



THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

REPORT 244

MUNITIONS PRODUCTION TRUST ACCOUNT

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JOINT COMMITTEE OF PUBLIC ACCOUNTS

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#### DUTIES OF THE COMMITTEE

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

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

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth including the financial statements transmitted to the Auditor-General under sub-section (4) of section 50 of the Audit Act 1901;
- (aa) to examine the financial affairs of authorities of the Commonwealth to which this Act applies and 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

The Inquiry into the Munitions Production Trust Account was initiated following unfavourable comments made by the Auditor-General in his September 1984 Report. At that time the Department of Defence Support provided the Committee with a submission. However, that Department was abolished in December 1984 and the Munitions Production Trust Account then became the responsibility of the Department of Defence.

After reviewing the submission from the Department of Defence Support, the Committee decided to seek further information by further submissions and at a Public Hearing. On 11 September 1985 - the Committee examined the operation of the Munitions Production Trust Account and considered the appropriate role for the Account in the future.

For and on behalf of the Committee.



Senator G Georges  
Chairman



M J Talberg  
Secretary  
Joint Committee of Public Accounts  
Parliament House  
Canberra  
19 February 1985

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## CHAPTER 1

### INTRODUCTION

1.1 The Munitions Production Trust Account exists in addition to each of the trust accounts used to operate the Government owned munitions factories. This Trust Account was established on 17 February 1956 under section 62A of the Munit Act 1901 to replace the Manufacture of Munitions Trust Account which had operated since 1940. Section 62A of the Munit Act 1901 indicates that the Minister for Finance may establish Trust Accounts and define the purposes for which they are established.

1.2 The purpose of the Munitions Production Trust Account as defined at the time of its creation was to finance:

- . the manufacture of munitions in government factories, annexes and industry for Departments of the Commonwealth and other Governments and Authorities; and
- . any other approved service of a munitions factory or annex.

1.3 The Munitions Production Trust Account can be described as a holding account financing the production of munitions. It enables factories to obtain reimbursement for production undertaken in advance of payment from the Department of Defence or overseas customers.

1.4 The Trust Account receives an appropriation or 'top up' each year in the Budget context, which, together with funds held over from previous years, is divided and distributed to the munitions factories as segments. The allocation is a flexible amount within the total funds available to the Trust Account. Subsequent adjustments are made to the amounts in each of the segments when they are sought through the Central Office Authorising Officer. Overall control of and responsibility for the Munitions Production Trust Account rests with the Office of Defence Production with the Department of Defence in Canberra.

1.5 An allocation from the Munitions Production Trust Account has been made to each of the munitions factories with the exception of the Australian Government Clothing Factory, Coburg, the Explosives Factory, Albion, and the Explosives Factory, Mulwala.

1.6 Central Office and the Victorian Regional Office of the Department of Defence are also segment holders. Generally the overseas arrangements involving the Munitions Production Trust Account are handled by the Victorian Regional Office. Since its creation the Munitions Production Trust Account has served three functions:

to reimburse, with monthly progress payments, the cost of work undertaken for the Department of Defence pending settlement. In essence, the Munitions Production Trust Account carries the debt prior to settlement thus reducing the aggregate level of working capital required by the factories;

to reimburse factories satisfying overseas orders. In this instance the factory carries the cost of production until the order is completed. The factory then receives immediate payment for the product from the Munitions Production Trust Account which carries the overseas debt pending the recovery process. Advance payments against orders from overseas are also held in the Munitions Production Trust Account until the relevant factory produces the product to fill the order; and

to effect transactions other than those related to Department of Defence and overseas orders. This mode is used infrequently. It has been used in the past to obtain certain materials on behalf of industry carrying out tasks for the Australian Government. In one instance the Munitions Production Trust Account was used when the former Commonwealth Aircraft Corporation purchased spare parts to service Australian military aircraft.

1.7 There have also been instances where the Munitions Production Trust Account has been used to provide temporary funds when a factory experiences short term cash flow shortages.

1.8 In essence, the Munitions Production Trust Account is interposed between the munitions factories and their customers ensuring immediate payment for work done. Under these arrangements the factories have no outstanding debts. Such debts are carried by the Munitions Production Trust Account for variable periods of time. The Department of Finance has stated that it takes on average between five and ten weeks for receipt of payments into the Munitions Production Trust Account from the Department of Defence, although certain disputes or special orders can take much longer to resolve. On the other hand, overseas accounts generally involve substantial delays of three months or more often involving complex production certification procedures.

1.9 The operations of the Munitions Production Trust Account are reported in the Financial Statements prepared by the Minister for Finance pursuant to section 50 of the Audit Act 1901. This report shows the opening balance of all trust accounts at the beginning of the financial year, their total receipts and expenditure during the year, their closing balances and details of any investments and working capital advances received from

appropriations. The Financial Statements are audited by the Auditor-General and are tabled in the Parliament as part of the Auditor-General's annual report.

1.10 The most recent Auditor-General's report upon the Financial Statements prepared by the Minister for Finance for the year ending 30 June 1985, contains the following information in relation to the Munitions Production Trust Account:

Balance at 1 July 1984.....	\$ 4 223 767
Receipts .....	\$ 83 794 659
	\$ 88 018 426
Expenditure .....	\$ 83 340 238
Balance at 30 June 1985 .....	\$ 4 678 188

Investments - Nil

Outstanding Advances at 30 June 1985: \$ 7 400 373.

1.11 The Department of Defence was asked to provide the Committee with a submission on the nature and purpose of the Munitions Production Trust Account.<sup>2</sup> In the submission the Department states that it was essential that the Munitions Production Trust Account be retained to enable effective management of the munitions factories.

1.12 The Department of Finance was also asked to prepare a submission on the nature and purpose of the Munitions Production Trust Account.<sup>3</sup> The Department of Finance response was ambivalent, saying on the one hand the Munitions Production Trust Account might be retained whereas on the other hand it could be abolished. The Committee was concerned that the Department of Finance did not have a stronger view on the matter considering the significant amount of money involved within the system which operates the munitions factories.

1. Australia, Parliament, Financial Statements Prepared by the Minister for Finance Pursuant to section 50 of the Audit Act 1901 for the year ended 30 June 1985, AGPS, Canberra, 1985, page 74.
2. See Appendix A.
3. See Appendix B.

## CHAPTER 2

### PREVIOUS MANAGEMENT

2.1 At the public hearing held on 11 September 1985 the Committee followed up a number of the issues raised by the Auditor-General in his September 1984 Report.<sup>4</sup>

2.2 In 1982 the Commonwealth Aircraft Corporation reported ninety instances where it had received goods that had not been issued with debit notes. These notes could not be raised because relevant overseas vouchers had been lost. Five of these vouchers have still not been located and therefore remain outstanding. The Department of Defence was unable to give a satisfactory explanation of how the vouchers could have been lost. It was suggested that they might have been lost when responsibilities for the Trust Account moved from Department to Department. Over recent years responsibility for the Trust Account has been variously with the Department of Industry and Commerce, the Department of Productivity, the Department of Defence Support and most recently, from December 1984, the Department of Defence.

2.3 The Committee was also told that the five outstanding claims represented only a relatively small amount of money. Nevertheless, the Committee considers that, irrespective of the amount involved, the fact that the records went missing indicates poor accounting and management procedures.

2.4 The Committee sought an explanation for the loss of 1981-82 records for the ACT segment of the Trust Account. An answer could not be given at the hearing. Subsequent advice indicates that the Department has searched its archives without success. These records remain lost.

2.5 Instruction manuals on the Munitions Production Trust Account are not comprehensive. The Departmental accounting manual No. 11 contains a chapter on the operation of the Trust Account.<sup>5</sup> However, that manual does not describe what can or cannot be charged to the Trust Account. Furthermore, there is no authorised comprehensive set of instructions for the operation of the Victorian Regional Office segment of the Trust Account through which the majority of the transactions pass.

