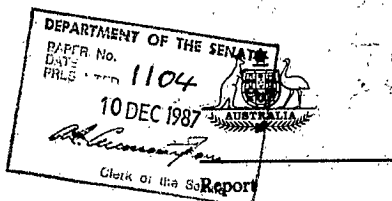


Response to
Report of the
Auditor-General—
April 1985
(Report 248)



283

Joint Committee of
Public Accounts



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

REPORT 283

**RESPONSE TO REPORT OF THE
AUDITOR-GENERAL APRIL 1985
(REPORT 248)**

DEPARTMENT OF FINANCE MINUTE ON
THE COMMITTEE'S 248TH REPORT

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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 Parliament.

(iv)


PREFACE

This report contains the Government's response to the Committee's 248th Report reviewing the Report of the Auditor-General - April 1985.

Since 1952 formal procedures have been in operation to ensure that appropriate action is taken in response to each of the Committee's reports¹. These procedures involve the preparation of a response, known as a Department of Finance Minute, as follows:

1. The Committee's report is tabled in the Senate and the House of Representatives.
2. The Committee's Chairman then forwards a copy of the report to the responsible Minister and to the Minister for Finance with a request that the report be considered and the Chairman subsequently informed of action taken and planned to address the Committee's recommendations.
3. The reply, in the form of a Department of Finance Minute is then examined by the Committee and submitted, with comment if necessary, as soon as possible as a report to the Parliament.

For and on behalf of the Committee.


M J Talberg
Secretary
21 October 1987


R E Tickner, MP
Chairman

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1. Formal responses to the Committee's Reports are not prepared in the case of discussion papers, handbooks and the Committee's report of activities.

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CHAPTER 1

INTRODUCTION AND COMMITTEE COMMENT

1.1 The Committee's 248th Report, which examined the Report of the Auditor-General for April 1985, was tabled in the Parliament on 10 June 1986.

1.2 This report contained the results of the Committee's inquiry following audits into matters affecting several departments and statutory authorities. Based on the administrative arrangements as at September 1986, these were the Departments of Community Services, Defence, Employment and Industrial Relations, Finance, Health, Housing and Construction, Immigration and Ethnic Affairs, Social Security, Territories, Veterans' Affairs as well as Aussat Pty Ltd, the Australian National Airlines Commission, the Australian National Gallery, the Australian National University and the Australian Shipping Commission.

1.3 Most of the conclusions and recommendations of the Committee's 248th Report are included in the Department of Finance Minute which is published as Chapter 2 of this report. In general, the Committee is satisfied with the undertakings offered by Departments and authorities.

1.4 The Committee wishes to reiterate its view on guidelines for the preparation of annual reports that each report should contain information regarding any reviews by the Auditor-General or parliamentary committees which directly affect the department or agency, showing recommendations arising from such reviews and the action taken to address them. The Committee expects to see details of the progress made in respect of the matters raised in this report in the next annual reports of the Departments of Community Services and Health, Social Security and the Australian National University.

1.5 Some matters, however, were not addressed in the Department of Finance Minute. The item concerning Aussat Pty Ltd was not pursued as a satisfactory resolution was made known to the Committee at the time of the inquiry. The Committee also referred the matter relating to the Australian National Gallery to the Senate Standing Committee on Education and the Arts. It should also be noted that two major issues were referred by the Committee to Sectional Committees in the context of other inquiries and were therefore, not discussed in the Minute; ie the Department of Defence, Pave Tack Target Designation System

(referred to the Defence Project Management Sectional Committee) and the Department of Veterans' Affairs, National Computer Centre (referred to the Automatic Data Processing Committee in the context of the Committee's Report 249).

1.6 Some twenty issues were dealt with in Report 248, with significant areas being:

- procedures for the handling of grants by the Department of Community Services under the Children's Services Program;
- the recovery of over-payments by the Department of Social Security;
- the matching of eligibility and entitlements for family allowances; and
- financial records of the Australian National University.

