

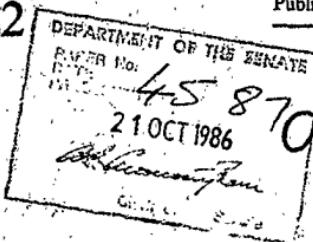


Response to Report 229
Reports of the
Auditor-General—
1981-82 and
September 1982

Report

258

Joint Committee of
Public Accounts



THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

REPORT 258

RESPONSE TO REPORT 229 - REPORTS OF THE AUDITOR-GENERAL
1981-82 AND SEPTEMBER 1982

(DEPARTMENT OF FINANCE MINUTE ON THE COMMITTEE'S 229TH REPORT)

Australian Government Publishing Service
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JOINT COMMITTEE OF PUBLIC ACCOUNTS

FIFTEENTH COMMITTEE

c Commonwealth of Australia 1986

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

DUTIES OF THE COMMITTEE

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

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

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

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

PREFACE

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

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

As they now stand the procedures are:

1. The report of the Committee is tabled in both Houses of the Parliament and motions are moved that the Report be printed as a Parliamentary Paper.
2. The Chairman of the Committee thereafter forwards a copy of the Report to the responsible Minister(s) and to the Minister for Finance with a request that he give the Report his consideration and inform the Chairman of the action taken to deal with the Committee's conclusions.
3. The reply which is in the form of a Department of Finance Minute, is then examined by the Committee and, together with the conclusions of the Report to which it relates, is submitted as soon as possible as a Report to the Parliament.
4. Should the Committee find during its examination of a Department of Finance Minute that certain recommendations are not fully dealt with or are subject to follow up action it may discuss matters further with appropriate officers, or seek additional responses to its recommendations, prior to the submission of the Minute to the Parliament.
5. In reporting a Minute to the Parliament, the Committee, usually provides comments on the responses to its recommendations including the results of any further discussions or responses.
6. When the Committee next examines the Department concerned the Finance Minute may be considered by the Committee.

7. The Department of Finance furnishes the Committee with a half-yearly report on outstanding Minutes, indicating the progress made in dealing with the Committee's comments.

In accordance with the procedures outlined above, this Report documents the Department of Finance Minute which was submitted in response to the Committee's 229th Report.

For and on behalf of the Committee.



Senator G. Georges
Chairman



M J Talberg
Secretary
Joint Parliamentary Committee
of Public Accounts
Parliament House
Canberra
9 October 1986

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CHAPTER 1

INTRODUCTION AND COMMITTEE COMMENT

1.1 The Committee's 229th Report, which examined the Reports of the Auditor-General for 1981-82 and September 1982, was tabled in the Parliament on 21 May 1985. A summary of the report appears in Chapter 2.

1.2 This report contained the results of the Committee's inquiry following audits into matters affecting several Departments. These were the Departments of Communications, Defence, Education and Youth Affairs, Foreign Affairs, Industry and Commerce, Primary Industry, Science and Technology, Social Security, Territories and Local Government, Treasury and Veterans' Affairs.

1.3 Some of the Committee's conclusions and recommendations of Report 229 are included in the Department of Finance Minute, which is printed as Chapter 3. The Department of Finance has not addressed matters concerning the Department of Territories and Local Government, the Department of Science and Technology and the Australian Taxation Office, as the Committee did not require a response from these Departments. Generally the Committee is satisfied with the undertakings offered by Departments in the Department of Finance Minute.

1.4 Eighteen issues were dealt with in this Report. The three most significant were:

- An inactive internal audit function of the Department of Communications.
- The issue of audit fees between the Australian Dairy Corporation and the Australian Audit Office.
- Telephone rental concessions.

1.5 Other items are referred to in Chapter 2.

1.6 The Committee found that the Department of Communications did not have an active internal audit function. A follow-up review of the internal audit function was conducted by the Auditor-General in March 1984. This response has not satisfied the Committee, as the results of the review have not been reported to the Committee. The matter will be studied in the Committee's next examination of an Auditor-General's Report.

