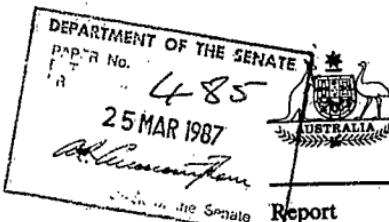


Response to
Munitions
Production
Trust Account
Report



Joint Committee of
Public Accounts



THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

REPORT 268

RESPONSE TO MUNITIONS PRODUCTION TRUST ACCOUNT REPORT

(DEPARTMENT OF FINANCE MINUTE ON THE COMMITTEE'S 244TH REPORT)

Australian Government Publishing Service
CANBERRA 1987

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on Expenditure

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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.

This report contains the Government's response to the Committee's 244th Report on the Munitions Production Trust Account.

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.

The Committee welcomes the Government's response to the 244th Report. The response is timely and implements the Committee's recommendations, in particular the recommendation that the Munitions Production Trust Account be abolished. The Finance Minute also responds to the Committee's recommendation 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.

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

The 'Guidelines for the Preparation of Departmental Annual Reports' mentioned in the Finance Minute herein have been analysed in the Committee's 262nd Report - Guidelines for Annual Reports.²

For and on behalf of the Committee.



R E Tickner, MP
Chairman



M J Talberg

Secretary
Joint Committee of Public Accounts
Parliament House
Canberra
25 February 1987

² PAC Report 262 was tabled on 27 November 1986 (House of Representatives) and 28 November 1986 (Senate).

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CHAPTER 1
SUMMARY OF THE COMMITTEE'S 244TH REPORT

1.1 Tabled on 19 March 1986, (Parliamentary Paper 32/86) this report resulted from the Committee's inquiry into the Munitions Production Trust Account following unfavourable comments made by the Auditor-General in his September 1984 Report.

1.2 The Munitions Production Trust Account was created in 1956 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 Account was in effect a holding account financing the production of munitions. It enabled factories to obtain reimbursement for production undertaken in advance of payment from the Department of Defence or overseas customers.

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

1.5 Since its creation the Account has served three main purposes:

- to reimburse, with monthly progress payments, the cost of work undertaken for the Department of Defence pending settlement;
- to reimburse factories satisfying overseas orders; and
- to effect transactions other than those related to Department of Defence and overseas orders.

1.6 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.

1.7 The Committee's inquiry examined a number of matters related to the operation of the Munitions Production Trust Account including instances of outstanding vouchers for goods received, the loss of 1981-82 records for the ACT segment of the Account, the lack of comprehensive instruction manuals on the operation of the Trust Account, the absence of several segment holders closing balances for the Account and incorrect retention of on cost provisions and profits from the overseas segment of the Account.

1.8 The Committee's inquiry examined the possibility of, and subsequently recommended, 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 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 agreed that double accounting occurs and causes additional administrative costs.

1.9 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 found that the Department of Defence was not correct in arguing that informative financial statements were available, particularly to the Parliament and other interested parties.

1.10 Overall the Committee found that Munitions Production Trust Account had not been managed well over recent years with financial records being lost and important procedures not followed. The Committee believed 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.

1.11 The level of reporting to the Parliament on the operation of the Trust Account was 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.

1.12 The Committee therefore recommended that the level of reporting on trust accounts be improved so as to provide more detailed information to the Parliament on their financial operation and position.

1.13 The Committee felt that, as the Department of Defence was seeking to make its munitions factories more commercially oriented, with improved financial statements and a better commercial pricing policy, it was inappropriate to maintain the Munitions Production Trust Account.

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

1.15 The Committee therefore concluded that there were no cogent reasons for continuing the Munitions Production Trust Account and recommended that it be abolished and a report on consequential arrangements be produced.

CHAPTER 2

DEPARTMENT OF FINANCE MINUTE

2.1 This Minute has been prepared by the Department of Finance and incorporates a report prepared jointly by the Departments of Finance and Defence.

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

Recommendation (paragraph 4.4 of Report 244)

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.

Response

2.3 Finance has been closely involved with the Department of the Prime Minister and Cabinet in reviewing the "Guidelines for the Preparation of Departmental Annual Reports". In the course of the review, Finance has proposed changes which have the effect of requiring an improved level of reporting (especially in respect of financial and resource management) of trust account activities so as to provide more detailed information to the Parliament and the public. The Department of the Prime Minister and Cabinet has endorsed the proposed changes.

2.4 Pursuant to sub-section 25(7) of the Public Service Act, the revised Guidelines have been submitted to the Committee for its consideration. Following this consideration the Prime Minister will present the Guidelines to the Parliament.