2.6 The Committee questioned how an overall balance for the Trust Account could be established when several segment holders in the past had not or could not provide a closing balance for their segments. The Committee was not given a satisfactory answer to this question as the witnesses claimed that because they were not involved with the Trust Account at the time they could not provide an explanation.<sup>6</sup>

2.7 Amounts derived from on cost provisions and profits with the overseas segment have been wrongly retained in the Munitions Production Trust Account rather than returned to

4. Minutes of Evidence, AGPS, Canberra, 1986.

5. See Appendix C.

6. Minutes of Evidence, *op cit*, page 24.

consolidated revenue. The Committee was told that an amount of between \$2m and \$3m had been retained for a period of three to four years before being returned to consolidated revenue. It was claimed that if all the money retained by the Trust Account in this way had been returned immediately to consolidated revenue then the Trust Account would have had liquidity problems.

2.8 The Committee is concerned that this method of operation hides from the Parliament transactions relating to the Trust Account. More generally the reporting of the operations of the Trust Account to Parliament appears to be inadequate.

2.9 The examples discussed above lead the Committee to the conclusion that there has been considerable mismanagement in relation to the operation of the Munitions Production Trust Account. The Department of Defence is unable to explain how these problems occurred as the officers responsible for the Trust Account at the time have since retired or left the Department.

2.10 The Department of Defence has suggested that the management of the Munitions Production Trust Account will improve when the control of the Trust Account is centralised in Canberra. At the hearing on 11 September it was indicated that this had already taken place.<sup>7</sup> However, witnesses subsequently advised the Committee that such changes were yet to take place. An assurance was given to employees in Melbourne that functions would not be moved from that office until the Corey Review<sup>8</sup> was completed and a number of industrial issues resolved.

2.11 The Committee believes that a more comprehensive control ledger should be established in Canberra which would show all monies in and out of the account and document all creditors and debtors to the account. Factory records should not have to be used as subsidiary records to show the complete picture of transactions taking place within the account.

2.12 The Committee understands that the Australian Audit Office is still most concerned about the operation of the Munitions Production Trust Account and has uncovered a new range of accounting and management problems relating to the Trust Account.

2.13 The nature of the Munitions Production Trust Account appears to lend itself to accounting and management difficulties. The Committee questions whether this Trust Account could ever operate effectively and efficiently.

7. Minutes of Evidence, *op cit*, page 9.

8. Review of Office of Defence Production (ODP) Regional Organisations, Department of Defence.

## CHAPTER 3

### THE FUTURE

3.1 The Auditor-General has suggested that consideration be given to closing down the Munitions Production Trust Account and transferring the amounts currently credited to the factory segments to specific factory trust accounts as additional working capital. Such a move would eliminate the present double accounting in each of the factories where a set of accounts has to be kept for the Munitions Production Trust Account and another for the factories' own purposes. The Department of Defence agrees that double accounting occurs and causes additional administrative costs.

3.2 The Auditor-General also suggested that a separate trust account could be established if necessary to handle overseas transactions where munitions are sold to overseas countries. The Committee disagrees with this proposition. There is already a trust account in existence that could quite adequately handle overseas munitions transactions namely the more general trust account called the Defence-Projects for Other Governments and International Bodies Trust Account. The Committee questions why this Trust Account and the Munitions Production Trust Account, with their overlapping functions, have not been rationalised.

3.3 The abolition of the Munitions Production Trust Account would also require the factories to produce more accurate and informative financial statements showing the true nature of the debtors rather than having them written off against the trust account. The Committee believes that the Department of Defence is not correct in arguing that informative financial statements are already available, particularly to the Parliament and other interested parties. For example, it required a small, but complex, survey in September 1985 on the records relating to the trust account to show that Malaysia has owed the Trust Account \$221 623 since May 1983 and \$14 944 has been owed by Hong Kong since 1982. The Budget Accounting and Supply Branch in Central Office has been slow to take up this matter and deal with these debts.

3.4 The Department of Defence was asked for its views on the Auditor-General's suggestion that the Munitions Production Trust Account should be abolished. The Department considered that the Trust Account should remain in some form. Its abolition would necessitate a significant increase in the level of working capital for the factories. The Department estimated that an extra \$5m would then be required as working capital.

3.5 The Committee does not agree with this proposition and questions how the figure of \$5m was derived. If the system used by factories in recovering their costs was made more efficient,

the factories would not need further working capital. For example, if operations such as the Government Aircraft Factory were to be more efficient in making their claims on the Department of Defence, and the Department were to process those claims quickly, such factories would require less working capital. The need for working capital would also decrease significantly if more rigorous action was taken on outstanding debts owed to the Trust Account.



## CHAPTER 4.

### SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

4.1 The Munitions Production Trust Account has not been managed well over recent years with financial records being lost and important procedures not followed. The Committee believes that many of these problems may have arisen because of the form and nature of this Trust Account, and that such an arrangement may leave itself open to inefficient management together with a lack of direct responsibility or an interest in the efficient operation of the Trust Account.

4.2 The Committee is concerned that the Department of Finance has not taken more interest in the operation of the Munitions Production Trust Account and become more involved in resolving important problems with the Trust Account.

4.3 The level of reporting to the Parliament on the operation of the Trust Account is inadequate. Money may have been wrongfully retained in the Trust Account rather than returned to Consolidated Revenue and there have been outstanding foreign debts for some considerable time. These matters have not been visible to the Parliament and other interested parties.

4.4 The Committee recommends that:

- the Department of Finance improve the level of reporting on trust accounts to provide more detailed information to the Parliament on their financial operation and position.

4.5 At a time when the Department of Defence is seeking to make its munitions factories more commercially oriented, with improved financial statements and a better commercial pricing policy, it is inappropriate to maintain the Munitions Production Trust Account.

4.6 The Committee's Report 242 on the Government Aircraft Factories concluded that the Factories should become a statutory authority and become more commercially oriented.<sup>9</sup> It also suggested that the Government Aircraft Factories should seek to introduce acceptable accounting procedures and improve their financial statements. In this regard, the Factories' continued use of the Munitions Production Trust Account is not consistent with accepted accounting standards and accurate financial reporting.

9. JCPA, Report 242, Government Aircraft Factories - Response, AGPS, Canberra, 1985, page 15.

4.7 The Committee agrees with the Auditor-General that the Trust Account causes the factories to carry out double accounting with result and increased administrative costs. It also agrees that the Factories' financial statements would be more accurate and informative without the device of the Munitions Production Trust Account.

4.8 The Committee concludes that there are no cogent reasons for continuing the Munitions Production Trust Account.

4.9 The Committee recommends that:

- the Munitions Production Trust Account be abolished and that representatives of the Departments of Defence and Finance jointly prepare a report on the consequential arrangements, including costs and benefits, for presentation to the Committee before the 1986 Budget sitting of Parliament.

JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS  
EXAMINATION OF THE AUDITOR-GENERAL'S REPORT OF SEPTEMBER 1984

**SUBMISSION BY THE DEPARTMENT OF DEFENCE SUPPORT IN RELATION TO  
 PARAGRAPH 6.1 - MUNITIONS PRODUCTION TRUST ACCOUNT (MPTA)**

Background

1. The purpose of the MPTA, which was established under Section 62A of the Audit Act 1901, is to finance
  - the manufacture of munitions in government factories annexes and industry for Departments of the Australian Government and other Governments and Authorities; and
  - any other approved service of a munitions factory or annex.
2. The Account dates back to the early 1940's, operating in the first instance as the Manufacture of Munitions Trust Account. While the operating mechanisms of the Account have changed considerably over time, it has continued to operate as a centrally domiciled working account to support the production of munitions.
3. MPTA is presently being used primarily in the Department's Munitions Division whose objectives can be stated thus:
  - To assess, plan, develop and maintain Australian industry capability for the production of munitions, so as to optimise national self sufficiency and meet defence requirements for current and future local production of munitions.
  - To plan the development of the Australian munitions industry in the public and private sectors.
  - To oversee the performance of government owned defence production factories to satisfy the customers' requirements for quality, quantity and delivery at an acceptable price.
4. An allocation of the MPTA has been made to each of the Munitions factories with the exception of the following:
  - Australian Government Clothing Factory, Coburg
  - Explosives Factory Albion
  - Explosives Factory Mulwala
5. Each of the munitions factories operates a working capital trust account. These trust accounts fund establishments' production operations and funding levels are maintained at minimum levels. Funds are not transferrable between factory working capital accounts.

