

THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA

JOINT COMMITTEE OF PUBLIC ACCOUNTS

DEPARTMENT OF THE SENATE
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REPORT 294

FIVE EFFICIENCY AUDITS

- . Army Mapping
- . Principal Item Stock Control
Entitlement System
- . Licensing and Administration
of Customs Agents
- . Administration of Meat Inspection
Services
- . Offshore Petroleum Royalties and Excise

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**JOINT COMMITTEE OF PUBLIC ACCOUNTS
SIXTEENTH COMMITTEE**

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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.

Preface

This Report covers five efficiency audits of the Auditor-General presented to the Parliament in the period June 1986 to June 1987. These audits cover a diverse range of subjects such as Army mapping, stock control, customs agents, meat inspection and offshore petroleum royalties and excise.

With the exception of the outstanding matters mentioned below, the Committee is satisfied that departments and agencies have responded positively to the Auditor-General's findings.

The Committee noted that some departments and agencies had advised that they are, or would be, undertaking reviews of matters relevant to issues raised by the Auditor-General. In respect of reviews that are outstanding, the Committee was not able to make a complete assessment of whether deficiencies raised by the Auditor-General are being dealt with appropriately.

The Committee has not received advice on the outcomes of the following:

DEPARTMENT OF DEFENCE

- . Review of the size and structure of the Royal Australian Survey Corps (RASvy).
- . Review of data base accuracy requirements for Army Mapping.

AUSTRALIAN CUSTOMS SERVICE

- . Examination of self regulation of customs agents.

DEPARTMENT OF PRIMARY INDUSTRY AND ENERGY

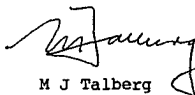
- . Examination of the application of fee-for-service arrangements to off-slaughter floor (ancillary) meat inspection services (proposal expected during 1989).
- . Consideration by the Meat Industry Advisory Committee in late 1988 of the departmental feasibility study on a computer based export documentation system.
- . Systems review of procedures and methods in relation to offshore petroleum royalties and excise (expected to be completed by end of 1988).

The delay in finalising these matters is of concern to the Committee. The Committee is particularly interested in the Department of Defence's review of the Royal Australian Survey Corps (RASvy) and related matters concerning Army mapping which was expected in mid 1988, and the Australian Customs Service's proposal on the self regulation of customs agents which was scheduled for 1 July 1988 but now expected by the end of 1988.

The Committee expects to receive early advice on these outstanding matters.



R E Tickner, MP
Chairman



M J Talberg
Secretary
Joint Committee of Public Accounts
Parliament House
CANBERRA
23 November 1988

CONTENTS

1. Introduction	1
2. Department of Defence	
Army Mapping	2
3. Department of Defence	
Principal Item Stock Control and Entitlement System (PISCES)	7
4. Australian Customs Service	
Licensing and Administration of Customs Agents	10
5. Department of Primary Industry	
Administration of Meat Services by the Export Inspection Service	15
6. Department of Resources and Energy	
Offshore Petroleum Royalties and Excise	18

Chapter 1

INTRODUCTION

1.1 It is the statutory duty of the Public Accounts Committee to examine all the reports of the Auditor-General, including efficiency audits. However, some efficiency audits are examined by other committees of the Parliament.

1.2 The Australian Audit Office received formal authority to conduct efficiency audits following amendment of the Audit Act in 1979. Efficiency auditing, as practised by the Audit Office, is concerned with the assessment of the efficiency of the administrative systems and processes employed by departments and agencies in the deployment and use of financial, staffing and other resources. It includes the procedures existing in the audited organisation for reviewing the efficiency and economy of its own operations in achieving the objectives specified by government.

1.3 When reviewing an efficiency audit, the Committee may examine both the substance of comments made in the Audit Office report as well as the manner in which the efficiency audit was carried out.

Chapter 2

DEPARTMENT OF DEFENCE: ARMY MAPPING

Introduction

2.1 Army mapping is carried out by the Royal Australian Survey Corps (RASvy) which is responsible for field surveys and the compilation, printing, storage and distribution of maps and survey intelligence for the Australian Defence Force. RASvy also compiles and produces aeronautical charts for the Royal Australian Air Force and prints hydrographic charts for the Royal Australian Navy.