1.7 The issue of audit fees between the Australian Dairy Corporation and the Australian Audit Office, has caused the Committee some concern as clarification of the situation resulted in unnecessary delays in the presentation of audited accounts.

1.8 Telephone Rental Concessions involve the Departments of Social Security, Veterans' Affairs and the Australian Telecommunications Commission. Many Reports of the Auditor-General have referred to the potential for overpayments and administrative difficulties, and the need for review of the continuing eligibility of pensioners in receipt of telephone rental concessions. The Committee noted the in principle decision to introduce a voucher based rental concession scheme from January 1987.

1.9 While the Committee is satisfied with the responses to Report 229, it is noted that the Auditor-General has consistently monitored and reported upon recurring problems covered by this Report.

1.10 The Committee draws to the Auditor-General's attention the unresolved issues relating to internal audit and requests that in his next Report to the Parliament, he review the matter. The Committee will then reconsider these issues.

CHAPTER 2

SUMMARY OF THE COMMITTEE'S REPORT TWO HUNDRED AND TWENTY NINE

2.1 This Chapter contains a summary of the Committee's 229th Report. Some of the Committee's conclusions and recommendations are also included in Chapter 3.

Department of Communications

2.2 The Auditor-General found that the Department did not have an active internal audit function. The Auditor-General was also concerned that:

- staffing and recruitment problems were creating difficulty in filling the established internal audit positions;
- an internal audit charter had been prepared but had not been approved pending finalisation of some matters concerning its scope; and
- there was no approved internal audit manual or program of audit.

2.3 A follow-up review of the internal audit function was conducted by the Auditor-General in March 1984. The purpose of the review was to determine whether the section was meeting its responsibilities under the revised charter, and providing effective service, assistance and management.

2.4 The Auditor-General found that:

- the Department had not acted promptly to fill positions created in a revised structure approved by the Public Service Board, thereby restricting the level of service and assistance provided to management;
- due to the staffing situation in the section it was evident that much of the work programmed for 1983-84 was unlikely to be completed; and
- audit planning and performance could be enhanced by:
 - the introduction of preliminary studies, permanent working papers and more detailed field audit plans; and
 - an upgrading of the quality of field audit reports, particularly by requiring that they contain expressions of opinion on the reliability of the systems and procedures reviewed.

2.5 The Committee's conclusions and recommendations can be found in Chapter 3 (page 8).

Department of Defence

2.6 The Auditor-General drew attention to problems in repair and refit of RAN submarines at Vickers Cockatoo Dockyard. These problems included contract costs, direct cost allocations, idle time, responsibility for cost of rework, and roles and function of the Department with respect to trade agreement between Vickers Cockatoo Dockyard and the Commonwealth.

2.7 This matter was referred to the Committee's Inquiry into Project Management by the Department of Defence. Aspects of contract administration were examined in the Committee's 243rd Report.¹

Department of Education and Youth Affairs

2.8 The Auditor-General referred to audits which concentrated on legal compliance and financial regularity in Secondary Allowances Schemes. These audits were designed to ascertain whether proper procedures were developed and applied, and whether there were adequate controls over expenditure. The Auditor-General also commented on overpayment procedures in the Northern Territory office of the Department. These matters were examined in the Committee's 232nd Report.²

2.9 The Auditor-General referred to deficiencies in the accounting and internal control procedures of the Curriculum Development Centre. These deficiencies occurred in the registration and examination of accounts for payment, the procurement of assets and supplies, receipts and inward remittances, and stocks and sales of publication material. The Centre's experiences highlight the lack of administrative support to ensure the proper use of, and accountability for, scarce resources. The Committee was not satisfied with the Centre's progress in correcting problems highlighted by the Auditor-General.

