Reception of Vacancies

- 2.6 Employers may lodge "Subsidy Only" or "Available for Subsidy" vacancies. In the former case, this means that the employer only wishes to interview job seekers eligible for subsidy. In the latter case, employers have indicated that suitable applicants who are not eligible for subsidy may also be referred for interview. To attract subsidy, the vacancy must fulfill certain criteria. For example, the vacancy must be available for at least the duration of the subsidy period, it must be full-time and all provisions of the award under which the subsidised employee is employed must be observed. Where a position is not covered by an award, employers are required to nominate an appropriate award under which terms and conditions they are prepared to employ the subsidised person. Other restrictions also apply. For example, positions paid on a 'piece work' basis are not approvable. The CES must also be satisfied that the employer meets certain criteria. For example, where there is evidence that the employer may be seeking to use the Scheme to obtain an on-going supply of subsidised labour, the employer's record of retention of subsidised employees following the subsidy period is to be checked. The employer's record is to be considered satisfactory if at least one of the last three subsidised employees has been retained for a minimum of 8 weeks beyond the subsidy period.

Referral and Placement Procedures

- 2.7 All vacancies lodged with the CES are placed on self-service display boards to allow job seekers to identify for themselves a position for which they may wish to apply. A vacancy is identified as "Subsidy Only" or "Available for Subsidy", indicating to eligible job seekers that the employer may not expect applicants to meet the full requirements of the position. If the eligible job seeker is interested in being considered for a vacancy on display, he makes further enquiries of counter staff, who arrange an interview with the employer and issue the job seeker with a referral notice, confirming eligibility for subsidy.

2.8 Referrals to vacancies are also made as a result of matching the vacancy requirements against records of eligible job seekers. The matching process allows the identification of suitable applicants who may have experienced a longer term of unemployment than the minimum required for eligibility. Priority in referral is given to those with the longest periods of unemployment in line with the objectives of the scheme. An eligible job seeker is also allowed to approach a prospective employer and advise that employer of his eligibility, before the employer has lodged a vacancy with the CES, provided that the employer notifies the CES before employing the job seeker, allowing the CES to ensure that all provisions of the Scheme are met, then a subsidy arrangement may be entered into with the employer.

Contractual Arrangements

2.9 Since end-March 1985 new procedures have been introduced which require all wage subsidy agreements between the CES and employers to be negotiated and executed prior to the commencement of employment. This change in procedure has been based on the advice of the Australian Government Solicitor and provides the basis for agreements to be legally enforceable.

Adult Findings

Job Seeker Selection Process

2.10 Audit noted that the form of record maintained at the CES in respect of job seekers is not designed to highlight readily the length of unemployment in order that priority might be given to those with the longest periods of unemployment. A check of selected offices of the CES also indicated that records were not always maintained in such a way as to ensure the effectiveness of their application in the selection process.

- 2.11 The CES is a national employment agency whose major function is to refer suitable job seekers to vacancies lodged by employers. In the calendar year 1984, 815,707 vacancies were lodged with the CES, resulting in 2,175,324 referrals and 642,788 placements. Of those placements made, only approximately 15.4% excluding placements under the Community Employment Program (CEP), are under subsidy arrangements. The volume and emphasis in these transactions necessitates a form of record keeping that is designed to meet all CES needs and not solely program administration. The primary purpose of the system is not to identify persons with the longest periods of unemployment but rather (a) to provide a service to job seekers seeking employment in occupations of their own choices and (b) to provide an easy means of matching job seekers to employer requirements.
- 2.12 As a further consequence of the volume of transactions handled by the CES, in terms of its staffing resources, as well as the fluctuating nature of workloads, it is acknowledged that the current manual system of record keeping may not be satisfactorily maintained on all occasions. CES staff are often under pressure to deal with counter and telephone enquiries and sometimes accord priority to interview and referral activities, rather than the accurate maintenance of records and the matching of job seekers against vacancies. It is also recognised that the recording process itself is detailed and complex, although each entry is a logical and necessary requirement.
- 2.13 While every effort is made to ensure that staff follow existing procedures, it is not expected that the existing problems will be satisfactorily resolved until the current manual system is replaced by the computer based job seeker system currently being developed and implemented. In particular, the introduction of the new computer system, entitled the Job Seeker System will facilitate the identification of eligible job seekers, comparison of duration of unemployment between eligible job seekers and matching of job seekers against suitable vacancies. The first phase of the Job Seeker System, which will encompass the above functions, will consist of a phased implementation into CES Offices after mid-July 1985. This phase is estimated to be fully implemented by the end of March 1986.

- 2.14 Approval of Subsidy. Audit noted a high incidence of breaches of the departmental requirement for job subsidy agreements to be signed by an employer within 10 days of the commencement of the subsidy period and approval of subsidy at the time of commencement.
- 2.15 As indicated earlier, since end-March 1985 a job subsidy agreement must be signed by an employer before a subsidised employee commences employment.
- 2.16 Program Implementation. Audit noted that New South Wales State Office did not advise Zones of their targets until February 1984, even though the 1983/84 targets for New South Wales were advised to the State Office in July 1984.
- 2.17 The setting of targets in respect of new programs is a difficult process. Even though it is possible to estimate the size of the potential target group, factors which influence take up rates are: preference of employers for target group, variable labour market demands throughout the year and between areas, interaction with existing programs and interest of target group in scheme. These factors are more easily assessed in respect of existing programs, where performance to date, particularly on a CES office or zone basis, can be taken into account.
- 2.18 The department recognises, however, the importance of targets as the major factor in program control. In this context, it has been continually developing, and modifying on the basis of its experience, the process of consultation with State Offices, Zones and CES Offices on placement targets. Further, consistent with the emphasis placed on the responsibility of State Offices to achieve management goals by practices that reflect, and are tailored to, individual labour market and economic circumstances, the implementation of a directive and centralist approach has been deliberately avoided. On the other hand, there has been a recent emphasis on the need for Zones and CES Offices to be informed as soon as possible after the national and State targets have been finalised.

- 2.19 Within a State, it is now normal practice for management, after consultation with the relevant State Office branches concerned, to determine initial Zone targets based on the State targets. These targets are discussed with Zone Managers who in turn meet with Employment Office Managers within their Zone, with the objective of providing individual targets for each CES Office. Employment Office Managers meet with their staff and consult further strategies for achieving targets. The result of all these discussions is assessed by the Zone Manager who reports back to State Office. In some instances (especially with existing programs) considerable negotiation may take place before targets are finalised. The objective is to identify major variations and influences and to take whatever action is appropriate. Once again, it is stressed that regular and continuous consultation within the network is encouraged.
- 2.20 National targets stem from the expenditure decisions made by the Government in the overall budget context. One element on this process is the consideration by the Minister and senior Departmental officials of options and targets prepared in consultation with State Directors. State targets consistent with the national target are then set on the basis of consultation with State Offices, involving as many levels of management as possible within the constraints of time and budgetary processes. State Directors are represented on senior management committees which have the overall responsibility of assessing options for targets and expenditure and of monitoring progress towards targets after they have been finalised. Consultation also takes place between relevant Central Office Branches and the responsible functional areas in State Offices. It is stressed that this process of consultation is regular and continuous. It is relevant to add that the implementation of the Job Seeker; System, linked to existing information on vacancies available through the Job Bank System, will enable more informed decision on realistic target setting, at all levels of management.
- 2.21 Conversion of Vacancies. Audit made the comment that there was a high incidence of cases where the Department was paying subsidy to employers who, under normal circumstances might not be eligible for subsidy. The Department was also

asked to explain the apparently contradictory operational policies of referring persons with the longest periods of unemployment to vacancies while referral of the most suitable available persons is also required.

- 2.22 The Department's comments included in the Audit Report were made in the context of queries by Audit on the conversion of 'open' vacancies to subsidised vacancies and associated matters. An explanation of the reference to the conversion of open vacancies to subsidised vacancies and the associated rescission is therefore appropriate. Prior to 16 July 1984 the CES on advice of a vacancy from an employer, would in the appropriate cases, advise the employer that he might wish to consider interviewing job seekers eligible for subsidy. Following the marked increases in approvals in 1983/84 and associated expenditure levels, a general instruction was issued in April 1984, advising State Offices that the CES was to no longer take the initiative in suggesting to employers that their vacancies should be lodged under AWSS. They were also instructed not to refer job seekers for subsidised employment where the vacancy was lodged as an open vacancy. At the same time, a direction was given, in relation to the matching of subsidy vacancies with job seekers, requiring job seekers to be referred on the basis of their relative length of unemployment, rather than simply on the basis of minimum eligibility for subsidy. Specific manual instructions were issued to the CES in July 1984. In the light of operational experience and trends in program approval in 1984/85, the so called "conversion rule" was rescinded in December 1984, although the requirement to direct referral action to the most disadvantaged, when referral was initiated by matching, was retained.
- 2.23 As outlined earlier, guidelines exist for determining whether or not particular vacancies or employers are suitable for the placement of subsidised employees. It is considered that these guidelines are adequate in terms of limiting possible abuse. The requirement that the most disadvantaged receive preference in referral to subsidised vacancies is obviously difficult to satisfy in practice, given the use and widespread acceptance of self-service as a method job seeker referral and placement. However, the employer is also aware that the longer term unemployed who are eligible for assistance

are less likely to have the full range of skills and work experience compared with other potentially interested job seekers, both employed and unemployed. It is considered that CES staff are, generally speaking, able to exercise the kind of judgements required in such a way as to satisfy employers.

- 2.24 Program Achievement. Audit observed that there was a 59% incidence of failure to complete a subsidised placement period and a 16% incidence of failure to continue in employment after a period of subsidised placement (the basis of calculating the 16% quoted by Audit is not clear). Audit sought advice as to the level of achievement acceptable to the Department and the results of departmental reviews.
- 2.25 The latest figures, in respect of participants who either withdrew or completed the subsidised placement during the September quarter 1984, show a slight improvement in completion rates over those quoted in the Audit report (from 41% to 48%). Information on completion and subsequent employment experience is as follows:
- under the Standard provisions of AWSS, 72% of those who fully completed the subsidy period were in employment 3 months later. Of those who failed to complete the subsidy period 28% were in employment 3 months later:
 - under the Extended provisions of AWSS, 67% of those who fully completed the subsidy period were in employment 3 months later. Of those who failed to complete the subsidy period 21% were in employment 3 months later.
- 2.26 In assessing the results it needs to be recognised that job-seekers placed under AWSS had experienced significant periods of unemployment over the past twelve months.
- 2.27 In relation to the overall effectiveness of the program, the Department is considering the findings and recommendations of the Kirby report on existing wage subsidy programs. Particular attention is being given to the length of the maximum subsidy period and the subsidies payable in respect of job seekers unemployed for 12 months or longer.

2.28 Audit Comment. In response to the concern expressed by Audit in relation to program control depending on realistic assessments of targets, it is emphasised again that extensive consultation processes are in operation to ensure that targets are realistic, but that changes in the labour market particularly on an area basis are difficult to predict and always pose a problem in forecasting take-up rates.

2.29 The concluding Audit comment in the April 1985 report concerns the guidelines governing the assessment of the job seekers. It is accepted that a CES officer faced with the difficult decision of making appropriate referrals to specific vacancies has to exercise a great deal of discretion. However, the provision of more specific guidelines is not practical given the individual characteristics of each referral situation. Further, the employment officers concerned have received training on the employment selection and referral process and in contacts with employers. Overall, the existing rules governing the eligibility requirements for job seekers, vacancies and employers under the Scheme are considered appropriate given the present objectives of the Scheme and expenditure levels. As indicated earlier, the Kirby Report recommendations on the adoption of a general and integrated wage subsidy scheme embracing ANSS are being considered in the context of the 1985/86 budget.

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS
Inquiry into the Auditor-General's Report, April 1985

Submission by the Department of Employment and Industrial Relations

Adult Wage Subsidy Scheme - Paragraph 8.3

- 1 Following the Department of Employment and Industrial Relations submission of June 1985 to the Joint Parliamentary Committee of Public Accounts in relation to the Auditor-General's Report of April 1985, the Committee sought a further submission from this Department after the Government's response to the Kirby Committee's Report had been finalised.
- 2 In particular, the Committee expressed concern about the basic mechanisms used to identify target groups for assistance under the Adult Wage Subsidy Scheme and expressed the view that the basic mechanisms of the scheme were insufficient to support its objectives. The Committee therefore suggested that the Kirby Report recommendations relating to the introduction of an integrated, rationalised wage subsidy program with standard eligibility and subsidy provisions be considered by the Department for implementation.
- 3 The Department's interim response of 20 October 1985 (copy attached) included a brief outline of the approach being adopted in developing a new integrated wage subsidy program and an undertaking to forward a complete and comprehensive description of the program and associated guidelines and procedures. This submission responds to that undertaking.
- 4 The new integrated wage subsidy program based on the recommendations of the Kirby Report was introduced on 1 December 1985 and is called JOBSTART. Previous wage subsidy programs such as the Adult Wage Subsidy Scheme ceased operation from that date.
- 5 In developing the new program special attention was given to identifying target groups of job seekers in need of assistance and mechanisms to ensure equitable program access among these groups. For example the composition of targets for JOBSTART was set at State/Territory level in consultation with the Department's Employment and Economic Analysis Branch, taking into account each disadvantaged group's share of joblessness and duration of unemployment. State/Territory Offices have allocated these targets in turn, in consultation with Commonwealth Employment Service (CES) staff at Zone Office level. In addition, the new CES computerized system to store details of job seekers is being developed to allow for sorting of the CES register according to variable durations of unemployment. This will permit faster recognition of job seekers who satisfy eligibility criteria for the range of Departmental labour market programs.

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report April 1985
Wage Pause Program:

Further Information sought by the Committee on the
Administrative arrangements governing the Community
Employment Program.

The Committee sought information relating to the
following areas:

1. Legislative responsibility for financial administration of Program funds, and for program design and implementation.
 2. Division of responsibilities between Commonwealth and State Ministers.
 3. Arrangements for approval of projects.
 4. Program targets and objectives.
 5. Procedures for evaluating program effectiveness.
 6. Method of selection of program participants.
 7. Statistical information on the number and geographical distribution of projects funded under the Scheme, and the number of persons employed by age, occupation and length of period previously unemployed.
1. Legislative Responsibility for the financial Administration of Program funds.

The Community Employment Act 1983 provides the legislative basis for the operation of the Community Employment Program. (A copy of the Act is included in ATTACHMENT 1). The Act is administered by the Minister for Employment and Industrial Relations. Essentially the Act

- enables the Minister to
 - approve projects to create employment (and to delegate this authority to DEIR officers)
 - make formal agreements with the States/Territories providing details of the policy and administrative arrangements to apply to the Program
 - make arrangements for the payment of funds through Commonwealth Government Departments and Authorities for employment creation purposes.

- make payments to the States/Territories for the purposes of funding approved employment creation projects; and

- provides for certain financial accountability measures regarding the Commonwealth funds paid to the States/Territories.

Guidelines forming part of the Agreements made under the Act establish the program design, objectives, targets and implementation (including financial) procedures. These are based on principles and parameters decided at the outset of the program by Cabinet. Agreed Guidelines may not be varied unilaterally by either the States/Territories or the Commonwealth.

A copy of the standard Agreement format is ATTACHMENT 2. The current "Guidelines for Project Sponsors" document which details the policy parameters and procedures for processing, approval, and conditions of grants, is included in ATTACHMENT 1.

Financial procedures are governed by separate guidelines under the annual agreements. These are currently being revised for implementation in 1985/86 and are in the process of being negotiated with the States. ATTACHMENT 3 gives a resume of the financial procedures to be covered by the revised Guidelines. For the most part these detail procedures currently in place.

2. Division of responsibilities between Commonwealth and the States/Territories

The program is jointly administered by the Commonwealth and State Governments.

In this arrangement, the Department of Employment and Industrial Relations (DEIR) together with the respective State/Territory Administrations (and for the ACT, the Department of Territories) combine staff resources to receive, develop, assess, and approve projects.

Following approval of projects, DEIR takes the full responsibility for filling positions through the offices of the Commonwealth Employment Service (CES). The respective State/Territory administrations have responsibility for the post-approval administration of grants, namely the making of payments to sponsors, monitoring the operation of projects, and receipt of project audit certificates.

ATTACHMENT 4 gives a full description of joint and separate functions undertaken by Commonwealth and State/Territory Administrations.

3. Arrangements for approval of Projects

The procedures are described briefly in the "Guidelines for Project Sponsors" document (ATTACHMENT 1) and information on the respective responsibilities of Commonwealth and State/Territory administrations is detailed in ATTACHMENT 4. The procedures are:

1. Project applications are lodged with the Joint Secretariat in each Capital City.
2. Applications are registered /acknowledged and initially sorted by the Joint Secretariat.
 - Those assessed as not meeting minimum criteria are rejected.
 - : exceptions are those deemed to have real job creation potential which are discussed with sponsors with a view to reworking until they do meet minimum criteria
 - Those meeting minimum criteria are
 - : referred to the DEIR (CES/APO) for labour market assessment. Targets for the participation of the long term unemployed and other specially disadvantaged groups are normally set for projects in consultation with sponsors.
 - : referred to State/Territory officers for budget assessment.
3. Once assessment is completed AND Commonwealth and State/Territory officials AGREE on a recommendation status for each project, projects are scheduled for consideration by the Consultative Committees which meet monthly in most State/Territories.
 - Committees have an "approval limit" for each meeting, and must choose between projects to recommend those which best meet the Program objectives.
 - in some cases, projects not receiving a recommendation at one meeting may be held over and reconsidered, in comparison to others, at a subsequent meeting.
4. Projects recommended by the Committee are considered by the State Minister responsible for administration of the Program. If he agrees with the recommendation they are then referred to the Commonwealth Delegate for consideration.

- By agreement, projects may not proceed until agreed to by both the State Minister and the Commonwealth Delegate.
- Project proposals and variations to approved projects are not "formally" approved until they are signed by the Commonwealth Delegate.

4. Program targets and objectives

Program aims and objectives are clearly detailed at page 1 of the 'Guidelines for Project Sponsors' document (ATTACHMENT 1). There are elaborated on in ATTACHMENT 5.

As an aid to the achievement of the 3rd objective specified in paragraph 1.2. - "to achieve a level of participation of specially disadvantaged groups greater than their representation in the unemployed labour force ...", QUANTIFIED TARGETS have been identified relating to the placement in program jobs of participants from the specified priority groups. Details of these targets, AND recent information on the program performance in achieving these levels of placements, is also set out in ATTACHMENT 5.

5. Procedures for evaluating program effectiveness

Evaluation of Program effectiveness is undertaken by two principle means.

- (a) maintenance and regular analysis of program monitoring data and the conduct of surveys on post-program employment of participants; and
- (b) the formal evaluation project being conducted by the Bureau of Labour Market Research (BLMR)

In respect of (a):

- the Department maintains a computerised data system to provide complete details of program activity and performance
 - : a full statistical report is prepared fortnightly for the Minister (copy of 1 July edition is at ATTACHMENT 6).
- at the end of the first year an extensive report on the program's operation and performance was published (copy ATTACHMENT 7); the second year report is to be completed in the near future.
- recently a survey of ex-participants was conducted to ascertain their level of post-program employment success. The results are most encouraging and are detailed in ATTACHMENT 8. Follow-up monitoring surveys will be conducted in due course.

In respect of (b):

The Minister has requested the Bureau of Labour Market Research to conduct a joint federal-state evaluation of the program. The terms of reference for the evaluation were finalised in 1984 after extensive discussions with federal and state authorities. The most important aspects of the evaluation are as follows:

1. Analysis of data on approved and rejected projects.
2. Analysis of data on the characteristics of persons placed on CEP jobs.
3. Analysis of survey data on whether the subsequent labour market prospects of former CEP participants were enhanced by their employment in the program.

Further details of the evaluation are provided in ATTACHMENT 9.

6. Method of Selection of Program Participants

Under the Program Guidelines, participants must be selected from those referred by the Commonwealth Employment Services (CES).

- Minimum Eligibility requirements are that

"Persons must have been both unemployed and continuously registered for full-time work with the CES for the immediate past three months and have been away from full-time education during that period" (Paragraph 3.6.1 p7 Sponsor Guidelines).

In choosing registered persons for referral, the CES gives PRIORITY to those who have been

- unemployed for the immediate past 9 months, or
- who for other reasons are in need of immediate employment, or
- who are especially disadvantaged in the labour market including
 - : Aborigines
 - : Migrants with English Language Difficulties
 - : Disabled People

In implementing procedures for referral the CES is required to select for each position UP TO THREE persons who are from the priority target groups and who have the basic requirements to do the job.

In practice, Offices of the CES may choose to either

- refer three people simultaneously for selection by interview by the sponsor/employer; or
- refer one person at a time (up to three) until one is accepted by the sponsor/employer.

If sponsors do not accept one of the three referred the details of the project are referred to the Employment Programs Branch in the State Office of DEIR for further consideration and discussion with the sponsor.

The reasons for the limit of three referrals per position are:

- to prevent "'creaming' of the registers" by sponsors seeking the most highly qualified available; hence to ensure the placement of the most disadvantaged or longest term unemployed.
- to minimise the resource demands on the CES.

In some cases, Consultative Committees, in making recommendations on the funding of projects, advises the imposition of funding conditions relating to the employment of persons from specified priority target groups for specified positions. In this way positions may be designated as "reserved" for

- women (to achieve the equal opportunity target)
- Aborigines
- Disabled
- Migrants with English Language Difficulties.

7. Statistical Information

The maintenance of accurate national records is an important feature of CEP administration, and a number of the attachments to this submission give details of statistical information on various aspects of the Program.

Specific tabulations have been prepared using data for the first two years of operation of the Program - to provide the information specifically requested by the Committee.

These are at ATTACHMENT 10.

The attachments to this submission have not been included in the report, but are held on Committee files.

JOINT COMMITTEE OF PUBLIC ACCOUNTS INQUIRY INTO THE REPORT
OF THE AUDITOR-GENERAL - APRIL 1985

SUBMISSION BY THE DEPARTMENT OF FINANCE

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

BACKGROUND

1. The Commonwealth Superannuation Scheme (CSS) is a multi-employer scheme. It currently covers approximately 150,000 Commonwealth employees, statutory officers etc and a similar number of staff employed by some 80 other employers, called "approved authorities". The approved authorities include organisations such as Telecom, Australia Post, the ABC, Australian National Railways Commission and CSIRO.

Legislation

2. The CSS was established by the Superannuation Act 1922 (the 1922 Act) which has been superseded by the Superannuation Act 1976 (the 1976 Act).

3. Section 159 of the 1976 Act provides:

"(1) Where, in pursuance of a provision of this Act, an amount is paid out of the Consolidated Revenue Fund to or in respect of a person who is or has been an eligible employee, being an eligible employee who is or was employed by an approved authority (or is or was the holder of a statutory office and is declared by the Minister to be a person who is to be treated, for the purposes of this section, as if he were or had been so employed), the authority shall pay to the Commonwealth an amount equal to that amount less, where an amount has been paid or is payable out of the Superannuation Fund into the Consolidated Revenue Fund in respect of the person, such amount as the Minister determines, and the approved authority may apply for that purpose any moneys under its control.

(1A) ...

(2) The Minister may enter into an arrangement with an authority or body (whether or not the authority or body is an approved authority) for the making of payments to the Commonwealth by the authority or body in lieu of payments that, but for the arrangement, the authority or body would

be required to make under sub-section (1) or (1A), being an arrangement that the Minister is satisfied will provide a fair basis of payment to the Commonwealth in respect of amounts paid, payable or likely to become payable out of the Consolidated Revenue Fund to or in respect of persons who are or have been eligible employees and who are or have been employed, or are, by virtue of a declaration of the Minister under sub-section (1) or (1A), to be treated for the purposes of this section as if they are or have been employed, by the authority or body, and the authority or body may apply for the purposes of the arrangement any moneys under its control.

(3) "..."

Section 145 of the 1922 Act is similar in effect, although slightly different in operation, to s.159 of the 1976 Act.

Objective

4. The objective behind these provisions is to ensure that authorities that employ staff whose superannuation benefits are provided under the CSS meet their share of the cost of providing those benefits.

Operation

5. Where, on termination of employment, a CSS member is entitled to an employer-financed benefit, the member's own contributions accumulated with interest are paid from the Superannuation Fund to the Consolidated Revenue Fund (CRF). The total benefit is then paid from the CRF.

6. Sub-section 159(1) imposes an obligation on an authority to pay to the Commonwealth an amount equal to the amount paid from the CRF to the former employee of the authority less such amount as is determined by the Minister for Finance. In practice, the authority is not charged for that part of the total benefit purchased by the member's accumulated contributions (ie. the authority is required to reimburse the Commonwealth only for the employer share of the total benefit). Moreover, where a CSS member has been employed by two or more employers, the authority is not charged for that part of the employer-financed benefit accrued in respect of a period of employment with the Commonwealth or another authority.

7. Sub-section 159(1) provides for authorities to reimburse the Commonwealth as benefits are paid to former employees, that is, when a fortnightly instalment of pension is paid to a former employee of an authority, the authority is asked to reimburse the Commonwealth for its share of that pension instalment. Under this basis for

superannuation contributions, known as the "emerging cost" basis, contributions are small in the early years but increase rapidly as more and more of the authority's former employees become eligible for benefits. Authorities using the "emerging cost" basis are expected, as a matter of prudent financial planning, to make provision in the early years to meet the expected heavier payments in later years.

8. Sub-section 159(2) permits the Minister for Finance to enter into an arrangement with an authority to make an alternative series of payments to the Commonwealth. The alternative adopted, known as the "pay-as-you-go" basis, has been for authorities to make payments to the Commonwealth as benefits accrue to existing employees. Under this arrangement an authority pays a more-or-less stable percentage of its employees' salaries to the Commonwealth each fortnight. Actuarial advice is obtained about the percentage of salaries required to meet the expected cost of the accruing employer-financed benefits, assuming such contributions are paid into a fund and invested to earn income.

9. The "pay-as-you-go" contribution rates need to be reviewed periodically and adjusted as necessary. Adjustments could also be made to pay off deficits or run down surpluses that have arisen in respect of past contributions.

Actuarial Reviews

10. Individual actuarial reviews have been requested for 15 of the larger authorities using the "pay-as-you-go" basis to assess:-

- (a) an ongoing employer contribution rate that will be sufficient to meet the expected cost of benefits accruing from future service by their staff; and
- (b) the adequacy of the contributions paid in the past to meet the cost of benefits accrued from past service by their staff.

11. In assessing the adequacy of past contributions, the Australian Government Actuary has been asked to construct a "notional account" for each authority, to which is:-

- (a) credited the contributions paid by the authority;
- (b) debited the authority's share of the benefits paid to former staff of the authority from CRF; and
- (c) credited interest on the balance in the notional account from time to time at the prescribed interest rate on the Superannuation Fund.

12. The balance in the "notional account" at the date of the actuarial review is compared with the present value of benefits accrued in respect of past service that will be paid in future, to determine whether a surplus or deficit exists in respect of the past contributions by the authority.

Audit

13. In the latter half of 1983, the Australian Audit Office (AAO) conducted an audit of the Department's administration of, and control over, the arrangements entered into with authorities.

14. Arising from that examination, the AAO in its memorandum of 7 February 1984 (copy at Attachment A) referred a number of matters to the Department for consideration and comment. These queries formed the basis of the comments in the Auditor-General's report of September 1984.

15. The Department replied to the AAO on 10 September 1984 (copy of the memorandum, without attachments, is at Attachment B). The Auditor-General summarised the Department's reply and raised some further matters for consideration in his April 1985 report. These matters were set out in more detail in a memorandum to the Department dated 19 February 1985 (copy at Attachment C).

16. The issues in the Auditor-General's April 1985 report are addressed under the headings in that report.

NON-PAYMENT OF EMPLOYER CONTRIBUTIONS BY APPROVED AUTHORITIES

Background

17. The AAO was informed of, and in at least one case specially referred to it, raised no objection to, the administrative practice of not requiring some authorities financed from CRF to make superannuation contributions to CRF. Given the time that has elapsed since the relevant decision was taken in the 1950's, the Department has been unable to establish under what authority the decision to treat some authorities as if exempt from making contributions was made. The background is set out in more detail in paragraphs 37 to 45 of Attachment B.

Action Taken

18. The practice of treating some Budget-dependent authorities as if exempt from making contributions was terminated with effect from 1 July 1981.

RECOGNITION OF STATUTORY OBLIGATION TO PAY

Background

19. In respect of those authorities that were treated prior to 1981 as if exempt from making contributions, the AAO asked that consideration be given to requiring the authorities to now pay the contributions that would have otherwise been required in previous years. Related to this, the AAO also suggested that the notional accounts being constructed for these authorities should cover the full period of the authority's participation in the CSS including the period before 1981, in effect bringing into the accounts as at 1 July 1981, the past liability for which no contributions had been made. The background is set out in more detail in paragraphs 47 to 55 of Attachment B.

Action Taken

20. The Government has considered the matter and has agreed that an authority should not be required to meet the liability for benefits that accrued from service by its staff at a time when the authority was treated as if exempt from the payment of employer contributions. In accordance with this decision, the Superannuation Legislation Amendment Bill 1985, introduced into the Senate on 23 April 1985, contains amendments to s.159 of the 1976 Act and s.145 of the 1922 Act that, if passed, will enable the Minister for Finance to make determinations that will release the authorities from the requirement to meet the liability that accrued prior to 1 July 1981. A copy of the relevant clauses of that Bill is at Attachment D.

CONTRIBUTION RATES

Background

21. The background to the delays that have occurred in revising the contribution rates fixed under the "pay-as-you-go" arrangements and the consequences of those delays is set out in paragraphs 57 to 68 of Attachment B.

22. In his March 1985 report, the Auditor-General acknowledges that reviews are now underway and states:

"Since the date of the Department's reply it is understood that the Actuary has completed reviews of the 15 largest statutory authorities."

In fact, the Actuary has completed reviews for only 13 of the 15 authorities. One of the outstanding reviews is being finalised and a report from the Actuary on the other review is expected shortly. In addition, the Actuary has

completed a review for the Health Insurance Commission, an authority that has only recently moved onto the "pay-as-you-go" arrangement and was not one of the original 15 authorities to be reviewed.

Action Taken

23. As received, copies of the actuarial reports have been sent by the Minister for Finance in confidence to the Chairman of the Senate Standing Committee on Finance and Government Operations for consideration in connection with that Committee's inquiry into the funding of superannuation liabilities by Commonwealth authorities. The Minister for Finance has also stated that he is contemplating making a comprehensive announcement about the results of the Actuary's reports.

24. In connection with the Auditor-General's request for further advice on the preparation of a timetable for regular actuarial reviews of authorities' superannuation contributions, we advise:

- (a) once the Actuary has completed his investigations for the 15 larger authorities, which incidentally account for approximately 95% of the total receipts in "pay-as-you-go" contributions, the Department will ask him to assess ongoing contribution rates to meet the cost of benefits arising from future service by staff of the remaining "pay-as-you-go" authorities;
- (b) it is not proposed to ask the Actuary to assess the adequacy of past contributions paid by the remaining "pay-as-you-go" authorities until the need for this information, and the cost-effectiveness of providing it, is more clearly established; and
- (c) once the initial review has been completed for an authority, it is intended, and indeed the Actuary has recommended, that further actuarial reviews be carried out at regular three-yearly intervals.

MONITORING ROLE BY THE DEPARTMENT OVER AUTHORITIES' CONTRIBUTIONS

Background

25. The background to the Department's administrative procedures for the collection of contributions from authorities is set out in paragraphs 4 to 36 of Attachment B. The Department agreed with AAO that there was a need to strengthen the administrative and internal controls associated with the procedures.

Action Taken

26. The Department has developed an outline for a computer-based system to monitor the accuracy and frequency of payments of employer contributions by authorities. Resources have been provided by the Department and detailed development and implementation of the proposed system will commence once the AAO has cleared the proposed basis for estimating the contributions due from authorities. The system could be implemented in 4-6 months.

27. As an interim measure pending implementation of the system, manual checking of the timeliness of the contributions paid by authorities is continuing and arrangements are being made for data to be provided by the Australian Government Retirement Benefits Office that will enable a manual check to be made of the correctness of contributions paid.

28. Also, as noted in paragraph 23 of Attachment B, records are being manually maintained of employer contributions paid by authorities for use by the Actuary in constructing notional accounts. The proposed computer system is intended to maintain historical records of contributions paid in addition to its other functions.

TRUST MONIES ASPECT OF ELEMENT OF CONTRIBUTIONS RELATING TO FUTURE LIABILITIES

Background

29. Contributions paid by authorities to the Commonwealth under the "pay-as-you-go" arrangements are credited to the Consolidated Revenue Fund and are not separately identified within that Fund. The AAO considers that at least an element of the contributions should be accounted for through the Trust Fund. The AAO also points to the different treatment of contributions paid under the "emerging cost" arrangements and the position of organisations operating through trust accounts.

30. This Department is of the opinion that the contributions paid by authorities are not held in trust by the Commonwealth but are the acquittal of the liability to the Commonwealth under s.145 of the 1922 Act and s.159 of the 1976 Act respectively. This view is outlined in more detail in paragraphs 69 to 71 of Attachment B.

31. Under the Superannuation Acts, employer superannuation contributions are not required in respect of Commonwealth employees, for example, persons employed under the Public Service Act. Nevertheless, contributions are being paid by certain organisations staffed by Commonwealth employees and operating through trust accounts, primarily as a means of disclosing the full costs of their operation.

Action Taken

32. In view of the Auditor-General's further request for a legal advising, we are seeking a legal opinion on whether any part of an authority's contributions should be accounted for through the Trust Fund. A copy of the legal advice will be provided to the Committee when received.

33. The arrangements whereby receipts from authorities that adopt the "emerging cost" method of meeting their superannuation liabilities are treated as a reduction to expenditure under the special appropriation providing for payment of benefits, while "pay-as-you-go" contributions are treated as receipts, have been in place for many years. We are currently researching the historical basis for the difference in treatment as a prerequisite to deciding what, if any, changes may now be necessary.

34. The Department's publication, "The Trust Fund - a Reference Guide", issued in May 1985 spells out that the overriding principle governing the operation of a Group 2 trust account is that, as it is operating on basically a commercial basis, it should meet those costs normally met by a commercial operation and charge for services and goods it provides, on a commercial basis. In determining more detailed operating guidelines for a particular trust account the Secretary of a department should take a number of matters into account. One of those matters is the provision for the employer contribution in respect of superannuation. The guide advises that in order to avoid the accumulation of unrequired moneys in an account, amounts included in charges/prices in respect of employer superannuation contributions are to be regularly transferred to the CRF. The Department proposes following up the matter of employer superannuation contributions from trust accounts with relevant Departments.

DEFENCE SERVICE HOMES CORPORATION

Background

35. The AAO has pointed out that although the Defence Service Homes Corporation is not required to make employer contributions under the Superannuation Acts, the Defence Service Homes Insurance Scheme is making such payments to the Department of Veteran's Affairs. Some background to this matter is at paragraph 38 of Attachment B.

Action Taken

36. The Defence Service Homes Insurance Scheme operates through a Group 2 trust account. The payment of employer superannuation contributions from the trust account therefore is consistent with the guidelines referred to in paragraph 34 above. As part of the follow-up action referred to in paragraph 34, the Department will be considering the appropriate head of revenue for these payments.

DISCLOSURE OF LIABILITY IN AUTHORITIES' FINANCIAL STATEMENTS

Background

37. The AAO noted inconsistencies in the way authorities were treating their superannuation liabilities in their financial statements and stated its expectation that the Department would have developed a specific and uniform approach to the disclosure of superannuation liability information.

Action Taken

38. On 2 February 1985 the Minister for Finance approved amendments to the accounting guidelines for Commonwealth undertakings which, inter alia, require greater disclosure of superannuation arrangements. Prior to submission to the Minister the amendments, including those relating to superannuation, were cleared with the AAO. The requirements for disclosure of superannuation arrangements were incorporated in the February 1985 reprint of "Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings" issued by the Department.

39. The requirements for disclosure of superannuation information will be kept under review.

UNFUNDED LIABILITY AS A LEGAL LIABILITY

Background

40. The AAO suggested that the Department seek a legal opinion about the extent to which an unfunded liability should be accounted for as a legal liability of an authority. The Department's comments are at paragraphs 72 to 75 of Attachment B.

Action Taken

41. The matter has again been addressed by the Department and a paper canvassing the issues (copy at Attachment E) comes to the conclusion that a "pay-as-you-go" authority that has paid contributions at the rate agreed by the Minister for Finance has fulfilled its obligations under the Superannuation Acts.

42. Nevertheless, in view of the Auditor-General's further request for a legal opinion, we are seeking a legal advising from the Attorney-General's Department. A copy of the legal advice will be provided to the Committee when received.

ARRANGEMENTS WITH THE NORTHERN TERRITORY

Background

43. Northern Territory employees contribute under the CSS as employees of approved authorities for the purposes of the Superannuation Act 1976. None of those approved authorities has made employer superannuation liability payments to the Commonwealth since 1 July 1978. However, negotiations have proceeded over a lengthy period with the Northern Territory on the liability to be met by the Northern Territory and the provision to it by the Commonwealth of financial assistance in meeting the liability.

Action Taken

44. On 4 April 1985, the Minister for Finance wrote to the Chief Minister of the Northern Territory setting out arrangements under which the Territory would be required to meet the employer superannuation liability for its employees on an "emerging cost" basis in respect of service with the Territory after 1 July 1984. The Territory would be required to meet the liability from its own resources with no specific financial assistance being provided by the Commonwealth.

45. The Chief Minister has not yet agreed to the arrangements. If he does not agree, further consideration will need to be given to the action to be taken.

MINISTERIAL DECISIONS

Background

46. Section 159 of the Superannuation Act 1976 provides for certain matters connected with the payment of employer contributions to be determined or declared by the Minister for Finance. These determinations and declarations had not been made at the time of the AAO investigation as explained in paragraphs 77 to 80 of Attachment B.

47. As the Superannuation Acts now stand, any determinations and declarations made in the future cannot be made to apply to benefits paid by the Commonwealth in the past.

Action Taken

48. The Superannuation Legislation Amendment Bill 1985 introduced in the Senate on 23 April 1985 contains amendments to s.159 of the 1976 Act and s.145 of the 1922 Act (refer Attachment D). If the proposed amendments are enacted, the Minister for Finance will be empowered to make determinations and declarations, if necessary, applicable to benefits paid by the Commonwealth in the past.

49. The determinations that would be required under the proposed amending legislation to establish the amount of any liability to be met by an authority provide for the method of determining the liability to be specified. The current legislation appears to require a determination to be made in respect of each and every amount paid from CRF. The Department is awaiting the outcome of the proposed amendments to the legislation before asking the Minister to make determinations relating to the amount of any liability.

50. The Department faces a large administrative task in identifying those statutory office-holders not associated with approved authorities who have elected to join the CSS, and making declarations in appropriate cases. The Department will proceed with that exercise as soon as resources permit.

14 June 1985



COMMONWEALTH OF AUSTRALIA

AUSTRALIAN AUDIT OFFICE

Can Moore and Rudd Streets, Canberra City, A.C.T. 2601

ATTACHMENT A

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Please quote F84/49

7 February 1984

The Secretary
Department of Finance
Newlands Street
PARKES A.C.T. 2600

Attention Mr K. Searson

ADMINISTRATION BY THE DEPARTMENT OF FINANCE OF
ACTIVITIES RELATING TO EMPLOYER CONTRIBUTIONS BY
STATUTORY AUTHORITIES TO THE COMMONWEALTH SUPERANNUATION
SCHEME

This Office recently carried out an audit of your Department's administration and control over the arrangements entered into with statutory authorities pursuant to sub-section 159(2) of the Superannuation Act 1976 (the Act). The Act requires the Minister to be satisfied that such arrangements constitute a fair basis of payment to the Commonwealth in respect of amounts paid, payable or likely to become payable from the Consolidated Revenue Fund to or in respect of eligible persons.

2. The objectives of the audit were to -
 - examine the effectiveness of departmental administrative processes and systems used in calculating the 'fair basis of payment' arrangements with authorities and the manner in which the services and advice obtained from the Government Actuary are utilised
 - examine the operation of the arrangements with those authorities which contribute on an 'emerging cost' basis
 - examine the effectiveness of administrative processes employed by the Department in accounting for and controlling receipts from statutory authorities of payments made pursuant to approved arrangements

- 2 -

- examine departmental procedures for adjusting and accounting for any unfunded liabilities disclosed by actuarial reviews, and
- ascertain whether approved arrangements for those authorities contributing on the 'pay-as-you-go' basis are based on current actuarial advice and the extent to which they appear to cover the authorities' superannuation commitments.

3. Following the investigative phase of the audit which included an examination of departmental papers relating to the arrangements and their application to selected authorities, a meeting was held on 21 December 1983 between Ms S. Fenwick and Mr R. Dal Santo of your Department and Messrs J. Bowden and T. Raimet of this Office to discuss and seek your views on a number of issues arising from the investigation. The following matters are now referred for your formal consideration and comment.

Administrative and internal controls

4. There does not appear to be any action taken by your Department to ensure that authorities are paying the correct amount of contributions required by the arrangements. For example, if an organisation is required by an arrangement to pay to the Commonwealth a certain percentage of its total salary payments for superannuation purposes, there does not appear to be any procedures in force to check the base figure against which the payments are calculated or indeed the calculations themselves. While material differences may be disclosed either in the audit process or by later actuarial review, in our opinion, because your Department is charged with the responsibility for administering the Superannuation Act, it should have a prime role in monitoring the correctness of contributions paid by authorities. One method by which this could possibly be achieved would be to require an annual return from each authority together with a reconciliation of the figures shown in such returns with those disclosed in audited financial statements.

5. Only one of your Regional Offices regularly reports to the Retirement Benefits Branch of the Department the contributions which it receives from authorities and there appeared to be no common system by which the Department ensured that all contributions which are receivable are in fact received at the due time. During the discussion Audit was assured that follow-up action was taken in cases where payments were late but there was no evidence of any formal procedures to ensure that such follow-up action was taken promptly. In view of the substantial

amounts involved, this Office is of the opinion that there is a need for formal procedures to be introduced to ensure the timely receipt of all payments due.

6. There was no evidence of any formal procedures in force to ensure that superannuation payments received are correctly posted to the credit of the appropriate authority and that the total of such postings is regularly reconciled with the Revenue Ledger. It is understood that, prior to 1978, the Department did not even account for receipts against individual authorities. Consequently, when the notional accounts (which we are advised the Government Actuary is preparing for each authority) are initially established, we understand that it will be necessary to rely on information supplied by contributing authorities. In our opinion such reliance is not in the best interests of proper internal or administrative control.

7. This Office is aware of confusion which has arisen in the past within certain statutory authorities due to their uncertainty surrounding the correct manner in which to disclose/describe in their annual financial statements the future superannuation liability in respect of employer contributions. In our view, because of your Accounting and Supply Division's major involvement with adherence to accounting standards and principles of disclosure in relation to the financial statements of statutory authorities, there is a need for the Retirement Benefits Branch to liaise more closely with that Division to assist in developing a common and precise approach to the disclosure in financial statements of information surrounding superannuation liabilities.

8. In our opinion, the matters outlined above suggest a need to strengthen the administrative and internal controls associated with the arrangements referred to and we would appreciate your advice on any remedial measures taken or proposed in respect of the individual aspects to which we have referred.

9. In addition to the foregoing matters it was suggested at the discussion on 21 December 1983 that your Department ought to have an overall monitoring role in respect of those organisations which pay on an emerging cost basis. For instance, it appears that you do not monitor whether 'emerging cost' organisations are in fact taking appropriate action to determine the extent of their future liability for employer superannuation provisions and whether current earnings are sufficient to provide for those liabilities. While it is clearly the primary responsibility of each authority to make adequate financial provision to meet all of its liabilities, it was suggested that your Department, in its role as policy adviser and administrator of Government superannuation

schemes, also had a responsibility to monitor whether each authority could meet its present and future superannuation liabilities. Your representative advised that she did not consider your Department had such a role. It would therefore be appreciated if you could confirm whether this is the formal view of your Department.

Non-payment of employer contributions by approved authorities

10. The Act provides that Commonwealth statutory bodies, or organisations in which the Commonwealth has a controlling interest, may be specified by regulation as 'approved authorities'. Where pensions or other benefits are paid out of the Consolidated Revenue Fund to ex-employees of such an approved authority, that authority is required to pay to the Commonwealth such amount as the Minister determines in respect of that pension or benefit. From the information available to this Office it is understood that, at 30 June 1981, there were 9 authorities, specified as 'approved' by regulations, which had not paid employer superannuation contributions as required by the Superannuation Act 1976. These were -

- Australian Broadcasting Commission
- Australian Atomic Energy Commission
- Commonwealth Scientific and Industrial Research Organization
- Defence Service Homes Corporation
- High Court of Australia
- National Capital Development Commission
- Parliament House Construction Authority
- Institute of Family Studies
- Legislative Drafting Institute.

11. Although the 1976 Superannuation Act makes provision for the issue of regulations nominating 'approved authorities' which would not be required to contribute employer superannuation costs, we understand that no such regulations have been issued. In addition, we also understand that

certain of these bodies were 'approved authorities' under the Superannuation Act 1922 but there was no provision in the 1922 Act under which an 'approved authority' could be relieved of its liability to pay the employer contributions, and

all the organisations referred to above only commenced paying employer contributions from 1 July 1981.

12. We would appreciate your confirmation that our understanding of the position as outlined above is correct. If so, we would also appreciate being advised of the authority under which these bodies were relieved of their liability to pay employer contributions. In the absence of competent authority, we are of the opinion there have been serious breaches of the relevant legislation over an extended period.

13. The question also arises, in the absence of any legislative requirements to the contrary, whether each of these authorities should now be required to pay to the Commonwealth those employer contributions from which they were 'relieved' in previous years. We would appreciate your comments on this aspect also. If an administrative decision has been made to waive the retrospective liability we would also appreciate advice of the authority allowing such a decision.

14. In addition to those aspects referred to above we understand that the Government Actuary has been directed by your Department that, when compiling the notional accounts for the organisations under discussion, he is to treat their employer superannuation liabilities as if they commenced their existence as from 1 July 1981. If our understanding is correct then, in the opinion of this Office, the notional accounts will not recognise the total (unfunded) liability for superannuation benefits which have accrued during the lifetime of each of those organisations and hence will not show the true position. This approach appears contrary to the 'intentions' you have set down in the guidelines which you recently issued to the Actuary and which require that the employer contribution rates should reflect the actual cost to the employer of providing superannuation benefits for that authority's staff. It is considered too that, failure to take into account employer superannuation liabilities arising prior to 1 July 1981 for those authorities under discussion, places them at an advantage over other authorities which have paid employer contributions from the dates on which they first employed staff.

15. In our opinion, any past unfunded liabilities should be clearly recognised and, if it is the intention not to do so or to recover them from the authorities concerned, such a decision should be approved under competent authority and the true situation disclosed in the notional accounts. It was noted that in the case of Australia Post, Telecom and the Australian National Airlines Commission,

separate decisions were taken by Cabinet to approve the write-off of other unfunded liabilities which had become apparent from actuarial review.

Contribution rates

16. When the Superannuation Act 1976 came into operation on 1 July 1976, the Australian Government Actuary proposed the short term use of 2 contribution rates to cover the employer superannuation liability of those statutory authorities contributing on a pay-as-you-go basis. It is understood that the rates were originally intended to operate for a limited period (approximately 12 months) until final rates could be established after the completion of actuarial reviews of each authority. The interim rates were set at 15% and 25% of salaries for superannuation purposes with the intention that the lower rate would not cover the costs to the employer of future pension increases.

17. Our investigations indicated that completion of the actuarial reviews of each authority referred to in paragraph 16 above was dependent on your Department adopting and communicating to the Actuary a number of decisions involving relative alternative factors which had a direct influence on the calculation of employers' liabilities.

18. Our investigation also showed that, notwithstanding a number of urgent requests from the Actuary to the Department of Finance for policy advice and related decisions, and similar representations from certain authorities during the period 1977-1983, final guidelines for the calculation of employers' contribution rates were not issued to the Actuary by your Department until late in 1983.

19. It is a matter for consideration whether the protracted delay in providing the Actuary with firm guidelines to enable him to complete assessments and establish firm long term arrangements has prevented the pay-as-you-go group of authorities from progressively recognising their full superannuation liabilities and thus from raising sufficient revenue at the time to set aside adequate provision for such liabilities. In the case of trading authorities this may have had a particularly detrimental effect.

20. Should the actuarial assessments disclose any significant shortfalls and a decision taken to require the shortfalls to be made up by increased contributions, then future services provided by those authorities will need to include a cost component which will not relate to a current year's service but to the operations of several previous years. It is feasible that such a requirement could have a detrimental effect on both the financial operations and efficient management of an authority. Alternatively, if the shortfalls are not recovered from

authorities it would mean that -

- . the CRF will be contributing towards a benefit which should have been paid for by the users of the services of particular authorities, and
 - . authorities which have made efforts in the past to fund their liabilities in full (e.g. the Commonwealth Serum Laboratories) will have made contributions greater in comparison to those which continued to contribute at the minimum rate of 15% of salaries and thus be disadvantaged.
21. This Office would appreciate advice of the reasons behind the delay in providing the Actuary with the information he required to carry out promptly his assessments. It would also be appreciated if you could advise in due course the approach to be taken in respect of any shortfalls in funding which may be determined by the Actuary.

22. During the discussion your representatives indicated that, using the guidelines now issued, the Actuary is expected to complete the final assessments of the 16 largest authorities in early 1984. In this regard it would be appreciated if you could provide the following information -

- . a timetable for implementing the results of those reviews
- . a timetable for the completion of an initial actuarial assessment of the remaining authorities (approximately 64), and
- . details of the planning for regular on-going actuarial reviews to ensure that authorities' contributions continue to keep pace with their superannuation liabilities.