2.2 RASvy shares responsibility for the mapping of Australia with other Commonwealth and State agencies. A major review of Australia's topographic mapping facilities was submitted to the then Public Service Board by Professor Richardson in July 1986.

2.3 Follow-up action on Professor Richardson's report was largely overtaken by the changes to the Administrative Arrangements announced by the Prime Minister in July 1987. In particular, the former Division of National Mapping (NATMAP) of the Department of Resources and Energy has been transferred to the Department of Administrative Services where it is being integrated with the Australian Survey Office to form the Australian Surveying and Land Information Group (AUSLIG).

Audit Findings

2.4 The Auditor-General's Report on an Efficiency Audit Department of Defence: Army Mapping was tabled in the Parliament on 4 June 1987. The report examined the general efficiency of the map-making process carried out by RASvy, with particular reference to the effectiveness of RASvy's automated mapping system (AUTOMAP) and the arrangement between Army and RAAF for the provision of aerial photography used as the basis for map making.

2.5 The major audit finding was that map production has fallen well short of objectives. In particular, Defence Priority mapping areas would not be completed within the proposed time frame of 15 years, ie 1998. The delay arose due to problems with the second phase of AUTOMAP (AUTOMAP II). Definitional problems and other inadequacies of the AUTOMAP II contract led to acquisition and commissioning problems resulting in the expected major benefits of AUTOMAP not yet being realised. Another major factor in the map production delay was the use of inappropriate aircraft and their operation outside optimum periods which reduced the quality and quantity of aerial photography obtained by RASvy.

2.6 Audit also noted that:

- a long delay in the Department's decision on long-term photo survey requirements led to uneconomic interim aircraft leases;
- uncertainty over the continued occupancy by the Army Survey Regiment at Bendigo contributed to the run-down of facilities and resulted in inadequacies in accommodation, maintenance and security;
- deficiencies existed in the planning and monitoring process, the map production management system and the management information system; and
- technical problems with the photography had adverse implications for the digital data bases required for modern weapons systems, although maps have been produced to acceptable standards.

2.7 Audit made 18 recommendations, two of which focus on RASvy's main objective and are considered by Audit to be the most important, ie:

- the Department review the practicability and continuing relevance of the time frame proposed by the Joint Mapping and Charting Group (JMCG) for completion of Defence Priority Areas 1,2 and 3; and
- RASvy's annual Tasking Directives be reconciled with the annual production requirements agreed to by JMCG.

Departmental Response

2.8 The Department of Defence generally accepted the audit findings and has responded positively to most of the recommendations. Further action is largely dependent on a review of the size and structure of RASvy. The Department of Defence has advised the Committee (in its most recent submission of November 1988) that the review of RASvy has been completed and its major recommendations have been supported by the Chief of the General Staff's Advisory Committee. The review has yet to be considered by the Secretary and the Chief of the Defence Force. The public statement by the Minister for Defence that the Survey Regiment would remain at Bendigo has resolved several issues raised by Audit.

2.9 The Department of Defence considers that the Army will complete the initial coverage of Priority Areas 1 (North West Australia) and 2 (North and West Australia) at 1:50,000 scale in 10 to 12 years (ie 1998 to 2000). This is based on increasing the annual output of maps from 150 to 170 per year. The level of output will be achieved through more intensive utilisation of AUTOMAP II equipment with some additional manpower and computing resources. The mapping of Priority Area 3 (South West Australia) is considered by the Department of Defence to be of significantly less priority than Priority Areas 1 and 2 and the timescale for its completion is for future consideration.

2.10 The structure of Tasking Directives and reconciliation with RASvy's objectives have been adjusted and improved.

2.11 The Department has advised that many of the problems with the AUTOMAP II contract awarded in 1981 are unlikely to recur. Improved procedures for drafting, tendering, awarding and managing contracts are now operating within the Department. AUTOMAP II's replacement is likely to comprise largely 'off the shelf' technology.