Because of this minimum level of funding and to accommodate peaks in the establishments' cash flows, the MPTA was established to provide a centrally operated funding source with segments available to certain establishments. Funding arrangements allow transfers between segments thus enabling a lower aggregate level of funding to the Department.

6. The MPTA is currently used in respect of these factories as a mechanism to facilitate the prompt reimbursement of factory expenditure on a regular basis as progress payments against Department of Defence orders. Where appropriate, consolidated claims for each respective service order are prepared.
  - overseas purchases are initially funded from Factory Trust Accounts which are reimbursed by MPTA when debit notes are issued on the Department of Defence.
7. A procurement demand is raised by the Department of Defence on the Department of Defence Support for the supply of munitions. The order may be placed either:
  - directly on the factory performing all of the work, in which case that factory will recover direct from the Department of Defence to reimburse its segment of the MPTA or
  - where a particular factory has been nominated as the prime contractor for the order. In this case all other factories providing components or services, including private industry and other Government Departments become 'sub-contractors'. A prime contractor factory's own expenditure is carried in its working capital trust account until it is costed. Payments by a prime contractor factory to 'sub-contractors' are recorded in its normal accounting and costing system as they occur. All expenditure relating to Defence munitions purchase orders is then recouped from the MPTA. This maintains the prime contractor factory's liquidity enabling operations to continue during the time taken for receipt of a progress payment from the Department of Defence. MPTA is reimbursed upon receipt of the progress payment.
8. The Defence Aerospace Division of the Department has responsibility for the development and maintenance, subject to approved Defence policy, of an industrial capability in the fields of aircraft, guided weapons and electronics.
9. The Defence Aerospace Division presently utilises MPTA to receive the proceeds of overseas sales from which production costs are met. The Division provides in its prices for the supply of goods to overseas customers oncosts, levies and allowances to accommodate amortisation of costs previously incurred and to cover costs which may be incurred during production in later years. These 'add-ons', primarily

- destined for payment to Revenue during the course of, or at completion of a project or order, have accrued in the Account and have been used to meet additional working capital requirements for other projects.
10. An allocation is also held by the Victorian Regional Office of the Department to provide for overseas transactions, e.g. payment to Defence Aerospace private industry sub contractors.
  11. The Central Office of the former Department of Industry and Commerce in Canberra also had an allocation to be used in relation to overseas procurement transactions. However, due to accounting problems which arose in its operation, this segment has been inoperative since 1982 and will be withdrawn upon finalisation of outstanding matters.
  12. Finally allocations are used by Department of Finance Accounting Offices in London and Washington to process overseas payments and receipts arising from the Trust Account operations.

#### Auditor General's Comments

13. In his Report of September 1984, the Auditor-General has made a number of comments in relation to procedural and operational aspects of the account, as well as certain policy considerations. The Report also suggested that consideration be given to closing MPTA and establishing a more suitable mechanism.
14. Since its creation in May 1982, the Department has been conscious of difficulties with the operation of MPTA. Aspects of underlying problems have been addressed in recent years and some modifications to procedure and arrangements have been introduced. A major review of accounting aspects commenced some time prior to the audit but has been delayed due to the departure of key staff with the requisite skills. Against this background, the Auditor-General's comments are both timely and helpful in complementing the Department's endeavours to overcome difficulties being experienced. His comments have also assisted in focussing on areas where added effort is required.
15. The Auditor-General was particularly concerned with the following aspects of MPTA.

#### Regional Office, Victoria

16. **Composition of Trust Account Balance** - Advances received from certain overseas countries in relation to various sales have been credited to the MPTA over a period of several years. The audit report stated that a portion of these moneys was being used by the Victorian regional Office as additional working capital and \$1.04 million had been included with allocations of MPTA to some of the factories as additional working capital. Audit suggested the Department should discuss the efficacy of this procedure with the Department of Finance.

17. The Department was of the view that crediting of funds to the Trust Account is inherent in Section 62A of the Audit Act. The Department of Finance has confirmed this view.
    - the Department is currently discussing the Auditor-General's comments on the use of funds with the Department of Finance.
  18. Outstanding amounts due to the Commonwealth - On 9 June 1982 the Commonwealth Aircraft Corporation advised that some 90 instances dating back to 1979 had occurred where it had received goods but had not been issued with appropriate debit notes. The necessary debit notes could not be raised as the relevant vouchers were missing.
  19. A determined effort is being made by the Department's Central Office to locate the missing vouchers. A small number of vouchers have so far been located and the related transactions finalised. Action to retrieve those remaining is continuing.
  20. Instructions - No comprehensive, authorised instructions in respect of financial policies and accounting requirements have been issued by the Department for the Victorian Regional Office segment of the Department.
  21. Comprehensive Accounting Instructions for MPTA - Overseas Transactions were issued by the former Department of Industry and Commerce to all MPTA segment holders on 19 January 1982. Accounting Instructions for MPTA segments held by the production factories are included in the Department's Accounting Manuals. Amendments to these manuals are issued periodically.
- #### Central Office
22. **Control Procedures** - The Central Office had appeared to exercise little management and control over MPTA.
  23. The Department acknowledges the Auditor-General's comments. From an accounting point of view, the MPTA is complex to administer because of sectionalisation and from an administrative viewpoint it has proven difficult to maintain control and adherence to procedures.
  24. **Reconciliations** - Audit reported that reconciliations were based on the Department of Finance statement of balances only, which Audit considers an inadequate method.
  25. Departmental Accounting Instructions require the Control Ledgerkeeper to effect each accounting period, reconciliations between Control Ledger Accounts and subsidiary records:

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- Trust Account Cash balance to be reconciled with the balance for the MPTA Segment in the Appropriation Ledger.
  - Recoverable Expenditure Account balance to be reconciled with amounts unclaimed as per Service Order Summary Cards.
  - Debtors Accounts balance to be reconciled with the control total maintained by the OIC, Debtors Accounts.
26. Internal Audit Audit noted that internal audit findings concerning MPTA had not been pursued.
27. Arrangements for follow up of all matters raised in audits have been revised. The revised arrangements ensure that internal audit findings are effectively pursued by the Department. Progress in these matters is monitored by the Department's Audit Committee.
28. Need for MPTA - Audit suggested that consideration be given to closing MPTA and transferring the amounts currently credited to factory segments to specific factory trust accounts as additional working capital. If necessary, a new trust account or Head of Trust could be established for overseas transactions and operated in Central Office. In Audit's view this action would:
- save administrative costs presently incurred in maintaining the double accounting which now exists in each factory (one complete set of accounts could be eliminated), and
  - result in the financial statements of specific factories showing more accurate financial information in respect of departmental factory operations. That is, all debtors would be included in each factory balance sheet (currently the factory statements contain a minimum value of debtors as the bulk of them is eliminated by reimbursement from the Munitions Production Trust Account. The debts are then held by the Department in the Munitions Production Trust Account until payment is received).
29. The Department recognises the benefits of simplified administrative arrangements which could flow from the Auditor-General suggestions.
- The Department is giving priority to investigation of alternative arrangements to an MPTA having regard to administrative simplicity, improved control, funding and cost implications.