Accounting for contributions

23. Contributions from the pay-as-you-go group of authorities are received under the 'fair basis of payment' arrangements entered into by the Minister under sub-section 159(2) of the Act. Such contributions are generally in excess of the actual annual payments of pensions to superannuated officers of those authorities. Consequently there is an element of the contribution which is applicable to future liabilities and it is suggested that this element could be regarded as being held in trust by the Commonwealth to meet future payments to ex-employees of those authorities. Your advice is therefore sought on whether it should be necessary to account for this element of contributions through the Trust Fund. In order to obtain a definitive opinion on this question, it may be advisable to refer the matter to the Attorney-General's

Extent of authorities' legal liabilities for superannuation

24. Authorities which are 'approved authorities' under the superannuation legislation are also required to produce annual financial statements in accordance with the principles and policies outlined in the 'Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings'. Those guidelines generally require organisations to recognise and account in their financial statements for all legal liabilities.
25. It would appear that a statutory authority on the pay-as-you-go basis of contribution would have satisfied its legal liability under sub-section 159(2) of the Act by paying the amount calculated in accordance with the 'fair basis of payment' arrangements entered into by the Minister. In our discussion it was mentioned that certain legal advisings tended to support this view.
26. Definition of the legal liability becomes more difficult however where an actuarial review discloses an unfunded liability and requires a significant increase in future contributions to remedy such a deficiency. It is considered that the extent to which such unfunded liabilities should be accounted for as legal liabilities of authorities should be clarified, preferably by reference to the Attorney-General's Department.

Other matters

27. In addition to your comments on and advice of proposed action in respect of the foregoing matters, it would be appreciated if you would also indicate the current situation in respect of the following matters -
- (a) determinations by the Minister for Finance of authorities' liabilities under sub-section 159(1) of the Superannuation Act 1976
 - (b) declarations pursuant to sub-sections 159(1) and 159(1A) of the 1976 Act, of statutory office holders being employees for whom the relevant authority is liable to contribute the employer's share of superannuation costs, and
 - (c) arrangements with the Northern Territory Government for collection of employers' contributions for its staff who are members of the Commonwealth Superannuation Scheme. It was noted that the Northern Territory is now the only 'approved authority' which is not paying such employers' contributions.
28. As discussed at the meeting on 21 December it would be appreciated if copies of the following papers could be made available to this Office -



DEPARTMENT OF FINANCE
NEWLANDS STREET, PARKES, A.C.T. 2600
Telephone: CANBERRA 63 9111

- (a) those regulations made under the 1976 Act which established 'approved authorities' and which you have not previously made available to us, and
- (b) delegations given by the Minister for Finance under the Superannuation Acts.

29. In the course of the meeting on 21 December 1983 there was some discussion of employer contributions being paid by certain Trust Accounts established under section 62A of the Audit Act 1901, in particular the A.C.T. Transport Trust Account, the A.C.T. Forestry Trust Account and the Government Printer and Publications Trust Accounts. Reference was made to other similar Trust Accounts such as the A.C.T. Suspense Trust Account and the Storage and Transport Services Trust Account whose position regarding superannuation contributions was uncertain. Your representative undertook to examine the arrangements for contributions by Trust Accounts and advice of the outcome of this examination would be appreciated.

B.R. Beasley
Acting First Assistant Auditor-General

Reference: 82/243

OFFICE OF THE SECRETARY

The Auditor-General
Auditor-General's Office
Box 707 GPO
CANBERRA ACT 2601

ATTENTION Mr B.R. Beasley

ADMINISTRATION BY THE DEPARTMENT OF FINANCE OF ACTIVITIES
RELATING TO EMPLOYER CONTRIBUTIONS BY STATUTORY
AUTHORITIES TO THE COMMONWEALTH SUPERANNUATION SCHEME

I refer to your memorandum of 7 February 1984, reference F84/49, asking that this Department formally consider and comment on the conclusions reached by your officers following the investigative phase of the audit of the abovementioned activities.

2. Let me say at the outset that the cost recovery arrangements under the Superannuation Acts 1922 and 1976 have been bedevilled by problems extending back over a period of many years. This unfortunately has given rise to various shortcomings in the relevant arrangements. The Department has been aware of many of these shortcomings and has been working to overcome them within the level of resources available. In this context, we see your audit investigation as a timely and positive contribution.

3. The following paragraphs refer to the specific matters raised in your memorandum. In some cases it has only been possible to provide preliminary comments at this stage and further comments will be provided as necessary.

ADMINISTRATIVE AND INTERNAL CONTROLS

Check that Amounts Received are Correct

4. Your memorandum says that there does not appear to be any action taken by this Department "to ensure that authorities are paying the correct amount of contributions required by the arrangements". We confirm that no such check is currently made.

5. By way of background, I should explain that when the "pay-as-you-go" arrangement initially came into operation in 1957, the employer contribution was 2.4 times (later 2.3 times) the contributions paid by a contributor to the pension scheme and 1.9 times the contributions paid by a contributor to the Provident account. Both employee and employer contributions were transferred by the relevant authorities fortnightly to the then Sub-Treasuries. Subsequently, Section 8 of the General Directions to Sub-Treasuries stated that

"To ensure that the amounts paid are correct, the Sub-Treasury will apply the appropriate multiplier to all payments received and immediately query any discrepancy with the authority."

The then Superannuation Board was responsible for ensuring that the employee contributions were correct and any adjustments required were included in the payments for a later fortnight. Procedures therefore existed for checking that the contributions paid by authorities under the "pay-as-you-go" arrangement were correct.

6. The arrangements for checking the amount of employer contributions under the "pay-as-you-go" arrangement began to break down in 1969 with the introduction of non-contributory units. No contributions were payable for these units by the employee but the employer contribution was still required.

7. In March 1973 proposals were put forward for a complete restructuring of the Commonwealth Superannuation Scheme (CSS) and the CSS in its present form was implemented under the Superannuation Act 1976 with effect from 1 July 1976. Under the revised Scheme the employees' basic contributions are set at 5% of superannuable salaries but contributors have the option of paying up to a further 5% of salaries as supplementary contributions. At 1 July 1976 a significant number of younger contributors were paying less than 5% of salary and for these contributors the higher contributions were phased in over a period of several years. Contributors paying more than 5% of salary at 1 July 1976 had the option of continuing to pay the higher rate even if that exceeded 10% of salary.

8. Under the revised Scheme, the employers' contribution was fixed as a percentage of the employee's superannuable salary. At first glance it may seem that for an authority paying employer contributions of 15% of salary, the total fortnightly payment from 1976 onwards should be three times the amount paid in employees' contributions. However this was not the case because of the inclusion in the payments of supplementary contributions and the initial phasing in of the 5% basic contributions.

9. To independently check after 1 July 1976 that an authority was paying the correct amount of contribution under the "pay-as-you-go" arrangement, a system would have had to be developed which relied on a matching of information extracted from the records of the Australian Government Retirement Benefits Office (AGRBO) and payment details from the relevant Sub-Treasury. This would not have been practical in 1976 because the AGRBO contributor records were not sufficiently up to date at that time to be able to provide information about recent pay periods. In addition, costings information was not as readily available from the Finance Ledger System as it is today.

10. In your memorandum you suggest that one way of checking the employer contribution payments would be "to require an annual return from each authority together with a reconciliation of the figures shown in such returns with those disclosed in audited financial statements". We assume that you intend that contributions be reconciled to relevant salary payments.

11. The main difficulty with this approach is that an employee's salary for superannuation purposes may not be the same as the actual salary payments he receives during the year because:

- (i) salary for superannuation purposes is based on the employee's salary at his last birthday and hence any increase in salary (resulting from promotion, national wage increases etc) is not reflected in his salary for superannuation purposes until his next succeeding birthday
- (ii) salary for superannuation purposes does not include amounts such as:
 - . payments for overtime
 - . higher duties allowance for continuous periods of less than 12 months
 - . recreation leave loadings
 - . travel allowances,
- (iii) salary for superannuation purposes does not vary when a contributor takes sick leave or long service leave at half pay.

A second difficulty is that not all an authority's employees would be members of the CSS and hence employer contributions would not be payable for all employees. The result is that salary figures in an authority's audited financial statements will not bear any reliable relationship to the amount of its employer contributions.

12. To put the matter into perspective, actuarial investigations provide a mechanism for adjusting an employer's superannuation contribution rate to take account of any significant shortfall or excess in contribution payments. Where such investigations are carried out, the chance of an authority significantly under or overpaying contributions, because of some irregularity in the method of calculating the fortnightly employer contribution, is negligible in the long term. Actuarial investigations as at 30 June 1983 have either been completed or are nearing completion for the 15 largest authorities adopting the "pay-as-you-go" arrangement and these authorities account for approximately 95% of the total receipts in "pay-as-you-go" contributions.

13. Of course, we do not suggest that therefore no check of contributions is necessary. There will always be cases where an actuarial investigation is not carried out for various reasons or where actuarial reviews are carried out at infrequent intervals. Moreover, an irregularity in the calculation of the fortnightly payments which causes a continuing and significant underpayment of contributions could mean that at subsequent actuarial reviews the authority's contribution rate, as a percentage of salaries, has to be set at an artificially high level.

14. For authorities that adopt the emerging cost method of payment, ensuring that the authority is paying the correct contribution involves somewhat different considerations. The arrangements have been that the AGRBO issues an advice to the authority specifying the amount payable fortnightly by the authority with a copy to the Regional Office of the Department of Finance to which the payment is to be made.

Check that Amounts Receivable are Received

15. At paragraph 4 of your memorandum you say that "there appears to be no common system by which the Department ensured that all contributions which are receivable are in fact received at the due time." You mention that only one Regional Office regularly reports contributions received to the Retirement Benefits Branch.

16. The Retirement Benefits Branch receives a monthly cost statement from the Finance Ledger System which details employer superannuation receipts from all approved authorities, regardless of the Regional Office through which the payment was made. These cost statements are the principal source of information on which the Branch relies and any additional information provided by the Regional Offices is only supplementary to those cost statements.

17. Information is transferred manually in the Retirement Benefits Branch from the cost statements to a card record system enabling a comparison to be made between the current month's receipts and receipts in previous months/years. On the basis of these records, action is taken to follow up outstanding receipts.

18. We acknowledge that the present system is not entirely satisfactory being labour intensive and insufficiently accurate to quickly identify all missed payments.

Check that Receipts are Correctly Posted

19. Your officers also found no evidence of any formal procedures to ensure that employer superannuation contributions are correctly posted to the credit of the appropriate authority and that the total of such postings is regularly reconciled with the Revenue Ledger.

20. Follow-up action taken by the Retirement Benefits Branch on the basis of the card record system referred to earlier does disclose examples of incorrect postings. However, because the Department does not know exactly what contributions are due on any particular pay day, complete reconciliation of receipts has not been possible.

Accounting for Receipts Against Individual Authorities

21. In paragraph 6, you comment that "prior to 1978, the Department did not even account for receipts against individual authorities" and that consequently when the notional accounts are set up for individual authorities, it will be necessary to rely on contributions information supplied by the relevant authority.

22. We confirm that the pertinent facts are as you describe them. Let me say, however, that under an arrangement whereby contribution payments were checked as correct at the point of receipt (paragraph 5 above) and employer contribution rates were set by reference to the actuarially calculated employee contributions, as under the pre 1976 pension scheme, there was little need to account for employer contributions by individual authorities.

23. With the abandonment of the unit purchase pension arrangements in 1976, however, a different approach was necessary to the setting of employer contribution rates. Once it became apparent that actuarial reviews would probably be necessary on an authority by authority basis, it followed that information about employer contributions paid would also be required on an authority by authority basis. In an attempt to gear up for this requirement and improve procedures generally, the present arrangements were introduced from the 1979/80 financial year.

24. In commissioning the initial actuarial investigations of authorities' superannuation liabilities, it was decided to examine not only the liabilities expected to accrue in the future but to also examine liabilities accrued in the past. Because contributions had not been accounted for on an authority by authority basis prior to 1979/80 and because of a lack of confidence in some of the information derived from the accounting system currently in operation, the authorities were asked to supply historical data about the employer contributions they had paid. The historical information being supplied by the authorities is checked as far as possible by the Retirement Benefits Branch against information available on Department of Finance files. Unfortunately, some of the data required dates back to the 1950's and is either not available or not verifiable. Of course, in most cases the contributions paid in these periods are small by comparison with the contributions for more recent years and therefore are not likely to have a major effect on the final results of the investigation.

Disclosure in Financial Statements of Information About Superannuation Liabilities

25. Your comments regarding the need for a common and precise approach to the disclosure in financial statements of information surrounding superannuation liabilities has been noted. In this regard, the Financial Management and Accounting Policy Division of this Department (previously the Accounting and Supply Division) consults closely with the relevant area of your Office with respect to standards for disclosure in financial statements.

Remedial Measures

26. We agree that there is a need to strengthen the administrative and internal controls associated with the arrangements referred to above.

27. Attention is being given to the feasibility of setting up a computer based system for monitoring the receipt of employer superannuation contributions. It seems to us that the key to developing an appropriate system is the ability to independently determine the employer contributions "due" each fortnight. A number of changes have occurred since 1976 that may now make it possible to determine this figure with a sufficient degree of accuracy. For example, AGRBO's computer records are more current than in 1976 and we understand that about 97% of all CSS members are now paying total contributions of 5% of superannuable salary.

28. If a contributions "due" figure can be established, it should be possible for a computer based system to quickly compare the amounts "due" and "paid" and to report any missed, late or incorrect payments. This in turn should overcome some of the difficulties currently experienced with incorrectly posted payments as well as enable a better system to be established for providing financial information for future actuarial investigations. The development of a system for monitoring employer contribution receipts will require considerable staff resources.

29. Lack of sufficient staff has been a chronic problem in the Retirement Benefits Branch. From 1973 onwards, the problems associated with the cost recovery arrangements under the Superannuation Acts took second place to the development of the proposals for changes to the CSS and subsequently to the work required to fully implement the revised superannuation arrangements.

30. In 1978 a single section, the Parliamentary and General section, consisting of a Class 11 and a Class 9 officer, with support staff, was responsible for policy development in relation to the Parliamentary Contributory Superannuation Scheme and the administration of that Scheme, policy development for the cost recovery arrangements under the Superannuation Acts and the administration of those arrangements, policy development in relation to the preservation of superannuation rights, and the development of superannuation arrangements to complement Part IV of the Public Service Act. In early 1981 the Branch was expanded from three to four sections and as a consequence of that change preservation and Part IV matters were transferred from the Parliamentary and General section to other sections. Since that time considerable resources have had to be devoted to the Parliamentary Contributory Superannuation Scheme and little time has been available for work on cost recovery matters.

31. A reorganisation has recently been approved for the Department of Finance under which the existing Retirement Benefits Branch was split into two Branches. Under the new organisational structure one of the Branches has three sections, one of which will handle Parliamentary Contributory Superannuation Scheme matters, another section costings and cost recovery arrangements and the third section will cover public sector superannuation schemes other than the CSS. We hope that under this new organisational structure more staff resources will become available which can be devoted to improving the existing administrative and internal controls associated with the cost recovery arrangements under the Superannuation Acts.

Monitoring Role - Emerging Cost Basis of Payment

32. At a meeting on 21 December 1983, your officers suggested, in relation to authorities that adopt the emerging cost method of meeting their employer superannuation liability, that this Department has "a responsibility to monitor whether each authority could meet its present and future superannuation liabilities". Mrs Fenwick advised your officers that she did not consider the Department had such a role and you ask whether that is the formal view of the Department. While it is plainly open to the Department to advise the Government on policy issues in this area (and to seek to inform itself for that purpose) the Department does not consider it is required to monitor authorities' provision for their future obligations. Nor is it clear how it could do so.

33. The authorities that adopt the emerging cost basis of payment have an obligation to reimburse the Commonwealth for a part of each pension instalment or other benefit paid under the Superannuation Acts to its former employees or their dependants. The authority needs to obtain regular actuarial advice about the likely extent of its liabilities and to ensure sufficient funds are available to meet the expected liabilities when they arise. It is then for the authority, in consultation with its auditors, to determine what accounting treatment is required to represent a "true and fair" disclosure of the position.

34. Given that primary responsibility for this matter rests with the authority, we do not consider that the Department of Finance can simply take upon itself the explicit role of looking over the authority's shoulder to ensure the authority is doing the "right" thing. The Department would only have such a role if it stemmed from a legislative provision under the Superannuation Acts, the Audit Act or the authority's enabling legislation or arose out of a Government directive. To the best of our knowledge no such legislative provision or direction exists.

35. I might also mention that for such a monitoring role to be effective, it would have to be supported, where necessary, by the power to require an authority to provide information about the funds set aside for superannuation purposes, the investment practices of the authority and other relevant matters.

36. Whether the Department of Finance "ought to have an overall monitoring role" of the kind suggested is, I believe, a matter for the Government to decide.

NON-PAYMENT OF EMPLOYER CONTRIBUTIONS BY APPROVED AUTHORITIES

37. As requested, we confirm that:

- the 9 authorities listed in paragraph 10 of your memorandum had not paid employer superannuation contributions at 30 June 1981,
- no regulations have been made under sub-section 159(3) of the 1976 Superannuation Act relieving these authorities of their liability to pay employer contributions,
- certain of the authorities were also required to pay employer contributions under the Superannuation Act 1922 but did not do so and there was no provision under that Act for them to be relieved of their liability, and
- except for the Defence Service Homes Corporation, all the authorities listed in your paragraph 10 commenced paying employer contributions from 1 July 1981.

38. Section 8 of the Defence Service Homes Act provides:

"The staff necessary to assist the Corporation in the administration of this Act shall be persons appointed or employed under the Public Service Act 1922".

In July 1981 we received advice from the Attorney-General's Department to the effect that, although the Corporation was an approved authority for the purpose of the Superannuation Act 1976, the staff assisting the Corporation were not "employed by" the Corporation for the purposes of section 159. The Attorney-General's Department therefore concluded that the Corporation was not liable to make employer contributions pursuant to section 159.

39. The Legislative Drafting Institute has since been disbanded and hence no longer makes employer superannuation contributions.

40. In addition to the nine authorities listed in your memorandum, the National Standards Commission also had not paid employer contributions at 30 June 1981 because it was treated as if exempt. The Commission's financial arrangements were altered by changes in its enabling legislation that came into operation in 1979. As a result of those changes it was considered that there was no longer any argument to support the non-payment of employer contributions and the Commission agreed in December 1980 to commence paying employer contributions from 1 July 1981. A number of other authorities were not in fact paying employer contributions at 30 June 1981 although not treated as if exempt, for example the authorities of the Northern Territory Government which are mentioned later in your memorandum.

41. The decision to treat certain approved authorities as if they were exempt from the obligation to pay employer contributions appears to date back at least as far as 1957 when the "pay-as-you-go" arrangements were first introduced. We have been able to establish that the introduction of the "pay-as-you-go" arrangement arose from matters raised by the Audit Office in a memorandum to the Treasury dated 13 November 1950, reference 50/125. In that memorandum Audit proposed

"that reserves be created to provide for past or future liabilities for the Superannuation benefits of employees of all Commonwealth Authorities, particularly trading Authorities, and that each year's accounts be charged with proper apportionment of actuarially calculated liability".

42. Following consideration of this proposal, the Superannuation Act was amended in 1955 to give authorities the option of meeting their liability for superannuation as it accrued rather than on the emerging cost basis as previously required. On 14 August 1957 a memorandum was sent to all Sub-Treasuries listing those approved authorities that would be and would not be making payments under the "pay-as-you-go" arrangements. That memorandum said that four authorities

Australian Broadcasting Commission
 Australian Broadcasting Control Board
 Council for Scientific and Industrial Research
 Board of Management of the Australian War Memorial

would not be making payments because they were "financed upon a departmental basis". A copy of this memorandum was sent to the Audit Office.

43. On 25 February 1959, Treasury wrote to the Audit Office seeking an expression of views about the method by which the Australian Atomic Energy Commission should finance its employer superannuation liability. In a reply dated 23 March 1959, reference 55/188, the Audit Office said

"As the Commission has no income and is financed by annual appropriation this office would have no objection to the Commission being exempted from the requirement to enter into an arrangement for discharging its superannuation liability".

There also appears to have been a similar exchange of correspondence in 1960 regarding Commonwealth Hostels Limited.

44. Given the passage of time since those decisions were taken, we have been unable to establish under what authority they were made. Nevertheless, the precedent established by the Australian Broadcasting Commission and

the Commonwealth Scientific and Industrial Research Organization was maintained and over the years various other approved authorities were also treated as if exempt from any liability under section 145 of the Superannuation Act 1922 or section 159 of the Superannuation Act 1976.

45. When the 1976 Act was introduced, specific provision was made for authorities to be exempted by regulation from any liability under section 159 of that Act. At one stage drafting instructions were issued for the preparation of regulations but, in the event, no regulations were made before the power to make regulations with retrospective effect to 1 July 1976, the date of commencement of the Superannuation Act 1976, expired on 31 December 1978.

46. As you know, the non-payment of employer contributions by some authorities was raised in a submission to the Minister for Finance in March 1981. After consideration by the Minister and further consideration within this Department, the administrative practice of treating authorities as exempt was terminated and the authorities, except the Defence Service Homes Corporation, commenced to make employer superannuation contributions from 1 July 1981.

Recovery of Contributions Not Paid in Previous Years

47. Paragraph 13 of your memorandum seeks our comments on the proposition that authorities now be required to pay to the Commonwealth those employer contributions from which they were "relieved" in previous years.

48. Although the question of retrospective recovery of past contributions was not mentioned specifically when the matter of the authorities that had been treated as exempt was put to the Minister in March 1981, it seems reasonably clear that retrospective recovery was not then contemplated. The Minister agreed to a course of action expressed in the following terms

"they should commence to meet their employer superannuation liability under the Superannuation Act 1976 with effect from 1 July 1981".

To that extent there was ministerial approval for not recovering past contributions.

49. The matter was again considered by the Government in the 1984/85 Budget context. The Government has decided that approved authorities will not be required to reimburse the Commonwealth for that part of the employee's total benefit that relates to service with the authority at a time when the authority was treated as if exempt from the payment of employer contributions.

50. By way of general comment, very little purpose would be served by attempting to now recover contributions not paid in previous years. The authorities are unlikely to have reserves available from which to pay the past contributions and the necessary funds would probably have to be provided from the Budget. As a result the payments by and to the Commonwealth would largely offset each other. Moreover, the taking into the authority's accounts of what could be a very large liability attributable to past accounting periods would probably not add in any material way to better disclosure of the current cost of operations of that authority which of course is the primary justification for raising a charge for superannuation in the accounts of these authorities.

The Notional Accounts - Periods when an Authority was Treated as if Exempt

51. You are correct in your understanding that the Australian Government Actuary has been asked to disregard the cost of any benefit accrued for service completed before 1 July 1981 when compiling a notional account for an authority that was previously treated as if exempt from the obligation to pay employer contributions. However we reject the implied criticism in the conclusion in paragraph 14 of your memorandum that therefore

"the notional accounts will not recognise the total (unfunded) liability for superannuation benefits which have accrued during the lifetime of each of those organisations and hence will not show the true position."

52. The notional accounts were never intended to show the "true position" in the sense that these words are applied, for example, to an authority's financial statements. The notional accounts are being compiled for actuarial purposes in order to provide a mechanism whereby contribution rates set for the purposes of the "pay-as-you-go" arrangements can be monitored to determine whether they have been sufficient to meet the superannuation liabilities they were intended to meet. The contributions paid by the authorities that were treated as if exempt are only intended to cover the cost of benefits accrued since 1 July 1981 and therefore only benefits accrued since 1 July 1981 are being included in the notional accounts.

53. In our view, this approach is not contrary to the guidelines issued to the Australian Government Actuary because the contribution rates calculated by the Actuary will reflect the actual accruing cost to the employer of providing superannuation benefits for that authority's staff. The reason for including the particular sentence to which you refer in the guidelines was to make it clear, for the benefit of the authorities concerned, that the contribution rate set would no longer be an "average" rate which although representative of overall costs, may not necessarily be representative of the costs incurred in respect of the staff of a particular authority.

54. Given that the authorities that were treated as if exempt all relied heavily on funds from the Budget, it is not clear to us in what sense those authorities can be said to have been placed at an "advantage over other authorities" that paid employer contributions prior to 1 July 1981. Certainly had these authorities been "trading" authorities they would have been at an advantage compared to other trading authorities that were paying contributions, but that was not the case. Moreover, recovery of previous years' contributions would involve offsetting payments by and to the Commonwealth and would not enhance disclosure of the current cost of operations of the authority.

Past Unfunded Liabilities

55. In relation to paragraph 15 of your memorandum, we agree that any decision to collect or not collect past unfunded liabilities should be approved under competent authority. We do not agree however that further steps are required to disclose the "true situation" in the notional accounts for the reasons already given.

56. The broad issues affecting the superannuation liabilities of the 15 authorities for which actuarial reviews are currently being undertaken were considered by the Government in the 1984/85 Budget context. The Government was asked to endorse broad principles or guidelines to be adopted in setting the future employer contribution rates and dealing with any deficiencies or surpluses in past employer contributions and, while some decisions were taken, other matters are yet to be resolved.

CONTRIBUTION RATES

Reason for Delay in Revising Interim Contribution Rates

57. The thrust of the comments in paragraphs 16, 17, 18 and 21 of your memorandum seems to be that the delay in reviewing the interim employer contribution rates set in 1976 for the purposes of the "pay-as-you-go" arrangements was due entirely to a lack of action on the part of this Department. While we readily accept that, because of the complexity of the task, pressures of other work and lack of staff, the Department was slow to develop the necessary policy framework for the review of employer contribution rates, without a detailed analysis of the factors involved we do not believe it is possible to say that the delay was entirely due to lack of action on our part.

58. There are four parties from whom an input is required before actuarial reports can be prepared:

- (a) the Department of Finance has to settle the policy about the future of the "pay-as-you-go" arrangements and then set the "terms of reference" for the actuarial review,
- (b) the AGRBO has to provide data about contributors and pensioners on which the review is based,

- (c) the authorities need to provide financial data about the contributions paid in past years, and
- (d) the Australian Government Actuary has to undertake the necessary actuarial analysis.

59. There were undoubtedly times between 1976 and 1983 when AGRSO, the Actuary and this Department were not in a position to make the input required of them; a detailed and lengthy examination would be necessary to determine the critical paths involved. Unless that is done we believe it is inappropriate to attempt to identify the specific reasons for the delay and to attribute responsibility.

Effect of the Delay on Authorities

60. The extent to which the delay in reviewing the employer contribution rates "prevented" the "pay-as-you-go" authorities from progressively recognising their full superannuation liabilities is, in our view, uncertain.

61. As you point out, there were two interim contribution rates set as at 1 July 1976, 15% of salary and 25% of salary. The 25% rate was intended to cover the cost of post retirement pension increases whereas the 15% rate was not. As you know, the Australian Postal Commission and the Australian Telecommunications Commission paid the higher rate although it ultimately proved to have been too high. Over the years since 1976 several authorities have voluntarily increased their employer contribution rate having made the judgment that their contribution rate would be insufficient and out of a desire to ensure that they were meeting their full accruing superannuation liabilities. Other authorities have established provisions in their accounts to cover the expected cost of post retirement pension increases. These authorities therefore are able to recognise to a significant degree their full accruing liability, despite the fact that a detailed actuarial review has not been carried out.

62. The issue therefore seems to be whether the remaining authorities were "prevented" from also recognising their full liabilities because of the delay in undertaking the actuarial review of the interim rates.

63. Perhaps the first thing to be said is that the Australian Government Actuary in fact recommended in June 1976 that the interim contribution rate for the purpose of the "pay-as-you-go" arrangement be 15% of salary and that the cost of pension increases be met separately. This recommendation was accepted and authorities were advised on 13 July 1976 that an interim contribution rate of 15% would apply. Authorities generally were not advised of the alternative rate of 25% of salary or of the amount necessary to cover the cost of pension increases.

64. About that time there was strong resistance in some quarters to the setting of employer superannuation contribution rates that included the cost of post-retirement pension increases both on the grounds of principle and because of the financial implications. The Australian Society of Accountants after consultation with half a dozen senior members in April 1976 advised that

"It was the unanimous opinion of the people consulted that present consumers should not be called upon to meet the cost of future inflation".

The report of the 1973 "Enquiry into Superannuation Pension Updating" (Parliamentary Paper 1973 No 9) includes at section 7.3 a selection of comments made by approved authorities at that time expressing concern about the financial implications for them of increasing contributions to cover the cost of pension increases. Although we believe this issue has ultimately been resolved in favour of including the cost of pension increases in the percentage of salary contribution rate, it was nevertheless of real concern at the time.

65. Secondly, some of the remaining authorities have been reluctant to increase their contribution rate either because they believe an increase is not warranted or because they consider that they do not have the necessary funds.

Action to be Taken Regarding Shortfalls in Funding

66. In paragraphs 20 and 21, you outlined some of the arguments for and against recovering shortfalls in funding disclosed by the actuarial reviews currently being undertaken and ask that we advise you in due course of the approach to be taken to such shortfalls.

67. The matter is one for consideration by the Government as already mentioned in paragraph 56 above. When the Government has taken a decision we will let you know what action is to be taken.

Timetable for Further Action

68. You ask in paragraph 22 that we provide a timetable for the various tasks associated with the actuarial reviews. No such timetable has yet been prepared but we will be giving further consideration to this matter.

ACCOUNTING FOR CONTRIBUTIONS

69. We disagree with your suggestion that the element of employer contribution under the "pay-as-you-go" arrangement that is applicable to future liabilities can "be regarded as being held in trust by the Commonwealth to meet future payments to ex-employees of those authorities".

70. The legal duty to provide the benefits to which ex-employees are entitled rests with the Commonwealth (see section 134(1) of the Superannuation Act 1922 and section 112(2) of Superannuation Act 1976). Payment of those benefits is in no way dependent on sufficient money having previously been paid by employers to the Commonwealth. Consequently it is our view that payments made by employers to the Commonwealth under sections 145 and 159 are not held in trust by the Commonwealth for ex-employees. Rather, payments made by employers to the Commonwealth pursuant to sections 145 and 159 are simply to acquit the employers' liability to the Commonwealth under those sections. Once made, the payments become revenue of the Commonwealth and there is no need to account for them through the Trust Fund.

71. Subject to any further views you may wish to express, we see no need to consult the Attorney-General's Department on this matter.

EXTENT OF AUTHORITIES' LEGAL LIABILITIES FOR SUPERANNUATION

72. In paragraph 26 of your memorandum, you suggest that we seek an opinion from the Attorney-General's Department about the extent to which an unfunded liability should be accounted for as a legal liability of an authority.

73. It seems to us that two separate issues are being raised. The first is whether an unfunded liability disclosed by an actuarial review is a "legal liability" of the authority. The second is whether the unfunded liability is to be brought into the authority's financial statements and if so in what form. The first issue is a matter for legal interpretation, the second clearly is not.

74. As you acknowledge, a statutory authority appears to satisfy its legal obligations under sub-section 159(2) by paying the amount required in accordance with the arrangement entered into. If this is the case, then the authority is under no legal obligation to pay any additional amount to the Commonwealth under the terms of section 159.

75. In our view the pertinent question from a legal point of view is whether an arrangement entered into for the purposes of section 159(2) that involves payments to the Commonwealth that are insufficient to overcome an actuarially calculated unfunded liability would constitute "a fair basis of payment" within the meaning of sub-section 159(2). If it does not then there would be implications for the arrangement as a whole. Whether an arrangement constitutes a "fair basis of payment" is of course a judgment that could only be made after careful analysis of the facts in an individual case. Accordingly, there seems to be little point in approaching the Attorney-General's Department, at this stage, when decisions have not yet been made about the arrangement to apply to individual authorities as a result of the current reviews.

76. Where an actuarial review discloses a deficiency in a notional account, it is an accounting question as to whether such a deficiency should be disclosed in the financial statements of the authority. As explained in Mr Whalley's letter to Mr Hill of 8 September 1982, the Minister for Finance agreed that, as a general rule, the financial statements of statutory authorities contributing on the "pay-as-you-go" basis are not to include reference to deficiencies or surpluses in notional accounts. I have asked that the matter of disclosure be taken up between the Audit Office and the Financial Management and Accounting Policy Division of this Department concerning the updating of the Minister for Finance's Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings. In this regard, you will be aware that there are no extant accounting standards in this area and that the Australian Accounting Research Foundation currently has on its work program, the issues of retirement benefits and superannuation accounting. It is hoped some positive guidance on these matters will be forthcoming.

OTHER MATTERS

Determinations by the Minister for Finance under Section 159(1) of the Superannuation Act 1976

77. In response to paragraph 27 of your memorandum, I advise that no determinations have as yet been made by the Minister for Finance under this sub-section.

78. The determinations provided for under sub-section 159(1) of the Superannuation Act 1976 appear to provide a means whereby the Minister for Finance can reduce an authority's liability to the Commonwealth for cost recovery purposes to something less than the liability for the whole pension or other benefit paid. The cost recovery arrangements as now developed will involve no liability devolving on the authority for some pensions or other benefits and only a part liability in other cases and may not be capable of being implemented under sub-section 159(1) as presently drafted. As a consequence, some revision of the legislation may be required.

Declarations Pursuant to Sub-Section 159(1) and (1A) of the Superannuation Act 1976

79. Again in response to paragraph 27 of your memorandum, I advise that no declarations have as yet been made by the Minister for Finance under these sub-sections.

80. A declaration would enable the cost of providing superannuation benefits for a statutory office holder to be recovered from an appropriate authority. There will be a considerable amount of time consuming work involved in deciding whether a declaration is appropriate in a particular case and implementing recovery action. In view of the relatively minor amounts involved, this matter has not received a high priority. However, we do appreciate the need to give attention to it in due course.

Arrangements between the Commonwealth and the Northern Territory

81. There have been ongoing discussions over an extended period between the Commonwealth and the Northern Territory Government about the arrangements under which the Northern Territory Government is to meet its share of the cost of superannuation benefits for those employees who are contributors to the Commonwealth Superannuation Scheme. Proposals for a resolution of this matter have been put to the Minister for Finance for consideration.

Copies of Regulations and Delegations

82. As requested, I attach a copy of the Superannuation (Approved Authorities) Regulations as consolidated to 31 July 1980 together with copies of all Statutory Rules made since that date amending those regulations.

83. Also attached, as requested, is a copy of the delegations made by the Minister for Finance under the Superannuation Acts 1922 and 1976.

Trust Accounts

84. Paragraph 29 of your memorandum says that at the meeting on 21 December 1983 representatives of this Department undertook "to examine the arrangements for contributions by Trust Accounts" and you asked for advice regarding the outcome of that examination.

85. The undertaking given was to provide a complete list of those entities that are not approved authorities but nevertheless are making employer superannuation contributions to the Department of Finance. This list is attached. No undertaking was given to carry out a general examination of the arrangements for meeting superannuation costs through Trust Accounts at this time.

Iambarkles

I. CASTLES

10 September, 1984



COMMONWEALTH OF AUSTRALIA

AUSTRALIAN AUDIT OFFICE

ATTACHMENT C

For Moore and Rudd Streets, Canberra City, A.C.T. 2601

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F84/754

19 FEB 1985

The Secretary
Department of Finance
Newlands Street
PARKES ACT 2600

Attention Ms S. Fenwick

ADMINISTRATION BY THE DEPARTMENT OF FINANCE OF ACTIVITIES RELATING TO EMPLOYER CONTRIBUTIONS BY STATUTORY AUTHORITIES TO THE COMMONWEALTH SUPERANNUATION SCHEME

Thank you for the comprehensive reply of 10 September 1984 to this Office's memorandum of 7 February 1984 on the above subject. Your further comments on the matters set out below would be appreciated.

Administrative and Internal Controls

"Pay-as-you-go" Authorities

2. Paragraph 9 of your memorandum advises that in 1976 it was not possible to check whether authorities were paying the correct amount of contributions because AGRBO records were not sufficiently up to date at that time and costing information was not readily available from the Finance Ledger System. In paragraph 13 it is acknowledged that there may be circumstances in which a check of the correctness of contributions would prevent the necessity of imposing artificially high rates to correct deficiencies in the notional accounts which had accumulated because of undetected errors in contributions.

4. The need for this check arose with the introduction of the new Scheme in 1976. The absence of actuarial assessments for a large proportion of the authorities involved may already have brought about this condition. You have indicated that the proposed introduction of a computer based system may provide the facility for this check. Your advice of action proposed to overcome the deficiency in the current system pending the introduction of the computer based system would be appreciated.

Emerging Cost Authorities

5. Paragraph 14 of your memorandum advises that AGRBO issues a copy of an advice specifying the amount payable by each authority to the Regional Office of the Department at which the payment is to be made. Your comments on the action taken by Regional Offices on these advices would be appreciated.

6. It is understood that a copy of the AGRBO advice is also sent to the Retirement Benefits Branch and that the Branch records payments received from emerging cost authorities to a card record from monthly cost statements - your paragraphs 16 and 17 refer. It would seem more effective if the Retirement Benefits Branch were to be solely responsible for the initial recording of the advices, check of receipts and follow-up of overdue amounts.

Proposed Computer Based System

7. Paragraphs 26 to 28 of your memorandum advise that the Department is giving attention to the feasibility of setting up a computer based system for monitoring employer contribution receipts in order to strengthen administrative and internal controls.

8. It is understood that a broad specification for the system has been prepared and that the specification has been put to the Department's Priorities Review Committee. This Office would appreciate further information on the nature of the proposed system, including particulars of the development timetable for its implementation.

Accounting for Receipts Against Individual Authorities

9. Paragraphs 22 and 23 of your memorandum indicate that there was little need to account for employer contributions by individual authorities under the pre 1976 pension scheme and that the recording of contributions on an authority by authority basis was not introduced until the 1979/80 financial year. When this information was required in order to provide complete information for the actuarial investigations it was necessary to rely largely on the details supplied by authorities.

10. Your advice is sought on whether the current recording system is now satisfying the criteria of completeness and accuracy necessary for the information to be used for its intended purposes.

Disclosure in Financial Statements of Information about Superannuation Liabilities

11. Paragraph 7 of this Office's memorandum referred to the need for the Retirement Benefits Branch to liaise with the then Accounting and Supply Division in developing a common and precise approach to the disclosure in financial statements of information on superannuation liabilities.

12. Although your reply (paragraph 25) does not specifically address this issue, it is noted from Departmental papers that correspondence concerning the disclosure of superannuation liabilities was exchanged between the Retirement Benefits Branch and the Public Administration and Accounting Development Branch in September/October 1984 on proposed amendments to the Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings. Your advice of developments in this matter would be appreciated.

Adjustment of Past Deficiencies/Surpluses

13. The submission to Cabinet leading to the decision of 1 August 1984 referred to the results of the actuarial reviews of 10 statutory authorities, 7 of which disclosed past surpluses/deficiencies. Recommendations (b)(ii) and (b)(iii) of the Submission proposed means by which these past surpluses/deficiencies could be eliminated. Discussions with Ms Fenwick of your Department have indicated that Cabinet did not make a decision on those parts of the submission. It would therefore appear that the authorities mentioned in the submission and those for which actuarial reviews have been completed since will continue to carry surpluses/deficiencies in their notional accounts.

14. If the above is a correct interpretation of the situation, your advice would be appreciated on what further or alternative action the Department has under consideration to adjust past surpluses/deficiencies disclosed by actuarial reviews. If specific adjustment of these surpluses/deficiencies is not to be undertaken your comments are requested on the effect on the arrangements entered into under section 159(2) of the Superannuation Act which provides for a "fair basis of payment to the Commonwealth of amounts paid, payable or likely to be payable". Your further advice on the need to seek advice from the Attorney-General's Department on the extent of authorities' liabilities would also be appreciated in view of Cabinet's decision which requires ongoing contribution rates to be sufficient to meet the full cost of benefit accruing for further service by the authority's CSS members.

Timetables for Actuarial Reviews

15. Paragraph 68 of your memorandum indicated that consideration was being given to the preparation of timetables. Your advice as to developments in this regard would be appreciated, particularly in planning for on-going actuarial reviews at regular intervals.

Accounting for Contributions - Trust Fund

16. Your comments in paragraphs 69 to 71 have been noted.

17. In the case of emerging cost authorities it is noted that employer contributions are not credited to revenue, as they are for pay-as-you-go authorities, but are accounted for as a reduction to expenditure of the special appropriation item under which benefits are provided. It would appear that under this arrangement there is an intention to match contributions received with those paid.

18. As mentioned in paragraph 23 of this Office's memorandum it is considered that because the contributions paid by 'pay-as-you-go' authorities include an element which is applicable to future liabilities, this element may need to be accounted for through the Trust Fund. In order to put the issue beyond doubt, it is suggested that the opinion of the Attorney-General's Department should be sought.

19. Further, your advice of the reasons for the different accounting treatments for contributions received from 'pay-as-you-go' and emerging cost authorities would be appreciated as they appear to be inconsistent with paragraph 70 of your memorandum in which it is stated that receipts under section 159(2) arrangements constitute revenue of the Commonwealth.

Trust Accounts

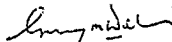
20. Paragraph 29 of this Office's memorandum referred to inconsistencies between certain bodies which operated through trust accounts established under section 62A of the Audit Act as to whether they paid employer contributions. From discussions with Ms Fenwick of your Department, it is understood that the Department does not have any general policy on the treatment of such bodies. Your comments on the need to introduce uniform arrangements for the accounting of the employer element for superannuation contributions from these bodies would be appreciated.

21. Paragraph 38 of your memorandum advises that the Defence Service Homes Corporation is not liable for employer superannuation contributions. However, it is noted that the Insurance Division of the Defence Service Homes Corporation applies a rate of 20% of salaries for superannuation. An

amount of \$179,164 was credited to DSH Revenue - Other in 1983-84 (95-30, 1364-62) which is accounted for as revenue of the Department of Veterans' Affairs. Your comments on this apparent anomaly would also be appreciated.

Northern Territory

22. Your advice of the current position in respect of employer contributions by the Northern Territory administration in respect of its employees and those of its statutory authorities who are members of the Commonwealth superannuation Scheme would also be appreciated.



C.T. Monaghan
First Assistant Auditor-General

ATTACHMENT D

EXTRACT FROM SUPERANNUATION LEGISLATION AMENDMENT BILL 1985

Superannuation Legislation Amendment No. 1985

17

Payments to the Commonwealth by authorities in respect of eligible employees

24. (1) Section 159 of the Principal Act is amended—

- (a) by inserting in sub-section (1) " , whether before or after that amount is paid out of the Consolidated Revenue Fund," after "declared by the Minister";
- (b) by inserting in sub-section (1) " , subject to any determinations made under sub-section (2)," after "the authority shall";
- (c) by omitting from sub-section (1) "less, where an amount has been paid or is payable out of the Superannuation Fund into the Consolidated Revenue Fund in respect of the person, such amount as the Minister determines,";
- (d) by inserting in sub-section (1A) " , whether before or after that amount is paid out of the Consolidated Revenue Fund," after "declared by the Minister";
- (e) by inserting in sub-section (1A) " , subject to any determinations made under sub-section (2)," after "the authority or body shall";
- (f) by omitting from sub-section (1A) "less, if an amount has been paid or is payable out of the Superannuation Fund into the Consolidated Revenue Fund in respect of the person, such amount as the Minister determines,";
- (g) by omitting sub-section (2) and substituting the following sub-sections:

"(2) Subject to sub-section (2A), the Minister may, from time to time, determine in writing that, in lieu of the amounts payable under sub-section (1) or (1A) to the Commonwealth by—

- (a) an authority or body specified in the determination; or
- (b) authorities or bodies of the kind specified in the determination, the authority or body, or authorities or bodies of that kind, shall pay to the Commonwealth amounts calculated in accordance with the method specified in the determination and the authority or body, or an authority or body of that kind, as the case requires, may apply for that purpose any moneys under its control.

"(2A) A determination by the Minister under sub-section (2) shall not have the effect of making an authority or body liable, in particular circumstances, to pay to the Commonwealth an amount greater than the amount that the authority or body would be liable to pay to the Commonwealth under sub-section (1) or (1A) in those circumstances.

"(2B) A determination under sub-section (2) applies to amounts that become payable after the determination is made and may, if the determination so specifies, apply in relation to amounts that became payable before the determination is made.

"(2C) Nothing in sub-section (1), (1A) or (2) shall be taken to imply that 2 or more authorities or bodies cannot, under that sub-section, be liable to pay amounts to the Commonwealth in respect of the same amount, being an amount that has been paid out of the Consolidated Revenue Fund to or in respect of a person who is or has been an eligible employee, being an eligible employee—

- (a) who is or was employed; or
 - (b) who is, by virtue of a declaration or declarations under that sub-section, to be treated, for the purposes of this section, as if the eligible employee were or had been employed,
- by each of those authorities or bodies.

"(2D) An authority or body (whether or not the authority or body is or has been an approved authority) may, and, if the Minister so directs, shall, enter into an arrangement with the Minister for the making of payments to the Commonwealth by the authority or body, in lieu of payments that, but for the arrangement, the authority or body would be required to make under sub-section (1), (1A) or (2), being an arrangement that the Minister is satisfied will provide a fair basis of payment to the Commonwealth in respect of amounts—

- (a) that have been paid, are payable or are likely to become payable, in pursuance of the provisions of this Act, out of the Consolidated Revenue Fund; and
- (b) in respect of which, but for the arrangement, the authority or body would be, or would be likely to become, liable to make payments to the Commonwealth under sub-section (1), (1A) or (2).

and the authority or body may apply for the purposes of the arrangement any moneys under its control;"

- (h) by omitting from sub-section (3) "sub-sections (1) and (2)" and substituting "sub-section (1)"; and
- (j) by adding at the end the following sub-section:

"(4) The reference in sub-section (2) to an amount calculated in accordance with a method specified in a determination shall be read as including a reference to a nil amount."

(2) An arrangement entered into in pursuance of sub-section 159 (2) of the Principal Act and in force immediately before the commencement of this section continues in force, on and after the commencement of this section, for the purposes of the Principal Act as amended by sub-section (1) as if the arrangement had been entered into under sub-section 159 (2D) of the Principal Act as so amended.

PART III—AMENDMENTS OF THE SUPERANNUATION ACT
1922

Principal Act

26. The *Superannuation Act 1922*^a is in this Part referred to as the Principal Act.

27. (1) Section 145 of the Principal Act is repealed and the following section is substituted:

Payments to the Commonwealth by approved authorities

"145. (1) Where any pension or other benefit is payable on or after 1 July 1976 under this Act to or in respect of any person who was employed by an approved authority, the authority shall pay to the Commonwealth, in respect of the payment of that pension or other benefit—

- (a) such amount as the Minister determines; or
- (b) an amount calculated in accordance with a method determined by the Minister in respect of the authority or in respect of authorities included in a class of authorities to which the authority belongs,

and the authority may apply for that purpose any moneys under its control.

"(2) A determination under sub-section (1) may be made at any time before or after the pension or other benefit becomes payable.

"(3) Nothing in sub-section (1) shall be taken to imply that 2 or more authorities cannot, under that sub-section, be liable to pay amounts to the Commonwealth in respect of the same amount, being an amount that has been paid to or in respect of a person who has been employed by each of those authorities.

"(4) An authority may, and, if the Minister so directs, shall, enter into an arrangement with the Minister for the making of payments to the Commonwealth by the authority, in lieu of payments that, but for the arrangement, the authority would be required to make under sub-section (1), being an arrangement that the Minister is satisfied will provide a fair basis of payment to the Commonwealth in respect of amounts paid, payable or likely to become payable out of the Consolidated Revenue Fund to or in respect of persons who have been employed by the authority and the authority may apply for the purposes of the arrangement any moneys under its control.

"(5) Where—

- (a) but for this sub-section, an authority would be liable to pay to the Commonwealth an amount or amounts in respect of any pension or other benefit that was paid before 1 July 1976 under this Act; and
- (b) the Minister determines that the authority should be relieved of that liability,

the authority ceases, upon the making of the determination, to be liable for that amount or those amounts.

"(6) The reference in sub-section (1) to an amount determined by the Minister, or to an amount calculated in accordance with a method determined by the Minister, shall be read as including a reference to a nil amount."

(2) An arrangement entered into in pursuance of sub-section 145 (2) of the Principal Act and in force immediately before the commencement of this section continues in force, on and after the commencement of this section, for the purposes of the Principal Act as amended by sub-section (1) as if the arrangement had been entered into under sub-section 145 (4) of the Principal Act as so amended.

NOTES

1. No. 31, 1976, as amended. For previous amendments, see No. 51, 1976; No. 80, 1977; Nos. 17, 134, 169 and 170, 1978; Nos. 52 and 155, 1979; No. 177, 1980; No. 92, 1981; No. 92, 1983; and No. 165, 1984.
2. No. 33, 1922, as amended. For previous amendments, see No. 45, 1924; No. 22, 1930; No. 10, 1931; No. 45, 1934; No. 28, 1937; No. 53, 1942; No. 18, 1943; Nos. 15 and 30, 1945; No. 2, 1946; Nos. 1 and 35, 1947; No. 19, 1948; No. 76, 1950; Nos. 49 and 62, 1951; No. 92, 1952; No. 11, 1954; No. 27, 1955; Nos. 19 and 112, 1956; No. 94, 1957; No. 45, 1958; No. 102, 1959; No. 102, 1963; Nos. 97 and 154, 1965; Nos. 69 and 86, 1966; No. 52, 1967; Nos. 49 and 57, 1968; Nos. 14 and 26, 1969; No. 46, 1971; Nos. 46, 83 and 135, 1973; No. 216, 1973 (as amended by No. 20, 1974); No. 59, 1974; Nos. 32 and 37, 1976; No. 17, 1978; No. 92, 1981; and No. 63, 1984.

SUPERANNUATION LIABILITIES OF COMMONWEALTH STATUTORY
AUTHORITIES - DISCUSSION PAPER

1. Background

Under the Superannuation Acts (1976 and 1922) statutory authorities or other bodies that have been specified by Regulation as 'approved' authorities, are required to meet the cost of the employer share of benefits that become payable in respect of their employees. An 'approved' authority may meet its employer commitment either on the 'emerging cost' basis or by the 'pay-as-you-go' (PAYG) arrangement. In his September 1984 report the Auditor-General raised the question of whether or not a liability exists under these methods of providing for superannuation, and it is this issue that is addressed in this paper.

2. Emerging Cost

2.1 With the emerging cost basis, the authority concerned reimburses the Commonwealth for the cost of benefits as they are paid. Under s 159(1) of the Superannuation Act 1976 (s 145(1) of the 1922 Act) an approved authority is required to pay each fortnight an amount equal to the total amount paid out of the Consolidated Revenue Fund to eligible employees of that authority in that fortnight.

2.2 Pay-as-you-go (PAYG)

2.2.1 As an alternative to using the emerging cost basis, s 159(2) of Superannuation Act 1976 (s 145(2) of the 1922 Act) empowers the Minister for Finance to enter into other types of arrangements with authorities (whether they are approved authorities or not) provided the arrangement is a 'fair basis' of payment. PAYG is the more common arrangement.

2.2.2 Authorities that use PAYG arrangements fortnightly pay the Commonwealth a percentage of their total salaries for superannuation purposes. This percentage is based upon actuarial assessment of the authority's superannuation liability and is intended to be sufficient to cover the estimated cost of future superannuation payments in respect of the authority's staff.