Recommendation (paragraph 4.9 of Report 244)

The Munitions 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.

Response

2.5 The Departments of Finance and Defence have agreed on arrangements and procedures required to implement the Committee's recommendation to abolish the MPTA. Proposed action to be taken will encompass the following:

- a. the MPTA will be abolished. Its closure and the consequential changes to individual factory trust account balances will be processed in accordance with the Audit Act. Any portion of the MPTA working capital advance assessed as being in excess of requirements is to be repaid to the Consolidated Revenue Fund;
- b. Office of Defence Production (ODP) establishments will no longer be able to charge their Department of Defence debtors to MPTA and will consequently carry the debt in their own working trust accounts. This may result in additional requirements for working capital for some or all establishments. A close examination of individual factories' working capital needs will be required at the time of abolition of the MPTA to ensure that working capital is matched to the actual level of debtors existing at that time;
- c. in conjunction with factories and establishments, ODP Head Office is reassessing the level of working capital required and the consequential adjustments arising out of the closure of the MPTA. Any funds required for existing trust accounts in excess of those available for distribution from MPTA would be included in the 1986/87 Additional Estimates - Appropriation Bill No 3. Defence's preliminary assessment is that the additional working capital required could be met from the MPTA. The overseas segment is being assessed separately and any additional funds required would depend on the value of overseas transactions outstanding at the time. Finance's view is that no case has yet been made for an overall post-MPTA increase in working capital but Finance will closely examine the issue on its merits at Additional Estimates time;
- d. procedures for the control of debtors will be reviewed to ensure that they continue to accord with the Audit Act and Finance Directions. These procedures will then be reissued to establishments. Emphasis will be placed on the need for efficient debt recovery as a means of minimising demands on working capital; and
- e. comprehensive procedures for the treatment of overseas orders are being developed. These orders vary significantly from Department of Defence orders in a number of areas eg method of progress payments,

milestone achievements, loadings and oncosts. Administration of overseas orders include dealing with such matters as letters of credit, exchange variations and the management of delinquent debtors.

2.6 In developing instructions for decentralised management of overseas orders, Defence will need to take special account of the following:

- a. all new overseas orders will be administered by prime contractor factories. Even so, spreading the small number of overseas orders between these will result in infrequent opportunities to exercise skills in some complex areas of administering overseas orders. The devolution of these responsibilities to factories will require documented procedures of the highest possible standard; and
- b. processing of overseas orders has required Head Office marketing staff to have ready access to MPTA records. Abolition of a centrally-managed MPTA will require new arrangements to ensure continued access by marketing staff to the decentralised data.

2.7 The costs and benefits of the proposed changes are considered to be as follows:

Benefits

- (i) simplification of accounting systems in each factory where accounts are presently kept for the MPTA and for the factory's own trust account;
- (ii) the accounting systems will be allowed to produce more realistic financial statements eg debtors will no longer be transferred out of individual factory trust accounts to the MPTA. The real level of debtors will be shown in individual factory financial statements;
- (iii) Finance believes that the abolition of the MPTA will make individual factories more accountable for recovering outstanding debts and for cash management generally, thus providing greater incentive to reduce working capital requirements; and
- (iv) individual factories' access to working capital will be restricted to funds specifically appropriated for that purpose. In Finance's view, this will strengthen accountability for the factories' use of working capital advances and for their operating performances.

Costs

- (i) ODP establishments will not have access to a central pool of funds which can be transferred to those establishments which are experiencing short term cash flow deficiencies. This reduces flexibility but there are remedies through regular procedures. Any funds to cover such short term problems will need to be obtained from appropriation or, if of an urgent or unforeseen nature, from the Advance to the Minister for Finance pending appropriation.

2.8 Advances have been made from the overseas segment of the MPTA to individual factories from anticipated profits from payments against uncompleted orders. This practice will cease with the abolition of the MPTA. If, as Defence considers, it can be demonstrated that additional funds will be required to replace such advances, these funds should be justified and if necessary provided by appropriation as part of normal Budget or Additional Estimates arrangements.

2.9 The Departments of Defence and Finance have agreed upon the process by which the MPTA will be ended and proposed that the timing be such as to mesh with Additional Estimates procedures. It is anticipated that the ODP establishments' need for working capital will be assessed during the 1986/87 Additional Estimates review and suitable working capital adjustments made at individual establishments through appropriations.

2.10 Defence intends that this timing would apply to the overseas segment but notes that there may be some difficulty with ending and/or transferring the responsibilities for some existing overseas orders to the establishments. The Departments of Defence and Finance will consult further on this aspect prior to the Additional Estimates review.

P.J. Barrett
Acting Secretary
Department of Finance