1.7 The Committee found that the Department of Community Services had breached the Child Care Act 1972 in the payment of certain grants to organisations and that financial control over the acquittance of such grants had been poor. The Department advised that the procedures for issuing grants to eligible organisations continue to be revised and improved. The Committee notes that the procedures for handling capital grants under the Children's Service Program in Sydney were raised in the Report of the Auditor-General for March 1987. Whilst acknowledging that several of the deficiencies have been remedied, Audit found that no satisfactory program existed for the inspection of day care centres to ensure that the fee subsidy was being applied correctly and that grants had been spent for approved purposes. The Committee reiterates that it will be looking for continued improvements in the procedures adopted by the Department in the handling of grants to eligible organisations under the Children's Services Program.

1.8 The Committee stated it was very concerned at repeated findings by Audit that revealed either inadequate procedures or non-compliance with procedures related to the recovery of over-payments by the Department of Social Security. The Auditor-General discussed this matter again in Reports of September 1985 and March 1986. The Committee notes that whilst the September 1985 Report advised of improvements in controls over the recovery of over-payments in Western Australia, the results of recent Audits have disclosed problems in the Department's administration of this function and raise doubts as to the effectiveness of departmental remedial action to date. The Committee supports the initiatives introduced by the Department of Social Security to improve its performance in the recovery of over-payments, but would wish to see evidence of the impact of these measures before making an assessment of their effectiveness.

1.9 An error rate in excess of 2% in the payment of family allowance to persons in receipt of unemployment benefits was discovered following an audit of South Australian Offices of the Department of Social Security. The Committee accepted that the introduction of STRATPLAN would go some way towards preventing such errors in future, but also endorsed a system of ongoing selective tests. The Department advised the Committee that a limited review mechanism matching family allowance and unemployment benefit files was instituted and appears to be successful. The Committee supports the development of further procedures at the earliest opportunity which will enable the checking of continuing eligibility and entitlement and expects to be informed of their effectiveness.

1.10 The Australian National University has reformed its financial administration following a number of critical findings by Audit. The Committee notes that progress in this area is reflected in some of the comments of the Auditor-General's Report of March 1987. In future, however, the Committee would wish to see that the University's financial statements comply with the Guidelines approved by the Minister for Finance and the Committee will monitor the other matters raised in the Auditor-General's report.

CHAPTER 2

DEPARTMENT OF FINANCE MINUTE

2.1 This Minute has been prepared on the basis of responses received from the following Departments and Authorities (September 1986 administrative arrangements):

Community Services
Employment and Industrial Relations
Finance
Health
Housing and Construction
Immigration and Ethnic Affairs
Social Security
Territories
Veterans' Affairs
Australian National Airlines Commission
Australian National University
Australian Shipping Commission

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

Department of Community Services

Children's Services Program

Conclusion (paragraph 2.6 of Report 248)

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

Response

2.3 The Reports of both the Auditor-General (April 1985) and the Committee make it clear that the Department of Community Services acknowledged and shared the concerns raised, once it became aware of the reservations about the way in which the replacement equipment grants were made in June 1983. It has also been made clear, in departmental correspondence with the Australian Audit Office and the Committee as well as the Department's submissions, that the grants were made and received in good faith, and that the Department has vigorously pursued action to acquit the outstanding grants and to improve its financial control procedures.

2.4 Subsequent changes to legislation, funding arrangements and procedures mean that the situation which arose in 1983 will not recur. Financial procedures are continuing to be streamlined and improved, both across the Department as a whole and internally within the Office of Child Care.

2.5 The Department is continuing to report to the Audit Office on progress with acquittal of the outstanding equipment grants on a quarterly basis. Since the last report, information has been received on six more services to allow acquittal to proceed. This leaves 9 grants still to be acquitted out of a total of 426 grants. These are the more complex cases and include instances where the conditions of grant were not met or where services have not provided sufficient information for acquittal purposes. The Department is requesting statutory declarations in some cases and, subject to receipt of information, hopes to finalise all outstanding grants as quickly as possible and then proceed to waiver action as necessary.