3. Financial Statements

3.1 Statutory authorities are required under their enabling legislation to produce annual financial statements, and in most cases the financial statements are required to be in a form approved by the Minister for

Finance and involves compliance with the principles and policies outlined in 'Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings' (the 'Guidelines') which in effect requires authorities to adopt full accrual accounting.

3.2 In order to consider whether accrual accounting should have regard to superannuation commitments, it is relevant to assess whether those commitments constitute 'liabilities' in an accounting sense.

4. Are Superannuation Commitments 'liabilities'?

4.1 At present, the Australian accounting profession has not adopted or endorsed a particular definition of the concept of 'liability'. However, work is currently being undertaken by the Australian Accounting Research Foundation to define the meaning of accounting concepts (such as 'liability') within a 'conceptual framework' for the development of accounting standards.

4.2 It is apparent from accounting literature that considerable attention has been devoted to the question of whether the notion of 'liability' is limited to legal obligations, or whether it embraces a wider set of commitments.

4.3 The pronouncements of the Financial Accounting Standards Board (FASB) in the USA constitute the most authoritative statement yet issued as to the meaning of 'liability'. The FASB's interpretation of the concept of 'liability' is wider than mere legal obligations. The Board's Concepts Statement No 3, 'Elements of Financial Statements of Business Enterprises' (1980), contains the following definition of a 'liability':

"probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events."

The Accounting Standards Review Board (ASRB) has "adopted" the FASB's definition as an "assumption relating to the concept of liability".

4.4 If it is accepted that superannuation benefits are a form of deferred compensation for services already rendered, then, under the FASB's definition, an employer's superannuation commitment would constitute a 'liability'.

4.5 The FASB's proposals relate primarily to the private sector. However, it is significant to note that a United States-Canadian body, the National Council on Government Accounting, has followed the FASB's lead in proposing that the superannuation commitments of government bodies be treated as 'liabilities'.

4.6 Support for this view can be found in the NSW Public Accounts Committee's 'Report on Superannuation Liabilities of Statutory Authorities'. A submission from Arthur Anderson & Company to the Committee expressed strong support for the contention that unfunded past service costs associated with superannuation commitments should be treated as 'liabilities' in both the private and the public sector. Their opinion is based on the argument that the most generally accepted accounting concept of 'liability' does not regard legal status as determinant, and that these commitments arise from past transactions and represent compensation for past services.

4.7 Another submission to the NSW Committee, from the Australian Society of Accountants, drew attention to the fact that the legal status of the superannuation commitments of statutory authorities is different to the private sector. From the viewpoint of a statutory authority, the employment of staff carries with it a firm obligation to meet retirement benefits. The conditioned obligations of such an authority are prescribed by law (rather than in conditional clauses in a trust deed which is the case in the private sector). A statutory authority is unable to resile from those commitments. However, the government could amend the law to reduce superannuation benefits in the future.

4.8 The Committee concluded that the obligation of statutory authorities to provide superannuation benefits should be regarded as liabilities for the purpose of financial reporting.

5. Difference between obligations under emerging cost and PAYG

5.1 The conclusion reached by the NSW PAC is a general one which does not consider whether there is a difference between superannuation commitments under the emerging cost basis and the PAYG arrangements. The nature of the obligation of an authority under the two systems is different and the difference should be recognised.

5.2 Emerging Cost

Authorities choosing the emerging cost method defer reimbursing the Commonwealth for the employer's share of superannuation benefit payments. This may be because in the authority's opinion its current earnings are not sufficient to make employer contributions (and in the future they will be), or that the funds can be better employed by retaining them in the entity. Whatever the underlying reason it is clear that these bodies carry a "liability", ie an obligation to make employer contributions in the future when benefits are paid or payable.

5.3 PAYG

5.3.1 The obligation under the PAYG arrangement is quite different. An authority operating under this arrangement makes employer contributions which are 'credited' to a notional fund at a rate determined by the Minister for Finance. These contributions are made regardless of the fact that benefits may sometimes not be paid eg when employees leave before they are eligible to draw a pension.

5.3.2 The PAYG method envisages that an authority's obligation will be fully funded, that is, the present value of all future employer financed benefits payable to the authority's former and present employees will be equal to the present value of the notional fund plus the present value of future contributions. While the intention is that exactly the full liability for superannuation benefits is met as they accrue, whether this in fact occurs depends on the accuracy of the actuarial estimates.

5.4 Actuarial Deficits

5.4.1 An actuarial review may determine that the initial actuarial assessment estimated a contribution rate that was too high or too low which implies that the rate should be revised. Where the contribution rate has been too low, ie where an actuarial deficit exists, the present value of the notional fund plus the present value of the future contributions is lower than the present value of all future employer financed benefits payable to the authority's former and present employees. It can be argued that the deficit is a liability (the "unfunded liability") of the employer.

5.4.2 In terms of s 159(2) of the Superannuation Act 1976 it would seem that having made payments on what was initially agreed to be a 'fair basis' an authority has discharged its legal obligation. So, if a liability for actuarial deficits exists it is not of a legal nature.

5.4.3 Whether or not an actuarial deficit constitutes a 'liability' of the authority concerned depends on how the deficit is financed. To date there is no policy on the treatment of actuarial deficits. If an authority was required to meet the shortfall, ie pay the additional amount to the Commonwealth, then a liability could exist. This would only be so if, rather than making the payment immediately, an authority deferred the payment until some future date. If, on the other hand, the shortfall was required to be met by the Commonwealth, as seems implicit from section 159(2), no liability would be incurred by the authority but liability would be assumed by the Commonwealth.

6. FINANCE VIEW

6.1 The definition of 'liability' determined by the FASB, and adopted by the ASRB, is, pending further consideration of relevant conceptual issues in the Australian context, sufficiently authoritative to warrant firm assertion for the purposes of this issue.

6.2 Emerging Cost

Statutory authorities using the emerging cost basis pay their employer contributions when the benefit becomes payable. There is a present obligation resulting from past events and the "sacrifice of economic benefits" (ie payment of employer contribution) will occur at some time in the future if an employee eligible for benefits leaves. Under the FASB's definition such an arrangement creates a 'liability' for those authorities and should be recognised and reported as such.

6.3 PAYG

Under the pay-as-you-go method there is also a present obligation to make employer contributions. However the contributions are neither "probable" or paid in the future. The authorities make payments periodically and in effect discharge obligations as they arise. The employer contribution of PAYG authorities do not constitute 'liabilities' in terms of the FASB's definition, and should not be treated as such in their financial statements.

6.4 Actuarial Deficits

A policy on the treatment of actuarial deficits is required. In formulating such a policy it should be kept in mind that the amount of employer's contributions (calculated from initial actuarial estimates) are not

considered to be liabilities and it may appear inconsistent to treat differences, created by revising actuarial estimates, as such. The process of revision is merely that, a revision to the contribution rate, and accounting for this revised rate should be no different from the pre-revision treatment although it might be appropriate to take into account in striking the Revised rate, the deficit (or surplus) that notionally accrued in the period between estimates.

7. Accounting Guidelines

The "Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings" (the "Guidelines"), issued by the Minister for Finance in May 1983, were revised in January 1985 to incorporate recently promulgated Australian accounting standards and to refine some financial reporting requirements. The revised Guidelines require additional information on superannuation arrangements to be disclosed by way of note in financial statements (see Attachment A). This requirement was included following comments by the Auditor-General that a specific and uniform approach to the disclosure of superannuation information is needed. For the reasons outlined above the requirements of the Guidelines do not extend to reporting a liability with respect to PAYG arrangements. They do, however, require quite extensive disclosure of information relating to superannuation arrangements in the notes to the accounts, including differences between the balance of an authority's notional account and the present value of future benefits payable to pensioners and the benefits accrued in respect of service to date by contributors.

Accounting Development Section
June 1985

In the absence of any extant accounting standards in Australia in the superannuation area, details indicating the general nature of superannuation arrangements made for employees in respect of each pension plan or scheme are to be provided as follows:-

- . the associated employee group;
- . the nature of the employer's obligation to make contributions;
- . the amount of employer contributions paid or payable in respect of the current and previous accounting period;
- . the date of the last actuarial review of the plan or scheme;
- . the ongoing contribution rate (expressed as a percentage of superannuable salaries) recommended by the actuary as sufficient to meet the cost of benefits accruing in respect of future service, allowing for new entrants;
- . explanation of any material departures from the actuary's recommended contribution rate;
- . where employers contribute to the Commonwealth Superannuation Scheme on the "pay-as-you-go" basis, the amount by which the balance in the authority's notional account is less than or exceeds the present value of future benefits payable to pensioners and the benefits accrued in respect of service to date by contributors;
- . in the case of other authorities which operate on the "emerging cost" basis, whether the employer contributions retained in the entity are based on actuarial advice and are expected to be sufficient to pay the employer share of employee superannuation benefits as and when it becomes payable;
- . other relevant information.

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS INQUIRY
INTO THE REPORT OF THE AUDITOR-GENERAL - APRIL 1985

SUPPLEMENTARY SUBMISSION BY THE DEPARTMENT OF FINANCE

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

This supplementary submission updates the information provided to the Committee in the Department of Finance's submission of 14 June 1985. Like the original submission, this submission deals with relevant matters under the same headings as were adopted in the Auditor-General's April 1985 report.

NON-PAYMENT OF EMPLOYER CONTRIBUTIONS BY APPROVED
AUTHORITIES

2. As noted in the Department's earlier submission, the practice of treating some Budget-dependent authorities as if they were exempt from their obligation to pay employer contributions was terminated with effect from 1 July 1981.

RECOGNITION OF STATUTORY OBLIGATION TO PAY

3. The Department's earlier submission advised that the Superannuation Legislation Amendment Bill 1985, which was introduced in the Senate on 23 April 1985, contained amendments to s.159 of the Superannuation Act 1976 and s.145 of the Superannuation Act 1922. Those amendments would have enabled the Minister for Finance to make determinations to implement the Government's decision that an authority should not be required to meet the liability for benefits that accrued from service by its staff at a time when the authority was treated as if exempt from the obligation to pay employer contributions. The Senate, however, did not pass the Bill.

4. On 19 March 1986 a further Bill, the Superannuation Legislation Amendment Bill 1986, was introduced in the House of Representatives. This Bill incorporates the same amendments to s.159 of the 1976 Act and s.145 of the 1922 Act as were included in the 1985 Bill. The Bill was passed by the House on 16 April and is awaiting presentation to the Senate.

CONTRIBUTION RATES

5. On 6 December 1985 the Minister for Finance tabled a statement in the Senate concerning the superannuation liabilities of Commonwealth statutory authorities. That statement outlined the results of reviews undertaken by the Australian Government Actuary of the percentage of

salary contribution rates paid by 16 of the largest authorities and advised, inter alia, that:

- action was being taken, where necessary, to adjust the on-going contribution rates being paid by the authorities concerned;
- the Government had decided that those authorities with a deficit in past contributions would be required to make good only the part of the deficit that arose in respect of benefits accrued from service by staff since 1 July 1976; and
- an actuarial review of the employer contribution rate paid by other authorities would be undertaken.

A copy of the Minister's statement is at Attachment A.

6. Of the 16 authorities reviewed, the required adjustment to the on-going rate of employer contributions remains a matter of concern only in relation to the Canberra College of Advanced Education. The provision of funds to the Canberra College of Advanced Education to meet its superannuation liabilities is to be considered in the context of funding superannuation costs for higher education institutions generally.

7. As the Minister announced in his statement, a deficiency in contributions paid since 1 July 1976 by any one of the 16 authorities will generally be made up by an increase in the authority's on-going employer contribution rate over a period of years. A surplus will generally be eliminated by a corresponding reduction in the contribution rate. With one exception, efforts are being directed toward having variations in on-going contribution rates to take account of deficiencies or surpluses in place by 1 July 1986. The deficiency in respect of the Canberra College of Advance Education will be addressed in the context mentioned above.

8. The Actuary is presently compiling a report on the contribution rates paid by the remaining "pay-as-you-go" authorities. It is expected that revised on-going contribution rates will be available in time to be implemented, where necessary, from 1 July 1986. While final figures are not yet available, preliminary results indicate that the employer contribution rates required to meet the cost of benefits are unlikely to be less than 20 percent of superannuable salaries and may be higher. All the authorities concerned have been advised of the proposed adjustment in rates from 1 July.

9. As yet no decision has been made concerning the treatment of any surplus or deficit that could be said to have arisen since 1 July 1976 in the case of the remaining "pay-as-you-go" authorities. Any adjustments that might be required will be worked out in discussions with the authorities concerned during 1986/87.

10. As advised in paragraph 24 of the Department's earlier submission, it is intended that further actuarial reviews will be carried out at three-yearly intervals. With one exception, follow-up reviews for the 16 larger authorities will be made on the basis of data accumulated to 30 June 1986. The Actuary revised his calculations in respect of the Health Insurance Commission in the light of a significant increase in the number of its Commonwealth Superannuation Scheme members between 30 June 1983 and 30 June 1985. A follow-up review for the Commission therefore is not now due until 30 June 1988.

MONITORING ROLE BY THE DEPARTMENT OVER AUTHORITIES' CONTRIBUTIONS

11. A computer-based system to monitor the accuracy and frequency of payments of employer contributions by authorities has been developed and is now in the early stages of operation. The Australian Audit Office's concurrence was sought and received for the basis of estimating the contributions due from authorities for the purpose of the monitoring system. Work is currently being undertaken to refine the tolerances built into the system. Some historical data from the Australian Government Retirement Benefits Office's records and the Department's Ledger and Pay Systems has been incorporated in the system but further data is required to complete the records of past payments.

12. During this "bedding-down" of the system, manual checking of the timeliness of the contributions paid by authorities is continuing. It is intended to continue with parallel manual checking until it is clear that the system is functioning as intended.

13. The Department is also undertaking an investigation of the contributions paid by authorities in 1984-85. Authorities have been requested to provide explanations of any apparent discrepancies between the amount of employer contributions estimated as due in the year and the amount paid. Analysis of the reasons for any discrepancies will assist in refining the tolerances mentioned above.

TRUST MONIES ASPECT OF ELEMENT OF CONTRIBUTIONS RELATING TO FUTURE LIABILITIES

14. The Department's earlier submission expressed the view that contributions paid by authorities are not held in trust by the Commonwealth but are the acquittal of the authority's liability to the Commonwealth under s.145 of the 1922 Act and s.159 of the 1976 Act respectively. The Auditor-General's office held a different view and at its request the Department sought a legal advising on whether any part of an authority's contributions should be accounted for through the Trust Fund. The advice subsequently received from the Attorney-General's Department supported the Department's view. A copy of that memorandum was forwarded to the Secretary of the Committee on 23 July 1985.

15. Research into the historical basis for treating payments from "emerging cost" authorities as a deduction from expenditure under the special appropriation under the Superannuation Acts while payments from the "pay-as-you-go" authorities are treated as receipts, has been completed. In the light of that examination, action is being taken to change the existing treatment. From 1 July 1986 payments from both "emerging cost" and "pay-as-you-go" authorities will be treated as receipts.

16. The matter of employer superannuation payments from trust accounts remains under investigation. Information on current arrangements has been compiled which shows considerable variation in the operation of trust accounts presently categorised as Group 2 trust accounts. Further investigation and examination is being undertaken to develop a consistent approach to the question of employer superannuation contributions.

DEFENCE SERVICE HOMES CORPORATION

17. The appropriate head of revenue for payments of employer contributions from the Group 2 trust account operating for the Defence Service Homes Insurance Scheme is under examination as part of the investigation referred to in paragraph 16 above.

DISCLOSURE OF LIABILITY IN AUTHORITIES' FINANCIAL STATEMENTS

18. As advised in the Department's earlier submission, the Minister for Finance approved amendments to the accounting guidelines for Commonwealth undertakings on 2 February 1985 which were incorporated in the February 1985 reprint of the "Guidelines for the Form and Standard of Financial Statements of Commonwealth

Undertakings" and issued to authorities. Among other matters, the amended guidelines require greater disclosure of superannuation arrangements. Some further minor changes to the Guidelines on superannuation arrangements were issued by the Minister for Finance on 15 January 1986.

19. In February 1986 an information paper entitled "Superannuation Liabilities of Commonwealth Statutory Authorities" was issued by the Department which canvassed the question of whether or not a liability exists in respect of employer superannuation contributions by either the "emerging cost" or "pay-as-you-go" methods. A copy of the paper is at Attachment B.

The paper concluded with the Department's view that:

- for "emerging cost" authorities a liability exists and should be recognised and reported as such (ie, entered in the Balance Sheet or Statement of Assets and Liabilities); but
- provided the full amount determined under the relevant arrangement has been paid, employer contributions under the "pay-as-you-go" method do not constitute liabilities and should not be treated as such in financial statements.

UNFUNDED LIABILITY AS A LEGAL LIABILITY

20. At the request of the Auditor-General a legal opinion was sought about the extent to which an unfunded liability should be accounted for as a legal liability of an authority. The Attorney-General's Department advised that an authority paying employer contributions on the "pay-as-you-go" basis at the rate agreed by the Minister for Finance has fulfilled its obligations under the Superannuation Acts and had no further liability under the Acts. A copy of the opinion was forwarded to the Secretary of the Committee on 23 July 1985.

ARRANGEMENTS WITH THE NORTHERN TERRITORY

21. Agreement has been reached with the Northern Territory on the arrangements for the Territory to meet the employer superannuation liability in respect of its staff on an "emerging cost" basis. The Territory paid an amount to cover the initial period 1 July 1984 to 30 June 1985 and is now making regular payments to cover its liability.

MINISTERIAL DECISIONS

22. As mentioned in the previous submission, the Department is awaiting passage of the proposed amendments to s.159 of the 1976 Act and s.145 of the 1922 Act before asking the Minister to make determinations under those sections relating to the amount of an authority's liability.

23. The amending legislation enlarges the scope of the determinations by the Minister for Finance provided for in the current legislation and requires a different type of determination to be made. Amendments identical to those that were included in the 1985 Bill are now incorporated in the 1986 Bill (see paragraph 3 above).

24. Resources have not become available to undertake the large administrative task of identifying those statutory office-holders not associated with approved authorities who have elected to join the Commonwealth Superannuation Scheme and making declarations in appropriate cases. The matter is being kept under review and the work will be begun as soon as the necessary resources are available.

24 April 1986

JOINT COMMITTEE OF PUBLIC
ACCOUNTS

Inquiry into the Auditor-General's Report
April 1985.

Submission by the Department of Finance.

8.1 WAGE PAUSE PROGRAM

1. INTRODUCTION

1.1 On 28 May 1985 the Secretary to the Joint Parliamentary Committee of Public Accounts wrote to the Department of Finance indicating the Committee's desire to receive a submission on, inter alia, the Department's involvement in the Wage Pause Program (the program). Specifically, the Secretary noted the Auditor-General's recent report on this issue and the Department of Finance's primary responsibility for the financial aspects of the program.

1.2 This submission seeks to address a number of issues canvassed in the Auditor-General's report and to outline to the Committee the current state of play on some matters on which the Auditor-General indicated that work was still proceeding within the Department.

2. BACKGROUND

2.1 The previous Government decided in December 1982 to make available approximately \$300m, an amount which the Commonwealth was then expected to save through the operation of a salaries and wages pause, for projects that would generate employment. Of this amount \$100m was to be made available for welfare housing (which funding was not canvassed by the Auditor-General) while the remaining \$200m was to be spent on other projects. By the time the Special Employment-related Programs Bill 1982 had been introduced into the Parliament, the then Government had resolved that the Minister for Finance should assume responsibility for the legislation.

2.2 Consistent with this responsibility, the then Minister for Finance in January 1983 made a number of suggestions

concerning the distribution of savings and the sources from which the Minister for Finance might take advice in determining the allocation of funds under the program. Contemporaneously, the then Minister for Employment and Industrial Relations raised the issue of Commonwealth assistance for the long-term unemployed.

2.3 In the event, the then Government resolved that the Minister for Employment and Industrial Relations, not the Minister for Finance, should chair a meeting with representatives from the States and the Northern Territory to settle projects for inclusion in the program. As a result of the meeting, a set of guidelines for the program was agreed by the then Minister for Employment and Industrial Relations and State and Territory Ministers.

2.4 The guidelines placed responsibility for administration of programs with the States and the Northern Territory, subject to the requirement that projects be consistent with the guidelines. In particular, the guidelines state:

The Commonwealth wishes to allow (the) States maximum flexibility to design their programs... . It does not envisage changing the priorities of projects put forward by States which meet these guidelines.

2.5 Commonwealth supervision of programs and the administration of the guidelines was also vested in the Minister for Employment and Industrial Relations and his Department. In particular, the guidelines state that:

The Commonwealth would be consulted at the State level, through the (Department of Employment and Industrial Relations') Regional Director, regarding project priorities, monitoring and administration.

3. PORTFOLIO RESPONSIBILITIES

3.1 As is indicated above, the Minister for Finance, and this Department, had responsibility for administering the legislation; this responsibility encompassed the approval of State and Territory programs, the provision of advances and the control of the overall level of Commonwealth expenditure.

3.2 Responsibility for implementing the program guidelines rested with the Minister for Employment and Industrial Relations and his Department. This constituted a finer level of responsibility and involved monitoring State and Territory programs, and the projects of which they have been comprised, to ensure adherence to the guidelines.

4. FUNDING ARRANGEMENTS

4.1 As mentioned in paragraph 2.1, \$200m was made available for the non-welfare housing component of the program. This was distributed to the States and the Territories on the following basis.

State or Territory	Amount \$m
New South Wales	69.924
Victoria	52.662
Queensland	31.900
Western Australia	17.580
South Australia	17.546
Tasmania	5.668
Northern Territory	1.680
Australian Capital Territory	3.040
TOTAL	200.000

4.2 In his April 1985 report, the Auditor-General noted that by July 1983 some \$98m had been advanced to the States and the Territories although the quarterly reports from the States showed that very little of the funds had been expended.

4.3 The tables in attachments 1-9 confirm that, in the initial stages, advances outstripped expenditure by a large margin. This stemmed from the conjunction of two forces: the desire of Ministers to implement the program as quickly as possible; and the inability of the States to put in place programs to enable the funds to be spent with the envisaged promptitude.

4.4 In relation to the first factor, Ministers of the former Government were concerned to implement the program with all possible speed, hence their desire to expedite the payment of advances to the States and Territories. Indeed, the guidelines agreed under the then Government gave effect to these concerns by specifying that funds should be paid to the States and the Northern Territory in 12 equal monthly instalments during 1983, "unless otherwise determined by the Minister for Finance after consultation with the Minister for Employment and Industrial Relations".

4.5 When the Department of Finance received the first quarterly statements of expenditure in April 1983 it was apparent that the States and the Northern Territory had received amounts considerably in excess of actual expenditures.

4.6 Pursuant to the agreed guidelines, the then Minister for Finance and the Minister for Employment and Industrial Relations consulted on this issue and decided to inform State Ministers of the Commonwealth's concerns and the

possibility of suspending further advances from July, if expenditure did not increase significantly.

4.7 The matter of State under-expenditure was again examined in June 1983, prior to the advances being made for that month, and once more in July 1983. At that time the Government decided to suspend temporarily payments to the States (monthly payments continued to be made to the Northern Territory). In taking this action the then Minister for Finance wrote to the State Ministers concerned informing them of the reasons for his actions.

4.8 Following the suspension of advances to the States in July 1983, the Department of Finance continued to monitor State expenditure at the program level. Apart from quarterly statements of expenditure, this was achieved by Department of Finance officers maintaining contact, usually by telephone, with State and Territory officials dealing with the program. Early in November 1983 the Minister for Finance agreed to resume the payment of advances to Queensland and Tasmania. Advances to the other States were resumed in the following months.

4.9 In line with a resolution of the Senate, progress reports of advances made by the Commonwealth were provided to the Senate. Copies of the reports to the Senate and the dates of transmission are attached.

5. VICTORIAN EMPLOYMENT INITIATIVES PROGRAM PROJECTS

5.1 The Auditor-General's Report raised the issue that Victoria sought to transfer \$5m from Wage Pause Program funds to a State-funded employment program.

5.2 The guidelines discussed at paragraph 2.3 do not appear to rule out the funding of projects previously planned to be funded under State programs, including the

Victorian Employment Initiatives Program (EIP), although they do require that there be an "extension of employment under the State Program over and above levels anticipated at the introduction of the Wage Pause Program". Moreover, under the Special Employment-related Programs Act 1982, the Minister for Finance is required to approve the State programs.

5.3 In November 1983, the Minister for Employment and Industrial Relations met with representatives of the Victorian Government and agreed that \$5m of Wage Pause Program funds allocated to Victoria could be used to fund EIP projects that were to have been funded from the Victorian Government's own budget allocation to EIP. The arrangement was intended to release \$5m in Victorian funds to assist that State to meet its 30 per cent contribution to the Community Employment Program.

5.4 It is not clear whether the Minister for Employment and Industrial Relations could validly, under the legislation, agree to the inclusion of certain projects within the limits of the amount approved for the Victorian program without the approval of the Minister for Finance. This matter has been referred to the Attorney-General's Department for advice, as has the question of any remedial action if the said Minister's actions were technically inconsistent with the requirements of the legislation.

5.5 In view of the commitment made to Victoria by the Commonwealth through the Minister for Employment and Industrial Relations, the Department of Finance does not consider that any repayment should be sought from Victoria in the event that the view is proffered that the change in the program had not been legally wrought. The Victorian authorities acted in accordance with the guidelines in consulting with the Minister for Employment and Industrial Relations on this matter at that time.

6. OWNERSHIP OF ASSETS

6.1 The Auditor-General's report also commented on the absence of provisions concerning the ownership of assets at the conclusion of the various projects.

6.2 The principal purpose of the Program related to the creation of employment opportunities. That, and Finance's negligible involvement in the formulation and administration of the guidelines, led to a failure to ensure that the guidelines addressed the question of ownership of assets funded under the program.

6.3 When it was realised that this matter had not been addressed, the Department of Finance indicated in September 1983 to the Department of Employment and Industrial Relations that in all new projects, where significant equipment purchases were involved, the Commonwealth should indicate its interest in recovering the equipment at the approval stage of the project. To this end, it is understood that the Department of Employment and Industrial Relations wrote in October 1983 to its regional offices apprising them of the situation and emphasising that, where significant equipment purchases were involved in projects, regional offices were to declare at the approval stage the Commonwealth's interest in recovering the equipment at the conclusion of the project. This matter is now in the domain of the Department of Employment and Industrial Relations, which has administrative responsibility for this facet of the program.

7. MATTERS OUTSTANDING

Advice from the Attorney-General's Department

7.1 The Department of Finance is awaiting advice from the Attorney-General's Department on the action taken by the

Minister for Employment and Industrial Relations in agreeing to the inclusion of a number of Victorian Employment Initiatives Program projects in the Wage Pause Program.

Use of funds in South Australia

7.2 Under the guidelines agreed by the Commonwealth and the South Australian Government for the South Australian Job Creation Programme, a minimum of 20 per cent of the agreed project costs were to be contributed by sponsors of Wage Pause Program projects undertaken up to and including 30 June 1984.

7.3 The Department of Finance has been given to understand that the South Australian authorities, until January 1985 at least, were using \$600,000 of unexpended Commonwealth Wage Pause Program funds to reimburse the sponsors for part of their contributions made prior to 30 June 1984 on the proviso that the sponsors increase their contributions to on-going projects by an equivalent amount after 30 June 1984.

7.4 Should this, in fact, be the case South Australia would appear to have amended arrangements agreed with the Commonwealth, without the approval of the Commonwealth. The Department of Finance wrote to the South Australian authorities in February 1985 seeking clarification of this matter but it is yet to receive a reply. The Department is pursuing this matter and has recently sent a follow-up letter to the South Australian authorities.

Audit Certificates

7.5 The Auditor-General noted in his April 1985 report that audit certificates had, as at 15 February 1985, not been received from New South Wales and Tasmania in respect of expenditure incurred in those States on program

projects during 1982-83 while audit certificates had yet to be received from New South Wales, Queensland, Western Australia, Tasmania and the Northern Territory in respect of the 1983-84 financial year.

7.6 The delay in obtaining the Tasmanian documentation for 1982-83 has been occasioned by difficulties that have arisen with the form of the certification which the Tasmanian Auditor-General is required to provide. The Department of Finance has written to Tasmania suggesting an alternative form of certification but it is yet to hear from the Tasmanian authorities. The Department is also continuing to pursue all other outstanding audit certificates.

7.7 Although under the program guidelines the States are not required to provide audit documentation for the year ending 30 June 1985, where States have incurred expenditure on the program after 30 June 1984 with respect to work performed before 1 July 1984, the Department of Finance is in the process of requesting that the States provide audit documentation.

8. CONCLUSION

8.1 The division of responsibility for the administration of any program must - because of that division - inevitably lead to inferior administration. Thus, it is arguable that the question of ownership of assets did not initially feature in the guidelines because the Department of Employment and Industrial Relations did not have the responsibility for making grants. Similarly, the Department of Finance did not raise that concept because it was ignorant of the details of the projects which were to be funded under the Wage Pause Program and did not contemplate that assets would be funded under the general component of the Program.

8.2 Moreover, the dual responsibility evident for this program was not akin to the relationship between principals and agents. The Department of Finance, as the department administering the legislation, could not legally be considered to be an agent of the Department of Employment and Industrial Relations, though Finance depended on that Department to implement the approved guidelines. Similarly, Finance, which had no responsibility for the guidelines (in either their development or implementation), could not consider the Department of Employment and Industrial Relations as its agent.

8.3 While the problems addressed above would have been reduced had the relationship between the Departments of Finance and Employment and Industrial Relations been addressed more closely and defined more formally, the genesis of much of the problem rests in the nature of the actual administrative arrangements decided for this program. It is also relevant that those arrangements were the outcome of an apparent switching of Ministerial responsibility, with the then Government first vesting legislative responsibility with the Minister for Finance but subsequently empowering the Minister for Employment and Industrial Relations to assume administrative responsibility in relation to the establishment and supervision of program guidelines. Moreover, these administrative changes were introduced with little warning and at a time when the former Government was concerned that funds under the Act be advanced quickly to enable the State and Territory Governments to make an early start on their employment-generating projects.

Department of Finance
14 June 1985

AUSTRALIA			
QUARTER	CUMULATIVE ADVANCE (\$m)	CUMULATIVE EXPENDITURE (\$m)	BALANCE (\$m)
March 1983	49.240	0.068	49.172
June 1983	98.865	10.991	87.874
Sept 1983	101.630	34.836	66.794
Dec 1983	118.843	79.271	39.572
March 1984	134.932	130.744	4.188
June 1984	200.000	186.725	13.275
Sept 1984	200.000	190.192 (a)	9.808 (a)
Dec 1984	200.000	192.565 (a)	7.435 (a)
March 1985	200.000	192.627 (a)	7.373 (a)

(a) Statements of Expenditure have not yet been received from all the States and Territories. These figures should be revised upwards when such statements are made available.

ATTACHMENT 2

NEW SOUTH WALES			
QUARTER	CUMULATIVE (\$m)	CUMULATIVE EXPENDITURE (\$m)	BALANCE (\$m)
March 1983	17.481	-	17.481
June 1983	34.962	3.716	31.246
Sept 1983	34.962	12.108	22.854
Dec 1983	44.962	31.623	13.339
March 1984	54.962	50.466	4.496
June 1984	69.924	64.361	5.563
Sept 1984	69.924	64.391	5.533
Dec 1984	69.924	64.548	5.376
March 1985	69.924	(a)	(a)

(a) Statement of expenditure for the March quarter 1985 has not yet been received.

ATTACHMENT 3

VICTORIA			
QUARTER	CUMULATIVE ADVANCE (\$m)	CUMULATIVE EXPENDITURE (\$m)	BALANCE (\$m)
March 1983	13.166	-	13.166
June 1983	26.331	0.159	26.172
Sept 1983	26.331	1.936	24.395
Dec 1983	26.331	9.221	17.110
March 1984	26.331	25.310	1.021
June 1984	52.662	47.892	4.77
Sept 1984	52.662	51.074	1.588
Dec 1984	52.662	51.601	1.061
March 1985	52.662	51.663	0.999

ATTACHMENT 4

QUEENSLAND			
QUARTER	CUMULATIVE ADVANCE (\$m)	CUMULATIVE EXPENDITURE (\$m)	BALANCE (\$m)
March 1983	7.975	-	7.975
June 1983	15.950	3.489	12.461
Sept 1983	15.950	12.524	3.426
Dec 1983	21.450	21.709	-0.259
March 1984	28.260	27.711	-0.549
June 1984	31.900	31.900	-
Sept 1984	31.900	31.900	-
Dec 1984	31.900	31.900	-
March 1985	31.900	31.900	-

ATTACHMENT 5

WESTERN AUSTRALIA			
QUARTER	CUMULATIVE ADVANCE (\$m)	CUMULATIVE EXPENDITURE (\$m)	BALANCE (\$m)
March 1983	4.395	-	4.395
June 1983	8.790	0.137	8.653
Sept 1983	8.790	0.742	8.048
Dec 1983	8.790	3.782	5.008
March 1984	9.290	8.549	0.741
June 1984	17.580	15.821	1.759
Sept 1984	17.580	15.821	1.759
Dec 1984	17.580	17.113	0.467
March 1985	17.580	17.113	0.467

ATTACHMENT 6

SOUTH AUSTRALIA

QUARTER	CUMULATIVE ADVANCE (\$m)	CUMULATIVE EXPENDITURE (\$m)	BALANCE (\$m)
March 1983	4.386	-	4.386
June 1983	8.773	2.102	6.671
Sept 1983	8.773	3.341	5.432
Dec 1983	8.773	6.400	2.373
March 1984	10.303	9.829	0.474
June 1984	17.546	16.089	1.457
Sept 1984	17.546	16.778	0.768
Dec 1984	17.546	17.175	0.371
March 1985	17.546	(a)	(a)

(a) Statement of expenditure for the March quarter 1985 has not yet been received.

ATTACHMENT 7

TASMANIA

QUARTER	CUMULATIVE ADVANCE (\$m)	CUMULATIVE EXPENDITURE (\$m)	BALANCE (\$m)
March 1983	1.417	-	1.417
June 1983	2.834	0.475	2.359
Sept 1983	2.834	2.211	0.623
Dec 1983	3.817	3.697	0.120
March 1984	5.066	4.815	0.251
June 1984	5.668	5.601	0.067
Sept 1984	5.668	(a)	(a)
Dec 1984	5.668	(a)	(a)
March 1985	5.668	(a)	(a)

(a) Statements of expenditure have not been received in respect of quarters following the Juno quarter 1985.

ATTACHMENT 8

AUSTRALIAN CAPITAL TERRITORY			
QUARTER	CUMULATIVE ADVANCE (\$m)	CUMULATIVE EXPENDITURE (\$m)	BALANCE (\$m)
March 1983	-	-	-
June 1983	0.385	0.385	-
Sept 1983	2.730	0.963	1.767
Dec 1983	3.040	1.650	1.390
March 1984	3.040	2.470	0.570
June 1984	3.040	2.962	0.078
Sept 1984	3.040	2.978	0.062
Dec 1984	3.040	2.978	0.062
March 1985	3.040	(a)	(a)

(a) Statement of expenditure has not yet been received for the March quarter 1985.

ATTACHMENT 9

NORTHERN TERRITORY			
QUARTER	CUMULATIVE ADVANCE (\$m)	CUMULATIVE EXPENDITURE (\$m)	BALANCE (\$m)
March 1983	0.420	0.068	0.352
June 1983	0.840	0.528	0.312
Sept 1983	1.260	1.011	0.249
Dec 1983	1.680	1.189	0.491
March 1984	1.680	1.594	0.086
June 1984	1.680	1.649	0.031
Sept 1984	1.680	(a)	(a)
Dec 1984	1.680	(a)	(a)
March 1985	1.680	(a)	(a)

(a) Quarterly statements of expenditure have not been received since the June quarter, 1984.

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Submission by the Department of Finance on the
Community Employment Program

1. INTRODUCTION

- 1.1 On 28 May 1985 the Secretary to the Joint Parliamentary Committee of Public Accounts wrote to the Department of Finance (Finance) indicating the Committee's desire to receive a submission on, inter alia, the Department's involvement in the Wage Pause Program (WPP). This request arose from the Auditor General's report on this issue. Finance forwarded a submission on 14 June 1985.
- 1.2 Subsequent to the Committee's consideration of submissions from the Departments of Employment and Industrial Relations (DEIR) and Finance, the Committee requested on 25 June 1985 further comments on the issues relevant to the financial administration of the Community Employment Program (CEP). The Committee also expressed interest in receiving any general comments, suggestions or guidelines on the administration of any programs by more than one department.

2. CEP: OBJECTIVES AND DESCRIPTION

- 2.1 Under the new program budgeting framework being developed for DEIR this year, the CEP comes within the Job Creation and Employment Assistance Program. This program is designed to improve the employment prospects of disadvantaged unemployed people by ensuring that the most disadvantaged unemployed groups in the labour market have opportunities to improve their employment prospects, and to demonstrate their capabilities to prospective employers. Target groups include long term unemployed, disabled persons, migrants with English language difficulties, Aborigines, women and other special need categories. The three elements of the program are the CEP, employer incentives (ie the wage subsidy schemes) and mobility assistance.
- 2.2 The CEP is a direct public sector, short term job creation scheme; funding is provided to discrete projects sponsored by the three levels of government and by community groups. Employment opportunities fostered under the program are also intended to lead to the encouragement of socially necessary and useful work.

3. BACKGROUND

3.1 Policy implementation

3.1.1 The Government's commitment to job creation developed from the 1982 Australian Labor Party National Recovery and Reconstruction Plan which was a response to the downturn in economic activity and the increase in the incidence of long-term unemployment.

3.1.2 CEP, announced in the Treasurer's Statement to the Parliament on 19 May 1983, commenced with an allocation of \$300m in 1983-84 and is embodied in legislation under the Community Employment Act 1983. Funding is provided through annual appropriations. The CEP legislation contains a sunset clause requiring that new project approvals must cease by 30 June 1986.

3.2 Program Structure

3.2.1 In response to a commitment to community involvement the Government established a program structure incorporating Commonwealth and State Departments, local Government authorities and community organisations. Agreements negotiated with the State and Territory governments included guidelines and arrangements for general and financial administration.

3.2.2 CEP contains two elements:

- (i) the States and Territories element (\$250m 1983-84) comprising conditional grants to the States and Territories; and
- (ii) the Commonwealth element (CCEP) (\$50m in 1983-84) comprising grants for projects sponsored by Commonwealth agencies.

3.2.3 The States and Territories element provided for projects to be funded under 5 components:

- . 3 components provide for projects sponsored by State government departments and instrumentalities, local government authorities and community groups; State government projects were not to receive more than 50% of the total funds allocated to this element;
- . the Jobs on Local Roads component (JOLOR);

. the Country Water Supply Improvement Projects component (COWSIP).

COWSIP ceased new project approvals in 1984-85.

3.2.4 Within the Commonwealth element provision has been made for special allocations for Aboriginal and women's projects to ensure that these two groups of unemployed were adequately represented.

3.3 Program Administration

3.3.1 The States and Territories element of the program is administered at the State and Territories level. Consultative committees review project applications and recommend projects for approval by the State or Territory Minister and by the Commonwealth Minister's delegate (the Regional Director of DEIR). Finance is not involved in these administrative processes.

3.3.2 The CCEP is administered by the Commonwealth Programs Section in DEIR. During 1983-84, DEIR (in the chair) was assisted by an Inter-Departmental Committee (IDC) comprising representatives of the Departments of Finance, Housing and Construction, Prime Minister and Cabinet, Aboriginal Affairs, the Equal Employment Opportunity Bureau within the Public Service Board and the Office of the Status of Women.

3.3.3 Responsibilities of the IDC included, inter alia, the development of effective guidelines to facilitate project approvals. As the CEP moved beyond its initial phase the IDC was discontinued. Since then Finance and DEIR have consulted on guidelines issues from time to time. The agreed arrangements include that Finance is given the opportunity to provide comments to DEIR on new projects prior to their approval by the Minister for EIR.

3.3.4 Other administrative arrangements for the CCEP include:

- . approval of minor variations to an approved project (less than 10% of estimated project costs) by the Minister for EIR's delegate;
- . approval of major variations to an approved project budget (greater than 10% of estimated project costs) by the Minister for EIR with the agreement of the Minister for Finance;

assessment of applications for variation of approved budgets is made on a case-by-case basis. Overruns are only considered in exceptional circumstances.

3.4 Monitoring and Evaluation

- 3.4.1 Responsibility for monitoring the overall implementation and progress of CEP rests with the Job Creation and Youth Programs Division of DEIR. This task is supported by a computer based CEP Management Information System (CEPMIS). Monitoring the progress of individual projects in the States and Territories element is the responsibility of those States/Territories.
- 3.4.2 Overall evaluation of the CEP against its basic objectives of improving the employment prospects of disadvantaged groups etc is the responsibility of the Bureau of Labour Market Research (BLMR).
- 3.4.3 DEIR has the controlling role in collection and analysis of CEP statistics including the monthly reports from sponsoring departments/authorities. It has also provided reports from time to time on the success of the program in terms of its basic objectives.

4. FUNDING

4.1 The following table summarises the estimated and actual expenditure under CEP since its introduction.

Year	Estimate	Actual Expenditure	Difference	Diff as % of Estimate
	\$	\$	\$	%
1983/84	300,000,000 *	285,424,788	(14,575,212)	4.86
1984/85	410,000,000	405,543,359	(4,456,641)	1.10
1985/86	290,000,000	NA	NA	NA

* Community Employment Act 1983

5. CONSIDERATIONS

- 5.1 The financial and administrative arrangements for CEP differ quite markedly from those applying to WPP. In particular, the Minister for Finance and the Department of Finance have limited executive responsibilities; the Minister for EIR and his Department clearly have carriage of the legislation and the program administration. The role of Finance is primarily by way of consultation. In addition, of course, Finance has a general financial monitoring role as it does with all spending programs.
- 5.2 With time, CEP has settled down into a stable operating pattern with clear working guidelines - another area of difficulty for WPP. Nonetheless the administration of the program is a complex task, requiring the achievement of an appropriate balance between the creation of additional employment opportunities, targeting on the most disadvantaged, the undertaking of socially useful activities and achieving sponsorship. In the circumstances it is perhaps not surprising that there have been some concerns regarding the level of general administrative and financial control exercised by DEIR over CEP.
- 5.3 One area of concern has been the arrangements regarding consultations with Finance prior to project approvals under CCEP. It is acknowledged that Finance should not have responsibility for approving projects, and that the consultative process should not impede the smooth administration of programs by DEIR. Nonetheless Finance does have a role in the evaluation and recommendation process prior to CCEP project approvals. This role stems in part from the need to ensure that no CCEP project would have the effect of nullifying decisions on priorities for funding taken by Ministers in forming the Budget and the Government's objective of restraint on expenditure. Finance is in a good position to advise whether proposed projects have received consideration in other contexts or whether they cut across other identified priorities, budget proposals etc. Difficulties have arisen where Finance has not been given sufficient time to provide considered comments before the Minister for EIR has decided upon project proposals.

5.4 Weaknesses with regard to costing of new projects and the monitoring of expenditure during the funding period had been noted in some instances. The need for variations to approved project budgets, particularly those in excess of 10% of estimated costs, is viewed with particular concern. Some requests for additional funds have been due in part to a failure to incorporate all relevant costs within the original project proposals prior to approval. However, a tightening of procedures with regard to this matter was undertaken this year. New project sponsors have been provided with a clear statement regarding the need for full and accurate costings prior to project approvals. The guidelines also advise that funds would only be provided to meet cost overruns in exceptional circumstances where cost increases are totally beyond the sponsors control and cannot be absorbed within the original allocation.

5.5 A major achievement of CEP is the apparent success of the targeting procedures to place those individuals most disadvantaged in the labour market in short-term employment and improving their long-term employment prospects. A survey of 600 former CEP participants was carried out by DEIR earlier this year. Of the 552 persons who responded:

- 41% were in employment 6 months after leaving the program. Of those 82% had full-time jobs;
- a further 18% had gained some employment in the 6 months since leaving the program.

In view of the priority placement given by CES to those who have been registered as unemployed for at least 9 months as well as those who are particularly disadvantaged (Aborigines, migrants with English language difficulties and people with disabilities) the above results appear encouraging.

5.6 Of course, the attainment of lasting improvement in the prospects of those groups that the CEP is designed to assist requires continued improvement in the economy as a whole and appropriate adjustments in the labour market. As this occurs, the need for programs such as the CEP has to be reassessed; the possible winding down of these programs also needs to be considered as part of general anti-cyclical economic policy. The sunset clause applying to CEP will ensure that these considerations take place.

6. COMMENTS ON ADMINISTRATION OF PROGRAMS BY MORE THAN ONE DEPARTMENT

6.1 The Finance submission of 14 June 1985 on the Wage Pause Program offered the conclusion that the division of responsibility for the administration of any program must inevitably lead to inferior administration.

6.2 The specific problems evident in the administrative evolution of the WPP provide evidence in support of this conclusion. More generally, diffusion of administrative responsibility and accountability adds greatly to the risk of administrative problems, reduces capacity to resolve such problems and endangers the overall efficiency and effectiveness of programs in terms of their basic objectives. The more acute problems commonly encountered in such circumstances are derived from difficulties in:

- . establishing and maintaining a satisfactory operational definition of the respective functions of the different Departments to eliminate unnecessary duplication, while still ensuring that gaps in program coverage do not occur;
- . ensuring coordination between the administration of those defined functions in the different Departments in a way which ensures efficiency and effective program delivery overall; and
- . providing for effective monitoring and evaluation of the overall program.

Further, the consultation and coordination processes required to deal with these problems can be complex, time-consuming and costly in resources, without adding much to standards of program delivery.

6.3 Diffusion of administrative responsibilities is also difficult to reconcile with the Government's proposals for Public Service and Budget reform, including the intention to develop an administration that is more accountable to Ministers and the Parliament. Some specific thrusts of the Budget Reform paper and the Reforming the Australian Public Service paper, for example, are to increase the responsibilities and accountability of departmental secretaries and program managers, the clearer delineation of programs and specification of their objectives, to provide clearer identification of managers with programs and program objectives, and to provide a more systematic basis for assessment of the performance of managers (for example, see paragraphs 4.5 and 4.6 in Budget Reform).

6.4 Finance considers that the administration of the CEP, responsibility and accountability for which is clearly allocated to DEIR and its Minister under relevant legislation and which operates under reasonably detailed policy guidelines, is in a form much to be preferred to that which characterised the administration of the WPP. Finance does not favour the diffusion of responsibility for program administration, and would suggest as a concluding general principle that the efficient and effective administration of Government programs is enhanced where the program:

- is established under a firm legislative base which identifies overall objectives and basic principles and allocates clearly administrative responsibility;
- is funded through annual appropriations (other than in special circumstances such as income security programs); and
- operates within clear administrative/financial guidelines which clarify the obligations and responsibilities of those concerned.

Department of Finance
5 August 1985

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Enquiry into the Auditor-General's Report of April 1985
Submission by the Department of Health

National Acoustic Laboratories

1. The Acoustic Laboratories Act 1948 empowers the Minister for Health to establish, maintain and operate within Australia, acoustic laboratories for scientific investigations including tests in respect of hearing aids and their application to the needs of individuals and in respect of problems associated with noise as it affects individuals. Section 9A of the National Health Act authorises the Minister to provide hearing aid services to certain community groups.
2. The objectives adopted by the National Acoustic Laboratories are -
 - to provide high quality audiological services, including the provision of hearing aids to eligible members of the community within a specified period of time as economically as possible.
 - to undertake research into audiology and noise.
 - to monitor and control the above with a view to optimising the quality, quantity and cost of activities.
3. The scientific investigations and technical development and supervision of the audiological services are carried out by the Central Laboratory located at Millers Point in N.S.W.
4. The services are provided through Hearing Centres in each State capital and at Canberra (A.C.T.); Fairfield, Parramatta, Chatswood, Wollongong, Gosford, Newcastle, Tamworth, Hustville, Lismore, Wagga Wagga (N.S.W.); St Kilda, Dandenong, Moonee Ponds, Box Hill, Geelong, Ballarat, Bendigo (VIC); Toowoomba, Townsville, Cairns, Redcliffe, Mt Gravatt (QLD); Unley (S.A.); Launceston (TAS) and Darwin (N.T.). A visiting service is provided in a large number of country towns.
5. The Hearing Centres are responsible for the selection, fitting and maintenance of hearing aids supplied to persons under the age of 21 years, to those with pensioner health benefit or health benefit cards, personnel of the armed services and Veterans' Affairs Department cases. Services are also provided for Federal Government employees where a government liability exists for loss of hearing.

6. Hearing Centre services fall into two broad categories:

- audiological assessment - involves evaluation and definition of an individual's auditory capacity
- audiological rehabilitation - involves the improvement of the individual's auditory function through the fitting of an appropriate hearing aid or hearing aids, supplemented by additional rehabilitative measures.

7. The service is planned to allow for adequate follow-up of persons provided with hearing aids and replacement of aids as hearing needs change or new technology becomes available.

8. NAL has set for itself a high standard in order that the best possible service be made available to its clients. While current operations consist of a clinical service of very high standard providing assessments, provision and maintenance of amplification needs and ongoing audiological management preferred standards in recent years have had to be modified, consistent with the resources available.

9. Over the seven years from 1977/8 to 1983/4 there has been a 92% increase (including a binaural fitting component) in hearing aids fitted by NAL and 111% increase in the number of aids in issue. The number of new pensioners seen each year has increased by 43% while the number of children has increased by 10%. These increases have occurred over a period in which there was severe restraints on staffing - audiological staff increased by only 18%.

10. In September 1984 a substantial number of new resources were allocated to the hearing services program and as a result 52 additional audiological staff were employed to reduce the considerable backlog of people waiting for hearing aids and to meet increased demands for service. Unfortunately only 23 fully trained Audiologists were available and the remainder are currently being trained by the Department. These Audiologists-in-training will complete their professional training early in 1986.

11. Staffing resources have been for the most part allocated to the provision of services by the Hearing Centres. Staffing resource increases at NAL Central Laboratory have been severely limited, despite the growth in aid procurement from 42,763 in 1979/80 to 82,686 in 1983. Available resources have of necessity been employed on the development of new hearing aids and technology, arrangement of local production to NAL designs, purchase of commercial hearing aids and hearing aid-related research. With the growth of the service, greater attention now needs to be focused on the upgrading of policy, planning, management information systems and technical support for the regional hearing aid service.