2.12 AUTOMAP III was intended to extend the mapping capability currently available with AUTOMAP II. The Department of Defence has advised that due to the availability of equipment technically superior to the automated mapping facilities originally envisaged by AUTOMAP III, it is to be replaced by Project PARARE. Project PARARE proposes to establish a central digital data base from which the Australian Defence Force's needs for digital data for navigation and guidance, communications and training simulators can be met.

2.13 Following a review by the Department relating to aerial photography, better procedures are being introduced for acquisition and monitoring. It is also expected that three-year leases will be negotiated for more suitable aircraft to carry out aerial photography thus leading to significant economies.

2.14 Audit's concern over accuracy of data bases with respect to modern weapons systems is not shared by the Department. However, the Department is reviewing the need for the capture of digital data for the 1:50,000 series at 1:25,000 accuracy standards. Current mapping is proceeding on the basis of 1:50,000 accuracy standards.

2.15 The Department of Defence has advised the Committee that the transfer of the Bathymetric function from the Australian Survey and Land Information Group (AUSLIG), Department of Administrative Services, to the Hydrographic Service RAN occurred on 1 July 1988. This involved the transfer of 39 personnel and other associated resources.

Other Comment

2.16 The Department of Administrative Services, in a submission to the Committee, noted that the Richardson Report expressed doubts as to whether the Defence Priority areas can be mapped in the proposed time frame and that the Dibb Report, in reviewing Australia's defence capabilities, recommended that more resources be applied to speeding up mapping of the priority areas.

2.17 The Department is now responsible for the Division of National Mapping and the Australian Survey Office which are being integrated into one group known as the Australian Surveying and Land Information Group (AUSLIG). Subject to satisfactory financial arrangements, some capacity and skills of the Group may be made available for part of RASvy's 1:50 000 mapping program and possibly also for its aerial photography.

Committee Comment

2.18 The Committee is concerned at the delay in finalising the review of RASvy and recommends that the Committee be advised of the results of the review by the end of March 1989.

2.19 The Committee is concerned that there should be no unnecessary duplication between the civil and defence programs and between the Commonwealth and the States. The Committee seeks reassurance that co-ordination of mapping activities and the sharing of data is being given a high priority in order to minimise the drawings on public moneys.

2.20 The Committee is concerned at the Department's delay in resolving its data base accuracy requirements, the time frame for completion of Priority Areas 1, 2 and 3 and expects to be kept informed on any developments of these matters. The Committee also expects to be provided with full details on Project PARARE. Similarly the Committee would like advice of completed action by the end of March 1989.

Chapter 3

DEPARTMENT OF DEFENCE: PRINCIPAL ITEM STOCK CONTROL ENTITLEMENT SYSTEM

Introduction

3.1 The Principal Item Stock Control Entitlements System (PISCES) is a computer-based inventory system designed for the control of the Australian Army's high cost and operationally important equipment. A 'principal item' of equipment is one which is considered by the Army to require intensive management and includes:

- . all Army vehicles (eg tanks, armoured personnel carriers, land rovers, semi-trailers, landing boats, inflatable boats, etc);
- . all types of weapons (eg rifles, pistols, machine guns, howitzers, etc); and
- . other items of a critical nature to the operations of a military force (eg communications equipment, night vision equipment, etc).

3.2 PISCES is the result of the decision to integrate previously existing Honeywell computer based ARMASS (Army Assets), LIAB (Liabilities/Entitlements) and CEDL (Capital Equipment Deficiency List) systems to a single data base system on SPERRY computers.

3.3 As a system it should assist the management of Army assets through improved stock control, and the use of sensible commodity management processes of stock rotation, modification, mid-life rebuild and one-time repair limit. In the past these tasks have been labour intensive and suffered from sufficient inaccuracies to prevent adequate reliance being placed upon them.

Audit Findings

3.4 The Auditor-General's Report of an Efficiency Audit Department of Defence: Principal Item Stock Control and Entitlement System was tabled in the Parliament on 18 November 1986. Audit considered the concept of PISCES to be innovative and potentially of great benefit as a management information system and an operational control mechanism. Audit further noted that some of these benefits have already been experienced although it considered that deficiencies in the development of the system have prevented the early realisation of expected major benefits.