2.10 The Committee's conclusions and recommendations can be found in Chapter 3 (page 10).

Department of Foreign Affairs

2.11 The Auditor-General commented on the following unsatisfactory matters in relation to internal audit:

- a lack of analytical review and follow-up reporting of actual audit resources employed on overseas inspections;

1. Joint Committee of Public Accounts, Report 243, Review of Defence Project Management, AGPS, 1986.
2. Joint Committee of Public Accounts, Report 232, Report of the Auditor-General, May 1983, AGPS, 1985.

- staffing for internal audit;
- an absence of effective control over domestic audit times; and
- an internal audit manual had not been prepared, and audit working papers were considered inadequate.

2.12 The Committee's conclusions and recommendations can be found in Chapter 3 (page 11).

Department of Industry and Commerce

2.13 The Auditor-General reported on weaknesses in the cargo control and accounting system. These occurred in the issue and use of cargo container seals, checking seals, release of consignments, security over empty containers, and tracer action. The Auditor-General had found the internal checks and follow-up to be inadequate. The Committee examined this matter in Report 224.³

2.14 The Auditor-General expressed concern also at certain currency contracts, and bills of exchange transactions, entered into by the Australian Industry Development Corporation. The Committee reported on this issue in Report 232.⁴

2.15 The Committee's conclusions and recommendations can be found in Chapter 3 (page 12).

Department of Primary Industry

2.16 The Australian Apple and Pear Corporation made payments to officers of the Corporation contrary to the terms and conditions of service. These payments were contrary to Section 24(2) of the Australian Apple and Pear Corporation Act 1973. The Committee acknowledges that the Corporation has taken action to rectify the problems identified in the audit.

2.17 The Auditor-General referred to the Australian Dairy Corporation as one of the more vigorous sources of complaints, from a number of statutory authorities, regarding audit fees charged, and the scope of audits.

2.18 The Committee's conclusions and recommendations can be found in Chapter 3 (page 16).

Department of Science and Technology

2.19 The Australian Industrial Research and Development Incentives Board was examined by the Australian Audit Office. The Auditor-General referred to a general lack of administrative control by the Board, over grants made under the Industrial Research and Development Incentives Act 1976. Specific matters

3. Joint Committee of Public Accounts, Report 224, Excise and Deferred Customs Duties, AGPS, 1984.
4. Joint Committee of Public Accounts, Report 232, Report of the Auditor-General, May 1983, AGPS, 1985.

included commencement grants, project grants, and public interest proposals. It was emphasised that the Board had a responsibility to institute without delay, effective control over its disbursement of significant amounts of public moneys. In its response to the Committee's request for a written submission, the Department attributed many of the problems to staffing limitations.

2.20 The Committee did not require a response to this matter.

Department of Social Security.

2.21 The Auditor-General reviewed the internal audit operations of the Department. No major deficiencies were found, but the review identified a need to refine the strategic planning process of internal audit. The review also indicated that the Department had implemented a systems-based approach to internal audit.

2.22 Coincident with the implementation of STRATPLAN, a comprehensive program of computer-oriented audit tasks was formulated and incorporated into the Strategic Audit Plan.

2.23 Telephone Rental Concessions apply to the Departments of Social Security, Veterans' Affairs and the Australian Telecommunications Commission. Many reports of the Auditor-General have referred to the potential for overpayments, administrative difficulties, and the need for review of the continuing eligibility of pensioners in receipt of telephone rental concessions.

2.24 The Committee's conclusions and recommendations can be found in Chapter 3 (page 18).

Department of Territories and Local Government

2.25 The Darwin Cyclone Tracy Relief Trust Fund has been mentioned in several Auditor-General's reports. The delays in distributing moneys from the Trust, have prevented the Auditor-General from completing the audit of the accounts of the Trust. The Committee considers that all reasonable measures were taken to finalise the distribution of moneys and wind up the Trust Fund.