12. The Department has recognised the need for a tighter management of the hearing services program and in December 1984 commissioned an external consultant to consider the matter amongst other things. This report which was received in May 1985 recommended changes to the reporting relationships within the program with the major tasks to be undertaken by a national program manager. This report is currently being examined by senior management.

13. With regard to the Auditor-General's findings on the Adelaide Hearing Centre the following details are submitted-

Level of Service

14. The Departmental policy in relation to waiting times for eligible adults is that three months is acceptable although shorter periods would be desirable.

15. The major reason for AHC not complying with this policy has been the lack of staff resources. A significant increase in staff was provided to the South Australian Hearing Services Branch in 1984/85. As it was not possible to obtain trained staff it was necessary to recruit audiologists-in-training. Seven such recruits commenced in early 1985 and they are required to undertake 12 months in-house training before becoming fully operational. Even so, they have already made some contribution to the workload with the result that waiting times have been reduced from between 9 to 11 months to 5½ months at present. It is anticipated that waiting times should reduce to 3 months during 1986 as staff become fully operational.

16. In regard to the matters raised concerning Commonwealth Government employees compensation and priorities adopted by AHC for treating various categories of clients, the approved case work priorities are as follows:

1. Children with hearing aids and children to be fitted with hearing aids.
2. Children at risk who may need hearing aids and children under 4 years for assessment.
3. (i) Eligible adults who are in need of hearing aids and
(ii) Adult cases who have hearing aids (equal priority).
4. Commonwealth Employees Compensation cases.
5. Children 4 years and over who are not hearing aid cases.
6. Other adult non-hearing aid cases.

17. The implementation of this policy in South Australia increased waiting times for Commonwealth Employees compensation cases to approx 17 months. In view of the lack of adequately trained staff in the Hearing Services Branch in South Australia arrangements are in hand to refer cases to external examiners. Waiting times for this category should then reduce to approximately 6 months.

18. Case work priorities adopted by AHC are now in accordance with approved policy.

19. The incidence of broken appointments has always been a problem particularly among the elderly whose attendances are influenced by sickness and weather for example. At the time of the audit, the incidence was 14% for Adelaide appointments. The AHC is now seeking confirmation of attendance by letter and the incidence was about 7% in May 1985.

Standards of service - Audiological

20. Policy regarding the provision of audiological services is -

- (i) a 5 part appointment system is to be offered when resources permit
- (ii) child cases are to receive the full service specified in the NAL Paediatric Audiological Services Policy and Procedures Manual. (This manual was replaced in January 1985)

21. At the time of the audit, due to staff restraints, the AHC had approximately half of the staff requirement to provide full services within acceptable waiting times. In these circumstances, to avoid a large extension of waiting times, the standard of service set could not be implemented.

22. Additional resources were allocated to the AHC in September 1984 and 7 audiologists-in-training were recruited in early 1985. These audiologists will become fully operational in early 1986 and it is expected that the standards of approved audiological services for children and adults will be progressively implemented during the year.

Monitoring of standards

23. It is practice for all hearing centres to provide NAL Central a quarterly statistical return covering number of applications received, appointments for hearing tests, follow-up and after care, clients fitted with hearing aids and the number of hearing aids fitted. This information enables workload to be monitored and provides the average number of appointments per client for each category of client but does not allow a

monitoring of the appointments given to individual clients.

24. A pilot program for the detailed monitoring of audiological practices has been in progress since January 1984. Its implementation will be considered in conjunction with the program for computerising Hearing Centre Office procedures and audiological record keeping and procedures.

Standards of Service - Technical

25. The Department's policy is that hearing aids and instruments be calibrated and maintained in accordance with the Aid Repair Service Standard and the Equipment Maintenance Standard issued 6 September 1982. Equipment is supplied in accordance with Hearing Centre Equipment Standards depending on availability of funds.

26. The audit disclosed some departures and omissions relating to calibration and maintenance practices and record keeping. The AHC has since set up a mechanism to comply with requirements. This was reviewed in May 1985 by NAL Central and further alterations were required. A follow-up review is to be undertaken in early August.

27. Test equipment referred to was intended to provide greater assurance of the accuracy of calibrations of clinical equipment. The provision of the test equipment referred to in the audit was planned on a national basis and is expected to be introduced into N.S.W. Hearing Centres next financial year. It is to be extended into all States once experience has been gained in the application of the equipment and its suitability for registration by the National Association of Testing Authorities has been assessed.

Central Administration of Hearing Centres

28. Following the appointment of the new Permanent Head a restructuring of the Department has been undertaken to, amongst other things, achieve more effective co-ordination of program administration. This has required a reconsideration of program management and the relationships between the Central Office of the Department and the regional offices. The question of moving to a more centralised management of hearing services is under active consideration and has the benefits of the report of the external consultant referred to above.

Control over equipment

29. The audit revealed that a stocktake had not been completed since 1979 and no official assets register was being maintained although there were stock cards. Also transfer of responsibility for equipment was not undertaken by audiologists on country visits.

30. An official assets register has been completed in the form of stock cards and a stocktake will be completed in July 1985. Audiologists now sign for receipt of equipment prior to country visits.

Charging for services

31. Charges are made for the provision of audiometric tests to persons seeking a renewal or grant of a licence under the Air Navigation Regulations under a regulation to the Acoustic Laboratories Act. This regulation also specifies the charge to be made.

32. The cost for hearing aids supplied to war veterans of other countries is recovered from the relevant overseas authorities by the Department of Veterans' Affairs and paid into Consolidated Revenue. The Department of Health provides the Department of Veterans' Affairs with hearing aid costs on a regular basis.

33. The AHC was recovering costs for the fitting and supply of hearing aids to Commonwealth Employees compensation cases. This practice has ceased. The Department is at present giving consideration to charging Departments and Authorities for this service.

Accommodation

34. It is Departmental policy to secure accommodation for hearing centres in accordance with NAL document "Guidelines for establishment of NAL hearing Centres".

35. The Department approved on 30 November 1983 the establishment of permanent suburban hearing centres at Marion and Modbury subject to availability of funds. The Department of Local Government and Administrative Services (DOGLAS) has advised that in respect of Marion zoning regulations had precluded leasing of office accommodation. A hearing centre is now to be established at Marion in a DOLGAS sponsored new lease approved by the Minister for Local Government and Administrative Services in the 1985/86 programme.

36. In so far as Modbury is concerned the Department now does not wish to restrict itself to this particular suburb but rather to consider some location in the northern region of Adelaide. This proposed centre is listed as priority No. 4 in a recently completed national long term hearing centre accommodation plan. Insufficient funds for lease and fit-out are available in 1985/86. It is envisaged that this centre could be leased and fitted out in 1986/87 subject to sufficient funds being made available for this and other higher priority centres.

37. The AHC was relocated in the IMFC Building, Adelaide on 31 July 1984.

38. NAL Central has recently taken the following initiatives with regard to the planning of hearing centre accommodation:

- has had discussions with central and regional DOLGAS officers on, inter alia, improved communication and forward planning.
- in consultation with central and regional office staff of this Department and DOLGAS reviewed existing accommodation and action in train and prepared;
 - a 1985/86 Leases Program for the Hearing Services
 - a national long-term (8 years) accommodation plan for the Hearing Services Program.

Central Office - general comment

39. It has to be recognised that decisions on resource allocations in recent years have led to severe constraints on the services provided by NAL. During 1984-85, for the first time in many years, a substantial number of new resources were allocated to NAL. It is considered that these resources combined with a rationalisation of NAL priorities and the development of new management procedures will ensure that NAL operates as a leader in the level and standard of service provided to its clients.

Central Register of Medical Practitioners (CROMP) Data Bases

40. The Central Register of Medical Practitioners (CROMP) was implemented in 1981 to assist in the correct identification of the providers of medical and pharmaceutical services for the purpose of payment of Commonwealth benefits. Modifications have since been made to the system to satisfy changing requirements and legislation and CROMP now consists of a group of data bases containing details of

- medical practitioners, participating optometrists and accredited dentists
- authorised prescribers of pharmaceutical benefits.
- approved hospitals
- medical practitioners able to assist in national disasters.

41. The Department was aware of matters of the type reported on by the Auditor-General in his audit of CROMP in the South Australian Regional Office. It had been recognised in the Department that a system of the age and importance of CROMP should be subject to a complete review, particularly as it had

been modified on a number of occasions.

42. Because of this, and also the suggestion that as part of the departmental reorganisation which began in early 1985 the operation of CROMP might be transferred to the Health Insurance Commission, an independent firm of consultants was engaged, in March 1985, to review CROMP and provide a study of the overall requirements for an integrated register of Health Care Providers. A draft report has been received and its implications for a broad redevelopment of the system are being examined.

43. With regard to the particular findings of the Auditor-General the following details are submitted -

Lack of centrally approved instructions

44. In September 1984 a departmental working party was established to produce an operating procedures manual to cover the maintenance of the CROMP data bases. However, work did not proceed far because, as one of the proposals of the major departmental reorganisation which commenced at the beginning of 1985, and still in progress, it was expected that the operation of CROMP might be taken over by the Health Insurance Commission (HIC). Consequently, plans to produce a manual and system re-development were not proceeded with. In addition, staff numbers were allowed to decline. All this was done in the expectation that the system would probably be substantially re-designed by HIC.

45. The prospect of CROMP's transfer to HIC has now diminished considerably and planning for a re-development of the whole system has now commenced within the Department with a view to removing present anomalies, streamlining the system, making it more flexible and catering for a greater number of uses. An officer at Director level has been seconded for this redevelopment task.

Authenticity of requests for additional provider numbers

46. Procedures were issued to all Regional Offices of the Department on 20 September 1982, including an instruction that requests for provider numbers be confirmed in writing where possible. Subsequently, a telex was sent to all Regional Offices on 5 March 1984 stating that requests for provider numbers should at all times be confirmed in writing by the provider. Also, it was stressed that the provider number would not become active on CROMP until the written request had been received.

47. In view of the Auditor-General's comments on this matter, the Department will again circularise Regional Offices stressing the importance of this instruction and requiring a written guarantee that this has been done.

Acknowledgement by Central Office of information forwarded to update the data base.

48. Since 1 March 1985 a report from the CROMP system has been sent monthly to each Regional Office acknowledging all update information received and dates from which the changes were effected.

Error reports relating to prescriptions from pharmaceutical prescribers

49. There is a Central Office instruction whereby practitioners who write a large number of prescriptions filled in other States are noted in order to check whether or not they have practices in these other States, with a view to suitably updating CROMP. However it has been found that the instruction is not being observed by Regional Offices. This matter will be pursued. The Department is not aware of other error reports which are not being checked, but will investigate the assertion.

14 June 1985

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Department of Housing and Construction

Payments to States for Housing Assistance

1. A series of Commonwealth State Housing Agreements (CSHA) have operated since 1945 and provide for payments to the States and the Northern Territory for rental housing and home purchase assistance.
2. The audit review covered the operation of the 1981 CSHA for the period 1 July 1981 until 30 June 1983 and identified outstanding reports from the 1981/82 and 1982/83 financial years.
3. Under the terms of the 1981 CSHA (since replaced by the 1984 CSHA) States were required to provide the Department of Housing and Construction (DHC) with four financial Statements, namely
 - Clause 16 Statement - "Expenditure of Matching Funds"
 - Clause 29 Statement - "Receipt and Expenditure Details - Home Purchase Assistance Account"
 - Clause 37 Statement - "Receipt and Expenditure Details - Rental Housing Assistance Program"
 - Clause 40 Statement - "Expenditure of Earmarked Funds".
4. Clause 29 and Clause 37 Statements were required to be provided to DHC by 30 November following each financial year, while Clause 16 and Clause 40 Statements were required on an "as soon as practicable" basis. A copy of the relevant provisions of the 1981 CSHA is attached.
5. The Department of Housing and Construction is well aware of the need to ensure compliance by the States and the Northern Territory with the financial reporting requirements of the Commonwealth-State Housing Agreement (CSHA).

6. Prior to the audit review of the financial and administrative arrangements relating to the CSHA conducted by the Auditor-General's office in April 1984, DHC had, on a number of occasions, requested States and the Northern Territory to provide the outstanding financial statements. However as the 1981 Agreement required that the States furnish two of the four financial statements only on an "as soon as practicable" basis it was extremely difficult in practice for DHC to enforce the timely provision of these statements. Following the audit review the Department continued its efforts to obtain the outstanding statements. On 20 August 1984 DHC was able to advise the Auditor-General's office that the number of outstanding financial statements had been reduced to three.
 7. Following further approaches to Victoria and the Northern Territory DHC was able to advise the Auditor-General's office on 15 February 1985 that all outstanding CSHA financial statements for 1981/82 and 1982/83 had been provided.
 8. Because of the difficulties experienced by the Department in enforcing the financial reporting requirements of the 1981 Agreement these requirements were reviewed and tightened during drafting of the 1984 CSHA (which became effective on 1 July 1984). The States are now required to provide all financial statements by 30 November for financial year just concluded. In addition provisions relating to withholding of funds to States for failing to meet requirements of the Agreement were tightened so that Clause 19 (2) of the new Agreement provides that

"if, following consultation with the State Minister, the Minister is of the opinion that it is appropriate to do so, he may withhold a payment of financial assistance to a State which fails to comply with any of sub-clauses 15 (3), 18 (1), 43 (1) or 43 (2) until the State remedies that failure"
- The specified clauses require the provision of financial information.
9. The Department has also implemented a system to remind the States in June and October each year of the requirement for the statements.
 10. As a further measure to enhance the financial accountability of the States in the way they use CSHA funds the Department has also developed improved and standardized financial statements which have been distributed to the States, with the objective that they be used from 1984/85. These statements will ensure consistency in information provided by the States and allow DHC to more readily ensure compliance with CSHA requirements.

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Department of Housing and Construction
Supplementary Submission

Payment to States for Housing Assistance

1. On 14 June 1985, the Department of Housing and Construction responded to a request of 28 May 1985 from the Joint Committee of Public Accounts in relation to the Auditor-General's Report of April 1985 (paragraph 12.3) concerning Payments to States for Housing Assistance under the 1981 Commonwealth-State Housing Agreement (CSHA) for the financial years 1981/82 and 1982/83.
2. The Auditor-General's Report of April 1985 indicated that the audit disclosed a satisfactory position, with the exception of some outstanding financial statements. The Department's Submission of 14 June 1985 detailed action taken to obtain the outstanding statements. On 21 June 1985 the Committee requested further advice on whether the designated funds covered by these statements were used for the purposes provided in the 1981 Housing Agreement.
3. The financial statements referred to in the Department's Submission are certified by the States and the Northern Territory and show expenditure particulars of 1981 Commonwealth-State Housing Agreement funds.
4. The Department is satisfied that the financial statements for 1981/82 and 1982/83 which were outstanding at the time of Audit show that the States and the Northern Territory have satisfied the matching requirements under the 1981 Housing Agreement. They also show that the funds were used in accordance with the Agreement for
 - rental housing assistance for special disadvantaged groups
 - home purchase assistance for eligible persons
 - general rental assistance for eligible persons.

25 July 1985

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report : April 1985
Submission by the Department of Immigration and Ethnic
Affairs.

1 INTRODUCTION

- 1.1 The Auditor-General's Report tabled in April 1985 contains at paragraph 13.1 a detailed account of an audit completed in June 1984 of the Department's administration of Australia's refugee and special humanitarian programs.
- 1.2 The Department welcomes the Auditor-General's assessment of its achievements in the administration of Australia's humanitarian entry programs. The period in which the audit was conducted coincided with the implementation of the Government's election pledge to diversify Australia's refugee and humanitarian resettlement intake. During the period of the 1983/84 program the Department moved to set in place a global capacity to process refugees and to establish substantial resettlement programs from Central America, South America, South Asia and the Middle East. The 1983/84 program year also saw the introduction of a rather smaller resettlement program from Africa. This process of a major global restructuring of Australia's refugee and humanitarian intake has now been completed and the Department is now consolidating any new procedures involved. In this context it is gratifying to note the Auditor-General's comments that:
 - the refugee assessment process is inherently complex and the Department has made substantial progress towards developing workable procedures consistent with the Government's objectives of having a world-wide non-discriminatory refugee/special humanitarian program
 - the Department has made a significant effort to provide the Government with assessments relative to the achievement of the Government's refugee policy objectives in the context of rapidly changing events
 - modifications to assessment procedures have been made as circumstances warrant

- the Department has responded with vigour to changes in Government objectives in relation to the administration of the programs
- the Department has implemented procedures to enable the computer-based Migration Program Management System to record all refugees and special humanitarian applications by post, region and program.

2 THE DEPARTMENT OF IMMIGRATION AND ETHNIC AFFAIRS

- 2.1 The Immigration Department was established on 13 July 1945. On 12 June 1974 the Departments of Immigration and Labour were amalgamated to form the Department of Labour and Immigration. The Department of Immigration and Ethnic Affairs was created by the Governor General in Council on 22 December 1975.
- 2.2 The Department provides policy advice on immigration, entry control, citizenship, population, ethnic affairs, settlement and related matters. It implements Government policies and administers legislation in these fields and plans, develops and co-ordinates migrant settlement and welfare programs.
- ### 3 BRIEF HISTORY OF REFUGEE POLICY
- 3.1 From the earliest days of settlement in Australia refugees have sought and been granted asylum.
- 3.2 In 1938, as a result of the Evian Conference, Australia agreed to accept, over a three year period, 15 000 Jewish refugees who had fled Germany, Austria and the Sudetenland to escape Hitler's anti-semitic policies. Nearly 7 500 had arrived in the twelve months to mid 1939 when the outbreak of war forced the suspension of the program.
- 3.3 In the immediate post war period Australia entered into an agreement with the International Refugee Organisation (IRO) to accept an annual quota of 12 000 refugees and displaced persons with provision to increase this number to 20 000 if the IRO could find the ships. In all, 170 700 came to Australia under the IRO Displaced Persons Scheme

between 1947 and 1952. Australia's intake under this Scheme was second only to the USA which took 282 000.

3.4 Other large groups taken since then include:

- 14 000 from Hungary following the uprising in 1956;
- 5 700 from Czechoslovakia after occupation by Soviet troops in 1968;
- 12 000 White Russians from China;
- 14 000 Eastern Europeans since 1978 following an increase in numbers in countries of first asylum;
- 90 000 Indo Chinese since 1975.

3.5 Further groups helped under relaxed migration criteria include:

- 17 000 Lebanese admitted under relaxed family reunion criteria following civil unrest in Lebanon in 1976;
- 3 500 Timorese since 1975;
- 4 000 Soviet Jews since 1973.

3.6 While the Indochinese still constitute some 50% of refugee intakes current policies place emphasis on:

- attempts to find political solutions (like voluntary repatriation) to the huge refugee problems facing the world. Both the Ministers for Foreign Affairs and Immigration and Ethnic Affairs have held talks with leaders of relevant countries and organisations. The issue was also raised at the October 1984 meeting of the Executive Committee of UNHCR in Geneva by the Australian delegation; and
- diversifying the geographical sources of refugees. In 1983 and 1984 refugees have been accepted from Central and South America, Africa and the Middle East.

- 4 AUSTRALIAN REFUGEE AND HUMANITARIAN POLICY
- 4.1 Australia has a global policy under which any applicant for refugee or special humanitarian entry to Australia may apply at any Australian post. The Government is committed to achieving a wider geographical sourcing of Australia's refugee and humanitarian intake, in order to ensure that our resettlement programs properly respond to the global nature of the world's refugee and humanitarian problems as well as the diverse ethnic composition of the Australian population.
- 4.2 Australia's basic objectives are to assist persons in a refugee situation or those suffering substantial discrimination and to contribute to the resolution of refugee and humanitarian problems.
- 4.3 Policies to achieve these objectives include
- resettlement in Australia where necessary and appropriate
 - a wider geographical sourcing of our refugee and humanitarian intake
 - efforts to achieve political solutions to refugee problems
 - the provision of humanitarian aid to support refugees and displaced persons in countries of refuge, and where appropriate to facilitate local integration in such countries or to promote conditions conducive to voluntary return to countries of origin.
- 4.4 The traditional image of Australia is that of a resettlement country. While Australia continues to provide a generous resettlement capacity for refugee and humanitarian cases, increasing emphasis has been placed on contributing to international efforts to resolve refugee situations and to promoting non-resettlement solutions.
- 4.5 In refugee situations, Australia endorses the order of priorities adopted by the United Nations High Commissioner for Refugees (UNHCR):
- voluntary repatriation to countries of origin as the most desirable solution;

- local integration in countries of refuge and the next preferred option; and
 - finally, and only as a last resort, resettlement in third countries.
- 4.6 Australia is also prepared to offer humanitarian entry to persons suffering substantial discrimination, including those still within their countries of origin.
- 5 REFUGEE/SPECIAL HUMANITARIAN PROGRAMS
- 5.1 Australia is one of the 92 countries which are parties to the United Nations Convention on the Status of Refugees and which have taken on certain obligations to assist refugees. Australia is a member of the Executive Committee of the UN High Commissioner for Refugees (UNHCR), and contributes official assistance to UNHCR and other international agencies.
- 5.2 The UN Convention defines a refugee as a person who '...owing to well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion, is outside the country of his nationality and is unable or, owing to such fear, is unwilling to avail himself of the protection of that country; or who, not having a nationality and being outside the country of his former habitual residence, is unable or, owing to such fear, is unwilling to return to it'.
- 5.3 Australia operates two resettlement programs world wide, the Refugee Program and the Special Humanitarian Program.
- 5.4 The Refugee Program assists persons who, in the terms of the UN definition of a refugee, are outside their countries of nationality or habitual residence and are unable to return because of a well-founded fear of persecution.
- 5.5 Applicants are individually assessed by Australian officers to ensure that they are in fact refugees in need of resettlement in Australia. Priority under the program is given to persons with relatives in Australia, persons with other

connections with Australia and persons with attributes likely to facilitate successful settlement in Australia.

- 5.6 The Special Humanitarian Program (SHP) has a dual focus. On the one hand it assists persons with connections with Australia who, while not refugees, are facing discrimination in their country of origin. On the other hand, the SHP is also able to assist persons facing acute humanitarian difficulties who are still within their country of origin and cannot, for that technical reason, be considered to be refugees. Such people can be accepted whether or not they possess connections with Australia.
- 5.7 Any person anywhere in the world can apply for refugee or SHP entry to Australia and be assessed against global criteria.

Determination of Status

- 5.8 Generally, determinations of refugee status are on an individual basis and stem from the applicant's self-identification as a refugee. However, there is also provision for group determinations in exceptional or extenuating circumstances, such as where a group is in a first refuge situation where protection cannot be assured. (See reference to DORS Committee)

REFUGEE AND HUMANITARIAN INTAKE

5.9 Visas Issued 1983/84

	Refugees	SHP	Total
Indochinese	10015	22	10037
East European	1718	279	1997
Latin American	448	568	1016
Middle Eastern	114	1068	1182
African	112	4	116
Others	19	1118	1137
	* 12426	** 3059	15485

- * All are funded
** Only 754 funded

1984/85 Program

	Refugees	SHP	Total
Indochinese	8000	200	8200
East European	1000	200	1200
Latin American	750	750	1500
Middle East	750	750	1500
African	350	100	450
Others	150	1000	1150
	*11000	**3000	14000

- * All are funded
** SHP passage assistance will be provided where persecution is demonstrated

1985/86 - Program

	Funded Refugee/SHP
Indochinese	6000
East European	1500
Latin American	1500
Middle East	750
Africans	200
Others	50
	10000
Unfunded SHP	2000 (to be allocated)
Total	12000
Contingency Reserve	2000

6 COMMITTEE ON THE DETERMINATION OF REFUGEE STATUS (DORS)

- 6.1 The DORS Committee was created by Cabinet in May 1977 to give effect to Australia's ratification of the UN Convention and Protocol relating to the status of refugees. It comprises senior officer representation from the Departments of Immigration and Ethnic Affairs (chair), Foreign Affairs, Prime Minister and Cabinet and the Attorney-General.

- 6.2 The Committee meets regularly in Canberra and is serviced by a small secretariat within the Department of Immigration and Ethnic Affairs.
- 6.3 It considers applications made by persons within Australia for the grant of refugee status under the Refugee Convention and Protocol, and makes recommendations to the Minister for Immigration and Ethnic Affairs. (DORS procedures provide for the applicant to be interviewed by an experienced Departmental officer against the UN definition of a refugee, and for a transcript of that interview to be provided to both the applicant and the DORS Committee.)
- 6.4 The final decision is taken by the Minister.
- 6.5 The DORS Committee is not bound or restricted by legal procedures: it can enquire widely and can accept evidence outside the strict legal rules. In borderline cases it can and does give the benefit of the doubt to the applicant.
- 6.6 To 30 June 1984, the DORS Committee considered 1600 cases for the grant of refugee status. In 1983/84, 230 cases were considered by DORS - of those finalised, 103 were rejected, 38 were approved and 89 were carried over for resolution in 1984/85.
- 7 BRIEF HISTORY OF SETTLEMENT POLICIES
- 7.1 When post Second World War migration began Australia had a policy of assimilation. This policy required newcomers to adopt totally the life-styles and patterns of their new homeland. This policy proved impracticable here, as in other countries, and was abandoned in the early 1960s.
- 7.2 Australia, like most immigrant receiving countries, then adopted policies of integration. Integration is the process by which migrants are accepted into the community without prejudice and retain their cultural identity if they so wish. The government encourages migrants to express freely their social, religious and political beliefs subject only to the normal legal and other constraints of Australian society.

- 7.3 During the 1970s the evolution of settlement policies continued with the adoption of multiculturalism as the official policy of both major political parties. Throughout the world, in an ethnic revival, governments came under pressure not only to recognise the rights of ethnic minorities to retain their cultural identity but also their right to receive help to maintain that identity. Multiculturalism recognises these rights and also recognises that, if they are to have equal opportunity, members of ethnic minorities frequently require special help.
- 7.4 This need for special help was recognised in Australia and settlement services have been increased significantly since the Galbally Report on Post Arrival Services and Programs was tabled in the Parliament by the then Prime Minister on 30 May 1978. Some of these services are:
- a nationwide Telephone Interpreter service;
 - accommodation centres for refugees and special cases;
 - a network of Migrant Resource Centres;
 - grants for the employment of welfare workers;
 - ethnic radio and television;
 - extensive English language programs.
- 8 MIGRANT CENTRES
- 8.1 The migrant centre network provides initial accommodation facilities for newly arrived refugees and some other migrants. The centres also provide a base for the provision of on-arrival programs and services, particularly English language tuition for migrants in the centre and surrounding communities.
- 8.2 The network also comprises 378 self contained flats which provide transitory accommodation for migrants moving from the migrant centres to life in the community at large.

Location

- 8.3 There are currently nine centres providing residential and settlement facilities. These are located as follows:

Sydney : Endeavour and Westbridge
 Melbourne : Enterprise and Midway
 Brisbane : Wacol
 Adelaide : Pennington
 Perth : Graylands
 Hobart : Mount St. Canice
 Darwin : Tamarind

- 8.4 Education and Settlement services are also provided at three centres where residential facilities have been closed, (Fairymeadow in Wollongong, Cabramatta in Sydney and Eastbridge in Melbourne).

Eligibility and length of stay

- 8.5 New arrivals entering Australia under the Refugee and special humanitarian (SHP) programs or coming from countries with which Australia has a migration agreement are entitled to stay at a migrant centre for up to 26 weeks. Other migrants may stay in centres on a casual basis; their length of stay entitlement varies. Non-migrant casuals may also reside in a migrant centre, where surplus accommodation is available.
- 8.6 Refugees, SHP entrants, welfare cases and migrants from migration agreement countries who have been residents of migrant centres are eligible for transitory flats. They may stay for an initial period of up to 26 weeks. Allocation of flats is on a priority basis determined by DIEA Regional Directors and Centre Directors. Migrant and non-migrant casuals may also be allocated flats, if surplus capacity exists, for periods up to 6 weeks. Extensions of 4 week periods (up to a maximum of 26 weeks) may be granted while surplus capacity continues.

Tariffs payable

- 8.7 Migrant Centre accommodation is not free but is subsidised for the more needy persons arriving in Australia under the immigration program, such as refugees and SHP entrants, and for welfare cases and migrants from migration agreement countries. For unemployed persons in this group, two-thirds of social welfare benefits is deducted as tariff. For employed persons in this group the tariffs are set broadly on cost-recovery principles, but there is a modest subsidy for families. Migrant and non-migrant casuals pay a full cost-recovery tariff.
- 8.8 Similar tariff structures apply to transitory flats. For unemployed refugees, SHP entrants, welfare cases and migrants from migration agreement countries, the tariff is 25% of unemployment benefits received; for employed persons in this group, 85% of the market value is charged as rent. Other persons are charged full market value.

9 THE REPORT

- 9.1 As mentioned earlier in this submission the Australian Audit Office conducted its examination of the Department's activities in early 1984 completing its task in June 1984. The Department was asked for its response to the audit findings in late 1984 and provided comments in February 1985.
- 9.2 The Department's responses to the audit findings are correctly reflected in the Auditor-General's Report.
- 9.3 In general, the Department regards the comments provided to Audit in February 1985 as remaining valid. The Department is satisfied that appropriate action is being taken to meet the points raised by the Auditor-General. Where necessary, updated confirmation on the Departmental response to the Auditor-General's comments follows.
- 13.1.2 PROCEDURES FOR THE ASSESSMENT OF OVERSEAS BASED APPLICANTS FOR REFUGEE STATUS
- Refugee Application Form
- 9.4 The application form has been redrafted and includes the United Nations definition of a

refugee. It is currently being circulated throughout the Department for comment and is expected to be finalised shortly. The draft application form uses simplified language and when approved will be available in the major user languages.

13.1.3 PROCEDURES FOR THE ASSESSMENT OF AUSTRALIAN-BASED APPLICANTS FOR REFUGEE STATUS

DORS Procedures

Delegations

- 9.5 This matter is subject to Government consideration with a view to introducing amending legislation.

Applicants considered under paragraph 6A(1)(e) of the Migration Act.

- 9.6 The question of the guidelines on the role of the advisory function of the DORS Committee and Secretariat are being re-examined in the context of the Secretariat function servicing the DORS process.
- 9.7 The Department in reaching its decision under sub-section 6A(1)(e) takes account of the factors recognised by the DORS Committee and in conjunction with other matters put before it, considers the question of the application of principles necessary for consideration and approval of the grant of resident status under sub-section 6A(1)(e).

Personnel Management

- 9.8 In order to speed up the processing in the Sydney Regional Office, Canberra-based staff have recently travelled to the Sydney Office to conduct DORS interviews although this has had an impact upon the limited resources of the DORS Secretariat in Canberra and other departmental resources servicing that function.

DORS Committee decision-making process

- 9.9 In addition to the response to the Report it should be noted that the "Review of Australian Procedures for Determining Refugee Status" referred to in the Report represents an individual officer's view

contained in a report which has not been endorsed by the Department. The Department would agree with the Audit Report that the issues of concern in relation to DORS processing are essentially related to the efficiency of the administrative procedures involved and the resources allocated to this procedure. These questions have been addressed in depth by subsequent Departmental review and action and significant changes to these procedures which are likely to satisfy the concerns raised in the Auditor-General's report are imminent.

13.1.6 CHANGE OF PERSONAL PARTICULARS

- 9.10 The backlog of claims noted by the Auditor-General in 1984 was dealt with and processing is continuing at a satisfactory level in most States. From a preliminary assessment of current cases, it appears that applications for change of personal particulars are increasing as more refugees are applying for Australian citizenship and wish to ensure that their correct personal details are entered on their citizenship certificates.

- 9.11 The review of procedures for changing personal particulars has been completed and new guidelines are in the draft stage. Certain types of cases such as changes to family relationships are presenting complex questions of policy and procedure. It is planned to seek advice from the Attorney-General's Department on the provisions of the Family Law Act in relation to these cases. Other agencies with relevant expertise will also be canvassed in the development of procedures.

- 9.12 Overseas departmental officers have been asked to continue to emphasise to refugees the need to provide correct personal particulars at selection interviews. This counselling will continue in the hope of reducing the potential number of applications for changes to personal particulars.

13.1.7 GUARDIANSHIP OF CHILDREN

Arrangements with State Governments

- 9.13 In late March the Minister for Immigration and Ethnic Affairs met with a delegation of State Welfare Ministers and officials to explore arrangements to improve support and assistance for

refugee minors without parents in Australia. The Minister foreshadowed at that meeting a cost-sharing program, to be administered by the States, to provide support and supervision to refugee minors on a systematic basis. The program is designed to provide close supervision of minors and caregivers from the point of entry, with the frequency of contact reduced over time for some two-thirds of the caseload; the remainder, judged to be at greater risk, would receive intensive support on an ongoing basis.

- 9.14 The program is a new policy initiative for 1985/86. The Department is currently drawing up guidelines for its planned introduction from 1 September 1985. The guidelines will specify the level and frequency of supervision by State caseworkers; accountability requirements will include reporting arrangements which will allow the standard of service to be monitored.
- 9.15 A general revision of the Regulations made under the Immigration (Guardianship of Children) Act is planned and work on individual regulations has already commenced. Regulation 3 is being redrafted to include an ambit description of State welfare authorities to obviate the need for regular revision when Departments' names are changed. Regulation 4 is to be redrafted to clarify the role and responsibilities of State welfare authorities under delegated guardianship, following advice from Attorney-General's Department on the current wording of the Regulation. Other regulations will be progressively revised and updated.

Breakdown in Care Arrangements

- 9.16 Major progress has been made on legislative and policy changes to reduce the incidence of breakdown in care arrangements and ameliorate their consequences.
- 9.17 An amendment to the Immigration (Guardianship of Children) Act authorising the Minister to declare a minor a ward after arrival in Australia where it is necessary and in the interests of the minor to do so was passed during the autumn session of Parliament. Principles to be followed in the exercise of this discretion are being drafted for

inclusion in the Regulations. One of the principles proposed is that the care arrangements for the minor are assessed by the Department to have broken down irreversibly.

- 9.18 In May Cabinet approved as new policy for 1985/86 within the Immigration and Ethnic Affairs portfolio a cost-sharing program with State governments to provide supervision and support for all refugee minors without parents in Australia. Systematic caseworker follow-up of minors under the program will strengthen care arrangements and ensure early intervention where breakdown still occurs.
- 9.19 Organisations and workers in the refugee field have argued that financial pressures and inadequate income support for caregivers have precipitated the breakdown of care arrangements. The Department has used the vehicle of the current fundamental review of youth allowances announced by the Treasurer in his 1984/85 Budget speech to improve the assistance available to caregivers of student minors and to keep the needs of this special group before Cabinet. Major changes in allowances for economically disadvantaged and unsupported youth are being considered in the context of the 1985/86 Budget.

Assessment of Sponsor Claims

- 9.20 Sponsorships lodged in Australia for minors are now routinely referred to Departmental social workers for a welfare assessment. An interview schedule for overseas selection officers to use in interviewing family groups including a minor relative is also being developed.

13.1.8 MIGRANT CENTRES AND TRANSITORY FLATS

Contractual Arrangements

- 9.21 The transfer of housing and welfare staff from CACS Ltd to DIEA was effected on 24 October 1984. It was expected that transfer of the remaining CACS services staff would be effected early in 1985. The Department and the Public Service Board undertook negotiations with CACS and the relevant unions which culminated in a meeting in February 1985. A tentative date of 1 July 1985 was set for transfer of staff. Finalisation of the

transfer has however been delayed by continuing negotiations with the Department of Finance concerning AOSL coverage of staff transferred from CACS. The Minister has written to the Minister for Finance and the timing and final details of arrangements for transfer will now depend on the outcome of considerations relating to staff levels and the salaries appropriation for 1985/86.

- 9.22 Significant progress has been made in drafting the new contractual arrangements between the Commonwealth and CACS Ltd required by the Government in time for the scheduled commencement date of 1 July 1985. Given likely major changes in the migrant centre network following its review, an intermediate arrangement may need to apply pending resolution of long-term contractual arrangements.

Security Arrangements - Westbridge Migrant Centre

- 9.23 The Australian Protective Service conducted a security survey of the two migrant centres in NSW during January 1985 and reported on 20 March 1985. Following the survey measures are being taken within the constraints of available 1984/85 and 1985/86 funds to improve security by up-grading window and door locks, lighting in public places, and the installation of alarm systems and other security devices. The report noted that no major incidents have occurred at Westbridge over the past 12 months and that NSW Police intervened promptly in relation to minor incidents that have occurred.

Review of Migrant Centres

- 9.24 The Working Party has explored implementation strategies and its conclusions were reported to the Minister for Immigration and Ethnic Affairs. A draft Cabinet Submission has been circulated and will be considered shortly by the Government. The proposals, involving substantial rationalisation and redevelopment of the existing accommodation will enhance the standard and flexibility of accommodation, significantly reduce operating costs and surplus capacity and improve the cost-effective use of migrant centre resources.

14 JUNE 1985

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report: April 1985
Submission by the Department of Social Security on
Paragraph 18.1 - Family Allowance

The Australian Audit Office carried out audits of the Family Allowance system in Central Office and in South Australia at the State Headquarters and 3 Regional Offices. Audit's findings focussed on: liaison with unemployment benefit administration, output monitoring, Education allowances, and Central Office references.

The department's position on these matters is as follows.

Liaison with unemployment benefit administration

2 The problems in this area stem from the human error element associated with clerical liaison. It is something the department tries to avoid but has to acknowledge does occur from time to time. The day-to-day difficulties will only disappear when the liaison is done automatically (ie by computer) and, as the Committee is aware, this will be achieved as part of the systems development arrangements associated with STRATPLAN.

3 Until that happens attention is being given to the problem through the department's computer-based review methodology. By selecting cases which meet certain criteria from both the unemployment benefit and family allowance computer files, those with a higher than average risk of incorrect payment can be identified and corrected. The most recent of these projects was shown to be cost-effective and it will be done again during 1985/86 at a time determined by its priority when compared with exercises in the other pension and benefit areas.

4 The efficacy of the liaison should not of course be based solely on that review approach. Staff and Regional Managers are aware of their responsibilities in this area. But it is a useful control mechanism and is treated as such.

5 The withdrawal of student family allowance payments for 18-24 years olds from November 1985 will require a variation in the overall approach in future years.

Output monitoring

6 The output monitoring function is a quality review process which focuses on the accuracy of coding and keying of transactions in regional offices. Data collected during the National Review of Output Monitoring (June 1984) demonstrated that the function is not cost effective in its current form.

7 A concept of examiner batching aimed at strengthening input/output control has recently been developed and is ready for full testing. In addition a quality assurance package which is more broadly based than output monitoring has been developed for regional offices.

8 Both these initiatives will be tested and evaluated in selected regional offices. In the meantime, the existing procedures will remain in operation.

Education allowances

9 Action had been taken in South Australia to ensure that all advices by the Department of Education had been received and actioned. Unanswered correspondence has been followed up.

References to Central Office

10 Controls over the duplication of payments will be a feature of an integrated index of all clients which is being developed in conjunction with the department's computer re-equipment program. On present schedules this initiative is planned to be operational by the end of 1986.

11 Control over manual payments is more difficult since manual action is recorded on the computer after the event. However, the extension of on-line enquiry to family allowances, currently planned for early 1986, will provide a facility whereby the existence of an earlier manual payment can be checked for before a further manual payment is made.

12 Outstanding documentation from the States has been pursued and action taken to ensure timely return of future documentation.

13 State offices have been reminded of the requirement for regular system monitoring returns.

14 June 1985

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report: April 1985 Submission by the Department of Social Security on Paragraph 18.2 - Family Income Supplement

The Australian Audit Office carried out audits of the Family Income Supplement (FIS) program at selected Regional Offices in Victoria and New South Wales. Audit's findings focussed on: verification of income, evidence of income, control breakdowns, and non-compliance with determination procedures.

The department's position on these matters is as follows.

Verification of Income

2 The procedures used by the department are in accordance with the legislation and provide, inter alia, for those in receipt of FIS to notify the department of any change of circumstances which may affect their payment. Entitlement for FIS is based on income in the four weeks preceding claim: in the case of self employed persons, 4 weekly income is assessed as a proportion of annual income.

3 The reservations about the adequacy of FIS procedures, expressed in departmental internal audit findings and by the department's Victorian Administration, will provide the basis of a review of the FIS program in the coming year. The review will also include the selective validation of client circumstances using computing techniques already developed so that an assessment can be made about the size of any problem which may exist.

Evidence of Income

4 Staff have been reminded of the proper procedures to be followed. An assessor's manual, which will promote adherence to procedures, is currently being printed and should be in operation early in the 1985-86 financial year.

Control breakdowns

5 A quality control system has been introduced to review all aspects of FIS processing. Other appropriate remedial action has also been taken.

Determination procedures

6 In New South Wales, additional training has been given where appropriate, and other aspects of the problems noted by the Auditor-General will be addressed by the new assessor's manual.

14 June 1985

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report : April 1985
Submission by the Department of Social Security on
Paragraph 18.3 - Double Orphans' Pension

The Australian Audit Office conducted an audit of the Double Orphans' Pension program in Queensland at the State Headquarters and at selected Regional Offices. Additional testing was also conducted in South Australia. Audit findings focussed on: review of entitlements, format of microfiche, liaison with the Department of Veterans' Affairs, legislative compliance and other matters.

The department's position on these matters is as follows.

Review of Entitlement

2 Reviews are undertaken when a change in circumstances is advised by a claimant or a change in eligibility is anticipated.

3 Under Section 105A of the Social Security Act it is valid for a claimant to receive Double Orphans Pension even though the orphan's parents have subsequently entered Australia. The claimant is only required to notify the Department when they become aware of the whereabouts of a parent who has entered Australia.

4 The Department will endeavour to establish with Audit in the cases indicated in which the orphan's parents were actually in Australia whether the claimant was aware of their whereabouts and had failed to notify the Department.

Format of Microfiche

5 An internal audit examination of this matter has confirmed that there are established clerical procedures to be followed in cases such as that cited by Audit, but which were not followed in that instance. The production of a microfiche listing such as that suggested by Audit has been examined but is considered unlikely to be cost effective, as there would be considerable ongoing costs and clerical problems associated with it.

Liaison with the Department of Veterans' Affairs

6 Arrangements have been made for regional offices in Queensland and South Australia to be notified of any future grants by the Department of Veterans' Affairs and a current listing of persons receiving war orphans' benefits has been obtained.

Legislative Compliance

7 The current arrangement has permitted the flexibility necessary in difficult circumstances often involved in these cases. The department will, however, consider recommending amendment of the legislation to provide that eligibility will cease at the end of the relevant period or from an earlier date in special circumstances.

Other matters

8 A number of procedural breakdowns were identified in the Queensland audit. Appropriate remedial action has been taken.

14 June 1985

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor-General's Report: April 1985
Submission by the Department of Social Security on
Paragraph 18.5: Recovery of Overpayments.

As part of the examination of the Auditor-General's report for April 1985, the Department of Social Security has been asked to provide information about the current situation with regard to initiatives being undertaken to improve the recovery of overpayments arising under the Act. Some of these initiatives are ongoing and have been advised to the Committee previously in respect of its examination of the Auditor-General's Reports of March and September 1984.

2 As at 30 June 1984, the total value of outstanding overpayments under the Social Security Act amounted to \$104.3m. Whilst some \$63.8m worth of overpayments were raised during the 1983/84 financial year this represented only 0.48% of departmental outlays made under the Act during that period. The current recovery rate stands at 23.4%. One aspect which has to be borne in mind is the necessity to get the recovery rate in accordance with the client's ability to repay.

3 Recent initiatives which are having an impact on the cycle of detection, recovery and prevention of overpayments are:

- departmental changes to afford the debt recovery function a more meaningful focus and an increased priority. These include the upgrading of the level of management provided to the function at a State administration level and the creation of a new section within the Department's central office to co-ordinate both recovery and prosecution action at a national level. The vacancy for the 'Manager' position was advertised in the national press on 1 June 1985;

- procedural and systems improvements. These include the issue of concise instructions and guidelines to appropriate staff to ensure, amongst other things, that due consideration is given to the cost-effectiveness of recovery actions undertaken. Further, proposals for major systems developments have been prepared and are under consideration;

- the adoption of direct credit as the prime mode of paying the entitlements of individuals. The conversion of Pension and Family Allowance payments occurred in April/May 1985 and Unemployment and Sickness benefit payments is currently underway and will take effect from 18 June 1985. This will effectively eliminate overpayments arising from original and duplicate cheque negotiations;

- the implementation nationally of the management information system PRISM which provides a range of reports to departmental regional managers. Some of these reports deal with overpayment processing;

- the development of a Quality Assurance Package for regional managers. It is in essence a self-monitoring practice which focuses attention on the quality of administration of benefit processes in regional offices including overpayment processing. Further a Quality Assurance Program is currently being developed for staff involved in recovery sections in each State headquarters;

- the continuing development and refinement of benefit control techniques which are largely computer-based.

14 June 1985

JOINT COMMITTEE OF PUBLIC ACCOUNTS
Inquiry into the Auditor-General's Report, April 1985
Submission by the Department of Territories

INTRODUCTION

The Department has been asked to forward a submission on paragraph 20.1, Administration of the Commissioner for Housing Loans Scheme, in the above report. The Auditor-General's Report explains the circumstances which led to insufficient funds being available to meet all the loan commitments made under the Commissioner for Housing Loans Scheme in the period under review. Attachment 1 is a statement of the policies and objectives of Housing Branch.

2. The audit findings relate to:
 - . over-commitment of funds
 - . over-expenditure of the Australian Capital Territory Housing Trust Account
 - . deficiencies in the system for controlling commitments
 - . the reliability of the \$7.9 million estimated deficit
 - . Spot Purchase Scheme - irregularities

The Department generally accepted the findings of the Auditor-General and has taken action to ensure that over-commitment of funds will not recur. Audit state on page 140 of the Report that 'In Audit's opinion the remedial actions taken by the Department so far are considered satisfactory.'

3. It should be noted that as soon as the problem was known the Department set action in train to remedy the situation. On 31 August 1984 arrangements were made for the Public Service Board and the Department to conduct a joint review of the administration of the Scheme and to recommend on necessary improvements. The Terms of Reference for that study were:

'The team is to start on 3 September 1984 and complete their task as soon as possible and in any case within three weeks.

The team will report to the Deputy Secretary on a regular basis to advise of progress and, if necessary, to receive fresh directions.

The team is required to:

1. Report on:

- . the adequacy of existing administrative processes and procedures for the handling of applications for Commissioner for Housing loans.
- . the adequacy of existing financial procedures and control mechanisms operating in respect of applications for Commissioner for Housing loans.
- . the adequacy of existing staffing and other resources for the effective management of the Commissioner for Housing loans scheme, particularly in relation to the efficient and effective handling of loan applications.
- . any other relevant matters associated with the operation of the Commissioner for Housing loans scheme.

2. Recommend to the Department:

- . any changes to the existing administrative processes and procedures for the handling of applications for Commissioner for Housing loans.
- . any changes to the existing financial procedures and control mechanisms operating in respect of applications for Commissioner for Housing loans.

- the appropriate level of staffing and other resources to achieve effective management of the Commissioner for Housing loans scheme.

- or any other changes relevant to the operation of the Commissioner for Housing loans scheme.'

The review was conducted during the period 3-24 September 1984, and recommended that substantial changes be made to the processes and staffing arrangements used by the Branch. A Steering Committee, including a representative of the Public Service Board, was created to oversee the implementation of the recommendations and is monitoring their continued effectiveness.

4. A copy of the report issued by the joint review team is at Attachment 2 and Attachment 3 summarises the action taken by the Department to implement the recommendations. The Department has fully implemented all recommendations that affect the control of funds and most other recommendations. Those recommendations not fully implemented relate to matters which cannot be finalised until loan interviews are re-commenced or to matters which can only be implemented progressively and do not affect financial controls in the loans scheme such as training or relationships with the public.

5. The Department is confident that appropriate action has been taken to rectify the problems which caused the over-commitment and over-expenditure of funds. The action taken for the specific findings of the Auditor-General, as reported in April 1985, is set out in the following sections.

6. The Department also arranged through the Public Service Board for Mr Fisher, a senior officer of the Australian Public Service to undertake an inquiry and report on the conduct of officers in relation to the Commissioner for Housing Loans Scheme. The Terms of Reference for this inquiry are:

'Examine the conduct of officers in relation to

- The use and management of funds available for the Commissioner for Housing Loan Scheme over the period 1 July 1983 to 31 August 1984;

- The communication to the Minister and the senior management of the Department of information on the magnitude and extent of over-commitment of funds;

- The provision of the PSB/DTLG team reviewing the administration of the Commissioner for Housing Loan Scheme of Terms of Reference which did not incorporate an addition approved by the Minister and the effect of this on the outcome of the review;

- Any other matters related to the over-commitment of loan funds.

And in the light of this examination report to the Secretary as appropriate.'

7. This exercise started in January 1985 and the officer reported to the Secretary in May 1985. The Secretary has now directed that this report be examined by the First Assistant Secretary Management Services to determine if there are grounds for disciplinary action against any officer. Copies of press statements and notices to staff are at Attachment 4. These notices were issued both to keep staff informed of progress and to ensure they were fully aware that the Department was treating the matter most seriously.

OVER-COMMITMENT OF FUNDS

8. Audit commented (20.1.4(a)) about the payment of \$4.25 million for purchase of properties for rental purposes. This is dealt with in the later section on the Spot Purchase Scheme.

9. Audit noted that the actions to increase the demand for loans had been taken without proper controls or analysis of the effects of the decision (20.1.4 (b)). One of the recommendations made in the joint review was to improve the reporting mechanisms so that the Loans and Finance Section could provide regular simplified management reports. New reporting mechanisms have been introduced. At Attachment 5 is a copy of the monthly management reports now used. The reports are discussed with the Branch Head by senior Loans and Finance staff

and are copied to the Division Head. The revised reports are designed to provide management with information that will enable effective monitoring of the number of applications on hand and in various stages of determination. It also provides for a funds position, at any time, to be predicted. This information allows management to "gear up", or "gear down" the processing of loan applications to the funds availability. As a result of this reporting mechanism management is now able to set target numbers for the number of loan applications to be processed. In addition to this report the Director is provided with more detailed information, on a weekly basis. (Refer to Attachment 6). The Loans Manager is responsible for ensuring that target interview and approval rates are adhered to.