3.5 The major Audit criticisms centred on aspects of system development, systems operation and measures taken to ensure a high order of accuracy. The findings dealt primarily with difficulties encountered in the developmental and early operational stages of PISCES and have since been rectified by the Department of Defence. Of the 29 recommendations made by Audit, 25 were accepted by the Department, two were set aside for the time being as impractical or too costly and two were not agreed to, having been dealt with by alternative means.

Departmental Response

3.6 Defence considers that the Audit report was useful in providing a comprehensive review of PISCES development and operation. It provided recognition of the system's value and identified some problem areas that are scheduled for resolution.

3.7 Defence retains the view that the conversion of systems to PISCES was managed in a competent and effective manner, that it made efficient use of the limited resources available for the task, and that it resulted in a system that is satisfying staff requirements for liability and asset management of Principal Items.

3.8 Defence believes that a substantial part of the criticism implied in the Audit report findings is based on a purist view of systems development and maintenance. Defence considers that the report does not reflect an understanding of the organisational and procedural complexity of Principal Item Management processes, or an appreciation of the material difficulties in converting from a variety of obsolete computer-based systems.

3.9 Defence considers that the Auditor-General's 'findings' were a mixture of perceived weaknesses and examples used to support findings of management weaknesses. Although Defence has accepted 23 of the 29 recommendations it does not agree with many of these findings.

Committee Comment

3.10 The Committee acknowledges that the problems associated with the development and implementation of PISCES identified by Audit have been resolved. The Committee believes, however, that it is important for an effective monitoring mechanism to be established to determine what degree of success is being achieved by the new system. The Department of Defence should develop appropriate performance indicators to measure progress against performance standards both of efficiency and effectiveness, ie:

- . a measurement of the progress in achieving specific objectives (eg estimated cost savings, improved service levels, etc); and
- . an assessment of the effectiveness of the project in achieving the Army's broad objectives.

3.11 The Committee would expect to see evidence that the Department has profited from its experience of the implementation of PISCES as it redevelops three major administrative systems: the Supply Systems Redevelopment Project, the Manpower Systems Redevelopment Project and the proposals for a Defence Financial Management Information System.

Chapter 4

AUSTRALIAN CUSTOMS SERVICE: LICENSING AND ADMINISTRATION OF CUSTOMS AGENTS

Introduction

4.1 The objectives of the Australian Customs Service are threefold:

- industry assistance and development - through the application of Customs Tariff and Bounty Legislation;
- community protection - through the enforcement of legislation concerning prohibited imports and exports; and
- revenue collection - through the collection of revenue in accordance with Customs Tariff and Sales Tax Legislation.

4.2 The Australian Customs Service administers and enforces the Customs Act 1901. This Act provides that owners of goods:

- account for the movement of those goods while they are under Customs control;
- calculate the correct tariff rate and amount of duty payable; and
- tender the necessary documentation to support the calculation.

4.3 The ever-increasing complexities of Customs legislation and procedures, combined with technological advances in trade and communications, have made it difficult for owners/importers to be aware of all their obligations under the Customs Act and related legislation. Accordingly, owners/importers have found it convenient to employ customs agents who specialise in these fields.

4.4 The Customs Act has always enabled owners/importers of goods to comply with the requirements of Customs legislation through the use of licensed agents. The relevant provisions in the Act are designed to ensure that only qualified persons of integrity are licensed, so that the public are protected and Customs does business with competent agents.

4.5 Amendments to the Customs Act in 1980 revised the licensing procedures to enable licences to be granted also to partnerships or companies. The National Customs Agents Licensing Advisory Committee (NCALAC) was also established to investigate and report on all matters concerning licensing.

Audit Findings

4.6 The Auditor-General's Report of an Efficiency Audit Australian Customs Service: licensing and administration of customs agents was tabled in the Parliament on 3 June 1987.

4.7 Audit found that Customs had:

- . not clearly identified in a definitive manner the broad objectives of the agents' licensing system;
- . not devised procedures to measure the effectiveness of the system and whether in fact the system objectives are achieved;
- . experienced difficulties in applying the disciplinary provisions of Part XI of the Customs Act 1901;
- . given a low priority to licensing and administration of agents;
- . not established standards against which agents' performance may be assessed;
- . not devised effective means of improving the overall quality of agents to ensure community confidence in their integrity and professional competence;
- . not established an effective system to monitor performance of agents nor analysed data effectively to identify error-prone agents and enable appropriate action to reduce the incidence of future errors; and

not reviewed risk factors to ensure cost-effective allocation of investigative resources to examine the dealings of errant agents.