Joint Parliamentary Committee of Public Accounts  
 Department of Defence - Office of Defence Production  
MUNITIONS PRODUCTION TRUST ACCOUNT(MPTA)

Introduction

1. The Auditor-General in his Sept 84 Report commented upon a number of aspects related to this Trust Account. The (then) Department of Defence Support provided a submission to the Committee in the latter part of 1984. The following details are in effect supplementary to that earlier submission.

Background

2. The MPTA was established in 1956 with the purpose being:

- a. to finance the manufacture of munitions in government factories, annexes and industry for Departments of the Australian Government and other governments and Authorities; and
- b. to finance any other approved service of a munitions factory or annex.

3. Discussions between Departments, leading up to the 1956 MPTA approval canvassed the terminology to be used in defining the purposes of the MPTA. The conclusions then reached clearly suggest that "munitions" in this context is synonymous with the definition of "war materiel". The latter is defined by Section 4 of the Supply & Development Act (the applicable legislation covering ODP Factory Undertakings) as:

"war materiel" means armaments, weapons (including long range weapons), ammunition, engines, magazines, aircraft, vehicles, merchant ships and other marine craft, equipment, supplies, baggage and other things needed in war and includes any goods, components, parts, accessories or plant necessary for, or incidental to, the testing, development, production or supply of any of those things.

4. The 1956 creation of MPTA followed a review of then existing Trust Accounts associated with munitions etc production dating back to the 1940s.

Function of MPTA

5. Since creation of the MPTA its functions can be summarised in the three operations described below.

6. To reimburse factories satisfying overseas orders. Where an overseas requirement is identified through the ODP Marketing Organization and an order may then be placed on a Factory. The cost of satisfying that order is initially borne by the particular Factory's Trust Account. That Account is then reimbursed the value of the work from MPTA. The MPTA then in effect carries the overseas debt pending the recovery process. Overseas payments, including advance payments against orders, are applied to the MPTA,

- (a) the MPTA thus acts as a "holding" account for the overseas orders and thereby reduces the requirement for working capital advances by the Factory.

7. To reimburse (monthly) the costs of work undertaken on behalf of Defence customers against orders received by the factory either directly or through ODP Central Office, pending settlement by those customers, ie MPTA carries the debt pending settlement.

- (a) a significant advantage of the arrangement is to minimize the aggregate level of working capital required by the factories.

8. To effect transactions other than those related to overseas and Defence orders. This mode is not often used but has been used in the past to obtain certain materials on behalf of industry carrying out tasks for the Australian Government, eg purchasing spares for the former Commonwealth Aircraft Corporation (CAC) to enable it to service Australian military aircraft (it was the financial settlement of some earlier claims under this arrangement that attracted the Audit comment).

#### Operation of MPTA

9. The MPTA is domiciled and controlled through the ODP Central Office Authorizing Officer. Factories are provided with a "segment" of MPTA, ie an allocation against the total MPTA advance (the allocation is a flexible amount within the total funds available to the MPTA). Subsequent adjustments are sought through the Central Office Authorizing Officer. Factory access to the MPTA can be effected through the following arrangements:

- a. directly by the "segment" holders, being:
  - (i) Central Office
  - (ii) Victoria Regional Office
  - (iii) Ammunition Factory Footscray
  - (iv) Explosives Factory Marybyrnong
  - (v) Munitions Filling Factory
  - (vi) Ordnance Factory Bendigo
  - (vii) Ordnance Factory Marybyrnong
  - (viii) Small Arms Factory
- b. through the Victoria Regional Office only, and generally restricted to overseas orders - this method is available to:
  - (i) Albion Explosives Factory
  - (ii) Australian Government Clothing Factory
  - (iii) Government Aircraft Factories
  - (iv) Mulwala Explosives Factory

#### Audit Criticisms

10. The following aspects required further attention following the Auditor-General's September 1984 Report:

##### a. Melbourne Office

- (i) Use of MPTA for working capital purposes
- (ii) Outstanding amounts due to the Commonwealth
- (iii) Instructions

##### b. Central Office

- (i) Control Procedures and Reconciliations

##### c. Need for MPTA

#### Melbourne Office

11. Use of MPTA for Working Capital Purposes. ODP considers that its current utilization of the MPTA is consistent with the provisions of Section 62A of the Audit Act, ie within the parameters of the approved purposes of the Trust Account. Advice from Department of Finance supports this view.

12. Outstanding Amounts Due To The Commonwealth Of some 92 outstanding claims 70 have now been resolved with CAC. Another 17 have been costed, and the remaining 5 are expected to be cleared in the near future. It should be noted however that the Commonwealth as a whole is not disadvantaged by these outstanding claims because as soon as the claims are lodged against CAC to reimburse the MPTA the CAC is then entitled to reclaim these costs from the Support Command of the Royal Australian Air Force.

13. Instructions The ODP's Accounting Manuals, issued in 1980, contain instructions related to the overseas transactions and these are considered adequate. Regarding local administrative type procedures to be followed for operation and administration of the MPTA these were to be developed as part of the process of transferring the future operational function of MPTA from Melbourne to Canberra. However, that transfer is being delayed pending an Organizational Review following the abolition of the former Department of Defence Support and its integration into Defence. Finalization of the relevant procedures will be affected by this transfer.

#### Central Office

14. Control Procedures and Reconciliations. As mentioned above the operation of the MPTA segment allocated to the Melbourne Office is to be transferred to the Central Office in Canberra. When that transfer is complete this should alleviate previous problems which occurred mainly due to the dislocation of three involvements affecting MPTA, ie

- a. marketing functions associated with identifying and placing the overseas order,
  - b. MPTA policy aspects located with the Central Office, and
  - c. MPTA operational functions located at the Regional area in Melbourne.
15. As part of that process appropriate operating procedures are being written by the Central Office.

16. Additionally, the following aspects have been addressed:

- a. considerable efforts have failed to locate a number of MPTA records, including vouchers. However, records held by the Melbourne Office will enable outstanding transactions in the ACT segment to be finalised.
- b. the issue of Warrant Advice beyond funds available in 1982/83 was a clerical error. The Warrant Register is now reconciled monthly, and during the last 2 weeks of the financial year on a daily basis. This procedure ensures errors are quickly identified and corrected.
- c. Authorizing Officers have been reminded of their responsibilities to ensure MPTA is reconciled in accordance with Finance Directions.
- d. regarding previous utilization of Ikara and Jindavik related advances it is considered these were utilized as consistent with prudent cash management of MPTA cash liquidity. Those pricing profits previously credited to the MPTA will be paid to Consolidated Revenue. In this regard arrangements have been made for the Melbourne Office to identify relevant completed orders and accrued profits so that the amounts may be progressively remitted to Revenue.

#### Need For MPTA

17. The basic concepts for the MPTA remain valid, ie the ability to keep to a minimum the effects on a Factory's Trust Account Working Capital where an overseas or Defence order applies, and to effectively reduce the total overall requirement for working capital. These concepts are consistent with the approved purposes of the MPTA and, subject to appropriate overview and control, serve to establish a sound and proper resource utilization which facilitates effective cash and resource management.

18. The ODP has some major reviews currently underway concerning the broader aspects of costing and pricing within the ODP Establishments aimed at more commercially oriented financial management and accounting concepts. These reviews have implications for retention of MPTA or a similar operation. Three pilot studies are currently underway at selected Factories to address relevant implementation aspects from a practical perspective.

19. Subject to decisions made following completion of those pilot studies it will be necessary to revise a number of financial and cash management procedures. The effects of those changes, on MPTA, will then influence the future nature of that Account.