10. Audit found procedures operating within the Department were not adequate to control commitments, nor did they provide reliable information on the extent of the commitments made (20.1.4(c)). Procedures for the control of commitments have been completely reviewed and strengthened to allow for proper control to be exercised over commitments and to provide reliable information on the level of commitments made. Briefly, the current procedure for loan approval is as follows:

- a) applicant interviewed
- b) the maximum amount of Commissioner for Housing loan the applicant would be eligible for is calculated
- c) eligibility checked
- d) case referred to Commitments Clerk (located in Housing Branch) to determine if funds will be available when required
- e) if funds available, commitment recorded against the approximate time funds will be required. If available funds for that period have been committed, approval will not be given until it is known funds will be available
- f) loan approval given/not given by Loans Manager

- g) applicant advised of approval/non approval (and reason) by Loans Manager
- h) when applicant identifies the property to be purchased approval of the amount required is given and any adjustments in amount or date required recorded in Commitment Register. If for any reason funds will not be available when settlement is expected the applicant will be informed of the situation and appropriate arrangements made before the Commissioner agrees to lend on a specific property
- i) loan payment made, after Authorising Officer certifies funds are available.

Unless special circumstances arise, a maximum period of two months is allowed for the applicant to find a specific property, from date of approval, and a further two months allowed for settlement to occur. If the applicant does not proceed with the purchase in these periods, and does not seek an extension of time, the application is cancelled. These deadlines are imposed mainly to assist in planning a reasonable cash flow projection and thus improve funds management.

11. The Loan Approval (Attachment 7) and Funds Commitment (Attachment 8) procedures and the forms used by staff (Attachment 9) to assess, commit and approve loans are attached. The forms show the funds commitment phase is an integral part of the loan approval process.

12. Additional strengthening of control has been introduced as all loan approvals are now given by the Loans Manager (Class 9) and all letters of approval are signed by this officer who has been granted a delegation for this purpose. Previously, loans were approved at the Class 6 level and letters of approval were often signed by Class 2/3. Cases where a waiver of certain eligibility criteria are to be considered are referred to the Commissioner for Housing for exercise of his discretionary powers.

13. Audit state that insufficient action was taken to monitor and control the effects of the substantial changes which occurred in the operation of the scheme subsequent to May 1984, and that a request for additional funds from the AMF on 5 July 1984 should have, but had not, prompted an immediate and detailed study of the extent to which funding of the Scheme was over-committed (20.1.4d). It should be noted that at this stage the 1984/85 Budget had not been resolved and it was not until 31 July 1985 that the allocation of \$8.5m was finalised.

14. The other related matters that happened at that time that were raised by the Auditor-General were that detailed commitment information not being used as a basis to support 1984/85 Budget Bids; and the apparent lack of action taken to assess the effect of the Government decision of 31 July 1984 on the level of funds to be appropriated for housing loans (20.1.4e and f). The Department has acknowledged that detailed commitment information was not used by the officers briefing the Minister on the 1984/85 Budget bids. However the new procedures that have been introduced and the improved management information mean these events should not occur again. The level of appropriation is an integral part of the cash flow/interview control process, and detailed commitment information will be readily available for estimating purposes. The statistics referred to by the Auditor-General at 20.1.4f were in the form of a 13 page document comprising statistics, graphs and tables (see Attachment 10). This report is a good source of reference material, but was not an appropriate source of information for management purposes and as previously mentioned an appropriate Management Information System is now operative in the Branch and will be further developed once loan interviews recommence.

15. In its interim response of 30 October 1984 to the Auditor-General the Department said that most of the issues found in that study had also been identified in the joint review by the Public Service Board. The Department stated that most of the unsatisfactory matters concerning management and procedures would be rectified and did in fact complete implementation of the report by December 1984, apart from matters that could

not be introduced until loan interviews re-commenced or matters like training that could not be fully implemented quickly. Details of action taken against each recommendation are at Attachment 3.

OVER-EXPENDITURE OF THE AUSTRALIAN CAPITAL TERRITORY HOUSING TRUST ACCOUNT

16. Audit found that the Trust Account was over expended because of the treatment of collect cheques (20.1.5).

17. All cheques to advance loans made by the Commissioner for Housing are drawn using the 'collect cheque' method. This is to allow the cheques to be presented to the vendor at settlement. As previously explained the loan approval process has been altered to ensure that funds will be available when required. At settlement time the commitment clerk ensures that there has been a commitment made for the required advance, amends the Commitment Register to indicate the outstanding commitment (for each applicant and the total commitment outstanding) and records the cheque request as paid.

18. As the Finance Ledger System operated by the Department of Finance operates some six days in arrears it has been necessary for Housing Branch to keep an up-to-date record of funds actually held in the Trust Account and to record commitments in that system rather than the Finance Ledger. When the Claim for Payment is prepared the Commitment Clerk records payments at the time the cheque is requested, is regularly informed of all revenue received to the Trust Account and of any adjustments which have been made to the Appropriation Ledger. The records maintained by the Commitments Clerk are those used to determine whether further commitment or payment can be made. To effect this, the Secretary will appoint on 1 July 1985 (or before interviews recommence) the Commitments Clerk as a Prescribed Officer under Finance Regulation 47(2). The Prescribed Officer's responsibility is to ensure funds will be available when required, i.e. recording commitments. The Authorising Officer's responsibility is then to determine that sufficient funds are available to meet the payment at the time the payment is to be made.

19. It is considered that the above method is the most effective to control commitments and payments, as the Commitment Clerk's records are the only up-to-date records held by the Department or the Department of Finance. Departmental Authorising Officers have been instructed that cheques must not be released if funds are not available and generally reminded of their obligations. In summary, the steps taken to ensure that the account is not overcommitted or overdrawn are the strengthening of control over commitments and payments in Housing Branch, and the reinforcing of the procedures under the control of the Authorising Officers.

20. Audit commented that "the Trust Account was overdrawn for the period 9-19 July 1984 because the Authorising Officer failed to process a transfer ...". The Department accepted this comment but believes that the new procedures should ensure the Account is not overdrawn again.

21. The Auditor-General questioned whether it was appropriate for the Department of Finance to release cheques until the Authorising Officer is able to give an unequivocal assurance that funds are legally available. The Department concurs that it is of paramount importance to implement such a control to ensure over-expenditure does not occur. This concept is reflected in the procedures.

22. The Department's comment about staffing and recruitment matters on page 133 was in the nature of a general observation about the constraints on this Department in this area. The Department's staffing constraints are severe, with strong pressure to allocate staff to service delivery areas. While attention will definitely be given to both job specific and general training and to associated matters such as recruitment, this can only be done to the extent possible within the Department's staff allocation.

DEFICIENCIES IN THE SYSTEM FOR CONTROLLING COMMITMENTS

23. Audit noted deficiencies in the system for controlling commitments, with reference to the procedures when approving loans, inadequate records of commitments, monitoring of funds availability and control over collect cheques (20.1.6).

24. Under the current procedures a loan approval can only be given if there will be funds available when required. Loan approval letters are not signed until the loan is approved and that approval process is not completed unless funds are available. These letters are now signed by the Loans Manager, who has the delegation to approve a loan, providing the eligibility criteria are met.

25. Commitments are now recorded prior to 'Stage 1' approval being given (refer paragraph 10), and should loan approval not be given the Commitment Register is adjusted.

26. The 'Stage 1' approval will continue to be used, although the letter may be modified at a later date. The Department has been advised the letter is a binding agreement, but this is no longer of concern so far as the commitment of funds is concerned. The procedures now provide for funds to be committed before the initial loan approval (Stage 1) is given, rather than when a specific property is identified for financing (Stage 2) (refer to Attachment 7 and 8). This change provides additional safety margins as there is a drop-out rate of approximately 15% between 'Stage 1' and 'Stage 2' approvals and the amount approved at 'Stage 2' would not normally be greater than at 'Stage 1'. Should the situation arise where there has been a change in circumstances in the particulars of an applicant since 'Stage 1' approval was given, the maximum amount the applicant was eligible for would be reassessed, and a revised 'Stage 1' approval would be given.

27. It is considered that the revised Funds Commitment procedures, described at paragraph 10 and detailed at Attachment 8 adequately allow for funds availability to be checked, at the time payment is required. Delegations for all officers either are being or have been formalised and in the former case will be operative before interviews recommence. Duty statements have been

amended where appropriate. The Finance Manager (Class 9) in liaison with the Loans Manager (Class 9) is now responsible for predicting the cash flow of the Trust Account. This information and associated discussion is used by the Assistant Secretary Housing to set target interview rates and monitor the availability of recirculating funds.

28. Due to the time lag which exists in maintaining the Finance Ledgers System the records of commitments are recorded manually in Housing Branch to ensure that up-to-date information, upon which management can act, is held at all times. Through this system, and by appointing a Prescribed Officer, it is no longer of any value to record commitments on the Finance Ledgers System. This system was also used for reconciliations but has been replaced by a Housing Branch computerised waiting list, which is now used for reconciliations to ensure the integrity of the primary commitment system. The Department of Finance was consulted when the revised system was being developed and have endorsed the principles of the system. The problems with the Finance Ledgers System will not recur as now expenditure only is recorded on that ledger. Prior to the Finance Ledger System being discontinued to record commitments of Housing loans, both systems were used and several reconciliations were performed to ensure that all outstanding commitments were recorded.

29. As previously mentioned the Commitment Register currently used in Housing Branch is considered to be accurate. The Commitment Register is a manual record with some 20 pages being used to record commitments details for each approval. This register is maintained on an individual basis with sub-totals. A separate record is held of actual funds available. A copy of this Register is at Attachment 11.

30. With reference to the Audit comment that there should have been an approved forward commitment (p. 134) the Department believes such a mechanism is not required by Finance Direction 47. The Department's view was supported by Department of Finance. Forward commitment can be operated by the Trust Account, providing the level of that forward commitment does not exceed the anticipated level of recirculating funds available in

the next financial year. The level of forward commitment must not under any circumstances assume any amount appropriated in the next financial year and the procedures should ensure this is the case. As the level of recirculating funds is an estimate, the Department has undertaken to keep any forward commitments below the level where the level of funds is known with a high degree of certainty.

31. A significantly improved management information system is now operating in the Department to monitor the Trust Account. As a minimum the balance of the Housing Trust Account is now monitored on a daily basis by the Commitments Clerk, on a weekly basis by the Director, Loans and Finance and on a monthly basis by the Commissioner unless exceptional circumstances arise. The information that these officers have available for monitoring is the records of all commitments, expenditure and revenue (both actual and forecast). The actual documents used are at Attachments 5, 6 and 12. A permanent record of these reports is maintained in the Branch.

32. Security over 'collect cheques' has been tightened and new procedures issued to staff to ensure adequate division of duties. A copy of the revised procedures is at Attachment 13.

THE RELIABILITY OF THE \$7.9 MILLION ESTIMATED DEFICIT

33. Audit noted a variety of errors that led it to conclude that the estimated deficit of \$7.9m was unreliable. When responding to this point in October 1984 the Department considered that \$7.9m was the most accurate estimate available, based on an analysis of the applications and on the then existing trends of recirculating funds.

34. The estimates have been regularly revised since that time, and currently the deficit will total about \$3.15m and the Department of Finance has been advised of this. It is due partly to applicants not taking up loans and partly to an increase in recirculating funds through an unexpected increase in the level of discharges of existing Commissioner for Housing loans. The additional revenue in recirculating funds together

with reduced expenditure has been used to off-set the additional \$7.9 million appropriated and the additional funds will be returned to the Consolidated Revenue Fund.

35. The situation is set out in the following table:

	1984/85	
	ESTIMATE AT OCTOBER 1984	ESTIMATE AT JUNE 1985
Net recirculating funds	\$9.11m	\$12.44m
Appropriation	\$16.4m	\$11.65m
Number of loans issued	583	518

SPOT PURCHASE SCHEME - IRREGULARITIES

36. With reference to the prepayment of funds, the Department arranged for its Internal Audit section to examine Audit's findings, which indicated that the Commissioner paid \$1.7m in settlement monies properly due and payable in the 1984/85 financial year in June 1984. The Department believes that of this amount \$540,000 was a prepayment that should have been made in 1984/85.

37. One of the properties purchased, a townhouse development at Emu Ridge, Belconnen was settled on 27 June, 1984. At that time all purchase monies were paid over even though the townhouses were not complete and ready for occupation. It was not until 20 July, 1984 that the Solicitors for the Vendor sent the Certificates of Occupancy and of Compliance. During the negotiations for that purchase an officer of the Department agreed to the solicitors proposal that the settlement monies of \$600,000 be paid into their Trust Account and released on a pro rata basis to the Vendor as each Certificate of Fitness was issued for the townhouses. Accordingly, the

Department feels a prepayment of \$540,000 occurred, after allowing for a 10% deposit to be paid pursuant to Item 8 and clause 2(1) of the contract, which is in line with accepted practice. While payment was made in June, there was not satisfactory performance or delivery until all the Certificates of Fitness were issued in respect of the townhouses, ie on 20 July, 1984. Accordingly the Department accepts that the monies of \$540,000 should not have been paid.

38. Due to an unforeseen delay in settlement, the purchase of James Court, Red Hill was not finalised until 3 July 1984. It could be said that a prepayment has occurred since the cheques were drawn from the funds of the 1983/84 financial year which were not due and payable until 1984/85. However the cheques were drawn for the original anticipated settlement date of 28 June, 1984, and it was the result of the Vendor's Solicitors postponing settlement until 3 July, 1984 that the Commissioner was forced to hold the cheques until the subsequent financial year when settlement took place. It was not feasible to re-bank the cheques due to the small time delay and, technically no payment occurred until 3 July, 1984. Accordingly the Department does not accept that a deliberate prepayment occurred in this instance. The contracts were signed and exchanged on 2 June, 1984 and the funds were committed at that time.

39. In view of the matters raised by the Auditor-General, as requested the Department sought advice from the Australian Government Solicitor regarding the legality of the purchases which had been made. On 13 February 1985 the Australian Government Solicitor advised the Department that the purchase of the units was not a lawful use of the Trust Account funds.

40. The Department considers there are three options which can now be taken:

- a) amend the Ordinance to provide that the Commissioner may rent out the units and pay the rents into the Trust Account (or to the Commonwealth);
- b) sell the properties, reimburse the Trust Fund and pay any surplus to the Commonwealth; or

- c) surrender, or transfer, the Housing interest in the units to the Commonwealth.

Further detail with regard to the ramifications of these options is at Attachment 14. The Department is still considering the most appropriate course of action to take in this instance.

CONCLUSION

41. The Department has taken all possible action to ensure that the situation which led to the over-commitment of funds and the overdrawing of the Housing Trust Account will not recur. It has implemented new procedures which ensure that adequate control exists over the commitment and payment of funds and has also implemented a range of actions to improve the financial and administrative procedures and staffing arrangements for Housing Branch. The Auditor-General's staff have seen the action taken by the Department and in the conclusion to the Auditor-General's report it is stated that:

"Provided the amended systems and procedures are adhered to, remedial action taken by the Department should eliminate such problems in the future."

42. In addition to the high profile that management oversight of the area has taken, and will continue to take, the officers who designed the systems will return to the Branch when it is decided to recommence interviewing applicants for loans to ensure that the systems are operating as intended. It should also be noted that the Steering Committee for Housing Loans is still meeting on a regular basis to manage the longer-term recommendations of the joint review report. The Steering Committee will continue to meet until all items are satisfactorily implemented.

LIST OF APPENDICIES ATTACHED TO SUBMISSION

Attachment No.	Title
1	Statement of Policy and Objectives
2	Report of the Joint PSB/Departmental Review
3	Summary of Action Taken by Department on Joint Review Recommendations
4	Copies of Press Statement and Notice to Staff re: Mr Fisher's Inquiry
5	Monthly Management Report
6	Weekly Management Report
7	Loan Approval Procedures
8	Funds Commitment Procedures
9	Loan Assessment and Approval Forms
10	Monthly Statistics for June 1984
11	Commitment Register
12	Daily Balance of Trust Account Funds
13	Loan Payment Procedures
14	Ramifications of the Spot Purchase Scheme

Statement of Policy and Objectives

HOUSING BRANCH

ORGANISATION

Tenants and Properties Section, Policy and Projects Section, Loans and Finance Section.

FUNCTIONS

Administers the following housing assistance schemes:

- home ownership assistance
- government rental accommodation
- (non-government) mortgage and rental relief

Services the Government's housing obligations as an employer, providing rental accommodation to defence services personnel, and housing loans to public servants compulsorily transferred to the A.C.T.

Provides rental accommodation for use by community organisations to furnish necessary community and welfare services of a residential character.

Makes recommendations to the Minister on operational matters and in relation to policy development.

Powers and functions are conferred by the following legislation:

- Housing Ordinance 1928
- Recovery of Lands Ordinance 1929
- City Area Leases Ordinance 1936
- Commonwealth Dwellings Rent Ordinance 1961

TENANTS AND PROPERTIES SECTION

Functions

Registers applicants for rental housing; allocates houses and flats.

Administers the priority/crisis/emergency housing scheme.

Maintains and manages Department of Territories controlled dwellings; administers tenancies; oversees operations of the government Long Stay Caravan Park and Jerrabomberra House.

Provides technical guidance concerning government dwellings.

Administers mortgage and rental relief.

POLICY AND PROJECTS SECTION

Function

Develops and reviews housing policies and projects.

Provides Branch statistics and management information services.

Prepares replies to Parliamentary representations and similar correspondence and Parliamentary and press questions; processes FOI requests relating to documents held by the Branch.

Designs, implements and maintains Branch ADP Systems.

Provides administration co-ordination for Branch.

LOANS AND FINANCE SECTION

Functions

Grants Commissioner for Housing and compulsory transferees loans; processes changes to the terms and conditions of mortgages; settles and discharges mortgages.

Manages loan and rent accounts.

Provides executive and office support for the Branch's financial operations.

Powers

Under the Housing Ordinance, the Commissioner for Housing may, subject to the control of the Minister, administer schemes for providing and or assisting in providing dwellings. In particular he may:

- grant loans to assist eligible persons to buy or build a dwelling in the A.C.T. or to discharge an existing mortgage on such a dwelling. (Scheme for Providing and Assisting in Providing Dwelling Houses; commonly referred to as the Commissioner for Housing Loans Scheme).
- acquire privately owned Crown leases which are appropriate to the requirements of the Government rental housing and

home ownership assistance programs in the A.C.T., when an increase in the government owned dwellings, either in a particular locality or overall, is necessary.

In addition the Branch may:

- allocate government rental dwellings in the A.C.T.
- grant rental rebates to government tenants on low incomes
- repossess government rental dwellings in the event of default by tenants (Recovery of Lands Ordinance)
- take appropriate action for the recovery of moneys owing in respect of schemes administered by it
- arrange for the repair and maintenance of government rental dwellings
- discharge Commonwealth funded mortgages
- provide financial assistance under the mortgage and rental relief scheme and adopt such financial and administrative measures as are necessary for the efficient operation of the scheme
- fix and vary interest rates on Commonwealth funded housing loans
- fix and vary rentals for government dwellings (Commonwealth Dwellings Rent Ordinance)
- sell government owned dwellings.

ARRANGEMENTS FOR OUTSIDE PARTICIPATION

THE HOUSING BRANCH ADVISORY COMMITTEE

The Committee meets fortnightly to review priority applications; to hear appeals against Mortgage and Rent Relief decisions and to review submissions on proposed termination of lease action.

Membership comprises of 2 representatives from Housing Branch who act as Committee Chairperson and Committee Secretary and 1 representative from each of the following: A.C.T. House of Assembly; DT Welfare Branch; A.C.T. Council of Social Services; St. Vincent de Paul Society; The Smith Family Inc; Canberra Womens Refuge Inc; Single Womens Shelter Inc; Catholic Social Services; Canberra Youth Refuge Assoc; Salvation Army Family Welfare Bureau.

THE COMMUNITY HOUSING EXPANSION PROGRAM ADVISORY COMMITTEE

The Committee meets regularly to administer a program aimed at establishing housing co-operatives as a legitimate alternative tenure form.

Membership includes one representative from each of the following organisations: A.C.T. Council of Social Services; Shelter (A.C.T.); Youth Accommodation Group; Existing Co-Ops (funded under CHEP); Women's Services and Department of Territories Housing Branch.

COMMUNITY TENANCY SCHEME ADVISORY COMMITTEE

The Committee meets regularly to guide administration of a program aimed at providing medium to long-term accommodation to low-income clients of community groups such as student groups, migrant groups etc.

Membership includes one representative from each of the following organisations: ACT Council of Social Services; Shelter (ACT); the Australian Council for Rehabilitation of the Disabled; ACT Association for Mental Health; ACT Council on the Ageing; Women's Services; Student organisations; Migrant groups and Department of Territories (Housing Branch).

OTHER ARRANGEMENTS FOR OUTSIDE CONSULTATION

Representatives from the A.C.T. Council of Social Services, Housing Branch, Housing Industry Association, Housing Task Force, and Real Estate Institute Association meet periodically to discuss and consider housing related matters of mutual concern.

Residents' groups of government accommodation consult with Housing Branch officers as the need arises.

Other persons or bodies outside the Branch also consult with the Housing Branch officers and make representations to the Commissioner for Housing as necessary.

Categories of Documents

- (a) nil
- (b) nil
- (c) information circulars on assistance schemes administered by Housing Branch copies of loan or rent accounts
statistical bulletins

- (d) crown leases in respect of properties subject to mortgages to secure Commonwealth funded housing loans

memoranda of mortgages (kept with leases)

minutes and background papers relating to Housing Branch Advisory Committee

files for each tenanted property containing agreements, maintenance records, and records of the dealings with tenants and other of the non-accounting nature, including applications to purchase and supporting documents

account files for each tenant and mortgagor

files for each tenant on a rental rebate, containing applications supporting documents, assessments and other information

loan files for each approved loan and each application (current and discharged), containing documents relating to all matters of a non-accounting nature (for example, sublet applications)

transfer files for each tenant containing applications and supporting documents

tenancy application files for each applicant, containing supporting documents

priority housing files for each applicant containing applications and supporting documents

emergency housing files for each applicant, containing applications and supporting documents

crisis housing files for each applicant containing applications and supporting documents

requests for defence service priority housing, kept in folder

requests for compulsory transferee housing (various Departments), kept in folders and indexed by department

mortgage and rental relief files for each applicant containing applications for assistance and supporting documents

policy files relating to policy developments and schemes administered by Housing Branch

DEPARTMENT OF TERRITORIES AND LOCAL GOVERNMENT

REVIEW OF HOUSING BRANCH

MORTGAGES AND FINANCE SECTION

September 1984

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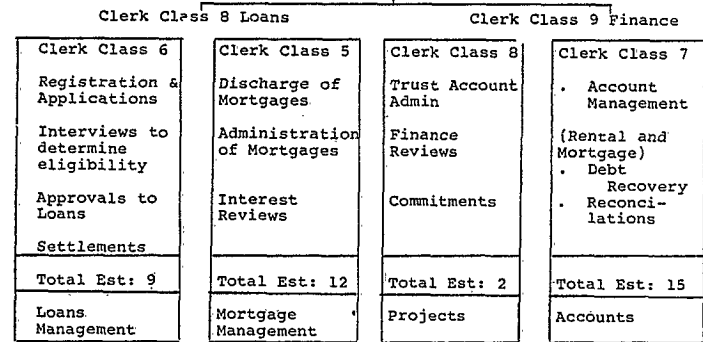
1: INTRODUCTION AND SUMMARY

1.1 Background to the Review

- 1.1.1 As a result of difficulties experienced with the Commissioner for Housing Home Loans Scheme the Secretary of the department of Territories and Local Government requested the Public Service Board for assistance in reviewing the administration of the Scheme.
- 1.1.2 The review was conducted between 3/9/84 and 21/9/84 by a team comprising Glen Gaskill (Principal Project Officer, Public Service Board) and Bruce McKenzie (Assistant Director, Internal Audit, Department of Territories and Local Government).
- 1.1.3 The terms of reference for the review were, basically, to report on the adequacy of systems, staffing and resources for the administration of the Commissioner for Housing Loans Scheme and recommend any changes. Detailed terms of reference are provided as Appendix 1.1.
- 1.1.4 In order to ensure a balanced consideration of the administration of the Housing Loans Scheme it was necessary to examine the systems, operations and structures of the whole Mortgages and Finance Section of the Housing Branch. An overview organisation chart of the Section is provided in the following diagram. A more detailed chart is at Appendix 1.2.

CLERK CLASS 10

DIRECTOR MORTGAGES AND FINANCE



1.2 General Findings

1.2.1 We believe the Commissioner for Housing Loan Scheme ran into difficulties primarily because funds required to service loans committed were not identified at the appropriate time. In a two stage approval process recognition was only given to funds requirements at Stage 2. This was probably not significant in a stable situation. It was however, crucial to managing funds and ensuring effective controls in the special situation which occurred in May and June, particularly in view of flow on implications for liquidity into a new financial year.

1.2.2 The review team believes the administration of the Commissioner for Housing Loans Scheme failed under pressure primarily as a result of inadequate management attention during a period of high risk characterised by:

- . special arrangements being instigated in order to finalise loans before the end of the financial year. This led to significant workload increases, additional risks and more immediate demands for funds by speeding up the processing of loans, it also apparently raised significant public expectations on the availability of loans;

- . staff movements which resulted in middle level managers in the loans area being relatively inexperienced in the operation of the loans scheme and the financial implications on the Home Loans Trust Account;

- . need for caution with long term commitments as additional funding was the subject of a New Policy Proposal;

- . administration of the new loan scheme which, in terms of determining eligibility and calculating the value of loans and repayments, was more difficult than the scheme it replaced; and

- . increased availability of land due to recent releases and apparent access to more homes as a result of the increased maximum value of loans.

1.2.3 In considering the above circumstances:

- . special management parameters beyond the need to spend funds were apparently not laid down or communicated to staff;

- . discussions with all loans staff (approximately 10) to identify additional risks, check understanding or introduce special controls or targets were apparently not held;

- . no special reporting or checking arrangements were initially introduced;

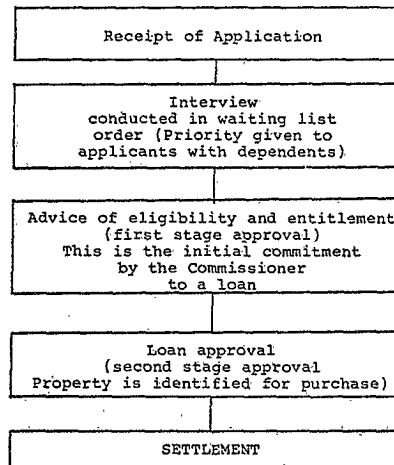
- . indications of problems e.g. extent of interviewing underway, absence of normal reports, apparent staff concerns at ability to process applications, rising public complaints and friction between Loans and Finance areas were not recognised despite the use of Weekly Executive Team meetings held in the section; and

- . decisions made to cut off interviews did not recognise, or were apparently not based on understanding of the flow-on effect of high levels of interviews (up to 30 per day) which were scheduled one month in advance.

1.2.4 In addition management reporting, which may have warned the Commissioner of problems is largely based on detailed statistics, which are not analysed or commented on by subordinate managers, are not timely and give little indication of trends or management difficulties.

1.2.5 It is also apparent that lower level staff did not have the initiative or sufficient trust to raise obvious problems with senior staff.

1.2.6 The system for handling applications for Commissioner for Housing Loans is an inherently simple manual process involving:-



- 1.2.7 Improvements in procedures can be made by increased supervisory attention being given to each of the above stages which represent the main client contact.
- 1.2.8 A review of the Loans Sub-Section has only recently been completed by the Department's Management Consultancy Section. We did not attempt to review their findings and recommendations which provide some up-grading of supervisory positions in the Loans area and a net increase of three positions.
- 1.2.9 Ongoing workloads to finalise current loans approved will ensure sufficient work for existing staff and the need to commence annual reviews of loans finalised will start to build up. Processing of New loan applications has however ceased pending assessments of funds capacity to process additional loans. Under these circumstances detailed assessment of staffing needs is difficult. However, the review team believes existing staffing levels should be adequate if Branch Management instigate an appropriate oversight of staff deployment and ensure early action as work loads change.
- 1.2.10 A significant additional risk with the Administration of Loans is the comparatively low level of staff (Clerk 2/3) who take prime carriage for interviewing applicants, assessing eligibility and initiating recommendations for Loans. We believe Management support in terms of induction, training, support and guidance has been lacking.
- 1.2.11 Operations within the Loans area require a delicate balance between assistance to clients and effective control over applications to verify entitlement and eligibility. There are however important client relations aspects that need attention, including inadequate interview facilities. Basic information to applicants can be improved and correspondence and telephone techniques need attention.
- 1.2.12 In considering the operations of the Loans Scheme it is necessary to understand that possibly 600 loans will be finalised during 1984/85 which is in excess of the 564 loans finalised in 1983/84.
- 1.2.13 The major concern is that there has been insufficient management control and direction to ensure applications for loans were handled in an orderly manner based on estimates of funds flow. The concentration late in 1983/84 on approving loans, for which it was claimed could be settled by 30th June, probably resulted in loans being granted to those not most in need or high in priority on the waiting list.

1.3 Major Recommendations

- 1.3.1 We believe that a number of improvements should be made to improve the administration of the Commissioner for Housing Loans Scheme and related management and administration within the Housing Branch.
- 1.3.2 We recommend action be taken in the following main areas:-
- . Management Improvements. Introduction of simplified management reporting as the basis for regular assessment of performance. Closer attention be given to funds management to ensure conscious decisions on the capacity to advance loans and maintain fund liquidity. Action needs to be taken to ensure there is a recognition of the long term commitment of funds when applicants are advised of the availability of a loan (first stage approval) rather than final approval stage as at present.
 - . Systems and Procedure changes. Management attention should be given to areas of risk and exposure at key stages in the process. A summary of some areas of weakness is provided as Appendix 1.3. Some streamlining of procedures is recommended however action to improve basic procedures can be achieved through closer involvement of staff in procedure review. The early introduction of an investigations unit will allow action to be taken in areas where there are risks of ineligible applicants obtaining loans. Longer term use of ADP systems is endorsed, however we suggest caution in their development, introduction and priority in view of the relatively small size of the Housing loans operation and other urgent needs in the Branch and the Department.
 - . Staffing and Structure. Introduction of additional organisation changes by separating the existing Loans and Finance groups and having them report directly to the Assistant Secretary. In addition some strengthening and streamlining at lower levels in the organisation will be necessary to ensure higher level staff have initial contact with applicants in order to lessen risks, ensure better advice to applicants and reduce processing delays.
 - . Other matters. In conducting the review a number of other matters came to attention and recommendations are made for improving client relations, cooperation with Policy and Projects Section and Departmental review mechanisms. Comments are also provided on the possibility of fraud and the proposed Home Buyers Advisory Service.
- 1.3.3 Details of recommendations are included in specific sections of the report under the above headings.
- 1.3.4 Our recommendations, with the involvement of staff and a commitment by Branch management, can be achieved within the establishment numbers as recommended by the Department's Management Consultancy Section. It will

however, be necessary to increase staff and middle management trust and will require continuing senior management involvement and flexibility to ensure a steady improvement in the operations of the proposed new sections.

1.3.5 To ensure ongoing attention is given to the changes recommended a person should be appointed full time for three months to direct implementation.

1.4 Action

1.4.1 We believe immediate action should be taken in the following areas.

- . Introduction of basic management reporting. Despite the comprehensive collection of statistics within the Branch basic management information is lacking.
- . Assess ongoing action on loan applications. There still appears to be some confusion within the Branch over capacity to provide additional loans over the remainder of the financial year.
- . Advise staff of the Section directly on action being taken.
- . Introduce more effective commitment procedure to ensure first stage approvals are recognised in determining funds capacity and reconcile details between Housing Branch, Finance and Supply Branch and the Department of Finance Ledger.
- . Introduce a Funds Management approach to project funds availability throughout the year.
- . Plan detailed discussions with Department of Finance to resolve the interest rate payable for amounts already advanced and to determine the future of the Housing Trust Account.
- . Introduce revised organisation arrangements for the Section that will allow for the Commissioner to have closer control over Housing Loans and Housing Finance activities.

1.5 Summary of Recommendations

1.5.1 A full summary of recommendations follows: (section indicated in brackets details where major comment or recommendation occurs)

Management Improvements

1. Loans and Finance Section provide regular simplified management reports (3.2.4)
 - . use general format provided as Appendix 3.1
 - . use reports as the basis for management meetings to determine ongoing action
 - . recognise the need for subordinate managers to have more detailed information
 - . integrate reporting arrangements with other Sections to reduce the detailed reporting load on The Commissioner
 - . concentrate on basic management performance indicators rather than complex program control and reporting mechanisms
2. Middle level managers give more attention to staff performance (3.3.3)
 - . set work targets allowing sufficient time for increased communication and self development
 - . encourage staff to make their contribution to improving operations
 - . concentrate on improving staff relations without use of complex techniques
 - . select middle level managers (class 5 and above) on management or supervisory skills rather than detailed knowledge of the loans scheme
3. Strengthen Funds Management & Financial Planning (3.4.6)
 - . strengthen in conjunction with financial planning, budgeting and estimating processes
 - . provide more concentrated analysis, assessment and estimation of funds commitments, availability and flow
 - . assess long term implications of the new loan scheme on viability

- . agree on target interview and approval rates
4. Arrange early discussions with the Department of Finance to resolve matters affecting funds management. (3.4.9)
 - . long term effects of interest charges
 - . options for operation of the Trust
 - . purchase of accommodation units
 - . seeking annual funds through New Policy Proposals
 - . examining detailed financial control and recording processes

Systems and Procedures

5. Modify loan approval process in accordance with detailed recommendations provided in Appendix 4.2 (4.1.2)
6. Identify long term funds commitments at Stage 1 approval through use of proposed ADP waiting list system. Formal commitment on Finance Ledger System continue to be made at Stage 2 (4.2.3)
 - . Simple manual record will be necessary if there are any delays with the waiting list system
 - . Loans Section to be responsible for maintaining long term commitments and advising Finance Section (4.2.5)
7. Line Management concentrate on particular areas of risk and encourage staff to initiate changes to individual procedures (4.3.1.)
8. Introduce the proposed Investigations Unit as soon as possible (4.4.1)
 - . exercise care in determining final role
 - . examine what specific authority is required
 - . conduct a file audit as an early task to identify major areas of risk
 - . note: it is inappropriate to rely on the investigations unit for regular case investigations
9. Introduce the ADP Register System for recording commitments and providing more timely management statistics. Longer term consideration needs to be given to an overall plan for Housing

Branch ADP needs. (4.5.2) Care should be exercised in the tasks for which automated systems are to be used (4.5.6).

10. Assess the use of forms, guidelines and checklists in other loans institutions to identify any additional streamlining possible. (4.7.2)
11. Introduce a self help approach to reviewing and documenting basic procedures, staff aids and client information. Provide assistance from Management Consultancy Section through workshops on procedure examination and documentation. (4.8.2)
12. Examine general issues requiring management clarification outlined in Appendix 4.3 ie. (4.9.1)

Assessment of Income
 Assessment of Commitments
 Handling of Gifts
 Avoidance of Leading Clients
 Using external Information Sources

13. Make greater use of working check lists to overcome duplication with forms and ensure closer direct control by supervisors of casework. (4.10.4)

Structure and Staffing

14. Split the Mortgages and Finance Section into separate Loans and Finance Sections reporting direct to the Commissioner for Housing. (5.2.2 and Appendix 5.1)
- combine loans and settlements groups into joint teams with public contact being primarily at the Clerk Class 4 level (5.2.3)
 - re-organise Finance Section based on structure proposed by section management and staff within existing classifications and establishment (5.2.3)
15. The Project Officer (administration) introduce a more rational approach to staff movement throughout the Branch for both development and management purposes. (5.3.2)
16. Develop staff skills in management and supervision to provide competent staff to take on higher level activities. Gradually broaden jobs within the Loans Section to improve staff skills, job satisfaction and concern for clients. (5.3.4)
17. Supervisors give more adequate attention to the use and maintenance of procedure statements through (5.3.5)
- active involvement of staff to make minor changes
 - ensuring new staff have access to procedure statements
 - Management Consultancy conducting workshops to advise staff on methods of reviewing and charting procedures.
18. Provide increased support to public contact staff. (5.3.7)
- supervisors and middle management regularly attend the counter to gain an understanding of problems and the quality of service
 - arrange regular discussions on customer problems
 - commence an in house training program covering client relations, phone techniques, interview techniques, duty of care, Branch operations and procedures, client counselling and customer service.

Other Matters

19. Improve client relations by: (6.2.2)
- re-assessing interview facilities for loan applicants
 - paying more attention to explanatory information for clients - simple check lists at interview or when applications are lodged may be more useful than formal letters
 - introduce a brief 'handout' on requirements and responsibilities for progress payments
 - review letters to clients in conjunction with the Client Liaison Officer and interested community groups to ensure they can be understood by clients
 - streamline methods for processing refunds in conjunction with Finance and Supply Branch.
20. Provide a summary of policy projects to Loans and Finance Staff to consider the need to provide practical input, consider ongoing operations and ensure staff are aware of areas of change being considered. (6.3.2)
21. Minimise fraud potential by (6.5.3)
- staff identifying where an applicant is known to them;
 - eliminating the use of standard statutory declarations;
 - investigations unit initially concentrate on identifying main areas of risk
22. Closer attention be given to co-ordinating the Department's review mechanisms to ensure total systems problems are identified. (6.6.3)
23. A person be seconded full time to implement changes recommended. (7.2)

2. OPERATIONS OF MORTGAGES AND FINANCE SECTION

2.1 Size and scope of the organisation.

2.1.1 The Housing Branch organisation as approved by the Secretary on 9/7/84, comprised 157 positions. A break up by major activity is:

- . Executive (Assistant Secretary, Directors and Steno-Secretary
Positions - 5 Staff - 5
- . Tenants and Properties Section (Rental Housing)
Positions - 88 Staff - 71
- . Mortgages and Finance (note if proposals by Management Consultancy are approved a net increase of 3 will be provided)
Positions - 49 Staff - 39
- . Policy, Projects and Co-ordination
Positions - 15 Staff - 14

2.1.2 The Mortgages and Finance Section comprises two sub-sections:

- . Loans and Mortgage management sub-section under a Clerk Class 8 responsible for processing New Loans from applications to settlement (9 Approved positions) and administration of mortgages (12 positions);
- . Finance sub-section under a Clerk Class 9 (28 positions) responsible for financial accounting, administration of rental and mortgage accounts and funds control.

2.1.3 An organisation chart of the Section is provided as Appendix 2.1 Changes in the Loans and Mortgage Management sub-section recommended by the Department's Management Consultancy sub-section would result in the organisation indicated at Appendix 2.2. Primarily the changes recommended by Management Consultancy provide for re-classification of middle management positions, introduction of an investigations cell and some internal redeployments. The result would be a net increase of three positions.

2.1.4 Loans administered by the Section comprise:

- . Commissioner for Housing Loans including the 'new scheme' introduced in October 1983 and the 'old scheme' operating between 1930 and 1983. Current Accounts are in excess of 10,000;
- . Commonwealth of Australian Mortgages (sale of Government Homes Scheme). Current accounts are close to 8,000;
- . Loans for Public Servants compulsory transferred to the ACT. A particular allocation of funds is provided for this category which includes approximately 300 accounts; and

. Loans to co-operative building societies prior to 1975.

2.1.5 The following details indicate the scope of the operation of the Housing Loans scheme.

- . 1024 Applications for assistance were received up to May. This compares with 1319 in 1982/83.
- . 186 Applications were rejected or cancelled in 1983/84 compared with 252 (19%) in 1982/83.
- . 564 Loans valued at \$18.1m were finalised in 1983/84 compared with 932 valued at \$25.766m in 1982/83.

2.1.6 In placing the extent of Commissioner for Housing Loans in context it is worth noting a recent press statement that Banks lent \$182m over 18 months for personal housing in the ACT with building societies lending \$163m in the ACT and the Northern Territory.

2.2 Procedural Breakdown

2.2.1 It is important to recognize the factors which led to problems in the operation of the Housing Loans Scheme in Mid 1984.

2.2.2 On 10 May 1984 a press statement was released indicating that priority would be given to loan applicants who could complete purchase arrangements and settle the loan advance before the end of June. It appears that in introducing this arrangement no special controls were introduced in the form of setting targets, arranging regular assessment of progress, providing special reports or instigating special handling arrangements.

2.2.3 In addition it appears that interview rates were increased in March as part of the normal processing of loan applications. As a consequence there was a significant increase in the workload of the Section between the end of May and the beginning of August. As an example an internal statistical report covering the 3 weeks 2 to 20 July 84 revealed:

- . 177 Stage 1 and Stage 2 loan approvals to a value of approximately \$7.2m;
- . 115 settlements to a value of \$5.4m;
- . 692 Applications received (including 511 were from people without dependents);

- 2.2.4 This significant increase in workload occurred at a time when:
- Accommodation changes were being made in Housing Branch;
 - There were a number of staff re-arrangements resulting in relatively inexperienced people occupying senior positions in the Section;
 - Significant changes were taking place in other areas of the Branch as the recommendations of the Joint Review of Housing Operations were being implemented;
 - An increase in the maximum value of the loans and removal of an upper limit on the value of homes purchased occurred; and
 - Land releases had resumed.
- 2.2.5 As a consequence there was extreme pressure on staff and the system used to process loan applications. Staff were interviewing close to 30 applicants per day (see Appendix 2.3) leading to difficulties in adequately assessing and processing applications. In addition although reasonable procedure statements were prepared some months earlier these were not available to staff.
- 2.2.6 Staff at the public contact level had difficulty coping as they were inadequately prepared and did not appreciate the impact of significant increases in loan interviews on long term funding. Assistance was given through the use of temporary staff, however there was little time for adequate induction or guidance.
- 2.3 Introduction of New Loans Scheme.
- 2.3.1 The new loans scheme, introduced on October 1 1983 is more complex than it's predecessor:
- The maximum loan is significantly higher(\$60,000 as compared with \$28,000).
 - The loan is geared to capacity to pay (25% of income) with the actual amount dependent on capacity to obtain housing loan funds from elsewhere. Interest rates are dependent on income level.
 - Introduction of the new scheme was fairly rapid with little time available to develop forms, guidelines and check lists or train staff.

- 2.3.2 In view of the comparative complexity of the scheme the two stage approval process was introduced to enable applicants to be given an indication of their eligibility and entitlement. A second stage approval was required to determine actual amounts of loan and repayments when property had been selected. In view of the differences between initial assessment and the likely final loan advanced no recognition of the long term commitment to a loan at first stage approval was given. The two stage approval process will remain necessary unless funds available are sufficient to fund all applications for loans virtually on demand.
- 2.4 Housing Loans Trust Account.
- 2.4.1 The Housing Loans Trust Account is intended to provide for a flexible arrangement to overcome delays and uncertainties associated with an annual appropriation.
- 2.4.2 Income to the fund is obtained from:
- Annual Appropriation by Parliament.
 - Moneys repaid in mortgage payments or through the discharge of mortgages.
 - Private Borrowings - although we understand there have been no recent borrowings from this source.
- 2.4.3 Funds in the account are applied to:
- Loans for mortgages.
 - Repayments of interest and principal to consolidated revenue.
 - repayments to private lenders.
 - administration of mortgages when authority to enter into possession is granted.
 - the purchase of dwellings - although this is currently subject to discussions with the Department of Finance.
- 2.4.4 To indicate the composition of Income and outgoings the following table details the situation during 1983/84.

- 2.2.4 This significant increase in workload occurred at a time when:
- . Accommodation changes were being made in Housing Branch;
 - . There were a number of staff re-arrangements resulting in relatively inexperienced people occupying senior positions in the Section;
 - . Significant changes were taking place in other areas of the Branch as the recommendations of the Joint Review of Housing Operations were being implemented;
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- 2.4.4 To indicate the composition of Income and outgoings the following table details the situation during 1983/84.

Balance of Trust Account 1/7/835m

Income : Appropriation \$10m (a)
Moneys Repaid \$32.9m

Outgoings : Payments to Finance for
Capital and Interest \$20.4m
Purchase of accommodation \$4.3m
Loans advanced \$18.1m

Balance 30/6/84 - .8m

Note (a) only \$10m of original appropriation of \$15m drawn
(b) figures rounded up

2.4.5 Repayments of capital and interest will have an increasing effect on funds available for loans as interest charges are apparently in excess of interest returns from loans.

2.5 Organisation Climate

2.5.1 The assessment of the organisation climate within the Loans and Mortgages Section is difficult to determine in such a short review. However, there are significant signs of organisation stress:

- staff after being praised for a magnificent effort in processing the high numbers of loans before the end of the financial year are now realising that their efforts have resulted in serious embarrassment for the Housing Branch;
- a range of participatory techniques and propositions planned and introduced were not pursued and in some cases have not been accepted or understood by staff;
- a number of personnel problems within the area have resulted in a range of accusations and counter accusations. These are the subject of internal investigation; and
- the media publicity, general public pressure and the commencement of a range of reviews and demands for urgent information are causing staff resentment.

2.5.2 In addition lower level staff are still expected to cope with queries from applicants in a situation about which they can offer little help and real information.

2.6 Summary

2.6.1 The administration of loan applications is a relatively basic manual system. Complications arise with the new loan scheme itself in which eligibility is initially based on an income test and procedures need to be in place to test eligibility and the extent of loan entitlement.

2.6.2 The administrative system is most vulnerable at the following stages:

• Interview - when eligibility is tested and extent of entitlement determined. This crucial stage in the process is reliant on the skills, expertise, training and scrutiny of low level clerical staff (Clerk Class 2/3);

• First and second stage approvals - where actual commitment to the loan is made. Hierarchical checks are made to ensure sufficient information is available to assess eligibility and entitlement but prime public contact again is at the lower levels of the organisation. Delays through lack of adequate oversight of papers can also lead to significant client frustration and misunderstanding;

• Settlement - where unless adequate checks are carried out settlement could be made without adequate protection for the Commonwealth.

2.6.3 The introduction of automated systems have been put to us as a basis for significant improvements to the administration of applications for loans. The possibility of a 50% reduction in staff if a fully automated system (including automatic production of form letters, management information and calculation of entitlements) were introduced was raised with us. Without doubting the long term possibilities of such arrangements, it is unlikely that such staff savings would eventuate or that the immediate problems will be solved in this manner. Some basic supervision, rationalisation of procedures to improve workflow, and attention to longer term planning, particularly at times of significant initiatives, is the immediate requirement.

2.6.4 Financial Systems and control in relation to long term commitments and trust fund liquidity are inadequate. Financial systems are transaction based, and whilst apparently adequate for general accounting purposes, appear to have little to offer in terms of effective funds management:

- long term commitments as indicated in Stage I loan approvals have not been considered;
- the balance between long term commitments and the number of loans that can be processed in a particular period is not assessed.
- the impact of loans on recirculating funds and fund liquidity is not made clear; and
- reporting and analysis necessary for decision making is not available.

2.6.5 The structure of the loans area has already been reviewed by Management Consultancy Section which has recommended considerable strengthening of middle level classifications. Action however needs to be taken at

lower levels to reduce vulnerability; ensure only necessary checks are introduced to improve efficiency and client service and to strengthen basic supervision.

- 2.6.6. Detailed recommendations for action are included in the individual sections of this report.

3. MANAGEMENT IMPROVEMENTS

- 3.1 We have a number of concerns over general management practices and recommend the following action.
- . Introduce regular and simplified management reporting arrangements for the Assistant Secretary.
 - . Improve the capacity of senior staff within the Loans and Finance Sub-Sections to adequately manage their areas of operation through increased attention to performance.
 - . Take action on staff needs for adequate involvement in determining procedures, regular exchange of information through enhanced staff communication and middle management encouragement and attention to development and support.
 - . Enhance funds and planning management.
- 3.2 Management reporting
- 3.2.1 Current reports to the Commissioner from Mortgages and Finance area comprise:
- . Detailed financial information
 - . Irregular lists of detailed statistics prepared at low levels. These reports appear to provide little comparative information and excessive detail. There is no selected analysis or assessment at the various management levels within the Branch.
 - . Detailed monthly and quarterly statistics prepared by the statistics clerk, although probably useful for long term trend analysis, are not timely and certainly not useful as a tool for day to day decision making.
 - . ad hoc requests for information;
 - . summary of section management meetings.
- 3.2.2 The difficulty in obtaining adequate basic information necessary to provide advice for the Minister and Senior departmental officers is indicative of the inadequate regular management reporting or quick availability of basic management control information.
- 3.2.3 The Joint Review of Housing operations recommended simple monthly reports on performance be the basis of meetings with Senior Branch staff in order to set directions and identify problems and action for their solution. This arrangement has apparently not been pursued. Whilst special, more regular reporting appears to have been necessary in view of the special circumstances of loans between May and August a regular arrangement as recommended in the joint review would have indicated problems and allowed more direct action. In addition other problems with the management and supervision of Mortgages and Finance would have been more visible to Senior Management of the Branch.

- 3.2.4 We recommend that to be useful, and form the basis for action, regular reports from the Loans and Finance Groups in relation to loan applications include the information and be based on the general format as indicated in Appendix 3.1. The use of such reports may be applicable for other sections however, it needs to be recognised that they need to be strengthened through meetings which determine who is responsible for carrying through action and set and follow up targets.
- 3.2.5 There is also the need for subordinate managers to identify reporting requirements relating to their particular activities and their need for more detailed information.
- 3.2.6 Any reporting arrangements do, however, need to be integrated within the Housing Branch and it will be important to ensure co-ordination with other sections of the Branch to reduce the load of reporting on the Assistant Secretary, Housing. To some extent the objectives of the Housing Loans Scheme identified in the various gazetted schemes and some higher level performance standards were identified in the Joint Review of Housing operations. It would be preferable to use them as the basis for reporting and performance management rather than attempt to build complex program mechanisms.
- 3.3 Attention to performance.
- 3.3.1 Present operations within the loans sub-section are primarily driven by individual cases. The approval processes mean that middle level managers are primarily super processors. Whilst this may be positive in ensuring they retain some contact with the real work of the area this contact is often only through paper evaluation. This part of the process caused considerable delays with the increased workloads during June and July 1984.
- 3.3.2 In such a situation there can be a tendency to overlook the overall process and the complexities of ensuring adequate overall performance, developing staff to undertake their tasks more effectively, recognising staff needs and considering the service provided to clients. In many ways current operations are based on spoon feeding staff rather than using their expertise to identify and overcome difficulties.
- 3.3.3 With the introduction of more meaningful reporting arrangements we recommend middle level managers, in conjunction with staff, should set work targets which allow time for increased communication and self development. In addition it will be necessary to encourage staff to make a contribution to improved operations in the section and be prepared to identify problems.