Conclusion (paragraph 2.7 of Report 248)

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

Response

2.6 As indicated in paragraph 2.4, procedures for issuing grants to eligible organisations continue to be revised by the Department. In January 1985, instructions were issued to all State Offices of the Department to improve the accountability arrangements for equipment grants. Amendments have been made to sections 8,9,10 and 21 of the Child Care Act 1972 in the area of approval of equipment and a revised list of classes of equipment, which took the Audit Office's advice into account, was approved by the Minister in November 1985.

Department of Employment and Industrial Relations

Wage Pause Program

Conclusion (paragraph 2.20 of Report 248)

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

Response

2.7 The Department of Employment and Industrial Relations acknowledges the need for programs such as the Wage Pause Program and Community Employment Program (CEP) to be subject to considerable effort in terms of communication and co-ordination to ensure program objectives are met. The Department has devoted considerable resources to the monitoring of its programs, for example, the regular post program monitoring surveys conducted to gauge the extent of employment outcomes for program participants.

2.8 In addition, the Bureau of Labour Market Research has conducted a formal evaluation of the Wage Pause Program and the Australian Audit Office undertook an efficiency audit covering such areas of the Program as policy formulation, organisational structure, assessment guidelines, management information systems, State/Commonwealth relations and financial control.

Conclusion (paragraph 2.21 of Report 248)

The Committee wishes to draw to the Departments' attention the conclusions and findings in its reports 213 and 246 on income maintenance programs. Specifically, Chapter 7 of Report 213 draws attention to:

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

Response

2.9 The Department of Employment and Industrial Relations has noted the recommendations contained in Reports 213 and 246 and, in implementing Program Budgeting strategies and in the planning for the Department's Management and Policy Directions, it has made significant progress in meeting the standards envisaged by the Committee. The work of the Task Force on Youth Allowance Administration, the Priority One strategies and the initiatives announced in the Budget context relating to the new Aboriginal Employment Development Policy are examples of inter-departmental co-ordination on policies and procedures affecting special groups.

Adult Wage Subsidy Scheme

Conclusion (paragraphs 2.30 and 2.31 of Report 248)

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

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

Response

2.10 On 1 December 1985 the Department of Employment and Industrial Relations introduced a new integrated wage subsidy program called JOBSTART, which subsumed a number of separate wage subsidy schemes including the Adult Wage Subsidy Scheme. The separate schemes had varying eligibility conditions including prior duration of unemployment. Under JOBSTART, the unemployment eligibility conditions were standardised for job seekers of all ages and the program provisions and administration simplified. This standardisation, particularly in respect of the prior duration of unemployment, has led to an improved understanding amongst CES staff as well as job seekers and employers.

2.11 The targeting process has also been further refined and now involves a consultative process whereby State/Territory Offices seek "first bids" at the Zone or Office level in the light of CES registers, vacancies and other local information. These suggested targets are collated at State/Territory Office level for further negotiation with the Central Office of the Department. The process works within overall budgetary constraints and has the added advantage of heightening awareness at the Office level of members of the target group and their needs. At the Central Office level, regular estimates are prepared of the numbers and proportions of the job seekers in the various target group categories.

2.12 In the development and implementation of JOBSTART, close attention has been given to the issues of employer contact with the CES and general employer understanding. For example, to ensure an understanding by employers of the purposes of JOBSTART and associated obligations, self-canvassing cards provided to eligible job seekers now highlight the need for employers to contact the CES before engaging job seekers who approach them.

Department of Finance

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

Conclusion (paragraph 2.37 of Report 248)

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

Response

2.13 The Department of Finance believes that many of the matters raised by the Auditor-General were inter-related and required consideration of policy issues by Government before action could be finalised. The Department has noted the Committee's endorsement of the remedial action taken to satisfy audit requirements for improved control and accounting procedures of employer contributions.