4.8 Audit considered that the above deficiencies presented a potential risk to the collection of revenue due to the Commonwealth as they provided opportunities for agents to pay less than the correct amount of duty without being deterred from doing so by administrative procedures in place. In particular, Audit highlighted weaknesses in the system for identifying agents who are known to have performed inadequately and the failure to ensure that these agents are more closely monitored and disciplined. Audit stated that to allow such agents to deal with Customs without increasing surveillance and without imposing sanctions was inviting them to take advantage of the system to the detriment of the revenue.

4.9 Audit concluded from the evidence before it that Customs was not discharging its responsibilities as effectively as it might in respect of the licensing and administration of agents in accordance with the provisions of Part XI of the Customs Act 1901. In particular Audit believed that there was potential for significant revenue increases from a more rigorous pursuit of errant agents. While acknowledging that deficiencies in the current legislation were an impediment to effective administration of customs agents, Audit recommended a number of administrative improvements which it considered should be implemented without waiting for the introduction of legislative amendments.

4.10 Audit made 15 recommendations relating to the system for licensing and administration of customs agents covering matters such as objectives, performance of agents, risk assessment and disciplinary provisions.

Departmental Response

4.11 In its response to the Auditor-General, Customs disagreed with the general approach taken in the audit and the findings and conclusions of the report. Customs considered that Audit's assertions were out of touch with experience and with what can be expected from a practical system of licensing agents.

4.12 Customs considered that agents were merely a convenience, in that they provided information to Customs in a form manageable within the customs systems. Customs noted that agents were dependent on importers for information relating to imported goods, and that the qualifications, integrity, experience and competence of an agent could not compensate for an importer's failure to supply all the relevant data. Accordingly, Customs could not see how a system of licensing could go beyond what it considered to be the very limited and dependent role that an agent plays in the importing process.

4.13 Customs did not consider that licensing was desirable from a customs control point of view. It stated that the delay in the release from Customs of a client's goods caused by an agent having to reassess the shortcomings in his/her entries was the most sensible, practical and economical sanction against poor agents, and was more effective than the licensing system.

4.14 Customs doubted whether the licensing system had ever provided prior indication of fraudulent activity. It also noted that almost invariably cases against such agents are pursued through the Courts and not through the licensing system.

4.15 Customs concluded that there was little justification for it retaining control over the licensing process. It noted that discussions about withdrawing from licensing in favour of industry self-regulation were initiated in early 1986. Customs indicated that it was willing to recommend to the Government repeal of the existing legislation on licensing, provided that the industry can satisfactorily demonstrate that it will act against blatantly unethical agents.

4.16 A Departmental committee formed to examine self-regulation is expected to report its findings by the end of 1988. Departmental resources are being devoted to finalisation of that report in preference to implementation of Audit's recommendations to strengthen the licensing system. Customs see no value in strengthening a licensing system which may shortly be superseded by a policy of industry self-regulation.

4.17 These comments were reiterated in the Customs submission to the Committee. While acknowledging many of the shortcomings identified by Audit, the submission noted that a recent major restructuring of the Australian Customs Service along specific Project Management lines would promote a speedier enhancement of import control methods. Customs again stressed that, given the further developmental work on import control and the work of the industry regulation study group, with its potential for change, the diversion of any of its resources from such priority activities to 'band-aid' current legislation was neither justifiable nor warranted.

Other Responses

4.18 Two professional associations also commented briefly on the audit report. The Customs Agents Federation of Australia noted that the report showed a lack of appreciation of the historic relationship of agents and Customs, but did not disagree with the general thrust of the report. The Federation supported Audit's recommendation that Customs should seek to have the legislation amended to enable the Collector to renew licences where late applications are received and refuse renewal where an applicant would no longer be competent due to extensive absence from performing the work of an agent (Recommendation 2). It also supported the recommendations that Customs develop measures to monitor and assess the performance of agents (Recommendation 7), that agents undergo risk assessment (Recommendation 11) and that Customs review the disciplinary provisions of Part XI of the Customs Act 1901 (Recommendation 12). The Customs Agents Institute of Australia also saw great merit in Recommendation 7.