- 3.3.4 We believe changes can be achieved within the relatively small section without recourse to complicated techniques. Regular discussions with all staff, active consideration of suggestions and some encouragement to self help will provide results. In many ways staff are disenchanted with promises of action and help from outside. Increasing staff participation and involvement must be done in an atmosphere of mutual trust. This may take some time to achieve as a result of recent events in the Loans Section.
- 3.3.5 Middle Level managers in the organisation should recognise their responsibility for leadership and whilst there are a range of problems concentration should be given to co-operative approaches to overcome them. Selection of middle level managers should be primarily on the basis of their ability to manage, which includes ability to quickly comprehend risks and exposures in the various processes and initiate action, rather than detailed knowledge of the loans system.
- 3.3.6 Improved involvement of section and Branch management will also be important in alleviating problems.
- 3.4. Financial Management and Planning
- 3.4.1 Management of Loans Funds is a difficult financial task:
- . Income is variable dependent on the money appropriated annually by Parliament and the flow of funds from discharges and mortgage re-payments.
 - . Outgoings are to some extent beyond control as the advance of loans is dependent on final settlement which may be deferred over a number of months.
 - . Progress payment arrangements also complicate the cash flow.
- 3.4.2 To some extent outgoings are controlled in a rather stop/start fashion:
- . Initial control is through the number of applicants interviewed.
 - . delays can be introduced to overcome cash flow problems by not issuing approvals following interview, by delaying second stage approval or by deferring settlement.
- 3.4.3 Such ad hoc arrangements appear to have been the basis of funds control decisions which are often based on information that is out of date or based on general feelings and experience of staff in both loans and finance areas. It is also apparent that during difficult periods there can be considerable conflict between the two areas on the best course of action.
- 3.4.4 It is this ad hoc approach and lack of understanding of the relative roles which has contributed to the cash flow problems of the Trust Account.

3.4.5 Closer attention needs to be given to Funds Management aspects of the Loans Trust Account. It is also probable that closer attention to financial planning and budgeting and estimating for the Branch is required.

3.4.6 Improved Funds management will require-

- . Close analysis of links between rate of applications, interviews and final issue of loans.
- . detailed examination of cash flows in relation to long term commitments (1st Stage approvals and progress payments) medium term approvals (2nd Stage approval) and actual funds advanced.
- . forecasts of number of interviews appropriate to long term funds availability. Such forecasts should take into consideration the uncertainty of the extent of annual appropriation but attempt to even the flow of loans payments throughout the year.
- . regular review of charges
- . identify seasonal or local factors (e.g. Land releases) which impact on applications or settlements.
- . assessment of implications of escalating loan interest on repayments and default projections.

3.4.7 Decisions on target interview rates and approval rates should be made by the Commissioner for Housing based on advice from the Finance Sub-section and the Loans Sub-section.

3.4.8 Although not specifically the charter of this review we believe that there is a need to improve the overall financial planning and advice role in terms of adequate financial management in the Branch. Improved attention to the basic estimating and budgeting processes and development of appropriate support information would appear warranted in the light of problems encountered in New Policy Proposals and budget discussions with Finance.

3.4.9 We recommend early discussions with the Department of Finance, involving the Department's Finance and Supply Branch, at a relatively high level to resolve a range of matters affecting funds management. These include:

- . The long term effects of interest charges on appropriation being in excess of average interest received for loans, including the need to reassess the basis of interest charges;
- . Serious examination of options for the trust. These should include abolition and reliance on annual appropriation or investment of funds which, with reduced interest, could allow a self funding arrangement;

. Arrangements to treat the purchase of accommodation units which will, unless special arrangements are made, attract Finance interest charges without any covering payments into the trust. The ongoing capacity to fund purchases of this nature from the trust also needs to be resolved with Finance;

. the need to seek annual funds through the New Policy Proposal process rather than normal operational estimates; and

. ensuring detailed financial control and recording processes between Housing, Finance and Supply and the Department of Finance are examined to ensure consistency and elimination of any duplication.

4: Systems & Procedures

4.1 Background

4.1.1 The new Commissioner for Housing Loans Scheme was gazetted on 30 September 1983 and became effective on 1 October 1983. The object of the Scheme

"is to assist persons into home ownership who are reasonably able to afford it but who are unable to obtain it through the private market alone. For this purpose, the Commissioner shall ensure that:

- a) those most in need receive assistance first;
- b) continued assistance for those persons no longer in need is minimized;
- c) the level and amount of assistance provided is tailored to suit the current and financial and social circumstances of the recipients....

For the purposes of determining the amount of assistance available to an applicant, the obligation to repay to the Commissioner the principal and interest imposed by a term of a mortgage to be executed by the applicant and the Commissioner to receive a loan made in respect of the dwelling, together with any other repayment obligation imposed under an initial housing loan, should not require the applicant to make repayments which in total exceed 25% of the household income, unless the Commissioner determines that the circumstances justify a higher repayment rate".

4.1.2 The loan approval process is charted as Appendix 4.1. We recommend that specific improvements to the systems, procedures and operations as outlined in Appendix 4.2 be implemented.

4.1.3 Particular comments are provided on the following aspects of the systems and procedures

- . Commitment of Funds
- . Role of Line Managers
- . Proposed Investigations Unit
- . Computer Processes
- . Potential Future Risk
- . Forms Usage
- . Operational Procedures
- . Broader Management Considerations
- . File Survey

4.2 Commitment of Funds

4.2.1 The Commissioner for Housing is committed to make a loan available to applicants when they are initially informed that they are eligible for a loan, up to a specific amount, and that they have two months to find a property that they wish to purchase. However, actual commitment of funds does not take place until the loan is ready to be settled. The delay between the initial loan offer (called Stage 1 Approval) and settlement in normal circumstances takes approximately three months. (The formal commitment process, in essence, earmarks the amount which has been offered from the total funds available). Therefore, because of the delay between Stage 1 Approval and commitment the situation can develop where loan approvals are not in line with funds availability. This situation arose in July 1984.

4.2.2 To overcome this problem it is essential to know that funds will be available at the time of a loan being offered. That is, funds must be committed at Stage 1 Approval.

4.2.3 There are some risks if funds are formally committed in the Finance Ledger at Stage 1 Approval as this could tie up funds for unreasonable periods. Elsewhere in this report we have advocated a funds management approach to ensure the most productive use of funds and to ensure that at all times funds are available to cover commitments. We recommend that funds be committed informally at Stage 1 Approval and formally at Stage 2 Approval. This would be best done by utilizing the proposed ADP Waiting List System. This method would allow for the person monitoring approvals to have up to date information regarding funds requirement. The computerization of commitments would work as follows:

- . Application received - details input to system
- . Interviewed - details updated
- . Stage 1 Approval - maximum amount eligible for entered. (approval given only if ADP System totals less than Appropriation Ledger funds balance.)
- . Stage 2 Approval - actual amount of loan required to purchase home entered. (This field would override Stage 1 approval amount to ensure no double counting and to update actual commitments.) Formal commitment can be sought from Authorising Officer.
- . Settlement - details entered to remove commitment.

Such a system is dependent on all data being keyed at least daily to ensure the accuracy of information. It would also be necessary for only approved data to be input. The system described above has been discussed with Director Internal Audit who is of the opinion that sufficient control would exist provided periodical reconciliations are made with the Appropriation Ledger.

4.2.4 Pending the introduction of an ADP System we recommend that the Section observe the same principles as advocated above when approving loans and committing funds.

4.2.5 In introducing changes it will be necessary to review the role of the position of Commitments Clerk which is currently located in the Finance Sub-section. We recommend greater control over commitments be introduced by the Loans area maintaining details of commitments and some capacity has been provided in the suggested organisation. The current Clerk Class 5 commitments Clerk should however be retained in the proposed Finance Section organisation to strengthen funds management capacity and maintain an overview of the Trust Fund situation.

4.2.6 The total number of loans approved should be dependent upon funds availability. If funds are not available no interviews should be conducted and no loans can be approved. With a proper Funds Management approach it will be possible to determine how much funds can be spent in a given period. If, for instance a report is produced which states that \$X can be spent this week then the Loans Approving Officer can know the amount allocated for the week and can monitor approvals having regard to the amount allocated. If the allocation is exhausted then no further approvals can be made. Actual financial processing would of course continue to be in accordance with financial procedures.

4.3 Role of Line Managers

4.3.1 The Loans Application and Approval system is an adequate manual system which involves some complicated processes. Further refinement of the system is possible and our recommendations go to improving processing efficiency. However, further ongoing review of the systems, methods and approaches will be required by line management and staff. At this stage we recommend line management should encourage detailed examination of individual procedures by line-staff and their immediate supervisors and concentrate on the following areas of risk:

- Whether the current method of receiving, recording and processing applications for loans are the most effective.
- The lowest level of staff necessary to perform interviews (we recommend Clerk Class 4) and the support and training necessary.
- Appropriate methods of giving and recording loans.
- Settlement procedures, including the need for adequate protection and

• Whether processing arrangements allow only for applicants to be granted a loan.

• Whether processing arrangements reliably allow for the correct procedures to be followed.

Our comments on these and other issues are included in Appendix 4.2.

4.4 Proposed Investigations Unit

4.4.1 A recent review of the Section by the Department's Management Consultancy Section recommended the creation of an Investigations Cell. It is our understanding that the purpose of this cell is to explore areas where the system may be vulnerable to abuse. We further understand that the establishment proposal is currently in the process of gaining the Secretary's endorsement. On the basis of discussions on the Housing Loans system with staff and examining a small sample of recently approved loans we consider that there is scope for such a unit. We recommend early introduction of an Investigations Unit and offer the following comments:

- In setting up such a unit the Department must exercise care in determining its role in lieu of its sensitive nature.
- It may be necessary to allow Investigation Officers to have specific authority empowered by the Ordinance. Minimum powers would be powers to conduct inquiries, and powers to inspect financial records, particularly of self-employed persons.
- The first task of the Investigations Unit should be to isolate the system weaknesses and detect any trends which may be apparent. To do this we recommend that a comprehensive file audit be undertaken with a view to assessing areas of risk. When the areas of risk are known a policy paper can be produced for Senior Management which indicates the areas of risk and the proposed strategy to overcome them.
- We do not support the full staffing of the proposed Investigations Unit at this stage. We recommend that initially a file audit be conducted and a plan of action be developed. When the plan is approved it may then be necessary to reconsider the staffing requirements necessary to perform the approved tasks.
- Whilst line-staff should use the special expertise of the Investigation Officers when necessary, we consider it inappropriate for cases to be referred to the Unit for routine investigation.
- Liaison with other Departments concerned with systems abuse, for example Social Security, Taxation, Australian Federal Police, should be regular to determine areas of abuse and methods of detection.

- When a system deficiency is detected action be taken by management to ensure that loans are not approved for persons with the same circumstance as those detected. That is; any holes in the system should be fixed as soon as they are identified.
- In filling the senior positions in the Investigation's Unit the selection criteria should be based on investigation/analytical skills rather than Housing Loans expertise.

4.5 Computer Processes

4.5.1 The Commissioner for Housing Loans Scheme is computerised once settlement has taken place. The computer system records the repayment of the loan and interest. However, officers of the Branch are advocating the total computerisation of the application recording and approval processes. We do not support such a view as the processes are only small systems which although manually performed are sufficient to effectively perform the task. The recent problems have arisen due to a lack of proper commitment procedures and timely and appropriate management information and action rather than the lack of an automated system.

4.5.2 We consider that the ADP Register System proposed by Systems Branch would adequately compliment the manual processes and allow for control over commitment and produce sufficient management information to monitor the Progress. We recommend that the Register System be implemented as a matter of urgency. In the longer term attention to how Housing Branch ADP systems relate and the preparation of a Branch Systems Development Plan in conjunction with Systems Branch, would allow ADP development to proceed in a logical order.

4.5.3 We have been advised by Systems Branch that the Register System could be operational in a very short period. We therefore consider that it would be more efficient to implement this system immediately rather than to devise a manual system and then replace it with an automated system. The commitment process we advocate is at paragraph 4.2.3 of this report and the Management Information necessary would be those 'hard-nosed' management facts necessary for the proper management of the function and the Waiting Lists. We believe essential information, which at present is apparently not readily available includes:

- number on waiting lists
- number scheduled for interview
- number interviewed
- number 1st Stage Approval and amount
- number 2nd Stage Approval and amount
- number settled and amount.

4.5.4 We do not advocate the use of this system as a Statistical Collection system at least until the statistics situation of the Branch has been examined. At present a wide and detailed range of statistics are compiled by staff and the Statistics Clerk. Whilst useful for detecting long term trends and answering detailed questions they are of little immediate use to Management.

4.5.5 The current situation is that the statistics are approximately 3 months in arrears and despite the extent of statistical recording the Branch was unable to advise Departmental Management of simple information relating to the Loans predicament. In fact, the statistics collected appear to be of little use in identifying the facts over the last two months and additional statistics and profiles have had to be specifically produced for this and the other reviews/submissions that have been made.

4.5.6 We therefore recommend that care be exercised in the tasks for which automated systems are to be used.

4.6 Potential Future Risk

4.6.1 Several of the loans staff have stated that they fear that there is a real possibility that some of the persons who have been granted a loan at reduced interest rates will not be able to afford the loan repayments in future years. This situation could easily eventuate as the object of the scheme is to provide reduced interest in the initial years and for the interest rate to accelerate by 1% per annum until normal savings bank interest rate is achieved. Therefore, if a person was granted a loan today at 5.3/4% (which is the minimum rate of interest charged) by 1990 they are expected to be on the maximum rate (currently 11.5%). The maximum period allowable is 10 years. This means that the person's income must rise by 6% p.a. for 10 years (based on the average loan amount of \$46,800) to meet these repayments. This could prove difficult if CPI rises of at least 6% p.a. no longer continue. This rise in income is probable for a person in the Public Service (approximately 50% of applicants) but may be marginal for a privately employed person in a job which does not have as much definite career prospect.

4.6.2 It will therefore be necessary to maintain regular review of the eligibility criteria and the implications of regular increases in interest repayments.

4.7 Forms Usage

4.7.1 There are a total of 120 forms which can be used in the assessment/approval/settlement processes. Whilst these forms contribute to the efficiency of particular processes we believe that such a range of forms detracts from an easy understanding of the system, can be confusing to clients and results in excessive duplication of information.

4.7.2 We recommend that the Branch perform a comparative analysis of it's forms usage with those of other lending institutions with a view to rationalising overall forms usage. It is further recommended that junior staff be encouraged to crucially examine their forms requirements.

4.8 Operational Procedures

4.8.1 When we commenced the Review, staff were unaware of any formal procedures for the tasks they performed. In many cases staff were making use of informal lists and notes prepared by themselves or previous job occupants. The formal procedures had been issued to the Section in May 1984 but not made available to the staff. All staff, for whose jobs there are procedures, now have copies. However, whilst these procedures provide a good overview of the systems in use they are insufficient to allow for use as a ready reference manual as they do not include regular updating of policy decisions or outline some detailed requirements.

4.8.2 In order to improve the effectiveness of the Section and the views of staff towards management we recommend that a self-help policy be implemented. Staff should be responsible for documenting the procedures of their jobs and producing guidelines, naturally oversights by their supervisors. For this to be successful it would be necessary for Management Consultancy to equip them with the necessary techniques such as how to write procedures etc.

4.9 Broader Management Considerations

4.9.1 There are a number of broader issues that need to be considered when assessing whether the loans scheme meets its objectives as outlined in the Gazette. Some practical examples of areas that require management attention are included in Appendix 4.3.

4.10 File Survey

4.10.1 As part of our review process we intended to examine a sample of 50 recently approved loans to assess whether:

- . applications were processed correctly;
- . we fully understood the systems in use; and
- . there were any trends apparent.

4.10.2 Due to time constraints we allocated 2 person days to file examination and during that time were only able to examine 13 files. The files were selected at random by Loans staff.

4.10.3 The files examined revealed that there is a need for quality control in the loans processing function and that there is scope for post assessment review by an Investigations Unit. Pertinent facts which were noted during the review of the files are at Appendix 4.4.

4.10.4 The review of files has indicated that:

- . there is a need for care by staff in pursuing all aspects of loan application as instances were noted where information was either not obtained, not accepted, or overlooked. We recommend greater use of working check lists in conjunction with our recommendation that prime coverage of loans applications rest with the Clerk Class 4.
- . calling for hurried applications at the end of financial year resulted in persons who had not previously applied being granted loans ahead of other who were already on the waiting list.

People have been granted housing loans without recourse to being assessed as in most need. (eg 9 of 13 loans were granted to single males without dependents 23 years of age or less). With the heavy demand that exist for the available funds we recommend that some assessment be made to indicate the criteria to be used to assess those most in need. Current criteria appears to provide for applicants with dependents receiving loans in order of application and applicants without dependents being given priority after 12 months.

. Although 12 of the applicants stated that settlement would be completed by 30 June 1984 none were

. Systems were not streamlined to cope with the extraordinary events of June/July 1984.

. There is a need to determine the assessment and confirmation of gifts and whether those who obtain money through gifts gain advantage over applicants who have conscientiously saved their deposit

. The application of the definition of income appears to vary between individual staff

. Applicants obtain loans with apparently little attention to their resources available to meet other commitments.

5. Staffing and Structures

5.1 We make the following broad recommendations in relation to staffing and organisation structure :

. split Loans and Mortgages Section to create separate sections dealing with Loans and Finance reporting direct to the Commissioner for Housing;

. make re-arrangements at the lower levels of the loans organisation by introducing processing teams to reduce mechanical checking, broaden staff skills and job interest and provide for improved flexibility. Arrangements should ensure interviews and regular customer contact is maintained at the Class 4 level rather than the Class 2/3 level;

. Pay closer attention to adequate staffing action, the need for adequate training and development and staff relations.

5.2 Structure

5.2.1 The Department's Management Consultancy Section has reviewed the Loans sub-section and recommended an organisation re-structure as outlined in Appendix 2.1. We did not attempt to re-examine the Management Consultancy recommendations however, we particularly support the following re-arrangements :

. reclassification of head of loans from Clerk Class 8 to Clerk Class 9 - This recognises the increased work value of the head of loans.

. introduction of an investigations cell. We have recommended in section 4 that such a cell should be staffed selectively. The head of the unit should produce an action plan for endorsement at least at First Assistant-Secretary level to ensure there is no misunderstanding of the unit's role before it becomes operational.

5.2.2 We believe however, that following the difficulties experienced with home loans administration further organisation action is required to reduce the conflict between responsibility for loans administration and overall Financial Management for the Branch resting with the Director Loans and Mortgages. As a consequence we recommend that separate sections for Loans and Finance be established to report direct to the Assistant Secretary Housing Branch.

5.2.3 Such an arrangement will reduce the number of hierarchical levels within the organisation and provide a more direct involvement of the Branch Head for Housing in balancing for client needs with the need for overall financial management and control.

5.2.4 A proposed structural overview of the two new sections is provided as Appendix 5.1. This structure also incorporates our recommendations that -

. The existing new loans and settlements groups be combined into two teams on the basis that prime public contact, including interviews, be at the Clerk Class 4 level.

. The Finance Sub-Section be based on a re-arrangement of duties already recommended by staff, within the existing establishment numbers. We further recommend that Management Consultancy provide to the staff, through a seminar, advice on charting and streamlining procedures and to assist them in documenting their own procedures.

5.2.5 In suggesting the new structural arrangements we have not been able to assess, in detail, existing or likely future workloads. However, with the likelihood of reduced levels of loan approvals for the remainder of the financial year, and a more flexible approach to staffing, we believe the structure, and levels of staff and establishment already agreed by Management Consultancy should be adequate to cope with ongoing loan processing and increased attention to interest review. Care will, however, have to be taken in preparing forward estimates for 1985/86 to ensure staffing levels are adequately reviewed and regular attention is given to staffing vacancies, particularly at lower levels in the organisation.

5.3 Staffing

5.3.1 When this review commenced, 18 of the 23 positions in the loans area were staffed. Fourteen of these were occupied by people not appointed to those positions. Although this situation has eased with the return of some staff from leave, there is an indication of relatively regular staff movement in the area and long term acting arrangements.

5.3.2 Although mobility is important for staff development and flexible management it is important to ensure some underlying stability and we recommend that when the Project Officer (Administration) position is filled a high priority be given to establishing staffing and introducing a more rational approach to staff movements. Throughout the Branch for both development and management purposes.

5.3.3 An examination of staffing in the Loans Sub-Section (Appendix 5.2) indicates :

. Average length of experience in current positions is very low. Only at the Class 5 level has the stay been in excess of six months. This can be attributed one very to long term occupant.

. Length of stay in the loans area does however appear fairly high. Average stay for all staff has been four years and over, indicating that progress through the Housing Branch, rather than the Department, may be seen as the career path.

5.3.4 We believe that the relative specialisation of tasks, as was also evident in the Joint Review of the Housing Operations, has led to staff perceiving their role within the limited confines of their sub-section. We recommend that the gradual broadening of positions within Housing Branch, particularly the Housing Loans area, be pursued in order to improve the flexibility of staff, provide better concern for clients rather than the process and, with improved attention to better management and supervision skills, provide more skilled and competent staff to take on higher level activities.

5.3.5 The need for adequate procedures both as development tools, checklists and a means to ensuring consistency is self-evident. Despite the availability of basic procedure statements these had not been seen by staff implementing procedures. These have now been made available, however we recommend further attention needs to be given in the following areas :

- . Supervisors should actively involve staff in discussions and evaluation of procedures. Self help arrangements could be introduced whereby loan teams agree to minor changes to improve procedures.

- . support should be given by Management Consultancy Section to such initiatives by providing advice, through brief seminars and workshops, on examining procedures to improve efficiency and the methods of charting and presentation to improve understanding.

- . procedure statements should be brought to the attention of new staff and made readily available.

- . the use of the information update file recently introduced can be used more efficiently if concentration is given to include information directly related to work, eg changes in interpretation of eligibility, entitlements and supervisors contribute and take time to encourage staff in its use.

5.3.6 Client contact work although rewarding can be extremely stressful, particularly for staff with little experience, or little perceived support. Housing Branch counter and interview staff are the basis of the Department's reputation. Without adequate management support and consideration the staff are not equipped to adequately advise and assist customers.

5.3.7 In conjunction with the implementation of our recommendation to have main public contact raised to the Class 4 level in relation to home loans we recommend a number of specific support actions :

- . supervisors and middle level managers regularly attend the counter to gain an understanding of problems and the quality of service provided by their organisation;

- . regular discussions on 'front end problems' be held with a view to easing tensions, supporting staff and recognising client frustration;

- . development on in-house training programs, in conjunction with other areas of the Branch covering such areas as :

- client relations
- telephone techniques
- interviewing techniques
- duty of care
- Housing Branch operations and procedures
- client counselling
- customer service

6. OTHER ASPECTS

6.1 There are a number of other areas where we believe action is required. Comments are provided on the following matters:

- . client relations
- . relations of operational areas with Policy and Projects Section
- . Home Buyers Advisory Service
- . possibility of fraud.

6.2 Client Relations

6.2.1 The work pressures of the Home Loans area, as was the case in Rental Operations, and the specialisation of tasks means attention to client needs can fall down. Whilst there can be difficult customers the majority of staff appear to be keen to assist applicants. However customer relations is an area where significant improvements, many of them simple can be made.

6.2.2 Particular areas of improvement recommended are:

- . a re-assessment of the interview facilities for loan interviews be undertaken. Despite the recent move to refurbished accommodation the interview rooms provided are totally inadequate for their purpose and can only generate ill feeling, inefficiency and frustration for both clients and staff. Urgent attention is required by the Department's Office Services Group to ensure public areas such as these are made adequate.

- . staff be encouraged to pay more attention to explaining information required from clients. As indicated in a brief file analysis conducted, information already on file is often called for. Clients deserve to be advised clearly of the information required to determine eligibility. Simple check lists rather than complex letters would enable a clearer understanding.

- . introduce a brief statement or checklist on requirements and responsibilities for progress payments.

- . review letters in conjunction with the Client Liaison Officer and possibly interested community groups to ensure they can be understood by customers.

- . raise with Finance and Supply the need to reduce delays in providing refunds. Delays of up to two months are apparently encountered by clients. Loans staff should be considered responsible for ensuring refunds are paid quickly.

6.3 Relations with Policy and Projects Section

6.3.1 Despite apparent good personal relations between individuals from the Loans and Finance sub-sections and Policy Projects there are a number of indications of poor formal relations:

. Procedures prepared in the Policy Projects Section for Loans processing were not available to processing staff;

. Statistical collections used by Policy and Projects are not understood by Loans staff.

. There appears to be a general view in operational areas that Policy and Projects are responsible for longer term developments rather than being a joint responsibility.

6.3.2 Such situations are not unusual but they are unnecessary in the relatively small Housing Branch organisation. In view of the improved project control arrangements introduced in Policy and Projects Section we recommend that the summary of projects underway be available to all staff in the proposed Loans and Finance Sections. Inclusion in the Information update file would be adequate. At the same time supervisory staff in the sections should consider the project summary and provide input, recognise ongoing operations and ensure staff are aware of projects affecting their area of work.

6.4 Home Buyers Advisory Service

6.4.1 It has been advocated that a marketing package is required to assist potential home and land buyers to understand the complexities of land/house purchases.

6.4.2 Such a package would encompass such matters as:

How to purchase land/home in the ACT.
The responsibilities of home ownership.
The costs involved in land/home purchase.

This could comprise all other appropriate Branches of the Department as well as interested outside organisations such as Law Society of ACT, Real Estate Institute and lending institutions.

6.4.3 Whilst we consider such a concept to be an excellent mechanism to educate potential purchasers it is not particularly appropriate for such a service to be developed or conducted by the Housing Loans area of the Department particularly as there is a need for detailed assessment of such an arrangement. It would appear however to require consideration as a New Policy Proposal.

6.4.4 We consider that marketing of the Commissioner for Housing Loans Scheme in recognition of its specific objectives should be limited to creating an awareness

only. Mechanisms employed to achieve this may be through community organisations, taking out advertisements in the local newspapers at regular intervals and keeping other lending institutions informed.

6.5 Possibility of Fraud

6.5.1 Claims of possible fraud have been made in a number of papers made available. Our review did not receive any direct evidence of fraud although there is obvious potential:

. the extent of the loan and the low interest rates could encourage applicants to understate income and the extent of assets;

. the openness of the system would allow applicants to organise their information to ensure they meet eligibility criteria;

. there is a possibility that interview staff, in the interests of assisting clients, may lead applicants. In fact some of the standard statutory declarations are an invitation to ensure applicants obtain a loan.

6.5.2 It is however, important to maintain an adequate balance between providing assistance to those people eligible under the terms of the scheme, ensuring adequate protection of public funds and excluding those people ineligible. To achieve this requires considerable finesse, sound systems and adequately trained and motivated staff.

6.5.3 The greatest risk is from inexperienced, ill-equipped and poorly supported low level staff doing the initial assessment of eligibility. Organisation changes already recommended should overcome this to some extent however we make the following additional recommendations.

. staff in the loans area should identify where an applicant is known to them and supervisors should make arrangements, where necessary, for them not to be involved in the loan processes;

. the use of standard statutory declarations be eliminated and careful attention should be given to ensuring applicants are not led into making declarations in order to become eligible;

. the proposed investigations unit should initially concentrate on examination of cases to determine major areas of risk and move to eliminate or reduce those.

6.6 Departmental Review Mechanisms

6.6.1 The Department's Internal Audit, Management Consultancy and Systems Branches/Section have joint responsibility for reviews to ensure that sections have adequate resources and systems to effectively and efficiently achieve their system objectives. Each of these

Sections/Branches had been involved in reviews of parts of the Housing Loans System within the last six months.

. Internal Audit - Reviewed the ADP Housing Loans System to determine its effectiveness. The Internal Audit Draft Report for the area states that "Manual sub-systems not directly related to the ADP System were considered to be outside the scope of this audit". We consider that Internal Audit policy needs to be reviewed to determine whether a total system is examined rather than just the ADP System. It is conceivable that the Housing Loans application and approval processes would never be audited due to the fact that much of Audit's resources have already been spent on the ADP System.

. Management Consultancy - A report recommending variations in structure and classification of positions in Housing Loans and Finance Section was referred to the Secretary whilst this review was being conducted. In major Management Consultancy reviews it would seem appropriate to determine whether the processes used are the most effective and recommend broader action than establishment changes.

. Systems Branch - This Branch is currently involved in designing a Waiting List and Management Information System for Housing Loans. In the case of a Branch with complex operations it may be necessary to place more emphasis on assessing the needs of the Branch when designing ADP Systems.

6.6.2 It is surprising that none of these Sections were able to advise Management of the deficiencies of the Housing Loans System prior to the recent situation developing.

6.6.3 In summary, we recommend that closer attention be given to reviews conducted by any of these Branches/Sections to provide an overview to ensure that the most effective and efficient systems are assured. In addition some co-operation in designing the individual review programs may ensure a broader and more consistent coverage of problem areas.

7. IMPLEMENTATION

7.1 Despite the short period of the review a significant number of recommendations have been made. The majority of these recommendations are within the capacity of the Branch staff to achieve fairly quickly without recourse to significant additional resources as long as our recommended changes are implemented in an ordered manner.

7.2 To ensure appropriate attention is given to all areas of improvement and an appropriate plan is developed and followed through we recommend a person be involved full time for three months initially to direct the implementation of the changes proposed.

7.3 The person in charge of implementation should report to the Senior Branch Management meeting on performance in a similar manner to that suggested by Section Heads. In assessing progress with implementation some additional outside involvement may also be necessary and reports should be provided monthly to the Divisional Head.

7.4 In implementing changes the following priorities for action are suggested:

- . Immediate - inform staff of recommendations and action proposed.
 - prepare public statement on the latest situation including number of loans which will be approved this year.
 - develop funds flow formula and related action plan for the rest of the Financial Year.
 - ensure commitments are adequately identified.
 - introduce management reporting arrangements.
 - introduce restructure.
 - arrange discussions with Department of Finance
 - take action on personnel problems handled outside this report.
- . Medium Term - develop training processes for staff.
 - conduct 'self help' assessment of procedures and processes on a phased basis.
 - Develop Investigations Action Plan.
 - Develop Funds management and financial planning capacities.
- . Longer Term - prepare Branch ADP development plan to ensure integration of Branch Systems.

- expand loans team concept to encompass mortgage management aspects.

APPENDICES

- 1.1 Terms of Reference
- 1.2 Approved Organisation
- 1.3 Summary of Crucial Control Stages
- 2.1 Summary of Loans Activity
- 2.2 Revised Organisation Recommended by Management Consultancy
- 2.3 Details of Interviews Conducted
- 3.1 Proposed Format for Monthly Reports
- 4.1 Loan Approval Process
- 4.2 Systems Recommendations
- 4.3 Areas Of Broader Management Concern
- 4.4 Results of File Survey
- 5.1 Overview of Proposed Structure
- 5.2 Staffing in the Loans Sub-section

APPENDIX 1.1

TERMS OF REFERENCE

The team is to start on 3 September 1984 and complete their task as soon as possible and in any case within three weeks.

The team will report to the Deputy Secretary on a regular basis to advise of progress and, if necessary, receive fresh directions

The Team is required to:

1. Report on:

- . the adequacy of existing administrative processes and procedures for the handling of applications for Commissioner for Housing loans.

- . the adequacy of existing financial procedures and control mechanisms operating in respect of applications for Commissioner for Housing loans.

- . the adequacy of existing staffing and other resources for the effective management of the Commissioner for Housing loans scheme, particularly in relation to the efficient and effective handling of loan applications.

- . any other relevant matters associated with the operation of the Commissioner for Housing loans scheme.

2. Recommend to the Department:

- . any changes to the existing administrative processes and procedures for the handling of applications for commissioner for Housing loans.

- . any changes to the existing financial procedures and control mechanisms operating in respect of applications for Commissioner for Housing loans.

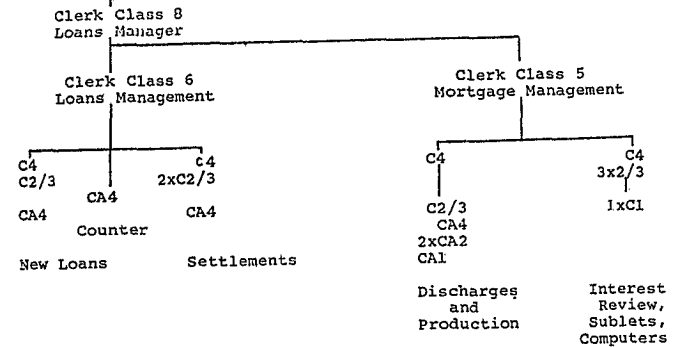
- . the appropriate level of staffing and other resources to achieve effective management of the Commissioner for Housing loans scheme.

- . or any other changes relevant to the operation of the Commissioner for Housing loans scheme.

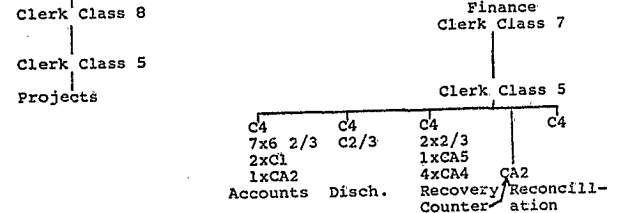
APPENDIX 1.2

APPROVED ORGANISATION

Director - Class 10
Mortgages and Finance Section



Clerk Class 9
Assistant Director Finance



APPENDIX 1.3
SUMMARY OF CRUCIAL
CONTROL STAGES

-2-

<u>PROCESS</u>	<u>WEAKNESS IDENTIFIED</u>	<u>ACTION RECOMMENDED</u>	<u>PROCESS</u>	<u>WEAKNESS IDENTIFIED</u>	<u>ACTION RECOMMENDED</u>
<u>LODGING APPLICATION</u>	All applications accepted on cursory assessment of eligibility.	More adequate pre-assessment of eligibility - including whether applicant meets: <ul style="list-style-type: none"> . income requirements . assets requirements . residency requirements . non-availability of private loan . other special requirements (Appendix 4.2)			Regular reporting on the above basis to be introduced (3.2)
	Priority based on whether applicant has dependants (List A) or no dependants (List B who progress to List A after 12 months). There is no formal process for advancement and some staff confusion over arrangements.	Need for regular assessment of List B applicants who have been registered for 12 months (note scheme only commenced Oct '83). DP register waiting list will overcome (Section 4.5)			Interview and initial assessment to be made by Class 4. One level of check (either Class 6 or peer) before approval. Clerk 2/3 and CA4 follow through processing under direction of Class 4 Team Leader (Appendix 4.2)
	Inconsistency in determining dependants.	Verification of dependants could be proof of family allowance payment (Appendix 4.2)			Other recommendations go to improved induction, training facilities and management attention to client contact staff.
<u>INTERVIEW TO DETERMINE ENTITLEMENT</u>	The number of interviews conducted is an apparent ad-hoc decision based on general expectations rather than forward management planning based on demands on funds and funds availability.	Closer attention to funds management and financial and budget planning including: <ul style="list-style-type: none"> . analysis of links between rate of applications, interviews and final issue of loans; . forecasting taking into consideration the uncertainty of annual appropriation but attempting to even the flow of loan payments throughout the year. Decisions on target rates, for interview (and approval etc) to be made by Commissioner (3.4.7)	<u>LOAN APPROVAL</u> (First stage)	No long term commitment of funds identified or assessment of likely funds availability.	Commitment to be identified and recorded through proposed ADP waiting list system.
					Clearance by Finance against known and potential commitments prior to issue by approval letter.
					Tighter controls on extensions to eligibility will ensure delay between loan approval and final payment not excessive and overcome need to re-assess eligibility (Appendix 4.2)
					Regular indication of commitments, interviews, and approvals against targets will be provided to Branch Head (3.2)

<u>PROCESS</u>	<u>WEAKNESS IDENTIFIED</u>	<u>ACTION RECOMMENDED</u>
<u>FINAL APPROVAL</u>	Approval given prior to formal funds clearance (TF 11) which is signed by Assistant Secretary who does not receive the file. (Some interim checks done and signatures included in margin)	Obtain funds clearance (formal commitment) prior to approval letter being forwarded. (Appendix 4.2)
	When property identified for purchase (Stage 2)	Loans Manager delegated to sign TF 11 and have access to file. (Appendix 4.2)
<u>SETTLEMENT</u>	Undertaken as specialist role. Inadequate procedural guidelines and checks to ensure all documents provided.	Use of team approach will reduce reliance on one specialist. Other initiatives proposed to develop improved procedural guidelines.

OTHER CONTROL WEAKNESSES TO CONTEND WITH

<u>RISK</u>	<u>RECOMMENDATION</u>
Responsibility for loans and overall Branch financial and accounting services (including rental) with Director Mortgages and Finance.	Mortgages and Finance Section be split to provide separate Mortgages and Finance Sections (5.2)
Procedural guides, checklists and basic staff training and induction.	Specific offline Class 5 position proposed for quality control, induction and development. Note strong self help approach envisaged. (Appendix 5.1)
Fraud.	Introduction of an investigations unit to identify risk areas and propose action. (6.5)
	Staff to identify where applicants are known to them (6.5)
	Eliminate use of standard statutory declarations (6.5)
	Verification of information provided direct (6.5)

<u>RISK</u>	<u>RECOMMENDATION</u>
Overall systems controls prior to input to computer accounts system based on Ad-hoc registers held by individual staff.	Register waiting list ADP system proposed to record progressive action and commitments. Management statistics will be provided. Attention to reconciliation with Finance Ledger may be necessary. (Section 4.2)
Misinterpretation on eligibility and entitlement.	Clarification recommended in: <ul style="list-style-type: none"> . assessing income . handling of gifts . avoiding leading clients . assessment of client commitments (Appendix 4.3)

APPENDIX 2.1

SUMMARY OF LOANS
ACTIVITY

	Net Applications Received (1)	Loans Approved	Loans Advanced
<u>1982/83</u>			
July to Sep	154	140	139
Oct to Dec	432	211	198
Jan to March	362	367	271
April to June	119	214	279
Total	1067	932	887

<u>1983/84</u>			
July to Sep	182	159	196
Oct to Dec (3)	154	83	166
Jan to Mar	240	66	60
April	140	18	27
May	122	71	33
June (4)	N/A	220	101
Total			

<u>1984/85</u>			
July	N/A	52	159
Aug	N/A	43	72

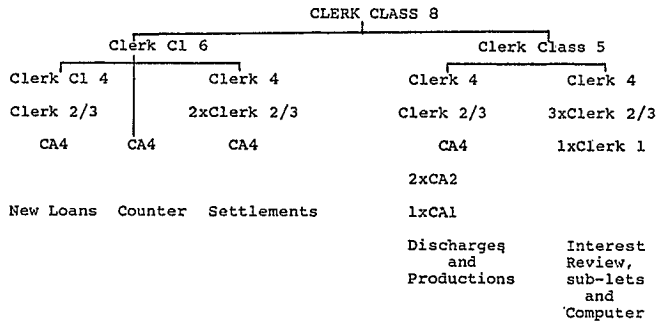
- (1) Based on gross applications minus rejections and cancellations.
- (2) Indicates approvals under the old scheme and second

stage approvals under the new scheme.

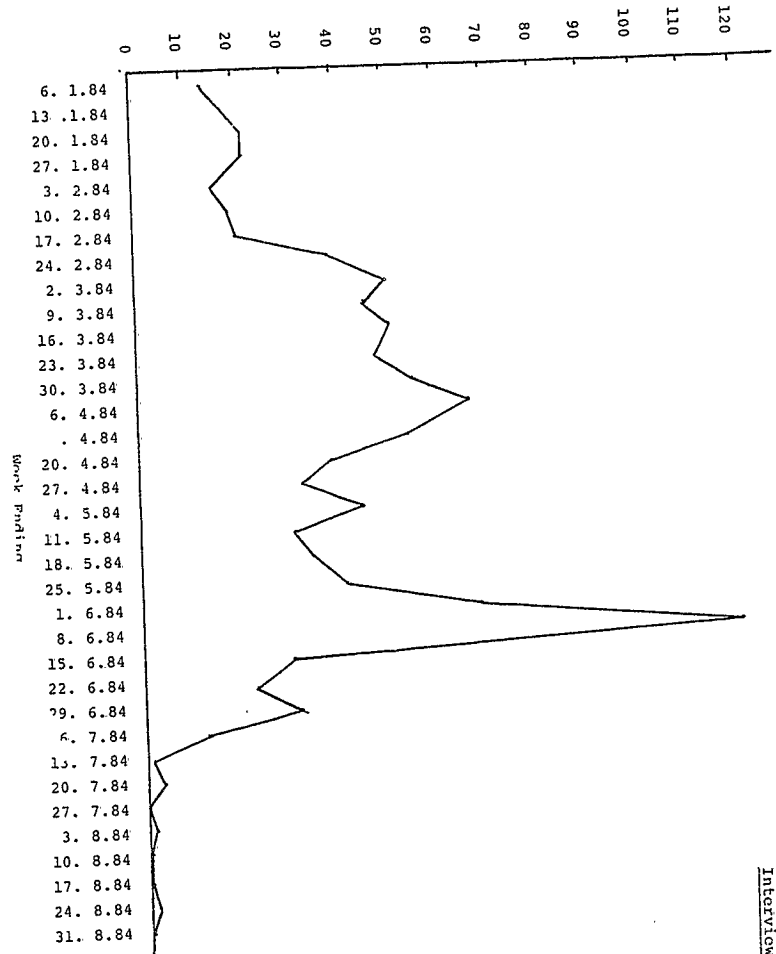
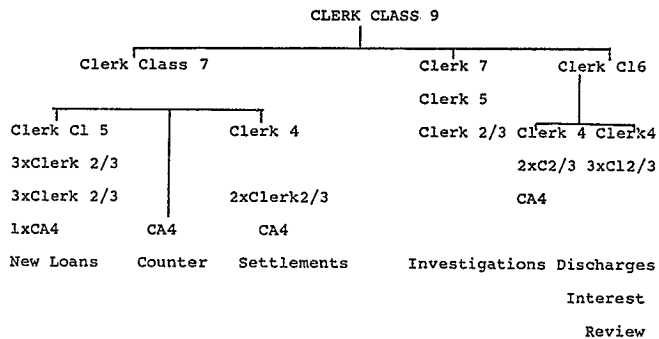
- (3) Introduction of new loans scheme.
- (4) Figures for June onwards were extracted from informal statistics and have not been verified.

APPENDIX 2.2
Revised Loans
and Mortgage
Organis-
ation recomm-
ended by
Management
Consultancy

OLD ORGANISATION



PROPOSED NEW ORGANISATION



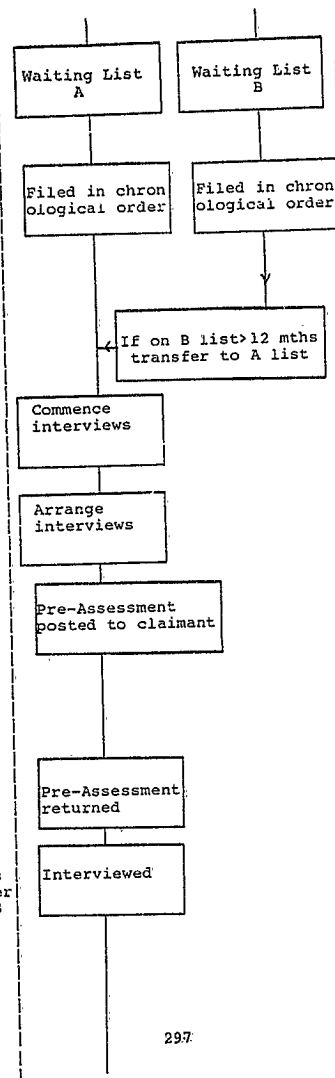
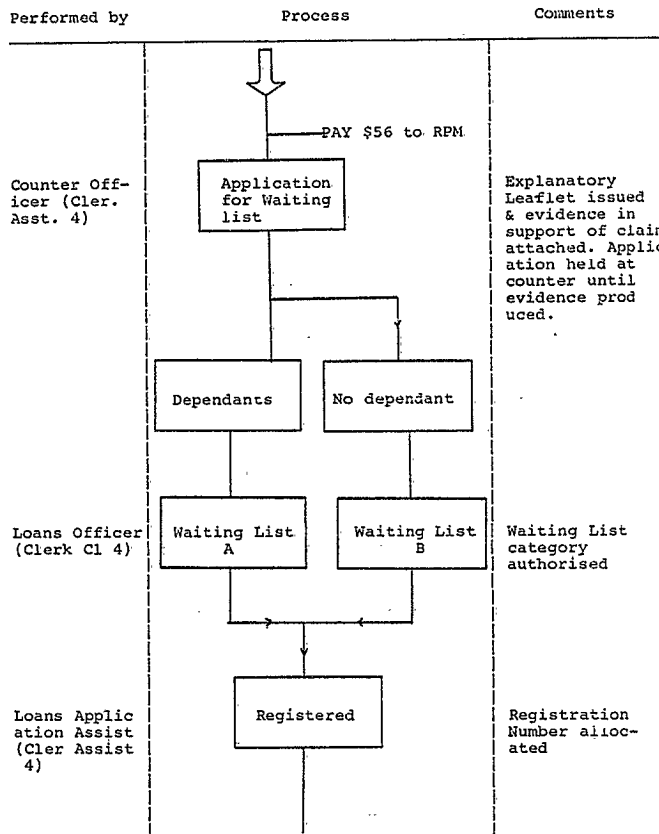
APPENDIX 3.1
 FORMAT OF MONTHLY MANAGEMENT
 REPORTS FOR COMMISSIONER

1. LOANS SECTION : MONTH ENDING				
<u>APPLICATIONS RECEIVED</u>				
	This Month	Last Month	Applications on hand	Comment
A LIST				
B LIST				
<u>INTERVIEWS CONDUCTED</u>				
	This Month		Last Month	
Agreed Target	Achieved	Agreed Target	Achieved	
Total interviews this year to date	Agreed Target	Achieved:		
Comments:				
<u>LOAN COMMITMENTS</u>				
Stage 1 Agreed Target	This Month	Last Month	Year	
No. Achieved				
Estimated Funds Required				
Funds: Pro Rata	Actual			
Stage 2 Agreed Target				
No. Achieved				
Estimated Funds Required				
Funds: Pro Rata	Actual			
<u>SETTLEMENTS</u>				
Number	This Month	Last Month	Year	
Funds Expended				
<u>RESOURCES</u>				
	Establishment:		Staff:	
	Other:			
<u>SIGNIFICANT CONCERNS</u>				
<u>MATTERS FOR DISCUSSION</u>				

2. FINANCE SECTION : MONTH ENDING												
<u>LOANS TRUST ACCOUNT</u>												
	This Month	Last Month	Year to Date									
Balance 1st Month												
Income												
Outgoings												
Balance *												
Short Term Commitments (Stage 2)												
Long Term Commitments (Stage 1)												
Comments												
<u>CASH FLOW SITUATION</u>												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Income												
Outgoing												
Balance												
Original Estimate												
COMMENTS: (Cash Flow, Long Term Commitments, Interview Rate. Targets for Following Month. Variations from Estimate)												
<u>MORTGAGE ACCOUNTS</u>												
	This Month	Last Month	Year to Date									
New Accounts												
Discharges												
Total Accounts												
Arrears												
Comments												
<u>RENTAL ACCOUNTS</u>												
	This Month	Last Month	Year to Date									
New Accounts												
Accounts Cancelled												
Total Accounts												
RESOURCES												
	Establishment:					Staff:						
	Other:											
<u>SIGNIFICANT CONCERNS</u>												
<u>MATTERS FOR DISCUSSION</u>												

LOAN APPROVAL PROCESS

APPENDIX 4.1



WAITING LIST

INTERVIEWED

10

Loans Application Assistant (Cl Ass4)

File created

Recorded in Registers/file Index

Check list Attached

Loans Application Compiler (Cl C2/3)

Have got all necessary info

Other land details

Assessed

R11

Checked

R12

Loans Officer (Clerk Cl 4)

Approved/ Rejected

R13

Loans Management Officer (Clerk Cl6)

Given different file number to registration number.

If havent got all necessary information other details sought. Allowed 14 days to provide, then another 7 days, then claim rejected.

At this stage only maximum amount of loan is assessed.

STAGE 1. APPROVAL

R14

Loans Officer (Clerk Cl4)

Letter to client

Claimant Finds home etc.

Loans Application Compiler (Clerk Cl2/3)

Obtains any additional information

Amt of Loan req'd calculated

R15

Repayments calculated

R16

Loans Management Officer (Clerk C6)

Approved

Letter to client

States maximum amt of loan eligible for & allows 2 mths to take up loan. Extensions are always given.

Completes "Application for Approval of Property". (Has already entered into Agreement to Purchase).

Having regard to amount of house, deposit paid and claimants funds

STAGE 2 APPROVAL

States amount of loan and repayments.

R17

Settlements Clerk Assis (Clerk C12/3)

Letter to solicitor

Details Rec'd

Crown Lease prepared

Claimant signs

Section 28B encumbrance if necessary

Solicitor

Settlement date arranged

Settlements Assistant (Clerk C12/3)

TF11 Completed

Signed by Loans Officer

Requests settlement details

For those cases which cannot be sold for a specified period.

Requests funds be made available. Goes through Commitment Clerk to Authorising Officer for Funds Certificate.

R18

Approved by Commissioner

Mortgage Acct no. allocated

Form 12 prepared

Settled

Coded onto Computer

Settlements Clerk (Clerk C14)

Provided Authorising Officer has stated funds are available. Commitments Clerk obtains details of all TF11's on a weekly basis.

This form arranges for cheque to be drawn - 4 days are allowed for cheque preparation.

SETTLEMENT

Computer system commences at this point. This system credits loan repayments to amount advanced

SYSTEMS RECOMMENDATIONS

Our recommendations to improve the Loan Approval Process are listed hereunder:

(For ease of reference the areas where we have recommended changes to the existing system are on the flowchart with the recommendation number).

RECOMMENDATION 1:

Consideration should be given to determining whether the application for charged should be brought into line with there charged by other financial institution. \$56 is charged at present no matter what the amount of loan requested. We have been unable to determine for how long this amount has been the standard fee. Alternatively the fee could be abolished with a consequent reduction in accounting and clerical procedures.

RECOMMENDATION 2:

Consideration should be given to simplifying the explanatory leaflet issued by the Department as we doubt where all applicants would understand it. To assist clients and to reduce the number of rejected claims (currently 19%) we recommend that the leaflet contain guidelines for self-calculation of maximum amount of loan eligible for and a checklist of what information is received at interview.

RECOMMENDATION 3:

To reduce the number of rejections, the amount of time people may unnecessarily spend on the Waiting List and therefore number of persons on Waiting Lists we recommend that an application for Housing Loan be completed at this stage and for pre-assessment of eligibility to be made prior to putting an applicant on the Waiting List. These details can be updated at interview.