Department of Health

National Acoustic Laboratories

Conclusion (paragraph 2.42 of Report 248)

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

Response

2.14 The Department of Health has confirmed that the unsatisfactory matters referred to have been addressed.

Central Register of Medical Practitioners

Conclusion (paragraph 2.45 of Report 248)

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

Response

2.15 The Department of Health considers that it has taken all necessary actions to redress the matters raised by the Auditor-General. These include:

- A manual covering data processing aspects of the Central Register of Medical Practitioners (CROMP) is in use.
- A second manual covering clerical procedures includes controls aimed at minimising the risk of payments being made to unauthorised persons.
- Communication between Central and Regional Offices has improved markedly. All Regions are sent monthly listings of all update information processed through CROMP. Regions are thereby made aware of all changes affecting them arising from action in other States, as well as receiving acknowledgement of changes they have initiated.

Department of Housing and Construction

Payments to States for Housing Assistance

Conclusion (paragraph 2.52 of Report 248)

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

Response

2.16 The Department of Housing and Construction has noted the Committee's satisfaction with action taken on the matter.

Department of Immigration and Ethnic Affairs

Refugee and Special Humanitarian Programs

Conclusion (paragraph 2.57 of Report 248)

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

Response

2.17 The Department of Immigration and Ethnic Affairs notes the Committee's interest in this matter and is continuing to implement procedures and documentation designed to overcome the weaknesses identified by the Committee.

Department of Social Security

Family Allowance

Conclusion (paragraph 2.63 of Report 248)

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

Response

2.18 Legislative change occurred in relation to family allowances during 1986 resulting in payments for full-time students between 16 and 18 being subject to an income test. In addition, for those 18 to 24 years, payment is now only made if the student is not in receipt of AUSTUDY payments and the parent or guardian is eligible for another social security payment, meets the income test for Family Income Supplement, receives payment under the Aboriginal Secondary Grants Scheme, or receives an income tested Isolated Children's Scheme payment.

2.19 The limited review mechanism which was instituted by the Department of Social Security involves matching family allowance and unemployment benefit computer files. Early in 1987, such a review was undertaken in Victoria and no instances of incorrect entitlement came to notice. Similar projects are to follow in the other States.

2.20 So far as reviews in the future are concerned, three procedures are to be developed which will enable the checking of continuing eligibility and entitlement. They are:

- The annual issue to each allowee of a statement setting out details of the circumstances on which payments are based and requiring any changes to be notified to the department. Development of these arrangements is well advanced.
- Liaison arrangements with the Australian Taxation Office to provide verification of stated income for means testing purposes. This procedure has not yet been developed.
- Risk-based reviews of eligibility and entitlements as part of the National Selective Review System. This procedure will be developed when work is completed on other elements eg age pensions.

2.21 The limited review mechanism which has been instituted is regarded as the most appropriate for the family allowance program given the fact that, on the basis of known risks of incorrect payments, selective review arrangements must first accommodate pension payments. The Audit recommendation has not been ignored; the approach proposed merely recognises the cost effectiveness issues involved.

Family Income Supplement

Conclusion (paragraph 2.67 of Report 248)

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

Response

2.22 The Department of Social Security has amended the Disadvantaged Persons Scheme - Family Income Supplement Users Manual to take account of the concerns raised by the Committee. However, it is considered that the Committee's conclusion may indicate some misunderstanding of the way in which Family Income Supplement legislation operates.

2.23 Eligibility is generally determined on the basis of income in the four weeks prior to claim, although, in the case of self-employed people, income over the previous financial year is averaged on the basis of the tax return. This, then, does not allow a manipulation of income but the timing of an application may be important.

Recovery of Overpayments

Conclusion (paragraphs 2.73 and 2.74 of Report 248)

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

The Committee recognises that many of the problems currently being experienced will be alleviated by the introduction of STRATPLAN, and agrees with Audit that the development of a national index of overpayment cases, or cross matching facility, should receive some priority in STRATPLAN developments. The Committee reminds Departments of its findings in Reports 213 and 246 and will continue to monitor the Departments activities in this area.

Response

2.24 The Department of Social Security has introduced various initiatives to improve its recovery of overpayments performance, including management changes to afford the debt recovery function a more meaningful focus and an increased priority, procedural and systems improvements, and the adoption of direct credit as the prime mode of paying individual entitlements.