Office of Defence Production  
9 September 1985

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APPENDIX C

SUBMISSION TO THE JOINT PARLIAMENTARY COMMITTEE OF PUBLIC ACCOUNTS INQUIRY INTO THE MUNITIONS PRODUCTION TRUST ACCOUNT: DEPARTMENT OF FINANCE, SEPTEMBER 1985

This Submission addresses issues raised by the Committee in a memorandum to the Department dated 19 August 1985. The issues were:

- how the Department perceives the operations of the Munitions Production Trust Account (MPTA) and its shortcomings;
- whether a trust account is appropriate given the cash basis of the MPTA's operation;
- the advantages and disadvantages of retaining the present system of accounting;
- whether a full accrual accounting and reporting system would be more appropriate;
- whether the MPTA presently report separately and, if so, where - if not, why not.

Initially, the Submission discusses the background to MPTA, and the possible implications for MPTA of two major reform initiatives in the area of factory accounting. It then addresses the Committee's questions.

We would point out that the Department of Finance is not involved in the day to day administration of MPTA - this is the responsibility of the Office of Defence Production (ODP). Nevertheless, it is hoped that this Submission provides a useful perspective.

Background to MPTA

The MPTA was established on 17 February 1956 under section 62A of the Audit Act 1901, to replace the Manufacture of Munitions Trust Account which had operated since 1940. MPTA's purposes, as defined at that time were:

"To finance:

- (i) the manufacture of munitions in government factories, annexes and industry for Departments of the Commonwealth and other Governments and Authorities; and
- (ii) any other approved service of a munitions factory or annex."

Its purpose is a financing one. It enables factories to draw reimbursement for production undertaken in advance of payment from the Department of Defence or overseas customers. In so doing, it reduces the impact on the factories' own trust accounts of fluctuations in levels of working capital which can be associated with delays in recoveries from debtors.

In respect of Defence purchases, MPTA is interposed between the Department of Defence (which administers the parliamentary appropriations which ultimately pay for the manufacture of munitions) and the trust accounts of the factories responsible for the manufacture. Munitions factories utilising the MPTA facility are allocated a segment of MPTA funds. The shares, or size, of each factory's allocation is determined by the ODP according to expected requirements. A segment of MPTA relating to overseas and certain aerospace-related transactions is presently administered by ODP's Victorian Regional office. There are plans to move the administration of this segment to ODP's central office in Canberra, to improve co-ordination between overseas marketing, MPTA policy, and administration.

Two major reform initiatives will have implications for the future of MPTA, and any review of MPTA should in our view take account of these broader measures. They are:

- the possible implementation of recommendations of the Working Group on Costing, Pricing and Financial Management in Office of Defence Production Establishments. The establishment in 1984 of the Working Group was one of the actions arising from a Joint Management Review of administrative functions in the munitions factories. The Working Group reported late in 1984, and a pilot study in three factories is currently testing the practicality of proposed new arrangements. The pilot study is proposed to conclude in October 1985.
- The revision of the form and content of the factories' accounts and financial statements, with a view to their obtaining, for 1985-86, a Determination by the Minister for Finance under section 41D of the Audit Act which accords with the Minister's accounting guidelines (see further discussion below). A consultancy report from Coopers and Lybrand was presented in May 1985 and is currently the subject of study.

The prime intent of both initiatives is to improve the financial management of the factories, to promote a more commercial approach to their operations, and to make the factories' financial reporting systems a base for rational production management and investment decision making. The recommendations of the Working Group mentioned above address such measures as the need for full cost costing, including the payment of interest on working capital, and the adoption of more commercially oriented accounting and financial reporting methods.

### The Operation of MPTA and its Advantages/Disadvantages

When an order from the Department of Defence involves production by several factories, one is normally designated as the "prime contractor" - it takes a co-ordinating role. Expenditure in each factory on production is costed monthly and the prime contractor will reimburse other factories from its MPTA segment or in some instances authorise them to draw on their own segment. Subsequently, recovery is effected from the Department of Defence to repay to MPTA any temporary advances drawn down with respect to that order. Thus MPTA carries the debt pending settlement.

Some orders are quite complex, involving many factories, and rendering impractical the nomination of a prime contractor factory. In such cases, the order is, we understand, co-ordinated by the Victorian Regional Office (VRO).

The VRO also currently plays the co-ordinating role in handling overseas orders. It handles advances paid by such customers. When expenditure on overseas orders is costed, it is reimbursed to the factories from a segment of MPTA held in the VRO, which arranges for recovery from the overseas principal. Again, MPTA carries the debt pending settlement.

We understand that MPTA also provides temporary funds where the factory or factories are experiencing short term cash flow shortages. All long term requirements of working capital are sought through Parliamentary Appropriations.

In respect of Department of Defence orders, Finance understands that factories recover their costed expenditures from MPTA almost immediately. It takes on average between 5-10 weeks for receipt of payments into MPTA from the Department of Defence, although certain disputed or special orders can take much longer to resolve.

On the other hand, overseas accounts generally involve substantial delays - 3 months or more in many cases. Contracts with overseas customers often involve complex production certification procedures, including for example, liaison with local representatives of overseas Governments. In some cases overseas contracts do not provide for progress payments.

One of the main advantages claimed by ODP of the MPTA arrangement is that it provides a central pool or clearing house of funds for the various munitions factories, which also allows transfers between factory segments according to need, economising on their aggregate working capital needs. An important aspect of this is the potential cash flow implication (in the absence of MPTA) of possible longer periods for factories to be reimbursed if the direct submission of accounts by factories to the Department of Defence and overseas customers is involved.

Finance considers that an assessment of the extent of these reductions in working capital requirements is an important aspect of the review of factory accounting and financial arrangements previously mentioned and for the future role (if any) of MPTA. Perhaps just as importantly, the review should also examine whether cash flow problems could be reduced through a significant reduction in the time taken for Defence to settle accounts submitted. By addressing the underlying cash flow situation at source, it may be possible to remove a significant element of the need for the MPTA financing facility.

In respect of overseas transactions, the review should include an assessment of the degree to which central expertise (currently held in the VRO) is necessary, and whether devolution of this function to individual factories is feasible. It may well be desirable in the context of increasing their commercial orientation. It would seem, however, that there would be additional working capital requirements in the absence of a MPTA overseas segment facility, due to lags in overseas payments.

In the absence of MPTA, the progress payments falling due on Defence and overseas orders would go direct to the prime contractor factories. The factories, left without the current mechanism allowing transfer of debtors to MPTA, would have a greater incentive to pursue debtors, and to bring about faster settlement arrangements. With ODP now part of the Department of Defence, it should be better placed to negotiate such an improvement. Finance notes that the factories already have some experience in debt control and recovery, as their "commercial" (non-Defence) work is handled through their own trust accounts, with recoveries direct from customers.

Our view is that MPTA interposes an additional accounting process, one which tends to insulate the factories from their Defence customers. It provides the factories with temporary recourse to funds not specifically appropriated to particular factories, and it might be considered as lessening the degree of Parliamentary, Finance and even Defence Central oversight of the working capital requirements and of the performance of the individual factory operations. MPTA also affects the content of the factory trust accounts by carrying debtors and hence not reflecting the real level of debtors in the factories' financial statements.



Is a trust account appropriate given the cash basis of MPTA's operation?

Section 62A of the Audit Act, the authority for establishing trust accounts within the Trust Fund, was inserted into the Act in 1906 in recognition of the need for certain "working account" activities, particularly those of a commercial or quasi-commercial nature, to have access to the proceeds of their operations on a revolving fund basis; such continuity of self-generated cash flows was seen as facilitating the management efficiency of these operations.

All trust account operations are, pursuant to section 62A and to the accounting and reporting provisions of the Audit Act (especially sections 40 and 50), required to maintain cash-based accounts. Any requirement for supplementary accrual-based accounts is a matter for the Minister for Finance to consider having regard to the nature of the activity concerned and the potential usefulness of the supplementary information.