Committee Comment

4.19 The deficiencies identified by Audit clearly indicate the need for improvements to the current system of licensing and administration of Customs agents. At the same time, it appears likely that Customs will shortly be moving towards a system of industry self-regulation. If this occurs many of the recommendations made by Audit for strengthening the licensing system would no longer be applicable. Accordingly, the Committee should avoid placing too great an emphasis on these recommendations while the deliberations on self-regulation are continuing.

4.20 Instead, considering that the departmental report on self-regulation is expected to be completed by the end of 1988, it is recommended that the Committee wait until the findings of that report are available before it considers whether further action is required in relation to the findings and recommendations of the Auditor-General. The Committee would then have all the relevant information before it and could make a more complete and timely assessment of whether Customs is dealing appropriately with the deficiencies identified in the licensing and administration of Customs agents.

Chapter 5

DEPARTMENT OF PRIMARY INDUSTRY: ADMINISTRATION OF MEAT INSPECTION SERVICES BY THE EXPORT INSPECTION SERVICE

Introduction

5.1 The Auditor-General's Report on an Efficiency Audit Department of Primary Industry: administration of meat inspection services by the Export Inspection Service was tabled in the Parliament on 5 June 1986. The audit examined measures taken by the Export Inspection Service (EIS) to improve the administration of the meat inspection systems since the report of the Royal Commission into the Australian Meat Industry by the Honourable Mr Justice Woodward in 1982.

Audit Findings

5.2 Audit identified several problems in relation to the administration of the EIS, including:

- . weaknesses in various security measures;
- . delays in the implementation of new inspection initiatives;
- . deficiencies in EIS procedures for calculating and reviewing charges designed to recover a proportion of the costs of meat inspection services;
- . delays in instituting prosecutions arising from the Royal Commission, although Audit recognised that the Department had properly pursued matters under its control;

- . deficiencies in the administration and staff planning system; and
- . a delay in a scheduled review of the 1983 integration of domestic meat inspection in NSW with the EIS.

Departmental Response

5.3 In response the Department advised that the following remedial measures have been taken:

- . new security arrangements which place greater emphasis on compliance and investigation than on physical security were introduced in September 1985;
- . a range of new inspection initiatives aimed at bringing about savings in the EIS were introduced during 1985 and 1986;
- . the EIS has put in place a facility to monitor on an ongoing basis the total recovery of moneys from the meat industry;
- . discussions have been held with the meat industry over a revised charging system;
- . a redeveloped staff planning system was brought into operation on 15 June 1987; and
- . a detailed review of NSW integration was completed in December 1986 which reported that savings of \$13.6 million and 132 staff were achieved over a 3 year period.

Committee Comment

5.4 The Committee is generally satisfied with the Department's response to the Auditor-General's report. In particular the Committee is pleased to note that no case of meat substitution has been reported since the 1981 incident.

5.5 However, in relation to the Meat Transfer Certificate System (MTC), the Committee notes that while Audit viewed delays in reconciliation of MTC duplicates with some concern, the Department considered such delays to be inevitable because of the large volume of MTCs involved. The Committee agrees with Audit that to be effective, the MTC system requires prompt checking that products dispatched have been received or investigation of reasons why they were not received. Accordingly, the Committee expects greater effort in ensuring the timeliness of MTC reconciliation.

5.6 The Committee also agrees with the view that a computer system for validation of MTC duplicates would bring a number of advantages, particularly in relation to clerical effort, and notes that a departmental feasibility study has recommended that a computer based export documentation system be implemented. This study is to be considered by the Meat Industry Advisory Committee in late 1988. The Committee believes that such a system should be introduced as soon as the proposal becomes viable.

5.7 The Committee acknowledges the implementation of new inspection initiatives aimed at achieving savings within the inspection service. The Committee notes that the introduction of such changes can be delayed because of the need to negotiate with several groups, including the meat industry, staff associations and foreign governments. Nevertheless, the Committee emphasises the importance of timeliness in the consideration of any revised procedures to ensure that the maximum benefits are achieved.