2.26 The Committee did not require a response to this matter.

Australian Taxation Office

2.27 The Auditor-General referred to the authorisation of transactions, delegations, segregation of duties, adjustment of credits, unauthorised access to information and control over input documents following Audit's investigation of the adequacy of controls in a number of Branch Offices, over the input of transactions relating to taxpayers accounts. The Department in acknowledging these deficiencies, felt that they were isolated to the Branches involved.

2.28 The Auditor-General drew attention to certain matters raised by the Committee concerning company tax instalments. These included additional tax on variation of tax instalments, and additional tax for late payment.

2.29 The Committee noted the action taken by the Australian Taxation Office to resolve these deficiencies.

2.30 The Committee did not require a response to this matter.

CHAPTER 3

DEPARTMENT OF FINANCE MINUTE

3.1 This Minute has been prepared on the basis of responses received from the Departments of Communications, Education, Foreign Affairs, Industry Technology and Commerce, Primary Industry, Science, Social Security and Veterans' Affairs.

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

Department of Communications

Internal Audit

Conclusion (paragraphs 1.12-13 of Report 229)

The Committee is concerned to note that it has taken the Department many years to develop its internal audit function. While the Department was able to say that it was fully staffed in January 1983, it had not been able to keep its internal audit section fully staffed nor had it been able to commence ADP auditing. The Committee finds this a very unsatisfactory position particularly as the Department of Communications provides internal audit support to two statutory bodies, the Special Broadcasting Service and the Australian Broadcasting Tribunal, as well as its own internal auditing.

The Committee recommends that the Department of Communications give high priority to fully staffing its internal audit section. The Committee requires six monthly progress reports for the next two years outlining the Department's internal audit activity and staffing. The Committee will continue to monitor closely the internal audit function in all departments.

Response

3.3 With respect to the question of internal audit staffing, the Department has advised that since the Auditor-General's follow-up review in March 1984, the Department has pursued the filling of internal audit vacancies. The Department's average operating staff level allows for an internal audit function establishment of four positions. Four permanent officers have been appointed to those positions. Actual occupancy over the last six months has ranged from a minimum of three to a maximum of four. This variance has been due to the need to advertise vacancies on several occasions over long

periods and also because staff turnover has made it necessary to fill positions twice in an eight month period.

3.4 To overcome these difficulties, it has been necessary for the Department to re-examine its staffing operations. One measure adopted has involved the engagement of an ADP audit consultant to undertake a specialist audit project. This has broadened the audit coverage provided to the Department.

3.5 The Department is concerned that its internal audit resources are spread thinly, and recently re-examined its responsibilities to the Special Broadcasting Service (SBS) and the Australian Broadcasting Tribunal (ABT). The examination has resulted in both organisations being notified that the Department wishes to withdraw its internal audit services by 30 June 1986. Therefore the demand for strengthening internal audit beyond the present level of four should be diminished.

3.6 With respect to the question of ADP audit activity, the Department has advised that it shares the Committee's concern for the need for ADP audit services in the Department. The Department has advised that an ADP audit position has been created and occupied on a permanent basis since April 1985. As advised above, the Department's ADP audit function has been augmented by the ongoing engagement of a consultant to undertake an ADP audit project.

3.7 The activities of the Department's internal audit function are controlled through a series of plans approved by management. The plans were revised in October/November 1985. At this stage, the SBS and ABT work programs for 1985-86 are expected to be completed.

Australian Telecommunications Commission

Observation (paragraph 1.14 of Report 229)

Many reports of the Auditor-General have referred to the potential for overpayments and administrative difficulties and the need for review of the continuing eligibility of pensioners in receipt of telephone rental concessions.

Response

3.8 This observation is addressed in the response to the Conclusion found at paragraph 8.26 of Report 229.

Department of Education

Secondary Allowances Scheme

Overpayment Procedures

3.9 These matters have been addressed in the Committee's 232nd Report. The Finance Minute to that Report will therefore provide necessary responses.