MPTA's status as a trust account is predicated on the basis that it finances materials purchased and work done in advance of payment due from an appropriation or from an overseas customer. A revolving fund was considered appropriate for this purpose at the time of its creation. Thus, there is no inconsistency per se between the cash basis of the MPTA's operation and the use of a trust account mechanism.

Would a full accrual accounting and reporting system be more appropriate?

Proper accounts are required by the Audit Act 1901 to be maintained with respect to transactions involving public moneys whether such transactions relate to the Consolidated Revenue Fund, the Loan Fund or the Trust Fund. The MPTA is a trust account established within the Trust Fund.

The normal method of accounting for transactions of the various Funds is a cash basis unless the Minister for Finance otherwise determines; the power to so determine is provided by section 41D of the Audit Act. Where it has been considered that the operations associated with a particular trust account are of a commercial or quasi-commercial nature the Minister has, in some circumstances, required the accounting of those operations to be on an accrual basis. The accounting for the transactions of the trust account concerned necessarily remains on a cash basis while subsidiary records are maintained for transactions of a non-cash nature for the purpose of accrual accounting. In the defence area the power has, in the past, been used in respect of the defence factories. The Minister wrote to the Chairman of

the Committee, Senator Georges, in June 1985 informing him of action taken, with the support of the Audit Office, to revoke existing section 41D determinations applying to defence factories pending their implementation of accounting systems capable of enabling compliance with the "Guidelines for the Form and Standard of Financial Statements of Commonwealth Undertakings".

While our records do not specifically indicate why section 41D has not been applied to the MPTA, it would seem likely that it relates to the fact that its purpose is essentially the provision of a central pool for the defence factories - a kind of central overdraft facility. In principle, therefore, the transactions of the trust account are of a financing nature only and accrual accounting and reporting would add little to the cash basis. In practice, the account also "holds" certain debtors and is the holding account for advances on overseas orders. Control accounts are maintained with respect to these transactions and accrual information could be provided.

However, the usefulness of accrual accounting and reporting information lies primarily in its identification of the full costs of operations of an entity and of the periodic provision of information about its financial position. Thus, as reflected in past actions under section 41D, the main interest has been in identifying the costs of operations of the factories and in their financial position. The main question at issue as regards MPTA is, as mentioned earlier in this submission, whether the MPTA, by assuming responsibility for certain debtors and by providing a working capital "buffer", affects in any material way the operations and financial positions of the factory trust accounts. Issues such as this need to be addressed in the context of the earlier-mentioned reviews being undertaken, with the assistance of independent consultants, of the costing and pricing policies of the defence establishments with a view to their becoming more commercially oriented.

Does the MPTA presently report separately and if so where, if not why not?

The operations of the MPTA are reported in the Financial Statements prepared by the Minister for Finance pursuant to section 50 of the Audit Act 1901. This report shows the opening balance of the trust account at the beginning of the financial year, its total receipts and expenditure during the year, the closing balance and details of any investments or working capital advances received from appropriations. The Financial Statements are audited by the Auditor-General and are transmitted to the Parliament together with the Auditor-General's report.

ACCOUNTING SYSTEM - PRODUCTION FACTORIESPART 12MUNITIONS PRODUCTION TRUST ACCOUNT - SEGMENTS HELD BY PRODUCTION FACTORIESSECTION 1 - ACCOUNTING PROCEDURES

As indicated in the Minister's June 1985 letter to Senator Georges, action is in hand, in consultation with the Australian Audit Office, to seek an appropriate amendment to the Audit Act to provide a legal basis by which financial statements prepared under section 41D can also be required to be presented to Parliament.

CONCLUDING COMMENTS

While MPTA is said to provide a convenient means of minimising aggregate working capital requirements of the factories and provides a pool to overcome temporary liquidity shortages, it would be useful to assess the extent to which MPTA actually reduces the factories' aggregate working capital requirements. MPTA is not a commercial arrangement and its role might be questioned in the context of the reforms being canvassed in the two current major reviews of the factories' financial and accounting systems.

Removal of MPTA might on the one hand involve some reduction in flexibility in meeting factory liquidity problems and involve increases in working capital appropriations to factory trust accounts. However, on the other hand its abolition may lead to incentives to faster debt recovery and a more direct relationship between factories and their customers. Special arrangements for overseas orders may be necessary. However, we are of the view that further study of this aspect is necessary.

Given that the current reviews of factory operations will have implications for the future of MPTA, Finance would suggest that further consideration of alternatives to current arrangements, including the possibility of abolition of MPTA, be pursued in the context of those reviews.

11.12.1 The purpose of the Munitions Production Trust Account is to finance (a) the manufacture of munitions in Government factories, annexes and industry for Departments of the Australian Government and other Governments and Authorities; and (b) any other approved service of a munitions factory or annexe. An allocation of the Account is made to each Prime Contractor Factory in the Munitions Supply Division for the purpose of reimbursing its Factory Trust Account.

11.12.1  
MUNITIONS  
PRODUCTION  
TRUST ACCOUNT  
SEGMENT -  
GENERAL  
PROCEDURE  
MPTA

A Prime Contractor's own expenditure is carried in its Working Capital Trust Account until it is costed; payments to In-Aid Suppliers are recorded in the Factory's normal accounting and costing system as they occur. All expenditure is then journalised to the debit of its segment of the Munitions Production Trust Account.

Whilst the general policy is to await the completion of costing before reimbursing the Factory Trust Account, it is permissible to make this reimbursement at an earlier time if a temporary shortage of Factory Trust Account funds occurs. However, unless the prior approval of Central Finance Branch is obtained for some other arrangement, reimbursement before the completion of costing shall be limited to a quarter of the estimated reimbursable expenditure for the period and shall not be effected before the end of the period.

The payment policy in relation to In-Aid Suppliers is that claims from Private Industry are payable within 4 weeks from lodgement whilst Departmental claims are payable within 2 weeks from lodgement. Where a shortage of funds would otherwise prevent adherence to the payment policy, application is to be made to the Central Finance Branch through the Munitions Supply Division for a temporary increase in the allocation of the MPTA local segment.

Claims are raised by each Prime Contractor directly and require that payment be made direct to the Factory. Receipts are banked to the credit of the local Munitions Production Trust Account. Prime Contractors are responsible to progress debtors to ensure prompt settlement of claims and maintain the liquidity of the local Munitions Production Trust Account.

The balance of funds available under the MPTA system does not affect the action of claiming promptly and directly for known expenditure in accordance with sub-para (c) of the timetable prescribed in Al 11.12.9, whether or not such expenditure has been charged against MPTA funds. This applies to Prime Contractor expenditure, Departmental Factories' In-Aid expenditure and In-Aid supplies from industry.

Each month a forecast of each factory's MPTA requirements is made and advice forwarded to the Controller (MSD) as to the total funds required in the next month. The funds requirement is to be estimated on the basis that total Factory Trust Account expenditure is to be reimbursed by the end of the accounting period following that in which the expenditure was met, i.e. the bulk of the expenditure and the remainder within the following week or so. AI's 11.12.6 and 11.12.7 provide full details of the factory funds forecast and the accounting report to be forwarded.

The Controller examines the funds forecasts forwarded from Prime Contractor Factories and advises Central Finance Branch of the requirements for the coming month (refer AI 11.12.8). Similarly, the Central Finance Branch performs a monthly review of departmental MPTA funds requirements before effecting variations to the current allocations of MPTA.

11.12.2 The following is the list of Accounts to be kept in the MPTA Control Ledger:-

Trust account Liabilities

1. Trust Fund Provided

Trust Account Assets

2. Trust Account Cash
3. Recoverable Expenditure
4. Debtors
5. Recoveries in Progress

Particulars of the principal transactions affecting each Control Ledger Account are set out hereunder.

The purpose of this Account is to record the amount of the Munitions Production Trust Account allocated to a factory by Central Finance Branch. Variations are effected by use of Trust Fund Credits.