RECOMMENDATION 4:

The basis of need currently used (dependants/no dependants) may not be the only criteria for priority allocation. Likewise, it is necessary to review the policy of discriminating against those persons without dependants as these people need more urgent than those with dependants. It would be easier and allow for less chance of system abuse if verification of dependants criteria was proof of a payment of Family Allowance for the same dependant.

RECOMMENDATION 5:

If our recommendation regarding implementation of the ADP Waiting List is implemented then it would be more efficient to create a file and file number at this stage rather than to file the papers away, without a file cover, in registration number order. This means that the claimant only has to quote one reference number throughout the whole process. (Refer also recommendation 17).

RECOMMENDATION 6:

Introduce the ADP Waiting List System.

RECOMMENDATION 7:

If a funds crisis occurs cancel the interviews made more than a week in advance.

RECOMMENDATION 8:

In view of Recommendation 3 we suggest this procedure is no longer necessary.

RECOMMENDATION 9:

Perform assessment of application at Interview. If all information is not available reschedule interview. This would speed up the assessment process, negate the necessity in most cases to seek additional information, allow for more accurate assessment as memory would not have to be relied upon and assist client relations. We consider that interviews should be conducted by Clerks Class 4 and that client counselling on financial commitments should be part of the interview period allocated.

RECOMMENDATION 10:

Discontinue use of register/index systems and make use of ADP Waiting List.

RECOMMENDATION 11:

Discontinue checking process.

RECOMMENDATION 12:

The discretionary powers of the Commissioner to allow up to 30% of income in repayments should be used where necessary.

RECOMMENDATION 13:

Stage I Approval given only if funds will be available. This is based on information provided by Housing Finance. Commitment records updated.

RECOMMENDATION 14:

If a Funds Management approach is adopted it will no longer be possible to allow unlimited extensions as commitments will become too high and problems could occur as justifying the necessity for appropriation allocation due to the Trust Account balance. Therefore, we recommend that a period of say two months be allocated to locate a house to be purchased, and a further two months be allowed for settlement. If the first of these deadlines is exceeded then the loan offer could be cancelled and if the second deadline is exceeded interest could be charged, as is done by financial institutions, as the money could be earning interest if it were reallocated.

We would, however expect some consideration of client problems and therefore flexibility in the administration of this arrangement.

RECOMMENDATION 15:

TF11 should be completed and Funds Certificate obtained prior to approval.

RECOMMENDATION 16:

Stage 2 Approval given only if funds available. Loans Management Officer should have delegation to approve loans and approve commitment of funds. These authorities are currently held by Commissioner.

RECOMMENDATION 17:

Requests for settlement details should only relate to that information or item we do not already possess. This would best be done by using variable stock letters or the work processors.

RECOMMENDATION 18:

For ease of client inquiries it is considered that best client service would be given if only one reference number were allocated each applicant. At present each applicant has three reference numbers. We recommend that if the Mortgage A/c Number is allocated at application stage then this would be less confusing to the client and provide for a more efficient system. It would not matter if a claim was rejected and the Mortgage Account number was therefore out of sequence.

Appendix 4.3

Areas of Broader Management Concern

We believe there are areas which require enhancement to ensure all claims are treated equally and only eligible claimants who can reasonably afford a home loan, are granted a Commissioner for Housing loan. Some examples of areas where attention is required follow.

Assessment of Income

Although the gazetted Scheme defines income as excluding irregular overtime it is considered that staff require a further clarification of income with regard to the treatment of overtime. The following example is pertinent to this. An applicant was in receipt of overtime during the 26 weeks prior to his interview but the overtime was excluded in his repayment calculations as it was considered irregular. The person in question was a camera operator with a television station and was domiciled at Parliament House. Although the applicant did not receive overtime every week it is probable that overtime was regularly worked throughout the year. Had the overtime been assessed as regular it is conceivable that repayments could have been \$50 per month higher with a resultant entitlement to a larger loan.

The cases examined indicated that applications vary in degree of complexity, especially with regard to treatment of income. To overcome the problems involved in determining whether overtime is regular or irregular we suggest that for the purposes of loan assessment overtime be added to total weekly earnings for the subject period and then the average weekly income calculated. This method of assessment would apply unless it is considered that all overtime is to cease, or be dramatically reduced in the next six months. If an applicant's overtime ceases or reduces after the assessment has been made the applicant has grounds for asking for repayments to be reassessed.

Further consideration should also be given to the treatment of the income of joint applicants. At present the applicants can sign a Statutory Declaration stating that one partner will cease work within three years (a standard Statutory Declaration indicating that the wife or defacto spouse will cease work, presumably due to childbirth is available) and only one income is considered when the eligibility criteria are assessed although joint income is considered in the initial years repayment calculations. Therefore, Commissioner for Housing Loans are being granted to persons with combined income of \$600 per week plus which is at least \$220 over the maximum weekly income allowable. It is probable that such applicants may be eligible for alternative forms of finance, at least for the major proportion of borrowings.

Handling of Gifts

The small file sample that we inspected did show a common trend with regard to applicants being granted loans by obtaining a gift of money from a relative to raise their portion of holding in the venture.

It is a requirement of the Scheme that the applicant have a minimum of 5% to contribute to the purchase. This amount can be obtained from the First Home Owner Scheme (FHOS). In each of the cases that we sighted the applicants were granted at least \$2,500 lump sum FHOS grant and in many cases a "gift" in one case in excess of \$16,000, also obtained. It became clear during the file examination that satisfactory evidence of the "gift" was not always obtained. In many of the cases we sighted a Statutory Declaration had been obtained to verify the gift but in several cases the Statutory Declaration did not specify that the amount was a gift and/or the amount did not have to be repaid. It is considered that where a person states that they have given an amount of money to an applicant that they also swear that the amount is not to be repaid. These cases also raise the question of excessive capital gain over a short period due to the low interest charges on some loans.

Consideration should also be given to whether the Commissioner for Housing Loan Scheme should provide assistance with home ownership for people who are unable to contribute their personal funds.

Alternative assistance if required through the Branch's Rental Homes may be more appropriate at least until some personal commitment can be made.

Avoidance of Leading Clients

During our examination of the system we noted that the Section has a multitude of forms available for use in determining applications. One disturbing factor is that pre-printed Statutory Declarations are used in the Section if the claimant has a particular circumstance which cannot be proven, e.g. the intention of ceasing work in the future. We consider that pre-printed Statutory Declarations diminish their effect and recommend elsewhere that the use of these pre-printed forms be discontinued.

Staff advised us that claimants often ask how the answers they give might affect their assessment. For instance, when asked if either applicant intends giving up work in the future the claimants ask how their answer would affect the assessment. In many cases if the answer is no then the claimants are ineligible for C for H assistance. Staff need training in appropriate interview techniques and how to avoid answers that may lead clients to give favourable answers.

Assessment of Commitments

Our file sample revealed two instances where claimants declared that they had other commitments (repayment of personal loans) which were not included in the assessment of repayments. Both claimants were granted Loans. In one instance repayments of \$106 per month were either excluded or overlooked and in another \$264 per month were not considered. For the later case, the applicant's total monthly repayment commitments were 49% of monthly salary.

We may therefore be placing the Department and the applicant in a position where, due to the total commitments of the claimant, the loan cannot be repaid. If the person meets such commitments we must consider whether we suspect they have other income which has not been declared.

Having regard to the 25% of income rule, if other commitments are considered when eligibility is calculated they will have to be examined prior to Stage 1 Approval. Otherwise the Department may indicate the loan entitlement at Stage 1 Approval but Stage 2 may reveal that the claimant cannot afford the required loan repayments.

Need to Use External Sources

At present the claimant provides, or obtains, all information necessary for the assessment of claims. Whilst this is advantageous to the Department in terms of minimal effort to obtain information it has disadvantages in that it provides an opportunity for collusion and manipulation by the claimant, it also can cause confusion and result in extensive follow-up work.

We recommend that where possible, and definitely where the assessor's suspicion is aroused, that the Department, not the claimant, obtain pertinent information. Such instances would be in verifying income and savings records, except where a well documented history of transactions is provided.

Appendix 4.4

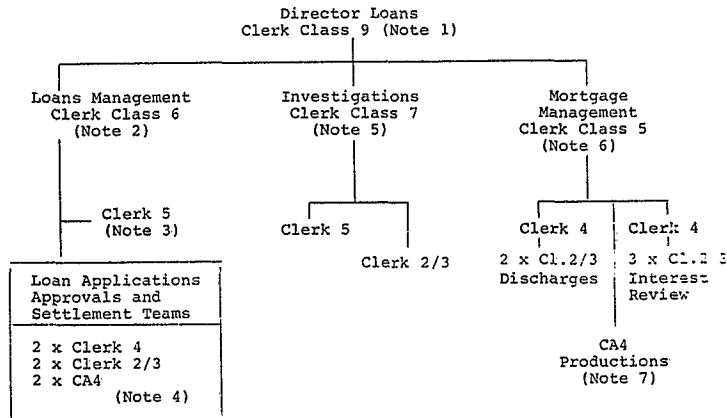
File Survey

The review of 13 recently approved housing loan files indicated the following:

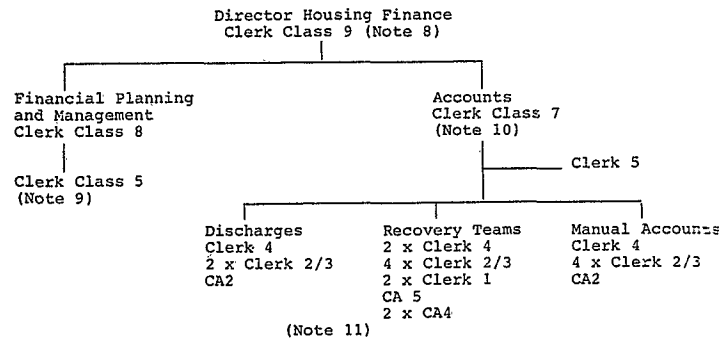
- All applicants lodged their application on 6 to 8 June 1984.
- Only 4 applicants had been on the waiting list.
- Only 1 applicant had any dependents.
- Ten (10) of the applicants were single male aged 20 to 26.
- Nine (9) of the applicants were aged 23 or less (without dependents).
- Twelve (12) of the applicants stated that settlement date would be prior to 30 June 1984.
- All 13 cases were settled after 16 July 1984.
- Funds had been committed after 2nd Stage Approval for all cases.
- During June 1984 there was a one week delay between interview and assessment and a further weeks delay in 1st Stage Approval.
- First and Second Stage Approvals were done simultaneously.
- Letters were sent to solicitors requesting settlement details when much of the information was already on file.
- One instance noted where a claimants spouse was on TEAS. A Statutory Declaration was signed stating no income. Suggest Department contact TEAS Office in future to verify income.
- Stage 1 Approval letters were issued stating maximum amount of loan eligible for, yet the Department already knew the purchase price of properties which were less than this amount.
- One case was noted where a deposit receipt indicated that the payee was other than the applicant.

- One instance noted where person employed by a Building Society and therefore entitled to staff rates of interest. This was not considered when maximum amount of loan calculated. This had the effect that the person could have obtained a larger amount of loan and could have afforded an additional \$59 per month.
- An instance was noted where the Commissioner rejected the applicants proposal that her father be 2nd mortgagor. They would only accept a Building Society or Bank.
- Overtime considered irregular - see 4.10.2.
- Birth certificate on one file which did not relate to applicant.
- Two instances were noted where applicants had personal loan repayments of \$264 and \$106 per month. These were not considered when repayments were assessed. In one instance total monthly repayments were \$623 whereas monthly income was \$1,264 (49%). It is probable that these people would have significant difficulties in meeting loan repayments. We believe that some assessment of other commitments needs to be made to assess capacity to pay. In some instances financial counselling may be appropriate.
- In 3 cases solicitors had written to the Department requesting settlement be expedited with no evidence of replies being provided or special action taken.
- In none of the cases was there any evidence to suggest that the applicants were ineligible for housing loans from other financial institutions.
- In 8 of the 13 cases examined the applicants had obtained gifts from their relatives ranging in amounts from \$2,000 to \$16,400. There were 2 gifts of \$4,000 or less, 1 gift of \$4,001 to \$9,999, 4 gifts of \$10,000 to \$15,000 and one gift in excess of \$15,000. In four cases satisfactory evidence was not obtained to verify that the lending of money was in fact a gift which did not require repayment. Two cases were noted where Statutory Declarations were obtained regarding gifts where the amount stated on the Declaration differed to the amount shown on the application.
- In two cases applicants had only \$83 and \$100 respectively to contribute from their own funds towards the purchase.

LOANS SECTION



HOUSING FINANCE SECTION



- NOTES 1. Reclassification recommended by Management Consultancy.
2. Existing Clerk Class 6 recommended for re-classification to Class 7 by Management Consultancy.
3. Proposed new position to handle more difficult cases, provide guidance, induction and training to staff and provide a Quality Assurance role.
4. Management Consultancy indicated collective need for 1 x Clerk Class 5, 1 x Clerk Class 4, 5 x Clerks Class 2/3, and 2 x Clerical Assistants 4 against expected workload. Suggest two teams be staffed whilst retaining additional positions as insurance but staffing selectively dependent on workloads. Workloads will need to be verified when final decisions on eligibility and funds availability are determined. The need for typing support is important and we recommend that either Clerical Assistants in the teams provide back-up keyboard support through word processing as an extension of their clerical activities. Alternatively, a typist or word processing position could be provided through direct employment.
5. Investigations Cell recommended by Management Consultancy.
6. Management Consultancy have recommended re-classification to Clerk Class 6.
7. In the long term, when combined Loan Applications and Settlement teams are operating efficiently, further expansion of the team concept to include all loan administration should be introduced to further broaden the base of experience and improve client facilities.
8. Current classification appears appropriate in comparison with other Class 9 positions in finance areas within the Department and Class 10 positions in Finance and Supply Branch.
9. Based on current establishment known as Projects Group. As initiatives are taken to improve funds management and financial planning needs for additional project staff should be considered.
10. Re-arrangement of existing establishment suggested by staff which appears reasonable. We recommend this structure be adopted subject to brief assessment of appropriate classifications.
11. As the organisation settles down consideration should be given to the transferring of the positions of Project Officer (Administrative Projects Clerk Class 8) and the Administrative Clerk (Clerk Class 4) from Policy and Projects to expand the Section to cover both finance and administrative Support to the Branch Head.

Appendix 5.2
Staffing Situation
Loans Sub-section

Classification	No of Positions	Average Length in Branch	Average Length in position
Clerk Class 8	1(1)	4 years	1 month
Clerk Class 6	1(1)	7 years	3 months
Clerk Class 5	2(2)	14 years	6.5 years
(note 2)			
Clerk Class 4	3(2)	14.5 years	3 months
Clerk Class 2/3	7(7)	5 years (note) (3)	6 months
Clerk Class 1	1(-)	4 years	5 months
Clerical Assistant	4(3)	6 months	
Grade 4 (note 4)			

1. Figures in Brackets indicate Actual Staff at 18/9/84.
2. of 2 positions at the Class 5 level occupants have been in Housing Branch 23 years and 5 years.
3. There is wide discrepancy between the periods of Staff at this level. The earliest commenced in 1969 and latest March 1984.
4. At CA4 level 2 people commenced in Housing Branch during 1984 and the other commenced in 1971.

PUBLIC SERVICE BOARD - DEPARTMENT OF TERRITORIES AND
LOCAL GOVERNMENT
REVIEW OF HOUSING BRANCH LOANS AND FINANCE SECTION

RECOMMENDATIONS

1. Loans and Finance Section to provide regular simplified management reports to the Branch Head and senior Section management.

- a. use general format recommended

A slightly modified format has been introduced. It is anticipated these forms will be further modified over time as management requirements become clearer.

- b. use reports as the basis for management meetings to determine ongoing action

These reports are produced monthly and are used for management meetings between the Branch Head, Director (Loans and Finance), Loans and Finance Managers.

- c. recognise the need for subordinate managers to have more detailed information

Information requirements for subordinate managers have been identified in consultation with those concerned. The reports will be primarily computer produced and programming is almost completed and training will commence as reports are completed. These reports have been produced manually since November.

- d. integrate reporting arrangements with other Sections of the Branch to reduce the detailed reporting load on the Branch Head

The management information from the Loans and Finance Section has been simplified and integrated into one set of structured reports. A similar exercise is underway for the information required by the Tenants and Properties Section. Discussions are being held to establish the information required for forecasting and modelling. It is required for the new system to be operational in 1985/86.

- e. concentrate on basic management performance indicators rather than complex program control and reporting mechanisms

The management information system includes performance indicators. Priorities and targets will be set at monthly management meetings to improve management oversight of performance and to set targets for future performance.

2. Middle level managers to give more attention to staff performance

- a. set work targets allowing sufficient time for increased communication and self development

Work targets are now being set through the management information reports, and to the maximum extent possible allow time for increased communication and self development. However it should be noted that resources do not always keep pace with workload, and that the long term success of this recommendation depends entirely on the resources available to the area.

- b. encourage staff to make their contribution to improving operations

Action taken to improve staff involvement include the attendance of staff at Steering Committee meetings, setting up a Branch committee to review procedures, and the introduction of regular staff meetings and training sessions. Staff immediately

involved have participated in the review of procedures and made positive contributions but this will be a long process and will rely heavily on the commitment of senior Branch management.

c. concentrate on improving staff relations without use of complex techniques

This is being done.

d. select middle level managers (class 5 and above) on management or supervisory skills rather than detailed knowledge of the loans scheme

The selection criteria for all positions in Loans Section have been revised and all positions Class 6 and above are now based principally on management/supervisory skills.

3. Strengthen Funds Management and Financial Planning

a. strengthen funds management in conjunction with financial planning, budgeting and estimating processes

This can only be done progressively, but management reports are being used in the current budgetary cycle.

b. provide more concentrated analysis, assessment and estimation of funds commitments, availability and flow

The management reports are designed to facilitate funds availability to be predicted and for expenditure to be targeted. This will enable increased management of cash flows. Projected revenue can be estimated with some confidence however a safety margin will be allowed in the projections.

c. assess long term implications of the new loan scheme on viability

See Recommendation 4.

d. agree on target interview and approval rates

New commitments procedures are completed and expenditure delegations approved. The delegation to commit funds will become operative 1/7/85. By using the management reports outlined in 1 above interview and approval rates will be able to be set having regard to projected funds availability.

4. Arrange early discussions with the Department of Finance to resolve matters affecting funds management.

a. long term effects of interest charges

b. options for operation of the Trust

c. purchase of accommodation units

d. seeking annual funds through New Policy Proposals

e. examining detailed financial control and recording processes

f. assess long term implications of the new loans scheme on viability (from section 3c above)

A working party to examine the feasibility of aligning the ACT fully to the Commonwealth-State Housing Agreement has been established. This working party addressed the funding issues identified together with allied funding and operational matters, and the report is now under consideration.

Systems and Procedures

5. Modify loan approval process as follows:

a. Consideration should be given to determining whether the application fee charged should be brought into line with those charged by other financial institutions. \$56 is charged at present no matter what the amount of loan requested. We have been unable to determine for how long this amount has been the standard fee. Alternatively the fee could be abolished with a consequent reduction in accounting and clerical procedures.

The application fee is reviewed as part of the annual review of fees and charges in the budget context. The review has taken account of the full costs incurred.

To reduce accounting and clerical procedures it is proposed that only that portion of the total fee related to registration should be charged when a person applies to join the waiting list. This fee will not be refundable. The remainder of the fee will be collected at interview, if the application proceeds, and prior to settlement. This will significantly reduce the number of refunds which will require processing. Approval has been sought in the review of fees.

Arrangements have also been made for Loans Section to take fees at the counter by providing cash advances and appointing counter and settlement officers as agents for the Collector of Public Monies. This will improve client relations and the efficiency of the operation.

b. Consideration should be given to simplifying the explanatory leaflet issued by the Department as we doubt whether all applicants would understand it. To assist clients and to reduce the number of rejected claims (currently 19%) we recommend that the leaflet contain guidelines for self-calculation of maximum amount of loan eligible for and a checklist of what information is required at interview.

The current explanatory leaflet will be retained, as it includes a lot of information that cannot easily be simplified. However an abbreviated

leaflet will also be prepared when possible. A check list will be provided. It has been decided to delete the concept of the applicant calculating the loan, but to provide a calculation by the interviewing officer.

c. To reduce the number of rejections, the amount of time people may unnecessarily spend on the waiting list and therefore number of persons on waiting lists we recommend that an application for Housing Loan be completed at this stage and for pre-assessment of eligibility to be made prior to putting an applicant on the waiting list. These details can be updated at interview.

This recommendation did not proceed. It could eliminate persons from applying who may later become eligible and was therefore considered undesirable.

d. The basis of need currently used (dependants/no dependants) may not be the only criteria for priority allocation. Likewise, it is necessary to review the policy of discriminating against those persons without dependants as these people's needs are more urgent than those with dependants. It would be easier and allow for less chance with system abuse if verification of dependants criteria was proof of a payment of Family Allowance for the same dependant.

The eligibility criteria issue has been considered separately. The department of Social Security advise it is not feasible to verify dependency solely on proof of Family Allowance. Accordingly it has been agreed that the waiting list application forms are to be distributed to Banks, Building Societies, Real Estate Agencies etc to advise clients prior to coming to Housing Branch of the requirements for proof of dependency. To avoid speculation these forms will not be distributed prior to a decision being made on when interviews are to recommence.

e. If our recommendation regarding implementation of the ADP waiting list is implemented then it

would be more efficient to create a file and file number at this stage rather than to file the papers away, without a file cover, in registration number order. This means that the claimant only has to quote one reference number throughout the whole process.

It has been decided that it will not be necessary to inform the public of Registration/File numbers as this could be confusing and experience indicates clients rarely use their file number. Officers will be able to extract relevant numbers from the ADP Register System, and clients will continue to use their name as the basic reference.

f. Introduce the ADP Waiting List System

The ADP waiting list has been implemented and all applicants recorded in the system. The management reports will be finalised before interviews recommence (see 1c).

g. If a funds crisis occurs cancel the interviews made more than a week in advance.

This recommendation is accepted. The monthly meetings will be essential in this area.

h. In view of recommendation c we suggest this procedure is no longer necessary.

Recommendation accepted.

i. Perform assessment of application at interview. If all information is not available reschedule interview. This would speed up the assessment process, negate the necessity in most cases to seek additional information, allow for more accurate assessment as memory would not have to be relied upon and assist client relations. We consider that interviews should be conducted by Clerks Class 4 and that client counselling on financial commitments should be part of the interview period allocated.

A new organisation structure has been introduced which means in part that Clerks Class 4 will conduct interviews. Follow up work and filing etc will be done by assistants to the Clerk Class 4. Copies of the organisation charts are attached.

Where possible the assessment will be completed at interview. If requested the applicant will be given an indication of amount of loan. Duty of care will be stressed to staff to ensure public are informed that this amount is not final and that the loan has yet to be approved. Clients will be given this in writing and an appropriate pro forma has been issued.

It was agreed interviews will not be rescheduled if all information is not available. However, to improve the situation clients will be contacted one week prior to interview to assist in obtaining required information. Additionally, letters to clients have been redesigned to allow for outstanding matters to be understood.

Client counselling on financial commitments will be part of interview, especially with other commitments, and it will be stressed that assets should not be used for other than home purchase. Staff will progressively be trained in this role, but in the short term some useful benchmarks have been provided such as minimum disposable income.

j. Discontinue use of register/index systems and make use of ADP waiting list.

Accepted. The commitments register has been amalgamated and now includes all applicants irrespective of the stage their approval has reached. All other registers have been reviewed and most registers will be discontinued as ADP and commitments systems become operative. When these systems are fully operative it should only be necessary to keep manual records of interviews and settlement, re-assessments and cheques.

k. Discontinue checking process

As assessments will be done by Clerks Class 4 the checking process is no longer required.

1. The discretionary powers of the Commissioner to allow up to 30% of income in repayments should be used where necessary.

Discretionary powers are being used in this regard.

m. Stage 1 Approval given only if funds will be available. This is based on information provided by Housing Finance. Commitment records updated.

Stage 1 Approval will only be given if funds will be available. The new Commitment procedures include controls to ensure funds are available.

n. If a Funds Management approach is adopted it will no longer be possible to allow unlimited extensions as commitments will become too high and problems could occur as justifying the necessity for appropriation allocation due to the Trust Account balance. Therefore, we recommend that a period of say two months be allocated to locate a house to be purchased, and a further two months be allowed for settlement. If the first of these deadlines is exceeded then the loan offer could be cancelled and if the second deadline is exceeded interest could be charged, as is done by financial institutions, as the money could be earning interest if it were re-allocated.

We would, however expect some consideration of client problems and therefore flexibility in the administration of this arrangement.

The concept of time limits has been accepted, although different provisions will have to be made for new houses, owner/builders, land allocations and progress payments. Information obtained from the States indicates no other state imposes penalties, but that delays are longer in the ACT than elsewhere. Pending further refinement, the two month periods with provision for cancellation are being introduced when interviews recommence.

o. TFI should be completed and Funds Certificate obtained prior to approval.

New commitment procedures are based on this concept.

p. Stage 2 approval given only if funds available. Loans Management Officer should have delegation to approve loans and approve commitment of funds. These authorities are currently held by Commissioner.

The new commitment procedures allow for approval to be given only if funds will be available when they will be required. The Loans Manager has been given the delegation to approve loans and commit funds.

q. Requests for settlement details should only relate to that information or item we do not already possess. This would best be done by using variable stock letters or the word processors.

Settlement procedures have yet to be reviewed but this recommendation is accepted.

r. For ease of client inquiries it is considered that best client service would be given if only one reference number were allocated each applicant. At present each applicant has three reference numbers. We recommend that if the Mortgage Account Number is allocated at application stage then this would be less confusing to the client and provide for a more efficient system. It would not matter if a claim was rejected and the Mortgage Account Number was therefore out of sequence.

Client will still be allocated up to 4 numbers but due to ADP Waiting List Register System this will not affect them.

6. Identify long term funds commitments at Stage 1 approval through use of proposed ADP waiting list system. Formal commitment on Finance Ledger System continue to be made at Stage 2.

a. Simple manual record will be necessary if there are any delays with the waiting list system.

b. Loans Section to be responsible for maintaining long term commitments and advising Finance Section.

New commitment procedures have been introduced subject only to the introduction of time limits (see 5n). The revised commitment procedures cannot be fully implemented until interviews start again. Interim commitment procedures are however in operation.

7. Line management concentrate on particular areas of risk and encourage staff to initiate changes to individual procedures.

This has effectively been done. Management skills are being enhanced through selection and training, and staff are motivated to make changes within their sphere of responsibility.

8. Introduce the proposed Investigations Unit as soon as possible.

The Investigations Unit has been created and the Class 7 position has been advertised. It was not proposed to staff the other positions in the unit until that officer has completed the work required to clearly define the role and function of the unit. Whether the unit can be staffed depends on the allocation of ceiling cover in 1985/86.

a. exercise care in determining final role

The concerns of the review team are noted in this context. The Clerk Class 7 will be required to prepare a functional statement that identifies the investigations unit primarily as a "macro-investigation" unit rather than a policing or regulatory body. This functional statement when completed will be discussed with staff in the Loans area and approved by the Branch Head before any further developmental work is undertaken.

b. examine what specific authority is required

The comment is accepted. Authorities will be established once the functional statement has been completed.

c. conduct a file audit as an early task to identify major areas of risk

This recommendation is accepted.

d. note it is inappropriate to rely on the investigations unit for regular case investigations

It has been agreed that the investigations unit should be involved in case work when appropriate. It is acknowledged it should not be used for regular case investigations but will be called upon to undertake investigations where the Loans staff have concerns about the information presented. It was noted that the workload in this area could well be variable and that it might be possible in the future to use the investigations unit to look at other matters in the Branch if there is some doubt about the propriety of the transaction.

- 9a. Introduce the ADP Register System for recording commitments and providing more timely management statistics.

The ADP register system has been introduced and is reconciled to the records of commitments and all the necessary data has been put on that system. Management statistics for the Loans area have been identified and will be available prior to interviews recommencing. In the meantime these statistics are compiled manually.

- 9b. Longer term consideration needs to be given to an overall plan for Housing Branch ADP needs. Care should be exercised in the tasks for which automated systems are to be used.

An overall plan for Housing Branch ADP needs has been developed and in the preparation of that plan care has been taken to ensure a judicious use of automation. The program is now being evaluated to

establish which tasks can be done most quickly and early in January 1985 a program for 1985 was finalised.

10. Assess the use of forms guidelines and checklists in other loans institutions to identify any additional streamlining possible.

Forms, guidelines and checklists have been identified and reviewed internally. Many have been simplified. Further consideration of changes will be undertaken as part of the implementation process identified in the following recommendation.

11. Introduce a self help approach to reviewing and documenting basic procedures, staff aids and client information. Provide assistance from Management Consultancy Section through workshops on procedure examination and documentation.

This recommendation is accepted. While staff generally have accepted the self help concept a more formalised structure is being introduced to ensure the correct attitudinal situation continues. The structure currently being brought into place involves a committee chaired by the Client Relations Officer with rotating membership from the three sections. The Committee will progressively review all policies, procedures and public information to ensure internal consistency and full understanding of the policy. The Committee will document its activities and senior Branch management will oversight its activities.

12. Examine general issues requiring management clarification:

- a. **Assessment of Income**

Irregular overtime would be disregarded in income assessment but it was important to differentiate between this and any penalty rates and allowances e.g. shift allowance as a condition of employment. These latter would still be included. Assessable income would be that as at time of interview unless later requested by applicant that changed income be

taken into account or where staff consider that a reassessment is necessary. In these cases the individual file should be referred to the Director Loans and Finance or Commissioner. Stage 1/Stage 2 approval letters to be amended to emphasize this fact.

- b. **Assessment of Commitments**

It was decided the current policy will not be changed. However interviewing staff will be given a schedule of minimum disposable income levels and if commitments cast doubt on the clients ability to service the loan and maintain a basic standard of living the interview officer will do some debt counselling and if necessary refer the client for further counselling.

- c. **Handling of Gifts**

Current procedures will be retained but greater care will be taken to ensure the declarations fully identify the gift.

- d. **Avoidance of leading clients**

The concerns of the review team were noted. As the greater problem relates to misleading statutory declarations and the difficulty of prosecution, the Department is examining the feasibility of amending the Ordinance and/or gazetted scheme(s) to introduce penalties for providing false or misleading information.

- e. **Using External Information Sources**

Claims where the interviewing officer is suspicious will continue to be strenuously investigated. When appropriate the Investigation Unit will also be involved. However any extensive use of external information sources will not be taken until the Investigation Unit has been established and reported on likely and important sources of possible fraud.

f. Assessment of deposit as a percentage of purchase price on actual cost

It was decided that applicants who have insufficient deposit at interview be given one month to find or save the deposit before Stage 1 approval is granted. There will be no checking of assets at Stage 2 approval.

g. Assessment of FHOS as an asset

This is a policy matter which has been considered separately.

13. Make greater use of working checklists to overcome detailed forms and ensure closer direct control by supervisors of casework.

This has largely been completed as part of the implementation of recommendation 5.

Structure and Staffing

14. Split the Mortgages and Finance Section into separate Loans and Finance Sections reporting direct to the Commissioner for Housing.

This proposal was considered at some length but the Department concluded that the large casework load and the level of detailed knowledge required by the occupant of the position argued against abolishing the position. However it was noted that the result of the Working Party exercise to align the ACT more closely with the CSHA would result in the reassessment of functions, and the role of the Director should be considered again in that context.

- a. combine loans and settlements groups into joint teams with public contact being primarily at the Clerk Class 4 level

The re-organisation has been implemented. There will be 3 cells in the Loans area. Each of these cells will be responsible for interviewing the applicant, assessing claims, settling the loan,

interest review and sub-let action. Each cell is to comprise: 1 x Clerk 4; 2 x Clerk 2/3; and 1 x Clerical Assistant 4. Due to insufficient ceiling cover at present only two cells are operational. Public contact will primarily be at Clerk 4 level.

- b. re-organise Finance Section based on structure proposed by section management and staff within existing classifications and establishment.

The Finance Section has been restructured as suggested by the staff.

15. The Project Officer (administration) introduce a more rational approach to staff movement throughout the Branch for both development and management purposes; and
16. Develop staff skills in management and supervision to provide competent staff to take on higher level activities. Gradually broaden jobs within the Loans Section to improve staff skills, job satisfaction and concern for clients.

These were already objectives of Branch management, and staff have been rotated through positions to the extent permissible under Public Service Board rules relating to temporary transfers. The developmental work identified in recommendation 18 will be of significance in this area in the longer term. However the Branch and Section Heads have now introduced a further step in staff development in that the desirability of transfer into a nominally vacant position will be assessed prior to any action to advertise the vacancy.

17. Supervisors give more adequate attention to the use and maintenance of procedure statements through
- a. active involvement of staff to make minor changes
- b. ensuring new staff have access to procedure statements

c. Management Consultancy conducting workshops to advise staff on methods of reviewing and charting procedures

This has effectively been completed. Longer term action is identified in recommendation 18c.

18. Provide increased support to public contact staff.

a. supervisors and middle management regularly attend the counter to gain an understanding of problems and the quality of service

Accepted.

b. arrange regular discussions on customer problems

Accepted.

c. commencing an in house training program covering client relations, phone techniques, interview techniques, duty of care, Branch operations and procedures, client counselling and customer service

The views of staff are being obtained of the areas where they feel they need training and assistance. A program will then be developed and implemented that includes formal training modules, seminars or shared experiences, meetings with other affected groups and self help modules supported as required. It is planned to introduce this program as a long term matter that will evolve over time, rather than as a one-off project.

Other Matters

19. Improve client relations by:

a. re-assessing interview facilities for loan applicants

Interview rooms have been extended.

b. paying more attention to explanatory information for clients - simple check lists at interview or when applications are lodged may be more useful than formal letters.

Completed. The loans procedures addresses these issues.

c. introduce a brief 'handout' on requirements and responsibilities for progress payments

Being addressed through the Committee identified at Recommendation 11.

d. review letters to clients in conjunction with the Client Liaison Officer and interested community groups to ensure they can be understood by clients.

This is being done as part of exercise identified in Recommendation 11.

e. streamline methods for processing refunds in conjunction with Finance and Supply Branch

Processing refunds is no longer a major problem, although delays will continue to arise from time to time because of staff shortages. A better solution identified in 5a is to modify the fees schedule to minimise the need for refunds.

20. Provide a summary of policy projects to Loans and Finance staff to consider the need to provide practical input, consider ongoing operations and ensure staff are aware of areas of change being considered.

Completed. This will be circulated on an ongoing basis.

21. Minimise fraud potential by

a. staff identifying where an applicant is known to them

Instructions have been issued on this matter.

b. eliminating the use of standard statutory declarations

Recommendation 12(d) identifies the problem with, and solution to, statutory declarations. It is however important to retain standard forms to ensure all questions are addressed fully and properly and accordingly this procedure will continue.

c. investigations unit initially concentrate on identifying main areas of risk

Accepted. See also Recommendation 8.

22. Closer attention be given to co-ordinating the Department's review mechanisms to ensure total systems problems are identified.

Recommendation accepted.

23. A person be seconded full time to implement changes recommended.

Completed. The officer has returned to his normal duties but will continue to attend Steering Committee meetings and will for several months retain an oversighting role in the implementation of the new procedures. The officer will return to Housing Branch prior to interviews recommencing to ensure systems are operating as intended.

Attachments 4 - 14 have not been included in the report, but are held on Committee files.

SUPPLEMENTARY SUBMISSION

PUBLIC SERVICE BOARD - DEPARTMENT OF TERRITORIES
REVIEW OF HOUSING BRANCH LOANS AND FINANCE SECTION
SITUATION REPORT AS AT 30/11/85

1. Loans and Finance Section to provide regular simplified management reports to the branch Head and senior Section management.
 - a. Use general format recommended

A slightly modified format has been introduced. It is anticipated these forms will be further modified over time as management requirements become clearer.
 - b. Use reports as the basis for management meetings to determine ongoing action

These reports are produced monthly and are used for management meetings between the Branch Head, Director (Loans and Finance), Loans and Finance Managers.
 - c. Recognise the need for subordinate managers to have more detailed information

Information requirements for subordinate managers have been identified in consultation with those concerned. The reports are computer produced and programming is almost completed and training has commenced and will continue. These reports have previously been produced manually.
 - d. Integrate reporting arrangements with other Sections of the branch to reduce the detailed reporting load on the branch head

The management information from the Loans and Finance Section has been simplified and integrated into one set of structured reports. A similar exercise is underway for the information required by the Tenants and Properties Section. Discussions are being held to establish the information required for forecasting and modeling. This matter will require extensive review in light of arrangements for self government.

e. Concentrate on basic management performance indicators rather than complex program control and reporting mechanisms.

The management information system includes performance indicators. Priorities and targets will be set at monthly management meetings to improve management oversight of performance and to set targets for future performance.

2. Middle level managers to give more attention to staff performance
 - a. Set work targets allowing sufficient time for increased communication and self development

Work targets are now being set through the management information reports, and to the maximum extent possible allow time for increased communication and self development. However it should be noted that resources do not always keep pace with workload, and that the long term success of this recommendation depends entirely on the resources available to the area.
 - b. Encourage staff to make their contribution to improving operations

Action taken to improve staff involvement include the attendance of staff at Steering Committee meetings, setting up a branch committee to review procedures, and the introduction of regular staff meetings and training sessions. Staff immediately involved have participated in the review of procedures and made positive contributions but this will be a long process and will rely heavily on the commitment of senior branch management.
 - c. Concentrate on improving staff relations without use of complex techniques

This is being done.
 - d. Select middle level managers (class 5 and above) on management or supervisory skills rather than detailed knowledge of the loans scheme

The selection criteria for all positions in Loans Section have been revised and all positions Class 6 and above are now based principally on management/supervisory skills.

3. Strengthen Funds Management and Financial Planning

a. Strengthen funds management in conjunction with financial planning, budgeting and estimating processes

This has been done progressively. Management reports are being used in the current budgetary cycle.

b. Provide more concentrated analysis, assessment and estimation of funds commitments, availability and flow

The management reports are designed to facilitate funds availability to be predicted and for expenditure to be targeted. This will enable increased management of cash flows. Projected revenue can be estimated with some confidence however a safety margin will be allowed in the projections. The use of the recently provided microcomputer has considerably enhanced this function.

c. Assess long term implications of the new loan scheme on viability

See recommendation 4.

d. Agree on target interview and approval rates

New commitments procedures are completed and expenditure delegations approved. The delegation to commit funds became operative 1/7/85. By using the management reports outlined in 1 above interview and approval rates will be able to be set having regard to projected funds availability.

4. Arrange early discussions with the Department of Finance to resolve matters affecting funds management.

a. Long term effects of interest charges

b. Options for operation of the Trust

c. Purchase of accommodation units

d. Seeking annual funds through New Policy Proposals

e. Examining detailed financial control and recording processes

f. Assess long term implications of the new loans scheme on viability (from section 3c above)

A working party to examine the feasibility of aligning the ACT fully to the Commonwealth-State Housing Agreement has been established. This working party addressed the funding issues identified together with allied funding and operational matters, and the report is now under consideration.

Systems and Procedures

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The application fee is reviewed as part of the annual review of fees and charges in the budget context. The review has taken account of the full costs incurred.

To reduce accounting and clerical procedures only that portion of the total fee \$12 related to registration is charged when a person applies to join the waiting list. This fee is not refundable. The remainder of the fee will be collected at interview, if the application proceeds. This will significantly reduce the number of refunds which will require processing.

Arrangements have also been made for Loans Section to take fees at the counter by providing cash advances and appointing counter and settlement officers as agents for the Collector of Public Monies. This will improve client relations and the efficiency of the operation.

b. Consideration should be given to simplifying the explanatory leaflet issued by the Department as we doubt whether all applicants would understand it. To assist clients and to reduce the number of rejected claims (currently 19%) we recommend that the leaflet contain guidelines for self-calculation of maximum amount of loan eligible for and a checklist of what information is required at interview.

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This recommendation did not proceed. It could eliminate persons from applying, who may later become eligible and was therefore considered undesirable.

d. The basis of need currently used (dependents/no dependents) may not be the only criteria for priority allocation. Likewise, it is necessary to review the policy or discriminating against those persons without dependents as these people's needs are more urgent than those with dependents. It would be easier and allow for less chance with system abuse if verification of dependents criteria was proof of a payment of Family Allowance for the same dependent.

It is policy that persons with dependents have a greater need for housing than persons without dependents. Both types of client are allowed for.

The department of Social Security advise it is not feasible to verify dependency solely on proof of Family Allowance. Although receipt of Family Allowance is prima facie evidence of a dependent child, evidence in the form of birth certificates, Family Law court orders etc., is sometimes sought as absolute proof of dependency of children.

e. If our recommendation regarding implementation of the ADP waiting list is implemented then it would be more efficient to create a file and file number at this stage rather than to file the papers away, without a file cover, in registration number order. This means that the claimant only has to quote one reference number throughout the whole process.

It has been decided that it will not be necessary to inform the public of registration/file numbers as this could be confusing and experience indicates clients rarely use their file number. Officers will be able to extract relevant numbers from the ADP register system, and clients will continue to use their name as the basic reference.

f. Introduce the ADP Waiting List System

The ADP waiting list has been implemented and all applicants recorded in the system. The management reports have been finalised.

g. If a funds crisis occurs cancel the interviews made more than a week in advance.

This recommendation is accepted. The monthly meetings will be essential in this area.

h. In view of recommendation c we suggest this procedure is no longer necessary.

Recommendation accepted.

i. Perform assessment of application at interview. If all information is not available reschedule interview. This would speed up the assessment process, negate the necessity in most cases to seek additional information, allow for more accurate assessment as memory would not have to be relied upon and assist client relations. We consider that interviews should be conducted by Clerks Class 4 and that client counselling on financial commitments should be part of the interview period allocated.

A new organisation structure has been introduced and Clerks Class 4 and 2/3 will conduct interviews. Follow up work and filing etc are done by assistants to the Clerk Class 4.

Where possible the assessment will be completed at interview. If requested the applicant will be given an indication of amount of loan. Duty of care will be stressed to staff to ensure public are informed that this amount is not final and that the loan has yet to be approved. Clients will be given this in writing and an appropriate pro forma has been issued.

It was agreed interviews will not be rescheduled if all information is not available. However, to improve the situation clients will be contacted one week prior to interview to assist in obtaining required information. Additionally, letters to clients have been reissued to allow for outstanding matters to be understood.

Client counselling on financial commitments are part of the interview, especially clients with other commitments, and it will be stressed that assets should not be used for other than home purchase. Staff will progressively be trained in this role, but in the short term some useful benchmarks have been provided such as minimum disposable income.

j. Discontinue use of register/index systems and make use of ADP waiting list.

Accepted. The commitments register has been amalgamated and now includes all applicants irrespective of the stage their approval has reached. All other registers have been reviewed and all but 2 discontinued. It is now only necessary to keep manual records of interviews and settlement, re-assessments and cheques.

k. Discontinue checking process

As assessments will be done by Clerks Class 4 the checking process is no longer required. However, quality control is maintained by the Management Officer and the Loans Manager.

l. The discretionary powers of the Commissioner to allow up to 30% of income in repayments should be used where necessary.

Discretionary powers are being used in this regard.

m. Stage 1 Approval given only if funds will be available. This is based on information provided by Housing Finance. Commitment records updated.

Stage 1 Approval is only given if funds will be available. The new Commitment procedures include controls to ensure funds are available.

n. If a Funds Management approach is adopted it will no longer be possible to allow unlimited extensions as commitments will become too high and problems could occur as justifying the necessity for appropriation allocation due to the Trust Account balance. Therefore, we recommend that a period of say two months be allocated to locate a house to be purchased, and a further two months be allowed for settlement. If the first of these deadlines is exceeded then the loan offer could be cancelled and if the second deadline is exceeded interest could be charged, as is done by financial institutions, as the money could be earning interest if it were re-allocated.

We would, however expect some consideration of client problems and therefore flexibility in the administration of this arrangement.

The concept of time limits has been accepted, although different provisions will have to be made for new houses, owner/builders, land allocations and progress payments. Information obtained from the States indicates no other State imposes penalties, but that delays are longer in the ACT than elsewhere. Pending further refinement, the two month periods with provision for cancellation have been introduced.

o. TFl1 should be completed and Funds Certificate obtained prior to approval.

New commitment procedures have resulted in the eliminations of the TFl1. Funds availability is noted on the worksheet prior to S48C approval being given.

p. Stage 2 approval given only if funds available. Loans Management Officer should have delegation to approve loans and approve commitment of funds. These authorities are currently held by Commissioner.

The new commitment procedures allow for approval to be given only if funds will be available when they will be required. The Loans Manager has been given the delegation to approve loans and commit funds. The Minister has rejected recommendations that a delegation for funds commitment be given to the Loans Management Officer.

q. Requests for settlement details should only relate to that information or item we do not already possess. This would best be done by using variable stock letters or the word processors.

This recommendation has been accepted, however, the letter in current use has been a useful checklist for solicitors, etc.

r. For ease of client inquiries it is considered that best client service would be given if only one reference number were allocated each applicant. At present each applicant has three reference numbers. We recommend that if the Mortgage Account Number is allocated at application stage then this would be less confusing to the client and provide for a more efficient system. It would not matter if a claim was rejected and the Mortgage Account Number was therefore out of sequence.

The ADP waiting list register system enables clients accounts to be accessed alphabetically, which has proved to be administratively efficient.

6. Identify long term funds commitments at Stage 1 approval through use of proposed ADP waiting list system. Formal commitment on Finance Ledger system continue to be made at Stage 2.

a. Simple manual record will be necessary if there are any delays with the waiting list system.

b. Loans Section to be responsible for maintaining long term commitments and advising Finance Section.

A manual system is maintained. New commitment procedures have been introduced per previous paragraphs. Use of the Department of Finance commitment system is not necessary due to the appointment of a Branch Prescribed Officer.

7. Line management concentrate on particular areas of risk and encourage staff to initiate changes to individual procedures.

This has effectively been done. Management skills are being enhanced through selection and training, and staff are motivated to make changes within their sphere of responsibility.

8. Introduce the proposed Investigations Unit as soon as possible.

The investigations unit has been created and the Class 7 position has been advertised and is expected to be filled in January 1986. It is proposed to staff the other positions in the unit after that officer has completed the work required to clearly define the role and function of the unit.

- a. exercise care in determining final role

The concerns of the review team are noted in this context. The Clerk Class 7 will be required to prepare a functional statement that identifies the investigations unit primarily as a "macro-investigation" unit rather than a policing or regulatory body. This functional statement when completed will be discussed with staff in the Loans area and approved by the Branch head before any further developmental work is undertaken.

- b. examine what specific authority is required

The comment is accepted. Authorities will be established once the functional statement has been completed.

- c. conduct a file audit as an early task to identify major areas of risk

This recommendation is accepted.

- d. note it is inappropriate to rely on the investigations unit for regular case investigations

It has been agreed that the investigations unit should be involved in case work when appropriate. It is acknowledged it should not be used for regular case investigations but will be called upon to undertake investigations where the Loans staff have concerns about the information presented. It was noted that the workload in this area could well be variable and that it might be possible in the future to use the investigations unit to look at other matters in the branch if there is some doubt about the propriety of the transaction.

- 9a. Introduce the ADP Register System for recording commitments and providing more timely management statistics.

The ADP register system has been introduced and is reconciled to the records of commitments and all the necessary data has been put on that system. Management statistics for the Loans area used and are supplemented by statistics compiled manually.

- 9b. Longer term consideration needs to be given to an overall plan for Housing Branch ADP needs. Care should be exercised in the tasks for which automated systems are to be used.

An overall plan for Housing Branch ADP needs has been developed and in the preparation of that plan care has been taken to ensure a judicious use of automation. A new Clerk Class 6 position has been created to co-ordinate ADP matters. Recruitment for this position is underway.

10. Assess the use of forms guidelines and checklists in other loans institutions to identify any additional streamlining possible.

Forms, guidelines and checklists have been identified and reviewed internally. Many have been simplified. Further consideration of changes will be undertaken as part of the implementation process identified in the following recommendation.

11. Introduce a self help approach to reviewing and documenting basic procedures, staff aids and client information. Provide assistance from management consultancy section through workshops on procedure examination and documentation.

This recommendation is accepted. While staff generally have accepted the self help concept a more formalised structure has been introduced to ensure the correct attitudinal situation continues. The structure currently in place involves a committee chaired by the Client Relations Officer with rotating membership from the three sections. The committee will progressively review all policies, procedures and public information to ensure internal consistency and full understanding of the policy. The committee documents its activities and senior branch management oversees its activities.

12. Examine general issues requiring management clarification:

a. Assessment of Income

Under continuous review. It was decided that irregular overtime would be disregarded in income assessment but it was important to differentiate between this and any penalty rates and allowances e.g. shift allowance as a condition of employment. These latter would still be included. Assessable income would be that as at time of interview unless later requested by applicant that changed income be taken into account or where staff consider that a reassessment is necessary. In these cases the individual file should be referred to the Director Loans and Finance of Commissioner. Stage 1/Stage 2 approval letters have been amended to emphasize this fact.

b. Assessment of Commitments

It was decided the current policy will not be changed. However interviewing staff, while not debt counselors, have been instructed to note clients' ability to service the loan and maintain a basic standard of living and if necessary refer the client for further counselling.

c. Handling of Gifts

Current procedures will be retained but greater care will be taken to ensure the declarations fully identify the gift.

d. Avoidance of leading clients

The concerns of the review team were noted. As the greater problem relates to misleading statutory declarations and the difficulty of prosecution, the department is examining the feasibility of amending the ordinance and/or gazetted scheme(s) to introduce penalties for providing false or misleading information. The re-drafted gazetted scheme and application form have been amended to improve this aspect.

e. Using External Information Sources

Claims where the interviewing officer is suspicious will continue to be strenuously investigated. When appropriate the Investigation Unit will also be involved. The revised application form provides for an authority to contact third parties.

f. Assessment of deposit as a percentage of purchase price on actual cost

It was decided that applicants who have insufficient deposit at interview be given one month to find or save the deposit before stage 1 approval is granted. There will be no checking of assets at stage 2 approval, but clients will be required to undertake to advise the Commissioner of changes in financial circumstances.

g. Assessment of FHUS as an asset

The Government has directed that clients be required to select the FHUS option which provides greatest monthly instalments and thus minimal lump sum payments. Lump sums are regarded as assets.