Curriculum Development Centre

Conclusion (paragraph 3.18 of Report 229)

The Committee believes that a lack of appropriate administrative support to ensure proper use of, and accountability for, scarce resources is a problem in the public sector. This is highlighted by the Centre's experiences. The Committee is pleased to note that the Financial Management Improvement Program currently being implemented by the Department of Finance and the Public Service Board is designed to overcome such shortcomings. The Committee is not satisfied with the former Centre's progress in correcting problems highlighted by the Auditor-General. The Committee notes that there was no administrative break between the abolition of the Centre and its re-establishment as the Curriculum Development Council under the provisions of the Commonwealth Schools Commission Amendment Act, and that the Council still operates under the name Curriculum Development Centre.

Response

3.10 The Department of Education has advised that the Commonwealth Schools Commission Act (No 52 of 1984) repealed the Curriculum Development Centre Act 1975 from 1 July 1984 and provided, in Section 9, arrangements for winding up the Centre. These arrangements included the vesting of any rights, property or assets of the Centre in the Commonwealth. Liability to pay or discharge any debts, liabilities or obligations of the Centre was also transferred to the Commonwealth. The responsible Commonwealth agency is the Commonwealth Schools Commission.

3.11 The Act established a Curriculum Development Council. Accounting and other administrative arrangements for the Council and the Curriculum Development Centre Division (a Division within the organisational structure of the Office of the Commission) are integrated with those of the Commission and operate under the provisions of the Audit Act, Finance Regulations and Directions. This is a clear distinction from the former Centre which operated under its own legislation and accounting arrangements.

3.12 In relation to the specific deficiencies reported by the Auditor-General in the areas of stocks and sales of publication materials, library acquisitions, debtors and fixed assets, the Department advises that the administration of these functions is now undertaken by Commonwealth Schools Commission staff, under the provisions of the Audit Act and subordinate legislation.

3.13 With respect to the financial statements of the former Curriculum Development Centre, the final report of the operations of the Centre, which included financial statements for the year ended 30 June 1984, was tabled by the Minister for Education in May 1985.

Department of Foreign Affairs

Internal Audit

Conclusion (paragraphs 4.15-17 of Report 229)

The Committee acknowledges the efforts of the Department in upgrading the standard of its internal audit but is not satisfied that sufficient priority was given to the task. The Committee notes the Department's progress in producing an Audit Manual and expects to receive a copy before 30 June 1985. The appointment of the Executive Officer, Audit Policy and Development, should assist the development of audit procedures.

The Committee commends to the attention of departments' and authorities' audit sections its Report on internal audit and the follow-up to that Report. The recommendations of this Report do not in themselves provide a solution for the problems faced in upgrading internal audit in departments and authorities, but the Committee considers them necessary to create the conditions which must exist.

The Committee remains concerned that insufficient attention is being given to the internal audit in departments and will continue to closely monitor this function in all departments.

Response

3.14 The Department has advised that it is continuing to upgrade the standard of internal audit.

3.15 The internal audit manual was finalised and issued to audit staff in January 1986. The manual has since been revised to take account of:

• the revised audit charter issued by the Secretary;

- re-organisation of the Audit Section and the Corporate Management Division;
- the adoption of a comprehensive auditing approach; and
- the updating of some sections of the manual to take into account Government initiatives on financial management improvement (these amendments have mainly related to program budgeting and auditing aspects thereof).

3.16 It is expected that the revised edition of the manual will be available in the near future and a copy will be made available to the Committee.

3.17 Machinery exists by way of the Departmental Audit Committee to approve the annual internal audit program and to receive quarterly reports on the status of the program.

3.18 The Departmental Audit Section operates a system which enables prompt follow-up action to be taken in response to internal audit reports. The system is monitored regularly by the Departmental Audit Committee.

3.19 There is a system in the Departmental Audit Section which provides for a continuous review of audit procedures, including the scope of audit work, general standards and quality assurance, examination and evaluation of standards regarding field work and working papers, and reporting. Procedures have been introduced to ensure that documentation supporting audit findings is indexed and cross-referenced appropriately. Auditing packages have been developed to improve the audit operations concerning overseas posts. The general standard of working papers has been improved and is continually being reviewed in an endeavour to maintain a high standard.