DEBIT this Account with -

Decreases in the Munitions Production Trust Account segment of the factory as effected by Trust Fund Credits issued by Central Finance Branch.

CONTRA: Trust Account Cash Account.

CREDIT this Account with -

Increases in the Munitions Production Trust Account segment of the factory as effected by Trust Fund Credits issued by Central Finance Branch.

CONTRA: Trust Account Cash Account.

The balance on this Account at the end of each financial year shall be carried forward to the ledger Account for the next year's transactions.

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11.12.1  
(Cont'd)

11.12.2  
LIST OF MPTA  
CONTROL LEDGER  
ACCOUNTS

ACCOUNT NO 1  
TRUST FUND  
PROVIDED

11.12.2  
(Cont'd)

ACCOUNT NO 2  
TRUST ACCOUNT  
CASH

The purpose of this Account is to record the transactions on the Trust Account segment allocated to the factory including:-

- (a) Increases or decreases in the Trust Account segment as effected by Trust Fund Credits issued by Central Finance Branch;
- (b) A Prime Contractor's own expenditure carried in its Working Capital Trust Account until costed and then transferred by Finance Journal Entry against the MPTA segment;
- (c) Payments to In-Aid Suppliers.

DEBIT this Account with -

- (a) Increases or decreases in the Trust Account segment as effected by Trust Fund Credits issued by Central Finance Branch.

Note: Decreases shall be entered in red.

CONTRA: Trust Fund Provided Account.

- (b) All amounts received from the Services in respect of claims raised.

CONTRA: Debtors Account.

CREDIT this Account with -

- (a) Costed expenditure (transferred by Finance Journal Entry from Factory Working Capital);
- (b) Payments made to In-Aid Suppliers.

CONTRA: Recoverable Expenditure Account.

The balance of this Account will represent the amount of cash available in the Trust Account and must be agreed with the balance recorded in the Appropriation Ledger each accounting period.

The balance on this Account at the end of each financial year shall be carried forward to the ledger Account for the next year's transactions.

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11.12.2  
(Cont'd)

ACCOUNT NO  
RECOVERABLE  
EXPENDITURE

The purpose of this Account is to record expenditure on Production Orders and the recovery thereof.

DEBIT this Account with -

The accounting period total of recoverable expenditure on Service Production Orders, authorised on Finance Form 22A and Finance Journal Entry.

CONTRA: Trust Account Cash Account.

CREDIT this Account with -

The amount of Debit Notes rendered on Debtors for recoverable expenditure.

CONTRA: Debtors Account.

NOTE: Recoveries are not to exceed funds available on Production Orders or amendments thereto. Funds available will be allocated firstly to meet the full amount payable on In-Aid orders and the balance to fund the work carried out by the Factory. Any overall loss on an order will thus be carried in the Factory's Working Capital Trust Account.

The purpose of this Account is to record transactions with debtors.

ACCOUNT NO 4  
DEBTORS

DEBIT this Account with -

- (a) Accounting period total of MPTA Debit/Credit Notes raised.

CONTRA: Recoverable Expenditure Account.

- (b) The transfer from Recoveries in Progress to Debtors as per recurring Journal Entry No 6.

CONTRA: Recoveries in Progress Account.

CREDIT this Account with -

The accounting period total on MPTA cash receipts from debtors as per the Receivers Cash Book.

CONTRA: Trust Account Cash Account.

NOTE: Payments of claims by the Services shall be identified by the Receiver of Public Moneys on the Receiver's Statement as Munitions Production Trust Account - Receipts.

AMDT 11 (2/83)

The balance on this Account, representing the amount of outstanding Debit/Credit Notes due by Debtors, must be agreed with the balance shown on the statement furnished by the Officer-in-Charge Debtors' Accounts, in accordance with Instruction 11-12-5 each Accounting Period.

The debit balance on this Account at the close of each financial year shall be carried forward to the ledger Account for the next year's transactions.

The purpose of this Account is to record claims raised for the period, but despatched after the end of that period, ie those claims listed on Part 2 of the Debit Note Register (refer A1 1.13.12(3)).

ACCOUNT NO 5  
RECOVERIES  
IN PROGRESS

DEBIT this Account with

The total amount of claims listed in Part 2 of the Debit Note Register.

CONTRA: Recoverable Expenditure Account.

CREDIT this Account with

The balance in the Account at the beginning of the period per Recurring Journal No 6, Transfer of Recoveries in Progress.

CONTRA: Debtors Account.

The balance on this Account at the end of each financial year shall be carried forward to the ledger Account for the next year's transactions.

11.12.3 The recurring journal entries to be prepared each accounting period are as follows:-

11.12.3  
MPTA  
RECURRING  
JOURNAL  
ENTRIES

The journal entry for cash receipts is -

Trust Account Cash	Dr.	
Debtors		Cr.

(1) CASH  
RECEIPTS

Being cash received for period ended .....

This journal entry is prepared by the Control Ledgerkeeper from examination of the Receivers Cash Book.

The journal entry for cash payment is -

Recoverable Expenditure	Dr.	
Trust Account Cash		Cr.

(2) CASH  
PAYMENTS

Being expenditure as per Forms 22A for the period ended .....

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11.12.3  
(cont'd)

This journal entry is prepared by the Control Ledgerkeeper from dissection of expenditure provided by the Officer-in-Charge, Creditors' Section.

The journal entry for Finance Transfer Accounts is

Recoverable Expenditure Dr.  
Trust Account Cash Cr.

Being Finance Transfer Accounts for the period ended .....

This journal entry is prepared by the Control Ledgerkeeper from Transfer Accounts prepared transferring expenditure from the Factory Working Capital to the MPTA segment.

The journal entry for debtors is -

Debtors Dr.  
Recoverable Expenditure Cr.

Being Debit Notes rendered for period ended .....

This journal entry is prepared from a statement provided by the Officer-in-Charge, Debtors' Accounts, from a dissection of MPTA Debit/Credit Notes for the period as recorded in Part 1 of the Debit/Credit Note Register (refer Al 1.13.12). It records claims raised in the period and despatched by the end of that period.

The journal entry for recoveries in progress is

Recoveries in Progress Dr.  
Recoverable Expenditure Cr.

This journal entry is prepared by the Control Ledgerkeeper from a statement provided by the Officer-in-Charge, Debtors' Accounts from a dissection of MPTA Debit/Credit Notes for the period as recorded in Part 2 of the Debit/Credit Note Register. It records claims raised for the period but despatched after the end of that period.

The journal entry for the transfer of recoveries in progress is -

Debtors Dr.  
Recoveries in Progress Cr.

This journal entry is prepared by the Control Ledgerkeeper concurrently with journal entry No 4 and transfers the recoveries in progress to the debtors account. This journal entry, however, is dated and processed as a journal entry for the following Control Ledger period.

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FINANCE  
(3) TRANSFER  
ACCOUNTS

(4) DEBTORS

(5) RECOVERIES  
IN PROGRESS

(6) TRANSFER OF  
RECOVERIES  
IN PROGRESS

11.12.4 Subsidiary records shall be maintained as follows:

The segment of the MPTA allocated to the factory by Trust Fund Credits from Central Finance Branch shall be entered in the section of the Appropriation Ledger in which the transactions of the local MPTA are recorded. Any increases or decreases in the allocation by Central Finance Branch shall be entered in accordance with normal practice and balances shown. The MPTA segment is not to be overdrawn.

For each Production Order Prime Contractors maintain a Service Order Summary Card on which is recorded:-

Production Order number (Departmental Reference No.)

Service Purchase Order Number

Procurement Demand Number

Address for Rendition of Claims

Description of Store

Value of Production Order - Original and as amended

Payments to Departmental Factories for In-Aid Supplies

Payment to Industry for In-Aid Supplies

Costed Expenditure

Progressive Total Expenditure

Claims on Services

Progressive Claims

Balance (normally Nil)

Each accounting period the total of amounts unclaimed shall be reconciled with the control total.