13. Make greater use of working checklists to overcome detailed forms and ensure closer direct control by supervisors of casework.

This has largely been completed as part of the implementation of recommendation 5.

Structure and Staffing

14. Split the mortgages and Finance section into separate Loans and Finance sections reporting direct to the Commissioner for Housing.

This proposal was considered at some length but the department concluded that the large casework load and the level of detailed knowledge required by the occupant of the position argued against abolishing the position. However it was noted that the result of the Working Party exercise to align the ACT more closely with the CSHA would result in the reassessment of functions, and the role of the Director should be considered again in that context.

a. Combine loans and settlements groups into joint teams with public contact being primarily at the Clerk Class 4 level

The re-organisation has been implemented. There are 3 cells in the Loans area. Each of these cells are responsible for interviewing the applicant, assessing claims, settling the loan, interest review and sub-let action. Each cell is to comprise: 1 x Clerk 4; 2 x Clerk 2/3; and 1 x Clerical Assistant 4.

b. re-organise Finance section based on structure proposed by section management and staff within existing classifications and establishment.

The Finance section has been restructured as suggested by the staff.

15. The Project Officer (administration) introduce a more rational approach to staff movement throughout the Branch for both development and management purposes; and
16. Develop staff skills in management and supervision to provide competent staff to take on higher level activities. Gradually broaden jobs within the Loans Section to improve staff skills, job satisfaction and concern for clients.

These were already objectives of branch management, and staff have been rotated through positions to the extent permissible under Public Service board rules relating to temporary transfers. The developmental work identified in recommendation 18 will be of significance in this area in the longer term. However the branch and section heads have now introduced a further step in staff development in that the desirability of transfer into a nominally vacant position will be assessed prior to any action to advertise the vacancy.

17. Supervisors give more adequate attention to the use and maintenance of procedure statements through
 - a. active involvement of staff to make minor changes
 - b. ensuring new staff have access to procedure statements
 - c. Management Consultancy conducting workshops to advise staff on methods of reviewing and charting procedures

This has effectively been completed. Longer term action is identified in recommendation 18c.

18. Provide increased support to public contact staff.
 - a. supervisors and middle management regularly attend the counter to gain an understanding of problems and the quality of service

Accepted.

- b. arrange regular discussions on customer problems

Accepted.

- c. commencing an in house training program covering client relations, phone techniques, interview techniques, duty of care, branch operations and procedures, client counselling and customer service

The views of staff have been obtained of the areas where they feel they need training and assistance. A program is under development that includes formal training modules,

Seminars or shared experiences, meetings with other interested groups and self help modules supported as required. It is planned to introduce this program as a long term matter that will evolve over time, rather than as a one-off project. Some formal and in house training sessions have already been conducted.

Other matters

19. Improve client relations by:

- a. re-assessing interview facilities for loan applicants

Interview rooms have been extended.

- b. paying more attention to explanatory information for clients - simple check lists at interview or when applications are lodged may be more useful than formal letters.

These matters are now dealt with by Loans and Finance Section.

- c. introduce a brief 'handout' on requirements and responsibilities for progress payments

has been adequately addressed in the general information brochure which is provided to applicants.

- d. review letters to clients in conjunction with the Client Liaison Officer and interested community groups to ensure they can be understood by clients.

This is being done as part of exercise identified in recommendation 11.

- e. streamline methods for processing refunds in conjunction with Finance and Supply Branch

Processing refunds is no longer a major problem, although delays will continue to arise from time to time because of staff shortages. A better solution identified in 18a is to modify the fees schedule to minimise the need for refunds.

20. Provide a summary of policy projects to Loans and Finance staff to consider the need to provide practical input, consider ongoing operations and ensure staff are aware of areas of change being considered.

Completed. This will be circulated on an ongoing basis.

21. Minimise fraud potential by

a. staff identifying where an applicant is known to them

Instructions have been issued on this matter.

b. eliminating the use of standard statutory declarations

Recommendation 12(d) identifies the problem with, and solution to, statutory declarations. It is however important to retain standard forms to ensure all questions are addressed fully and properly and accordingly this procedure will continue.

c. investigations unit initially concentrate on identifying main areas of risk

Accepted. See also Recommendation 8.

22. Closer attention be given to co-ordinating the Department's review mechanisms to ensure total systems problems are identified.

Recommendation accepted.

23. A person be seconded full time to implement changes recommended.

Completed. The officer has returned to his normal duties but has continued to attend Steering Committee meetings. The officer returned to Housing Branch prior to interviews recommencing to ensure systems were operating as intended.

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS
ENQUIRY INTO THE AUDITOR-GENERAL'S REPORT - APRIL 1986

SUBMISSION BY THE DEPARTMENT OF VETERANS' AFFAIRS
ON 23.1 NATIONAL COMPUTER CENTRE

The Department operates a centralised National Computer Centre (NCC) to support computer systems in State Branch offices and hospital institutions via an Australia-wide terminal network.

2. Since 1974 the NCC has been located in Grace Building, the headquarters of the N.S.W. Branch Office. Accommodation in the building has been the cause of considerable industrial unrest, which has led to the Department's proposal to relocate the N.S.W. Branch Office and the NCC to new premises in 1985/86.

3. Prior to the audit the Department had become concerned with aspects of its data processing operations, and had initiated action in 3 relevant areas:

- (1) a consultancy had been commissioned to review the Department's current and future computer environment;
- (2) funds had been allocated in 1984/85 to improve the security of the NCC; and
- (3) a reorganisation of senior positions within the NCC had commenced.

4. The consultant's report has been received by the Department and action has commenced to upgrade and relocate the Department's central computer facility. The security upgrade planned for 1984/85 has commenced and the reorganisation of NCC management staff is complete. Interviews have been held and appointments are currently being made to newly created positions.

5. The Auditor-General addressed his remarks under three headings:

Physical Security

5.1 The Department is aware of the difficulty in meeting current standards of computer accommodation and security in a building of the age and design of Grace Building. Consequently it initiated the proposal to relocate. Funds were allocated in 1984/85, and included in 1985/86 estimates, to improve existing security facilities pending relocation of the NCC to more secure accommodation.

Operations

5.2 The advice of the Auditor-General has been confirmed in the consultancy report. Action has been taken on all issues raised by the Auditor-General.

Computer Software

5.3 The advice of the Auditor-General has been accepted and remedial action has been taken on all matters raised.

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS ENQUIRY INTO THE REPORT OF THE AUDITOR-GENERAL - APRIL 1985

SUBMISSION BY THE DEPARTMENT OF VETERANS' AFFAIRS ON 23.2 PENSION OVERPAYMENTS AND OTHER DEBTORS

POLICY AND OBJECTIVES

Insofar as pension overpayments and other debtors are concerned, the Department's objectives are to minimise their occurrence to the extent that this can be achieved in a cost effective way, to record known overpayments reliably and to deal with them with efficiency and fairness.

2. When designing systems and setting down procedures, care is taken to guard against overpayments. Nevertheless they can occur and the Department's procedures for recovery of pension overpayments by lump sum or by deduction from pension instalments are aimed at providing a balance between the need to recover and the need to avoid unnecessary hardship. These include provisions for waiver or write off.

Dual Payments of Pension

3. The Department of Social Security (DSS) has provided a report on the outcome of the computer matching exercise to detect dual payments of all DSS pensions and unemployment, sickness and special benefits, with this Department's disability and service pensions. Only 7 overpayments totalling \$35,854 were detected. This result contrasts with the 119 overpayments totalling \$544,434 detected in the 1982 matching exercise.

Debt recovery procedures - Central Office role

4. The Central Office role in monitoring standards of debtor control in Branch Offices was the subject of comments by the Auditor-General in paragraph 25.4 of his September 1984 Report. It was also the subject of a submission to the Joint Parliamentary Committee of Public Accounts lodged on 10 December 1984.

5. Briefly, the Department has agreed that the Central Office role should be expanded. Despite limited staff resources, a Pension Control Group will be established early in the new financial year.

6. Action has commenced to reduce the backlog of Branch Office waiver and write off submissions. A significant reduction in the number on hand will be achieved this financial year and the backlog is expected to be eliminated before the end of September 1985.

Reconciliation of sundry debtors ledger

7. The reconciliation referred to in the Report is between the amount shown in the sundry debtors ledger as recovered and the amount shown as recovered in the Finance Ledger against revenue items. The 1985-86 Ledger has been redesigned to facilitate the reconciliation.

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS ENQUIRY
INTO THE REPORT OF THE AUDITOR-GENERAL - APRIL 1985

Supplementary Submission by the Department of Veterans' Affairs
on Paragraph 23.2: Pension Overpayments and Other Debtors

POLICY AND OBJECTIVES

Insofar as pension overpayments and other debtors are concerned, the Department's objectives are to minimise their occurrence to the extent that this can be achieved in a cost effective way, to record known overpayments reliably and to deal with them with efficiency and fairness.

2. The Repatriation legislation was amended in November 1980 to strengthen the recovery provisions and provide the Repatriation Commission with authority to waive and write off debts. (These powers were previously delegated by the Minister for Finance under S70 C of the Audit Act 1901).

3. When designing systems and setting down procedures, care is taken to guard against overpayments. Nevertheless, they can occur and the Department's procedures for recovery of pension overpayments by lump sum or by deduction from pension instalments are aimed at providing a balance between the need to recover and the need to avoid unnecessary hardship. They include provisions for waiver or write off.

The Auditor-General's Report

4. Paragraph 23.2 of the Auditor-General's Report raised three items of concern:

- (i) Dual payments of pensions;
- (ii) Debt recovery procedures - Central Office role;
- (iii) Reconciliation of sundry debtors ledger.

5. Details of remedial action taken by this Department are provided below as a follow up to those measures outlined in our earlier submission:

(i) Dual Payments of Pension

6. As outlined in the Auditor-General's Report, the matching exercise was conducted to detect dual payments of certain Veterans' Affairs and Social Security payments. The computer matching exercise carried out by the Department of Social Security (DSS) was completed in 1984 and detected only 7 cases (totalling \$35,834) of dual payment of all DSS pensions and unemployment, sickness and special benefits with this Department's disability and service pensions. As a result, DSS recommended that the exercise did not need to be run on an annual basis (as previously recommended) and future projects should be undertaken when resources and priorities permitted.

7. In view of the result obtained in the matching exercise, and given that there is routine checking on a case by case basis where there is a possibility of a dual payment, the Department of Veterans' Affairs supports the DSS recommendation.

(ii) Debt Recovery Procedures - Central Office Role

8. The Central Office role in monitoring standards of debtor control in Branch Offices was the subject of comments by the Auditor-General in paragraph 25.4 of his September 1984 report. It was also the subject of submission to the Joint Parliamentary Committee of Public Accounts lodged on 10 December 1984 and 19 June 1985. There has been considerable progress by the Department since those submissions were lodged.

9. As foreshadowed in the Department's June 1985 submission, a "Pension Control Group" (now known as Finance Control Section) was established early in 1985/86. The Section has assumed the functions of processing Branch Office waiver and write off submissions and the backlog which had accumulated has been virtually eliminated.

10. A review of all aspects of pension overpayments procedures has been started. This review is addressing the causes of overpayment, possible corrective measures, revision of procedures and General Orders and recovery, write-off or waiver of debts.

11. A review of other debt recovery procedures has also been carried out recently and recommendations on proposed changes will shortly be submitted to the Repatriation Commission.

12. It is believed that the actions already taken or in train redress the deficiencies noted by the Auditor-General.

(iii) Reconciliation of Sundry Debtors Ledger

13. As indicated in our submission of 19 June 1985, the ledger for the 1985-86 financial year was re-designed to facilitate the reconciliation between our sundry debtors ledger and the Department of Finance ledger.

JOINT COMMITTEE OF PUBLIC ACCOUNTS
INQUIRY INTO THE AUDITOR-GENERAL'S REPORT - APRIL 1985
SUBMISSION BY AUSSAT PTY. LTD.

Statement of Policy and Objectives

1. AUSSAT Pty. Ltd. is the owner and operator of the Australian national satellite system. The Company is owned jointly by the Commonwealth of Australia (75% shareholding) and the Australian Telecommunications Commission (25% shareholding).
2. AUSSAT was incorporated under the Companies Act 1981 in the A.C.T. and is regulated by the Satellite Communications Act 1984 which directs the Company to carry on its business in accordance with sound commercial principles. AUSSAT is managed by a Board of thirteen Directors appointed by the Commonwealth. The Chief Executive and General Manager is Mr W. G. Gosewinckel.
3. The Company's operations are funded by a mixture of equity capital and loans. The authorised capital is A\$100M consisting of 100M one dollar shares. Seventy five million shares have been issued each paid to 96 cents, realising A\$72M in paid up capital. Interim loan facilities totalling some A\$430M are being provided by two banking syndicates lead by the Commonwealth Bank of Australia and Manufacturer's Hanover Limited respectively. The Company is currently replacing these interim facilities with longer term financing arrangements to be lead by the Commonwealth Bank of Australia. The raising of the current interim loans was approved by the Treasurer in accordance with the requirements of AUSSAT's Memorandum of Association.

Auditor General's Report - April 1985

4. In his report of April 1985 the Auditor-General commented that the Company had overdrawings (overnight accommodation) on several occasions to a maximum level of A\$503,944 and claimed that the Treasurer's approval of the overdrawings had not been obtained. This matter was raised by the Auditor General in December 1984 with both the Company and the Minister for Communications.
5. AUSSAT responded to the Auditor General and the Minister for Communications in the following terms:

"The Company takes the view that there are only borrowings in the event that there is a net indebtedness to the Bank after taking into account all the day to day transactions between the Bank and the Company. On this basis, it should be noted that the overdraw of A\$503,944 was more than offset by deposits at call with the Bank totalling A\$7.1M. In other words, in total, AUSSAT's account with the Bank was well in credit and this same situation applied on other occasions."

6. In addition, the overnight accommodation in question was with the Commonwealth Bank of Australia and AUSSAT advised the Auditor General and the Minister for Communications that the Company believed that it already had the required Ministerial approval for such accommodation by virtue of the Treasurer's approval for the temporary borrowing facility with the Commonwealth Bank totalling A\$175M, which had (and has) not been fully drawn down.
7. As a general statement of principle, the Company adopts accepted commercial practice by using overnight accommodation facilities on occasion to avoid calling in beneficial short term investments prior to maturity and as a margin to be used in taking advantage of the time it takes for cheques to be presented. Nevertheless, as part of the establishment of long term finance for the satellite program, the Treasurer's approval is being sought for an overnight accommodation facility of A\$10M. This will eliminate any further concern on this matter from the Auditor General.

Thursday 13 June 1985

JOINT COMMITTEE OF PUBLIC ACCOUNTS

Inquiry into the Auditor General's Report of April 1985.

Submission by Trans Australia Airlines

1. Chapter 37 of the Report relates to aspects of Trans Australia Airlines activities, and the Committee has requested a detailed submission on those matters.

These are dealt with in the order used in the report.

2. NON-COMPLIANCE WITH THE THEN SUB-SECTION 21 (3) OF THE ACT.

The particular sub-section fell into the disuse both from the TAA side and in the Department of Administrative Services. As stated in the Auditor's report an amendment to the Act has now removed the requirement. This indicated a recognition that it had ceased to be appropriate.

3. INTEREST ON LOANS FOR AIRCRAFT PURCHASERS

The policy of capitalising as part of the asset value of aircraft, interest on loans raised specifically for the financing of those aircraft, was accepted by successive Auditors-General from its first application in 1958/59, until it became the subject of audit qualifications in 1981/82 and 1982/83.

Effective 1st July 1983, accounting policy in this area was changed to the more commonly accepted method of expensing the relevant interest as it accrues, and the new policy is accepted by the Auditor.

4. FREIGHT REVENUE

Since this involves commercially sensitive material it has been relegated to an attachment, which we ask be treated as strictly confidential.

The TAA controls and practices are normal to this particular area of business activity, and similar to other domestic air cargo operations in Australia and probably also to most such operations in other countries.

5. SUBSIDIARY COMPANIES

As indicated in the last paragraphs of chapter 37, the matters raised in respect of the audits of the accounts and records of TAA's subsidiary companies and the trust have been responded to in letters dated the 27th December 1984 from the secretary of the relevant companies and the trust.

It is understood that all the matters raised have been satisfactorily resolved with the exception of procedures documentation in respect of a number of functions. This aspect has been delayed to some degree due to the pending implementation of some computerised systems and will be attended to as soon as possible. However it is pointed out that the existence of procedural documentation will not enhance the quality of internal control which is considered satisfactory.

17 June 1985

JOINT COMMITTEE OF PUBLIC ACCOUNTS
Inquiry into the Auditor-General's Report, April 1985
Submission by the Australian National Gallery

1. The Australian National Gallery was established by the National Gallery Act 1975. Its principal functions are to develop and maintain a national collection of works of art having in view the most advantageous use of the collection in the national interest and to exhibit, or make available for exhibition by others, works of art from the national collection or works of art that are otherwise in the possession of the Gallery.
2. The financial statements for the year ended 30 June 1984 were submitted to the Minister on 20 December 1984. The Gallery's Annual Report was tabled in Parliament on 28 March 1985. This was within the time limit specified in legislation.
3. Following are the responses to the matters raised in the Auditor-General's report.

Accounting and control procedures

4. The weaknesses in bookshop operations mentioned in previous audit reports have been rectified. All necessary controls are now in operation and are working in a satisfactory manner. The Gallery has introduced passwords on the Finance and Works of Art computer systems. The Gallery will shortly replace its computer. The new computer system will incorporate the highest level of security available. The installation of the new hardware and software for Accounting records and Works of Art systems will be completed by 30 June 1986.
5. A stocktake of all library catalogued material was commenced in the second half of 1982 and completed for report date in early 1984. The final loss rate was .08% per annum. Council has agreed that future stocktakes be performed progressively. The next stocktake of library holdings will be undertaken during 1985/86 and will cover approximately 10% of the collection. The Gallery does not have the resources to perform a complete stocktake in the one year.
6. The weaknesses in salaries and personnel administration have been rectified by additional controls introduced during 1984. The problem of staff failing to give notice on termination of employment is not easily solveable.

7. Purchase procedures approved by Council and incorporated in ANG administrative guide are now being observed. Orders are being raised before purchase of goods, and are signed by officers with appropriate delegations. Limits set by Council are being observed for obtaining written quotes and calling tenders.

National Collection-acquisition of assets prior to Gallery's creation

8. The identification and accessioning of all works of art in the Gallery's possession has been completed. The compilation of the Location record for all works of art acquired by the Commonwealth prior to the establishment of the Gallery is continuing. It is expected this will be completed by the end of 1985. The performance of a complete stocktake will be dependent on available resources.

Other revenue

9. The control weaknesses in relation to mail order sales, sundry debtors and cash receipts have been fixed as follows. In case of mail order sales, cheques received are now banked promptly, returned items are being registered and formal write-off for damaged goods is now a standard procedure. Sundry debtors are being followed up on a regular basis and accounting records are now adequate. Cash receipts are cleared from cash registers at regular intervals and reasonable limits have been set at which they are cleared. Variations between registers and cash received are being recorded and investigated.

Payments of private expenses

10. All credits cards issued to Gallery officers required to travel have been withdrawn and recovery of personal expenditure has been completed except for \$142.97 which will be repaid by 30 June 1985. The personal expenditure was incurred by only two Gallery officers during overseas trips, which were partly covered by recall to duty.

Entombed Warriors Exhibition

11. An agreement was prepared and exchanged between the International Cultural Corporation of Australia (ICCA) and the Australian National Gallery regarding the operation of the Entombed Warriors Exhibition. Unfortunately due to the pressures of preparing for that exhibition it was not signed. The Gallery did not incur any liabilities not foreshadowed in the exchanged agreement.

12. The agreement between ICCA and the Gallery provided for ICCA to collect admissions and to account daily to the Gallery for attendance numbers and admission revenue. As a government created body, ICCA was considered trustworthy in this regard.
13. The impact of the regulations relating to the admission charge was not fully realised at the time of negotiations with ICCA in relation to the exhibition. The fee of \$4 for entry to the Entombed Warriors Exhibition and the proportion receivable by the Gallery was consistent with the arrangements at each venue for the exhibition throughout Australia. Action has been taken to ensure a similar oversight does not occur again.

Works of Art

14. A system of monthly written reminders to curators has been instituted by the Registration Section to reduce delays between receipt of artwork and submission to Council for prospective acquisition. In addition regular reports are presented to Council which list works in the building not yet dealt with. These procedures have resulted in a significant reduction in delays.
15. In the one instance during 1983-84 where Council approved the acquisition of a clock by J. Olbrich for an upper limit of 11,500 pounds plus two bids, the clock was obtained for 15,000 pounds on the approval of the Director which was subsequently ratified by Council.
16. The environmental monitoring system installed by the Gallery is adequate. The computer printout is designed to be read by technical staff. The sensors are accurate to greater than 97% and are "state of the art". The computer which controls environmental monitoring has an accuracy rating of greater than 97%, giving a combined sensor/computer accuracy of at least 94%. The environmental monitoring system is supplemented by a full-time environmental monitoring technician who instigates action in cases of complications or breakdowns.
17. The task of the ongoing monitoring of the condition of works of art in the collection is performed by both curatorial and conservation staff. In any one year over 1500 works of art receive detailed inspection in addition to routine conservation checks. The condition of each work of art on exhibition or proposed for exhibition (or loan) is critically assessed during this process.

18. Storage facilities at the Fyshwick store to which the audit report only refers are considered adequate for the works of art being stored there. These items are at minimum risk. The security of the area is also considered adequate following an upgrade of the security equipment which came online to the Gallery at the end of May 1985.

Admission to the Gallery

19. Through poor drafting, the regulations required the Gallery to charge admission to all persons entering the building. This meant that staff, V.I.P.'s, official visitors and patrons wishing to purchase from the Gallery shop and/or use the Gallery restaurant, were to be charged admission for each entry. Clearly this was not the original intention and the regulations have now been amended to overcome this difficulty.

Expenditure of moneys not in accordance with the Act

20. Expenditure on salaries and payments in nature thereof exceeded the amount approved by the Minister by \$68,565. The total expenditure for the Gallery remained within the approved amount. The overexpenditure related to the June payment to the Department of Finance for superannuation.

14 June 1985

JOINT COMMITTEE OF PUBLIC ACCOUNTS

INQUIRY INTO THE AUDITOR-GENERAL'S REPORT - APRIL 1985

SUBMISSION BY THE AUSTRALIAN NATIONAL UNIVERSITY

1. INTRODUCTION

1.1 The Auditor-General's 1985 Report referred to matters arising from the audit of the accounts and records of financial transactions of the University for the year ended 31 December 1983. In addition, reference was also made to paragraph 40 of the Auditor-General's March 1984 Report on the internal audit function of the University and on its powers to borrow.

1.2 The present Vice-Chancellor, Professor P.H. Kamel, took office on 6 July 1982. Within his first year of office he realised that the University's financial administration could be improved in some respects and took steps to strengthen it. He initiated a revision of the terms of reference of the Council's Finance Committee in May 1983. He sought the approval of the Council in July 1983 to strengthen the University's senior financial administration by the appointment of a Treasurer and later that year announced the creation of a Division of Finance and Accounting to replace the former Bursar's Division. The Treasurer took office in January 1984 and the Head, Finance and Accounting, in March 1984. These officers in turn began to give attention to the reorganisation of the University's financial administration and accounting system. The Australian Audit Office commenced their examination of the University's accounts in May 1984, and a number of matters were referred to the University for resolution over the next six months. The first concerned the 1983 financial statements and supporting working papers. The second involved legal matters. The third related to the interim audit findings on accounting and control matters. The fourth arose from the application of the now mandatory provisions of the Guidelines on the Form and Standard of Financial Statements of Commonwealth Undertakings (Finance Guidelines) issued by the Minister for Finance in May 1983. Discussions with Audit Office staff were frequent in the second half of 1984 and early 1985 until the 1983 financial statements were finally completed on 25 March 1985.

1.3 The work with the Australian Audit Office on the 1983 financial statements and the requirement for compliance with the provisions of the Finance Guidelines clearly indicated the need for developing an improved format for the 1984 Annual Financial Statements. As a new format required the approval of the Minister for Finance, a number of discussions involving senior officers from the Department of Finance, the Audit Office and the University were held from August 1984 to May 1985. The Minister approved the new 1984 format on 31 May.

1.4 The University's financial administration is also being strengthened by a reorganisation of the Division of Finance and Accounting and by the appointment of additional staff. The new structure is now being implemented. Several posts in the accounting and systems development fields were advertised on 1 June. The requirement to maintain continuity of accounting operations will mean that the movement of personnel to the final organisational structure will be progressive over several months. The objective is to have the revised structure and administrative arrangements operational by late 1985.

1.5 The above resume of events acknowledges that, for a number of years:

- the University's financial administration has not been staffed by sufficient persons with the calibre and professional experience needed in the accounting, audit, finance, legal and system fields;
- the University's internal audit function has not been performing effectively;
- the management information systems have not been upgraded in line with technology and management needs;
- the basic design of the accounting system (which dates back to the 1960's) has not been readily adaptable to Finance Guideline requirements and is inadequate for modern accounting needs.

1.6 The University wishes to inform the Committee that the procedural and non-policy matters, particularly those relating to accounting, control and audit are expected to be resolved in substance by the end of 1985. The matters requiring considerable policy determination and subsequent planning will make significant progress in 1985 continuing in 1986 but are unlikely to be fully completed before 1987.

2. INTERNAL AUDIT

2.1 The Auditor-General's April 1985 Report states:

"Although the University has proposed action which, when introduced, should place the internal audit function on a sound footing, it is of concern that, for an extended period, that function has not been performing effectively."

2.2 In 1984 the steps followed by the University were to:

- establish a more formal management and Council oversight of internal audit with the appointment of an Audit Committee comprising two external Council members (being the Chairman of Finance Committee and a member of Finance Committee) together with the Treasurer and Head, Finance and Accounting. The Vice-Chancellor is an ex-officio member.
- determine basic policy and procedure for the carrying out of that oversight by way of an internal audit charter, terms of reference for the Audit Committee and the issue of an internal audit manual containing the principal matters;
- determine that the basic education and experience criteria for internal audit staff would be the possession of relevant tertiary qualifications;

- draw up a tactical (annual) audit plan;
- increase the number of internal audit staff to five;
- develop operational procedures to monitor the performance of audits;
- specify immediate coverage of DP systems development areas regarded as critical by management; and
- develop a strategic audit plan no later than the end of 1985 to be operational from 1986.

2.3 All the above matters have been executed other than the formulation of the strategic audit plan. The Audit Committee has dealt with the above items along with numerous issues raised by the Australian Audit Office since the Audit Committee first met on 10 August 1984.

2.4 The Audit Committee is aware that the professional training of staff and the development of new procedures will be a continuous requirement. The internal audit function in the University has now been placed on a sound footing.

3. COMPUTER ENVIRONMENTAL CONTROLS

3.1 On 19 December 1984 the University advised the Australian Audit Office that, following its recent experience in developing administrative systems and after consideration of the audit findings, it had been decided to establish a Review Committee to be chaired by the Vice-Chancellor. This committee would review the University's administrative systems, including the general policy and organisational structure of administrative computing, and the issues raised by Audit. In addition, the Auditor-General's Office was informed that a University officer had been recently appointed with the principal role of formulating and developing policy with respect to the administrative information systems of the University. The University also advised of action taken or proposed to remedy the particular deficiencies identified by Audit.

3.2 Early in 1985 senior officers of the University gave further consideration to the factors involved in this review. It was realised that the review task would be more time consuming than initially thought and that additional expertise would be required. The University wrote to Professor A.S. Carrington on 22 February asking him "to review the University's administrative computing system and the management structure of our administrative computing". Professor Carrington until recently was Pro Vice-Chancellor of the University of NSW and is an expert in administrative computing systems. The terms of reference for this review are extensive and include the points in the Auditor-General's report on computer environmental controls.

3.3 Professor Carrington commenced his review on 26 March. Since that time he has held numerous discussions with University officers. He has been provided with copies of relevant correspondence between the University and the Australian Audit Office. Other material made available to Professor Carrington includes the Joint Parliamentary Committee of Public Accounts Reports 184 and 211 and the Public Service Board Personnel Management Manual, Volume 4. Professor Carrington is expected to provide the University with a preliminary report by the end of June. The University expects to act on his recommendations promptly.

3.4 Since April 1984 the University has suffered a severe shortage of skilled and experienced data processing staff with a knowledge of University systems requirements. Every effort has been made to recruit new staff but the market is extremely tight for good personnel. As well as replacing staff who have left, the University has made a senior appointment to a post with the principal role of formulating and developing policy with respect to the administrative information systems of the University; and three additional posts in administrative computing were recently advertised. New systems development is proceeding quickly and systems currently being implemented include the general ledger, accounts payable, stores and purchasing, and student records systems; and others such as a new payroll system are almost complete. However there is still more to be done.

3.5 The University believes that these steps will enable it to make significant progress in remedying the particular deficiencies identified by the Australian Audit Office. The University's senior management acknowledges the need for urgent action to make the new administrative systems effective.

4. ACCOUNTING AND CONTROL DEFICIENCIES

4.1 The Australian Audit Office summarised the results of each audit covered in a letter dated 5 November and headed "Accounts and Records of the University - 1983 Interim Audit". The attachment to the letter contained the detailed audit findings. The University's response (17 December 1984) addressed the detailed findings and not the summarised point listed in the covering letter. The reply gave the details of the remedial action already taken in 1984 or proposed. The University acknowledged that the accounting and internal control systems developed in earlier years were no longer adequate, and that there were some instances where a gradual deterioration had taken place.

4.2 On 18 April 1985 at the Senate Estimates Committee Hearing, Senator Peter Baune referred to the University's letter dated 19 February 1985 to the Department of Education which said that the Auditor-General's Office encountered inadequacies in the University's accounting and internal control systems. In his response to the questions which followed, the Head, Finance and Accounting, Mr. H.A. Jones, recounted the steps commenced by the Vice-Chancellor in late 1983 to strengthen the University's senior financial administration by the appointment of a Treasurer and a Head of a Division of Finance and Accounting.

4.3 Mr. Jones told the Senate Estimates Committee that a restructure within the new Division of Finance and Accounting was proposed in order to take every step to overcome these sorts of problems in the future. As stated above, this restructure is now being implemented. The appointment of professional accounting staff will enable accounting and control matters to be subjected to rigorous management oversight and review in the later months of 1985 and in future years.

4.4 At the hearing Senator Baune asked: "What are the possible consequences or implications of an inadequate accounting and internal control system?" Mr. Jones replied: "All sorts of things could flow from it. Fortunately, to the best of our knowledge, nothing of any consequence has happened or resulted from it".

4.5 It is further pointed out that the University's expenditure in 1983 and 1984 was all paid through either the long established payroll or the accounts payable systems. Both systems have been the subject of extensive audit work by the Audit Office and by the University's own professional auditors, Ernst & Whinney. There have not been any suggestions of irregular practices occurring in these systems by the auditors.

4.6 University's comments on specific matters stated in the Report are set out below.

5. INVESTMENTS

5.1 The Report said:

"An audit of the procedures for the recording and control of investments totalling in excess of \$120 million in 1983, disclosed that:

- there was inadequate controls to ensure that all investment income due was received
- there was inadequate segregation of duties in connection with the handling of remittances received and investment ledger were not adequately maintained
- there was no evidence that officers investing funds of the University held a delegation to invest such funds
- there were no approved procedures for the calculation of the distribution of income from pool investments jointly owned by the various University superannuation funds, and
- there were deficiencies in the control over coding and posting of receipts."

5.2 The response is:

The audit observation for 1983 stated that the records maintained did not have readily available references to amounts received and date of receipt, etc. It was acknowledged that the University's practice in 1983 had some limitations from an audit point of view. Since 1983 the University can, for the purpose of the Annual Financial Statements, verify that all income due has been received or is accrued. Records are being developed to enable this verification process to be done monthly. This development will be completed in 1985.

5.3 The 1983 audit observations concerning inadequate segregation of duties related to the lack of a remittance book to record cheques received directly by the investment area and those cheques passed through the hands of staff who were also responsible for the maintenance of ledgers.

5.4 In February 1984 an inwards mail remittance book was commenced and maintained by a staff member who has no responsibility for ledger maintenance. Conversely, staff members who have ledger maintenance responsibilities do not handle incoming cheques. The mail remittance book and cheques are delivered daily to the cashier for official receipting and banking.

5.5 The management of the University's investments is vested by Council in the Vice-Chancellor and the Bursar (now the Treasurer). These officers, with specialised external advice from the several committees, approve property, equity and fixed interest securities, purchases and sales. The audit observation raised the issue of officers of the investment area committing the University to the placement and withdrawal of funds in the short term money market, bank accepted bills, and fixed interest securities. In these markets a transaction is usually initiated over the telephone. The documentation for the transaction is forwarded the same day or a few days later. The University's action to commit funds in these markets is within the guidelines set by the Council, the Investment Advisory Committee and the senior officers named above. The subsequent payment is approved by officers authorised to exercise the function of payment of accounts. The University's management has the issue raised by audit under active consideration. The University is awaiting legal advice.

5.6 The procedures for the calculation of the distribution of income from pool investment will be set down in an approved practice statement in 1985.

5.7 The audit recommendation regarding the control over coding and posting of receipts was that the University's contributions to the various funds be reconciled to the Reserve income accounts of the funds at year end. The University's officers are uncertain that the intent of the audit concern can be fulfilled by the implementation of this recommendation. The matter is being addressed in the preparation of the 1984 financial statements.

6. RESTRICTED PURPOSE FUNDS

6.1 The Report states:

An audit of the systems and procedures in operation to record and control moneys accounted for by the University as Restricted Purpose Funds disclosed that:

- there were no definitive guidelines to assist University officers in determining whether or not certain moneys received should be accounted for as Restricted Purpose Funds

...7/

- there were no written procedures to cover the day-to-day management of these funds

- incorrect accounting for certain assets purchased from grant moneys had resulted in assets not owned by the University being brought into the University's financial statements, and

- there were instances of inadequate documentation to support journal entries and delays were noted in the preparation of periodic reports to grantors.

6.2 Moneys received by the University other than as part of, or associated with, its general recurrent grant and Ancillary Activities are accounted for as Special Purpose or as Endowment Trust Funds. The particular issue raised by the Auditor-General related to whether or not the moneys in three funds were "Trust Moneys, Agency Moneys or moneys given subject to condition". The University sought legal opinion and the moneys have now been classified as restricted funds to conform with the advice obtained. The Auditor-General accepts the revised classifications. The Accounting Manual will be amended to provide guidelines for staff.

6.3 Audit observed that, while the section of the University's Accounting Manual which relates to the management of Special Purpose Funds contained instructions concerning the day-to-day operation of this facet of the University's activities, the detail was not sufficient. This work will be completed in 1986.

6.4 The audit comment regarding capital items purchased from grant moneys is in the nature of a general observation of principle. No specific instances were mentioned. The University advised the Australian Audit Office that this issue would be examined to ensure that the treatment adopted was consistent with the Finance Guidelines Item 6. In doing so the University would apply the criteria set out in Item 12 of the Guidelines.

6.5 A conscious effort is being made by accounting and authorising officers to ensure that journal entry requests are supported by appropriate documentation.

6.6 Regarding the delays noted in the preparation of periodic reports due at 31 December 1983 the University acknowledged that there were delays in the issue of financial statements to grantors. Efforts are being made to overcome the delays. This work will continue into 1986.

7. BANKING OPERATIONS

7.1 The Report said:

"A review of the University's banking operations identified deficiencies in bank reconciliation procedures, instances of inadequate security over unbanked collections and inconsistencies in accounting for foreign exchange variations.

...8/

7.2 The audit also identified an apparent under-utilisation of funds held in 2 overseas bank accounts which had originally been opened with substantial balances as an alternative to purchasing bank drafts for the payment of overseas accounts. Audit indicated that it appeared a not inconsiderable amount of interest had been foregone by allowing the funds to remain idle for a lengthy period and sought advice from the University as to whether a planned review of the use of these accounts had been undertaken and whether the accounts would continue to be used."

7.3 The audit comment regarding deficiencies in bank reconciliation procedures related to the lack of evidence of detailed review by a supervisor for the reconciliation regularly prepared for one bank account and to the absence of reconciliations for several months and that the final reconciliation for this latter account was prepared by a staff member who was not independent of the area operating this account. The University acknowledged that the first set of reconciliation statements referred to did not explicitly record the scrutinizing made by the supervisor. For the second account cited during 1983 the area responsible for the reconciliation was subjected to staff changes at various levels of responsibility. The new staff were not completely familiar with this role which was outside the normal operation of that section. However, the 31 December 1983 reconciliation was independently reviewed. The practice of independent reconciliation was continued in 1984.

7.4 The instance of inadequate security over unbanked collections arose from a review of four of the University's twenty-five receipt collection points. One point was identified as having cash inadequately safeguarded. The staff concerned have been instructed regarding the responsibilities set out in the Accounting Manual.

7.5 The University acknowledges the inconsistencies in its accounting for foreign exchange variations in 1983 and will adopt a consistent treatment as well as include this item in the Statement of Activity in 1984 and future years.

7.6 The Report states that the two overseas bank accounts in London and New York had been opened as an alternative to purchasing bank drafts for the payment of overseas accounts. It was also intended to deposit grants from US donors in the New York account to cover expenditure on equipment purchased in the United States. Staff changes in the section with responsibility for this matter meant that the concept was not developed further. The new Accounts Payable System is intended to provide the possibility of integrating the use of these imprest bank accounts with the General Bank Account and the General Ledger. The adoption of this approach will depend on a cost effectiveness review. The review will take account of the movement of international currencies against the floating Australian dollar, the University's receipts of overseas grants and its payments to overseas suppliers. The balances in the accounts have been reduced to levels which still enable their use for emergency payments. The review will be conducted when the necessary skilled staff resources can be made available.

8. DEBTORS

8.1 The Report said:

"An examination of the systems in operation to account for and control the University's debtors disclosed a number of unsatisfactory features. These include:

- a general lack of procedures manuals or detailed instructions to assist staff in maintaining the systems (except at the ANU Press)
- failure to carry out reconciliations of control accounts with subsidiary records on a timely basis and defective reconciliation procedures
- inadequate controls to ensure the systematic identification of missing computer input data
- no formal credit control procedures (except for the ANU Press), and
- debt recovery and credit approval functions were not co-ordinated between various sections of the University thus providing the opportunity for delinquent debtors in one section to obtain credit in another section."

8.2 The audit comment stated that the Accounting Manual procedures lacked sufficient detail and appeared out of date and enquired about the status of a proposed revision. The University advised that a revised chapter of the Manual based on the existing system had been prepared but would not be issued until the impact of the new Accounts Payable System was assessed. This draft on procedures will be extensively revised as part of the systems development process in 1986.

8.3 The audit observation was that the quality of reconciliation statements was poor, there was inadequate documentation and explanation of the items and no evidence of timely follow-up of outstanding items. The University replied that in 1984 the detail of all reconciliations had been improved. A recent review has shown that further improvement is required. The follow-up of outstanding items is a matter being pursued by the University in 1985.

8.4 The audit observation was that there was no systematic identification of missing input. The reply stated that this matter is being examined. The task is part of the system development being undertaken in 1985.

8.5 The audit observation was that, with the exception of the ANU Press, there was no formal credit control procedure over the establishment of debtors accounts and that the debt recovery and credit approval functions were not co-ordinated between various sections of the University. The University acknowledged the concern in this area. Many of its operations are decentralised. The University recognises that changing conditions require more policy and procedures in this area. This issue is to be addressed in 1986.

8.6 In summary, the Australian Audit Office wrote on 5 November 1984 on its 1983-interim audit findings on accounting and control issues. The University responded on 17 December 1984 stating action had been taken on many items and advising of the proposed action for the remainder. Now that the 1983 statements have been completed and the 1984 format approved, the Australian Audit Office will be given details of the proposed action on the outstanding items. As stated above, the University is progressively implementing a new administrative structure to overcome current accounting and control deficiencies and to avoid problems of this nature arising in the future.

9. BORROWING POWERS

9.1 This matter was first raised in the Auditor-General's March 1984 Report. The University referred the matter to the Attorney-General's Department. The Department has advised the University that it probably has the power to borrow money for the purpose of enabling it to fulfil one or more of the objectives for which it was established.

10. FINANCIAL STATEMENTS

10.1 The account given in the Auditor-General's April 1985 Report is substantially in agreement with the report given by the Treasurer to the Secretary of the Department of Education on 19 February 1985 and to the University's Council on 26 April 1985. Every effort was made to comply with audit findings promptly and to meet the deadlines. Much of the work involved has been difficult, time consuming and exacting. The senior financial administration appointments made in early 1984 of the Treasurer and Head, Finance and Accounting, have been referred to above. For extensive periods extra staff were seconded from other parts of the University to assist. As well, a substantial amount of overtime was worked throughout the year. The problem was exacerbated by a shortage of qualified accounting staff throughout the University. As already indicated, steps are now in train to recruit additional accountants.

10.2 The University had been using a fund-based cash accounting system for many years, and this system is inadequate for the standards of the internal financial controls and financial information which are now required. A full accrual system is currently being implemented in stages. Along with the Finance Guidelines, the adoption of full accrual accounting has necessitated a complete review of the University's accounting system. For 1985 a new chart of accounts has been developed for the transactions, and for the assets and liabilities, of the University which provides the information required by the Finance Guidelines. The areas of financial activity have been redefined, particularly for the Restricted Funds, Superannuation Funds and Trust accounts, and this has resulted in some major shifts of funds from one area to another, with consequent movements of responsibility among staff for their management, changes in the bank accounts held, and changes in the ledgers where the records are kept. The format of 1984 financial statements has been changed substantially to incorporate the requirements of the Finance Guidelines. The new format was approved by the Minister of Finance on 31 May 1985.

10.3 Legal advice had to be obtained from the University's solicitors and from the Attorney-General's Department on the University's borrowing powers and on the status of its various superannuation and trust funds. This advice took some time to obtain, and it was incorporated in the Notes to the 1983 statements.

10.4 The extensive time taken to complete the 1983 financial statements to meet audit requirements has delayed the preparation of the 1984 annual financial statements. Some of the matters raised in the audit review and other considerations prompted a major revision to the format. Extensive discussions with the Australian Audit Office and the Department of Finance were needed to ensure that the Guideline provisions and the University's undertakings made at the conclusion of the 1983 financial statements were incorporated in the 1984 format.

11. CONCLUSION

11.1 In late 1982 the senior management of the University realised that the University's financial administration could be improved. Action commenced in 1983 to strengthen the senior level of financial administration. The various audit findings of the Auditor-General's Office has meant that the senior management is more informed of the state of affairs.

11.2 Resources have been marshalled to meet needs in accounting, systems design and data processing, and internal audit. There is recognition that further resources may have to be committed to overcome past neglect until a satisfactory level of service and performance can be maintained.

11.3 A most significant factor in the reorganisation has been that the attention of senior management has been directed to matters raised. The terms of reference of the Council's Finance Committee have been strengthened. An Audit Committee has been formed, and several senior appointments have been made. A review of administrative computing is almost complete. Senior management is committed to a major upgrade and reorganisation and enhanced control of administrative computing.

11.4 In short, the Auditor-General's Report of April 1985, and earlier ones, highlighted areas which are receiving management attention. Significant progress has been made and will continue throughout 1985 and beyond.

JOINT COMMITTEE OF PUBLIC ACCOUNTS
INQUIRY INTO THE AUDITOR-GENERAL'S REPORT - APRIL 1985
Submission by the Australian Shipping Commission

1. EROSION OF CAPITAL

a. Retrospective Adjustment relative to change in accounting treatment for assets under lease - \$27.8m.

1.1 The Commission, having regard to the principles as set out in AAS17 has with effect from 1st July, 1983 adopted the method for accounting for leases as set out in AAS17 "Accounting for Leases" and accordingly, the cost attributable to assets subject to finance leases has been capitalised in the balance sheet under the heading "Fixed assets under lease".

1.2 The component of future lease payments deemed to be principal outstanding has been taken up in the balance sheet as lease liabilities and dissected between Current and Non current liabilities.

1.3 The net effect of the adoption of the standard on the 1984 Profit and Loss account is to increase the Commission and Consolidated loss by \$3,872,000.

1.4 We have attached copy of letter dated 15th February 1985, from R. G. Humphry First Assistant Secretary, Financial Management and Accounting Policy Division, referring to the Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings.

1.5 Also find attached copies of page 7, Attachment 3-1 and Attachment 5-1 of those guidelines. Paragraph 29 of the Guidelines requires that Undertakings required by enabling legislation or determination to keep accounts in accordance with commercial practice (see attachment 3-1) shall observe those accounting standards issued jointly by the Australian Society of Accountants and the Institute of Chartered Accountants in Australia (see attachment 5-1). Attachment 3-1 includes Australian Shipping Commission as being an undertaking required to keep accounts in accordance with commercial practice, whilst Attachment 5-1 includes AAS17 Accounting for Leases as being one of the Accounting Standards applicable to undertakings required to keep accounts in accordance with commercial practice.

1.6 The Form of the Financial Statements of the Australian Shipping Commission required the approval of the Minister for Finance. The format of the Statement of Profit and Loss which was approved clearly shows the item "Adjustment for Retrospective Application of change in accounting for Finance Leases". We have attached copies of letter dated 14th June 1984, from D. K. Wallace, Acting First Assistant Secretary, Accounting and Supply Division,

Department of Finance, advising the Minister for Finance's approval of the Form of Financial Statements; copy of the Minister for Finance's Approval together with copies of the Form of Financial Statements.

b. Net decrement resulting from the revaluation of vessels to reduce values to estimated realisable value - \$31.9m.

2.1 Along with the fleets of most other established shipowners in the world, the engines of a substantial proportion of the ANL fleet have become obsolete compared to recently available fuel efficient engines. These engines now in wide use in new tonnage, were developed as a result of the continual increase in the price of bunkers arising from initiatives taken by OPEC in 1973. This obsolescence was a principal factor in the Commission's decision to write down the value of those vessels marked for disposal in 1984/85 to realistic market values.

2.2 Where the decision has been made to continue operating particular vessels past 1984/85, the Commission has taken the view that they should reflect a "going concern" value rather than a market price sale value so that book values have been retained for these vessels. There remain in the fleet therefore a number of vessels whose book values are higher than their current market values. Should future events dictate the sale of these vessels prior to completion of their amortization, then the accounts of the Commission will reflect the difference between their book and market values on disposal.

2.3 Fixed assets, other than vessels placed on the market for sale, are stated at cost. Vessels placed on the market for sale have been stated at estimated realisable values. These values were determined by the Commission after assessment by professional ship brokers, a study of the current market demand and negotiation with prospective buyers.

c. Retrospective adjustment to depreciation and amortisation of vessels resulting from a reassessment of the service life from 20 years to 16 years - \$31.6m.

2.4 In 1977 ANL's original depreciation policy was modified from a 16 year to a 20 year write-off. This 1977 decision was incorrect. The return to the original 16 year write-off acknowledges and corrects that error and is disclosed in note 4.1 of the Financial Statements.

"4.1 ABNORMAL ITEMS"

	<u>Consolidated</u>		<u>The Commission</u>	
	<u>1984</u> \$000	<u>1983</u> \$000	<u>1984</u> \$000	<u>1983</u> \$000
Realised exchange (profit) loss on repayment of foreign currency borrowings	(875)	1,372	(875)	1,372
Unrealised exchange loss amortised during the year	8,040	5,098	8,040	5,098
*Net decrement on revaluation of vessels	31,901	31,901		
**Additional depreciation - vessels	21,867	21,867		
**Additional amortisation -vessels under lease	9,716		9,716	
Provision for loss on loan to PAD Shipping Pty. Ltd.		387		387
	<u>71,036</u>	<u>6,470</u>	<u>71,036</u>	<u>6,470</u>

*Represents amounts written off to reduce values to estimated realisable value.

**The Service life of the Commission's vessels has been reassessed from 20 years to 16 years. In 1983/84 the accumulated depreciation and amortisation of the vessels was adjusted to reflect the extent to which their service potential as at 30 June 1984 had been used, having regard to their reassessed service lives.

d. - Unrealised exchange loss amortised during the year - \$8.0m

3.1 With the exception of foreign currency loans on which foreign currency hedge contracts have been taken out, assets and liabilities held in foreign currencies have been converted at exchange rates ruling at balance date with the resultant unrealised exchange gains or losses being transferred to 'Deferred charges'. In the case of loans the subject of hedge contracts, conversion has been carried out at the relevant contracted rates.

3.2 Other transactions in foreign currencies have been converted at the exchange rates applicable at the date of each transaction.

4.1 Assets and liabilities of Australian National Line (U.K.) Limited and ANL Maritime Services Limited have been converted at the exchange rate ruling at balance date.

4.2 Deferred charges represent exchange fluctuations which are amortised over the period of the respective loans, and minor Terminal construction costs, which are amortised over the period of the respective operating lease.

2. SUPERANNUATION CONTRIBUTION

4.3 With respect to both the level of capital and reserves and the competitive position of ANL the Commission views with concern its alleged unfunded liability to the Commonwealth Superannuation Fund, estimated by the Australian Government Actuary to be \$55 million as at balance date. The Commission's provision for this item stands at \$13.8 million in the balance sheet at 30th June, 1984 and is disclosed in note 14 of the Financial Statements as follows:-

4.4 "Following a report from the Australian Government Actuary in November, 1974, the Commission has made provision for superannuation and retirement funds to meet the estimated liability for periodic pension adjustments and past service benefits. This provision has been adjusted annually for inflation and the number of past employees and is in addition to the regular contributions to Consolidated Revenue which are made in respect of current employees who are contributors to the Commonwealth Superannuation Scheme. An actuarial valuation at 30th June 1983 estimates the deficiency at that date as \$55 million."

4.5 The Commission believes that in order to be commercially competitive, its rate of contribution to the Commonwealth Superannuation Fund ought not to be at a rate greater than that which it contributes in respect of its own superannuation plan. In this circumstance therefore, the Commission will continue to seek alleviation of this alleged unfunded liability consistent with any decisions of Government in respect of Commonwealth commercial instrumentalities.

3. CONTINGENT LIABILITIES AND COMMITMENTS

4.6 In December 1982, the Minister for Industry and Commerce issued three writs out of the Victorian Supreme Court against the Commission alleging breaches of the Customs Act 1901 relating to the importation of a portainer crane and transainer equipment without appropriate importation approval. Defences have been drawn and served, and the actions are awaiting to be dealt with by the Court. In view of the possible penalties that could be imposed on conviction, the Commission has noted the matter as a contingent liability.

12th July 1985

The attachments to this submission have not been included in the report, but are held on Committee files.