Department of Industry, Technology and Commerce

Australian Industrial Research and Development Incentives

Conclusion (paragraph 7.17 of Report 229)

The Auditor-General's audit of the Australian Industrial Research and Development Incentives Act was completed in October 1981. The Committee is aware that much has been done to redress the general lack of administrative control over grants made under the Act. The Committee is still concerned, however, that, because it is claimed there is not enough time or resources to carry out all administrative procedures on all applications and

reviews of projects, the procedures may have been changed so that only samples of each stage go through the full process. For instance, only 17 of the 600 operating and 71 of the 220 completed project grants in 1983-84 were assessed technically. Staff judgement is used to select those grants to be assessed on either a cost or technical basis. The Committee is critical of this practice because of its subjective basis. The Committee believes that to avoid bias a statistically random selection process, coupled with other predetermined criteria would be more appropriate.

This again highlights what the Committee believes is a major problem faced within the public sector - a lack of appropriate administrative support to ensure proper use of, and accountability for, scarce resources. Senior management of organisations should provide a balanced approach to a changing function. The Committee is pleased to note that the Financial Management Improvement Program currently being implemented by the Department of Finance and the Public Service Board is designed to overcome such shortcomings.

One of the most time consuming tasks is verifying that expenditures were made in accordance with the requirements of the Act. A verifying statement from a professional accountant (who is a member of the Australian Society of Accountants or the Institute of Chartered Accountants in Australia) certifying that the moneys have been expended in accordance with the provisions of the Act would assist the Board. The Board had raised the concern that an accountant may not know the requirements of the Act and that the company may not be subject to audit. However, the Committee does not accept this argument as professional accountants are required to be conversant with the law and a company which accepts public funds should be subject to regular audit.

The Committee recommends that a verifying statement from a professional accountant certifying that grant moneys have been expended in accordance with the requirements of the Act be provided. A proforma of what is required by the Act would assist auditors and could minimise the problems raised by the Department.

The Board has expressed the opinion that the increase in staffing for 1984-85 may not provide sufficient support to undertake all its functions under the Act. The Committee is still concerned

that, if staffing limitations continue, the scheme may not work effectively particularly if applications continue to increase.

The Committee is also concerned that no specific studies have yet been completed on the effectiveness of the grants, given that there is a sunset clause on commencement and project grants of 30 June 1986. The Committee understands that an evaluation study on commencement and project grants is being undertaken by Price, Waterhouse and Associates and is scheduled for completion by September 1985. The Committee trusts that this study is also evaluating the administration of the grants and wishes to receive a copy of the study's findings.

The Committee notes the administrative changes and the staff increase for 1984-85. The Committee remains concerned that these changes may not be adequate to effectively control the disbursement of significant sums of public money. The Committee will continue to keep this area under strict surveillance.

Response

3.20 In respect of the Committee's comments concerning assessment procedures, the Australian Industrial Research and Development Incentives Board advises that following the Report of the Auditor-General, the Board adopted an investigation program based on the Auditor-General's suggestions. Companies which have applied for commencement grants in recent years have all been visited in connection with their first application and at least once more during their five years of eligibility with a preference to making a visit in the final year. In the case of project grants the Board has endeavoured to visit companies about four times in three years although more recently the average would be about once per year.

3.21 With respect to the question of obtaining verifying statements from professional accountants, the Board has stated that the acceptance of external auditors' certificates was examined by the Department of Science's Director Audit and the results of his investigations into the feasibility of such a procedure weighed heavily against such a change; the reason being that serious reservations were held about external auditors' lack of familiarity and experience in correctly interpreting the Incentives Legislation. In practice several months of training are required by the Board's cost investigators, most of whom are qualified accountants, before they attempt other than routine claims and form acceptable judgements as to the acceptability of various types of expenditure.