A Debtors Ledger to record transactions with Service Departments is maintained separately from but in the same manner as the Factory Working Capital Debtors Ledger.

Each accounting period the total of a machine listing of unpaid notes is agreed with the Control total.

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APPROPRIATION  
LEDGER (REF:  
ACCOUNTS 1 & 2)

SERVICE ORDER  
SUMMARY CARDS  
(REF: ACCOUNT 3)

MPTA DEBTORS  
RECORDS  
(REF: ACCOUNT 4)

11.12.4  
MPTA  
SUBSIDIARY  
RECORDS

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11.12.5 Each accounting period the Control Ledgerkeeper shall effect the following reconciliations between Control Ledger Accounts and subsidiary records:-

Trust Account Cash (Account 2) Each accounting period the balance on this account shall be reconciled with the balance for the MPTA segment in the Appropriation Ledger

Recoverable Expenditure (Account 3) Each accounting period the balance on this account (if any) shall be reconciled with amounts unclaimed as per Service Order Summary Cards.

Debtors (Account 4) Each accounting period the balance of this account shall be reconciled with the control total maintained by the Officer-in-Charge, Debtors Accounts.

11.12.6 Each factory shall carry out a funds review during each accounting period and determine the amount which is required in its Munitions Production Trust Account to meet payments falling due in the next accounting period. Forecasts shall be obtained from In-Aid Suppliers of their projected claims and receipts from Services in payment of claims shall be estimated. A factor of not more than 5 weeks shall be allowed to cover the period from rendition of claims to receipt of payment.

This funds forecast will be included in the Accounting Report as required by AI 11.12.7.

11.12.7 At the end of each calendar month two copies of an Accounting Report (Appendix No 1) shall be submitted to the controlling Division and one copy to Central Finance Branch. The Report shall include:-

- (a) A Funds Forecast for the next period
- (b) A Funds Disposition comparing the forecast and actual figures for the period just finished and giving the forecast figures for the next period.
- (c) Explanation of significant variations between the forecast and actual figures for the period just finished.
- (d) Details of the final despatch of claims for the period prior to the period just finished.
- (e) A columnar statement (in duplicate) of daily cash balances for the period just finished in respect of:
  - (i) Factory Trust Account
  - (ii) Munitions Production Trust Account
  - (iii) Combined total daily balance for both Trusts Accounts
  - (iv) The dates on which transfers between MPTA and Factory Trust Account occurred and the value thereof.

This statement can be in the form of photocopies of workpapers, e.g. roneoed forms compiled by hand on a daily basis.

11.12.5  
MPTA  
RECONCILIATION  
OF SUBSIDIARY  
RECORDS

11.12.6  
FACTORY REVIEW  
MPTA FUNDS

11.12.7  
MPTA  
ACCOUNTING

11.12.8 The controlling Division has the responsibility of reviewing MPTA funds allocated to the factory segments and of managing the total MPTA funds.

One copy of the Accounting Report submitted by the factories in accordance with AI 11.12.7 shall be attached to the Divisional Review.

11.12.9 The Accounting System shall be so arranged that the following timetable shall be achieved:-

- (a) In-Aid Suppliers to claim in time for their claims to be processed and paid by about the middle of the third week of an accounting period.
- (b) Prime Contractor's costs to be finalised and the bulk journalised by mid-week of the third week of a period with the remainder being journalised by the end of the fourth week of the period.
- (c) Claims to be rendered by the end of the third week of the next accounting period.
- (d) Accounting Report to reach the Munitions Supply Division by the Thursday of the first week of the next accounting period.
- (e) MPTA Debtors Statement in accordance with AI 1.13.56 to reach the Munitions Supply Division within 7 working days of the end of the period.
- (f) Divisional Summary of Accounting Reports to reach Central Finance Branch by the Thursday of the second week of the next accounting period.
- (g) Allocations to be provided to factories by the beginning of the third week of an accounting period.

11.12.8  
DIVISIONAL  
REVIEW  
MPTA FUNDS

11.12.9  
MPTA  
ARRANGEMENTS  
TIMETABLE

M.P.T.A. Accounting Report ..... as at / /

COLUMN 1	COLUMN 2 Actual Previous Period / /	COLUMN 3 Actual Report Period / /	COLUMN 4 Forecast Next Period / /
	\$	\$	\$
1. Trust Account Provided			
2. Less:- Opening Balances of:			
3. Debtors			
4. Recoveries In Progress			
5. Recoverable Expenditure			
6. Advances made to others			
7. Plus:- Advances claimed from others			
8. TRUST FUND CASH			
TRUST ACCOUNT Increase/(Decrease) before date of Line 12 occurring Date	/ /	/ /	XXXXXXXXXX XXXXXXXXXX
10. Less:- Expenditure to date of MIN. Bal.			
11. Plus:- Receipts to date of MIN. Bal.			
12. Minimum Balance TF Cash and Date occurring	/ /	/ /	/ /
13. Less:- Balance of Expenditure			
14. Plus:- Balance of Receipts			
15. TRUST ACCOUNT Increase/(Decrease) after date of Line 12 occurring Date	/ /	/ /	XXXXXXXXXX XXXXXXXXXX
16. TRUST FUND CASH (end of period)			
17. Plus:- Closing balances of:			
18. Debtors			
19. Recoveries In Progress			
20. Recoverable Expenditure			
21. Advances made to others			
22. Less:- Advance claimed from others			
23. TRUST ACCOUNT PROVIDED			
24. ADDITIONAL (SURPLUS) FUNDS	Date required (Occurring) / /		\$
25. Debtors Ratio (Normal days)	days	days	days
26. Remarks		ACCOUNTANT / /	
Attachment:- Age analysis of Debtors Balance (Line 18)			

PREPARATION OF M.P.T.A. ACCOUNTING REPORT

FORMAT:

The report provides details of M.P.T.A. balances and transactions for the previous period (Column 2), the current period (Column 3) and a forecast for the next period (Column 4).

Lines 1 to 8 are the opening ledger balances for the period.  
Lines 9 to 15 are transactions for the period.  
Lines 16 to 23 are the closing ledger balances for the period.

Explanatory Notes

Lines 6, 7, 21, 22 Inter-segment advances. This will not apply to most establishments.  
Lines 10 and 13 Expenditure. (Expenditure and receipts are apportioned  
Lines 11 and 14 Receipts. (to derive the minimum cash balance for the period).

Check Balances:

- (a) Line 1 less (Lines 3, 4, 5, 6) plus Line 7 = Line 8
- (b) Line 8 plus or minus Line 9 Less Line 10 + Line 11 = 12
- (c) Line 12 minus Line 13, plus Line 14, plus or minus Line 15 = Line 16

The closing balances of lines 16 to 23 will become the next column's opening balances as lines 1 to 8.

APPENDIX E

LIST OF WITNESSES AND OBSERVERS

The Munitions Production Trust Account was made the subject of a public inquiry at Parliament House, Canberra, on 11 September 1985.

The following witnesses were sworn or made an affirmation and were examined by the Committee at the public hearing:

Mr F R Harvey	First Assistant Secretary Financial Services and Audit Division Department of Defence
Mr P G Terrill	First Assistant Secretary Commercial Services Division Office of Defence Production
Mr E Antoney	Acting Assistant Secretary Budgets Accounting and Supply Office of Defence Production
Mr W F Sheehan	Finance Manager Government Aircraft Factories
Mr A P Toohey	Acting Assistant Secretary MURAD Review Branch Office of Defence Production
Mr J C Mulhall	Manager Finance and Management Systems Ammunition Factory Footscray, Victoria

During the public inquiry the Committee was assisted by the following observers:

Mr D Lennie	Australian Audit Office
Ms P Gaughwin	Department of Finance
Ms C Keens	Public Service Board