2.25 In addition, the Performance Related Information System for Managers (PRISM) provides a range of reports to regional managers. The first version of the regional management element of a screen-based system is being trialled in Tasmania from the first week in August 1987 with the next version being trialled four to six weeks thereafter. The information gathered from this monitoring and feedback process will be incorporated into the system which will be progressively implemented into offices with STRATPLAN facilities as soon as possible thereafter.

2.26 A comprehensive, paper-based monthly overpayments report package is now regularly available for State Overpayments Co-ordinators. The reports provide timely and accurate information for overpayments already identified and those suspected. The additional information gathered as part of the new package will be incorporated into the existing PRISM regional and area management reports.

2.27 Following recent agreement and endorsement by the Staff Associations, implementation of the National Quality Assurance Package is now proceeding.

2.28 With regard to the setting of repayment rates, the Department has taken steps to improve them both by way of withholding from benefit and by cash refund.

Double Orphans' Pensions

Recommendation (paragraph 2.78 of Report 248)

The Committee recommends that this course (see paragraph 2.29 below) be pursued in order to comply with the legislation and to maintain the flexibility required by the Department (parenthesis added).

Response

2.29 The Auditor-General, in his April 1985 Report, commented on the practice of the Department of Social Security effecting changes in entitlements at the beginning of a subsequent period as opposed to on the date claimants' circumstances change. The Department had agreed to consider recommending amendment of the Social Security Act to provide that eligibility will cease at the end of the relevant period or from an earlier date in special circumstances.

2.30 During 1986, the Social Security Act was amended to cater for the situation where children who have been attracting the Double Orphans' Pension move from one person to become the dependent child of another person. The legislation now provides that payment to the "new" person commences from the next Family Allowance period, except where the Secretary of the Department of Social Security determines that special circumstances exist. If they do exist, payment can commence from the date the child became a dependent child of the "new" person.

Department of Territories

Administration of the Commissioner for Housing Loans Scheme

Conclusion (paragraph 2.89 of Report 248)

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

Response

2.31 The Department of Territories has noted the Committee's continued interest in the operation of the Scheme. The Steering Committee which was established to implement the revised systems and procedures continues to meet on an ad hoc basis.

Department of Veterans' Affairs

Pension Overpayment and Other Debtors

Conclusion (paragraph 2.98 of Report 248)

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

Response

2.32 The Department of Veterans' Affairs has actively pursued solutions in the area of overpayments on a wide range of fronts. It set up a review team which conducted a detailed examination of policies, procedures and delegations relating to pension overpayments, with a view to formulating improved procedures and policies in this area and to rectifying problems identified by the Australian Audit Office.

2.33 The work of the review team was picked up by the Block Efficiency Scrutiny Unit. The Government has endorsed the recommendations of the Overpayments Efficiency Scrutiny and they will be implemented within the twelve month framework set by the Government. In general terms, the Scrutiny recommended that the Commonwealth reduce the number of excess payments and increase the level of overpayment recovery by reducing delays in processing pension reductions, adopting commercial business practices for recoveries, improving the management of overpayment recoveries, and reducing the number of overpayments resulting from the death of beneficiaries.

Australian National Airlines Commission

Freight Revenue

Conclusion (paragraph 2.103 of Report 248)

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

Response

2.34 The Australian National Airlines Commission has noted Audit's views and will continue to exercise due vigilance in protecting its revenue but, as noted by the Auditor-General, the Commission's view is that the cost of tightening controls on freight revenue would outweigh any benefits that might be achieved.

Australian National University

Financial Records and Transactions

Conclusion (paragraph 2.110 of Report 248)

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

Response

2.35 The Australian National University has noted the Committee's satisfaction with the progress in the reform of its financial administration, including the redesigning of the University's financial statements and improvements in the supporting documentation and working papers, and enhancement of the mainframe computer and network system used for administrative computing.

Australian Shipping Commission


Capital Equipment

Conclusion (paragraph 2.118 of Report 248)

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

Response

2.36 The Australian Shipping Commission has noted the Committee's satisfaction with the response to the matters raised by the Auditor-General.


M S KEATING
SECRETARY
Department of Finance