3.22 The Board stated that the Export Development Grant's Board experimented with reliance on external audits during its first year of operation (1975-76) but it proved a complete failure and had to be abandoned, since massive overpayments would have occurred if the auditors certifications had been accepted. The problem was not one of falsifying the amount of expenditure claimed but a lack of understanding of the complex criteria for the determination of eligible expenditure.

3.23 The AIR&DI Board from April 1982 to September 1983 engaged in a pilot study of using external accounting professionals to undertake investigation of claims. The Board advised that apart from the problems of security of the information included on applicants' files, loss of access to the files, and inability to directly supervise the external accountants involved, their lack of experience was evident and further work by the Board's staff was required in order to arrive at a satisfactory determination of eligible expenditure.

3.24 With reference to staffing limitations, the Board has advised of significant increases in its complement of staff since the time of the Auditor-General's Report.

3.25 The Board's staff as at 30 June 1982 was 46 and this number gradually increased to 67 at 30 June 1985, 45 of whom were located in the Central Office. During 1985-86 the Board absorbed the staff engaged on project management work associated with Section 39 Public Interest Projects. The Board's staff as at 30 June 1986 was 80, 61 of whom were based in the Central Office in Canberra. The Board's Office was organised into six sections as follows:

Executive Unit	6
Policy Section	3
Administration Section	16
Technical Investigation	14
Cost Investigation	29
Project No 1	4) Section 39 Public
Project No 2	8) Interest Project
	Staff
	<u>80</u>

3.26 The management of the Board's Office has been strengthened with the addition of a second Senior Executive Service, Level 1, officer.

3.27 As a result of these staffing improvements and other measures, the Board advises that assessment of applications and monitoring of projects is now at a level regarded as acceptable by the Auditor-General.

3.28 In respect of the evaluation study of Project and Commencement Grants undertaken by Price Waterhouse and Associates, the Board has advised that this study exclusively addressed the effectiveness of the grants scheme and did not enter into the methods or procedures adopted for the administration of the scheme. A copy of the Price Waterhouse report was supplied to the Committee in April 1986.

3.29 It should be noted that the Australian Industrial Research and Development Incentives Board ceased operations on 30 June 1986. The Board's activities have been taken over from 1 July 1986 by the Industrial Research and Development Board created by the Industrial Research and Development Act 1986. This Act authorises three new grants schemes to replace the former grants programs:

- discretionary grants (similar to project grants);
- national interest contracts (public interest projects); and
- generic technology grants.

3.30 Initially, the generic technology grants program will consist only of the biotechnology research grants scheme which is transferring to the new scheme.

3.31 The overall size of the grants program has been scaled down in view of the commencement in 1985-86 of the 150 per cent income tax concession for eligible research and development expenditure.

3.32 Funds will continue to be provided to meet commitments to projects approved under the former schemes.

Department of Primary Industry

Australian Dairy Corporation

Conclusion (paragraphs 6.24-25 of Report 229)

With reference to the Auditor-General's comments on audit fees in his 1981-82 Report and the Australian Dairy Corporation's response, the Committee is not satisfied that both parties understand each other's position. This has lead to protracted discussions, resulting in unnecessary delays in clarifying the situation. The Committee is concerned that this situation between the Auditor-General and the Corporation, on the questions of audit fees and the scope of audits, has occurred and is disappointed that the questions raised do not appear to have been satisfactorily resolved.

The Committee notes the action taken by the Corporation in its attempt to clarify and resolve the problems highlighted by the Auditor-General in his September 1982 Report. The tabling of the Corporation's 1983-84 Annual Report was delayed until 16 April 1985 because of further matters raised by the Auditor-General. However, it is evident that the Corporation still has problems with its subsidiaries. The Senate Committee on Finance and Government Operations is currently examining the proposed sale of the Australian Dairy Corporation shareholding in P.T. Australia Indonesian Milk Industries Inc. (P.T. Indomilk) and anticipates tabling a report on this matter in 1985. The Committee will continue to monitor the Corporation's activities.

Response

3.33 The Australian Dairy Corporation has stated that it has always accepted that the Auditor-General must determine the scope of audit and that it will be charged on the same basis as other similar authorities. The Corporation sought an explanation of large variations between the estimated and actual audit costs for a number of audits but does not believe that it received an adequate response. The Corporation has, however, decided that to continue to pursue the matter would not be productive.

3.34 The Corporation has advised that the disinclination of the Auditor-General's Office to discuss with the primary industry statutory marketing authorities (SMA's) more general issues related to audit fees has been a source of dissatisfaction since their introduction.

3.35 The Corporation further advised, however, that the Auditor-General, in correspondence with the Secretary of the Department of Primary Industry in April 1985, provided an assurance that he would be receptive to approaches from SMA's for discussions on audit arrangements. He also stated that he would be taking up with the Department of Finance the manner in which audit fees are calculated.

3.36 The corporation also advised of recent legislative developments which will have significant implications for the Corporation's auditing arrangements. The Dairy Produce Act 1986, which was passed by Parliament in June 1986 and received Royal Assent on 25 June 1986, provides for reforms to the Corporation, including new audit provisions. Section 82 of the Act makes provision for the Minister at the request of the Corporation to appoint a commercial auditor to audit the Corporation's accounts and financial statements. The appointment of a

commercial auditor is subject to the Auditor-General's satisfaction as to the suitability of the auditor and JCPA's agreement to the appointment.

3.37 If a commercial auditor is not appointed under these provisions, then the Auditor-General will be the auditor of the Corporation.

3.38 In order to facilitate these arrangements, the Australian Audit Office has sought an amendment to sub-section 82(11) to define 'company auditor' as a firm rather than a person carrying on the business of auditing accounts. It is anticipated that this amendment will be addressed in the Budget sitting.

3.39 Concomitantly with the Dairy Produce Act, amendments to the Audit Act 1901 contained in the Statute Law (Miscellaneous Provisions) Act (No 1) 1986 were passed by Parliament. These provide discretionary power to the Auditor-General to audit and report to the appropriate Minister on the accounts of statutory authorities where commercial auditors are appointed. The Act also requires that the financial statements of commercially audited statutory authorities be provided to the Auditor-General and he has discretionary power to report to the Minister on the financial statements. If such a report is made, the Minister is required to table the report in Parliament. The Act provides that no charge be levied by the Auditor-General for audits undertaken under these discretionary powers.

3.40 In addition, the Statute Law Act requires the Auditor-General to set auditing standards to be complied with by company auditors when auditing statutory authorities. The Auditor-General will have a discretionary power to report to the Minister on the company auditor's compliance with the standards or on any matter related to the audit. Any such requests will be required to be tabled in Parliament by the Minister.

Department of Social Security

Department of Veterans' Affairs

Australian Telecommunications Commission

Telephone Rental Concessions to Pensioners

Observation (paragraph 1.14 of Report 229)

Many reports of the Auditor-General have referred to the potential for overpayments and administrative difficulties and the need for review of the continuing eligibility of pensioners in receipt of telephone rental concessions.

Conclusion (paragraph 8.26 of Report 229)

The Committee is concerned that this matter continues to be unresolved. In the response to this Report the Committee expects to be informed by Telecom and the Departments of Social Security and Veterans' Affairs of significant results arising from the Working Party.

Response

3.41 The Government has made an in-principle decision to introduce a new voucher-based pensioner rental concession scheme from January 1987. It has yet to decide on the final arrangements for the administration and funding of the concession.

3.42 Under the voucher system eligible pensioners will be issued with four vouchers each calendar year by the Departments of Social Security and Veterans' Affairs.

3.43 Eligibility for the concession under the proposed scheme will be identical to the present scheme and the vouchers issued will include a reference to the Household Income Test to indicate that use of the voucher equates with certification that the Test is satisfied.

M. S. KEATING
SECRETARY