5.8 The Committee also notes the recent introduction of a redeveloped staff planning system. The system is now fully operational and the Committee will monitor it to ensure that the deficiencies identified by Audit have been overcome and that the system is able to satisfy the staff handling requirements of the inspection service.

5.9 Finally, the Committee is concerned that delays in the development of an appropriate charging strategy are responsible for maintaining the inequities and inefficiencies of the levy system. In this regard the Committee is pleased to note that fee-for-service for slaughter floor meat inspection in export and domestic abattoirs under departmental control was introduced on 1 July 1988. The Committee also notes that the Department has undertaken an examination to determine the adaptability of fee-for-service arrangements to off-slaughter floor (ancillary) meat inspection functions. This is to be introduced in 1989 if viable. The Committee expects to be advised of progress on the full implementation of fee-for-service in the response to this report.

Chapter 6

DEPARTMENT OF RESOURCES AND ENERGY: OFFSHORE PETROLEUM ROYALTIES AND EXCISE

Audit Findings

6.1 The Auditor-General's Report on an Efficiency Audit Department of Resources and Energy: Offshore Petroleum Royalties and Excise was tabled in the Parliament on 4 June 1987. That report focused on the excise and royalties payable on petroleum production from Bass Strait.

6.2 The Auditor-General considered that the Department had not wholly fulfilled its responsibilities and had been slow in adopting its proper administrative role. Audit concluded that the Department was unable to provide satisfactory evidence to assure it that all revenue had been collected.

6.3 Audit made 13 recommendations, some of which required more urgent consideration than the others. Of these Audit recommended that the Department:

- review the administrative controls defined in the Department's procedure manual to make them more capable of full implementation and more effective in providing information to ensure that the correct amount of royalty is collected;
- review the mass balance/back allocation computer program, as well as the system for operating and maintaining the program, to ensure that the Commonwealth receives its correct entitlement to Bass Strait royalties and excise;
- call for expressions of interest from analytical laboratories to perform the duplicate sampling and independent chemical analysis on behalf of the Commonwealth Government; and
- develop a comprehensive excise rebate policy in addition to implementing a system for monitoring and confirming eligible sales, to ensure prompt payment of rebates.

Departmental Response

6.4 In response, the Department did not agree with Audit's conclusions, noting that the form of the 1979 Offshore Constitutional Settlement between the Commonwealth and the States required complex administrative arrangements for royalty collection and verification as an unavoidable consequence. The Department indicated that the Bass Strait producers were subject to at least five audits and checks by professional bodies conforming to accepted accounting and technical principles and standards.

6.5 The Department was also of the view that Audit's recommendations were not of such magnitude as to suggest that there was substance in the main conclusion. The Department advised that a majority of the recommendations refer to matters which it has already implemented including:

- . a review of the mass balance/back allocation computer program carried out by Kinhill Engineers Pty Ltd in 1986-87;
- . reviews of statistical and geological matters by the Australian Bureau of Statistics and Bureau of Mineral Resources, and an annual review of ESSO's metering and chemical analysis arrangements by the National Association of Testing Authorities; and
- . agreement with the Victorian Department of Industry, Technology and Resources on general procedures for the conduct of a duplicate sampling program.

6.6 In addition, the Department noted that a compliance review of procedures adopted in the calculation and verification of excise and royalty payable is scheduled for the last quarter of 1987, while a systems review by a firm of consultants is planned for 1988.

Committee Comment

6.7 In general, the Committee is satisfied with the Department's response to Audit's recommendations. The Committee notes that in its report Audit also found that the Department had

responded positively to its recommendations. The Committee is aware of the concern expressed by the joint operators of the Bass Strait oilfields in relation to the costs and disruption imposed by the proliferation of independent reviews of the Bass Strait operations.

6.8 The Committee notes that the compliance reviews of late 1987 and early 1988 have been completed and that a further four compliance reviews have been scheduled for the next two-year cycle commencing in October 1988. The Committee also notes that the systems review is proceeding on schedule and is expected to be completed by the end of 1988. The Committee will monitor any developments in the above matters arising from the compliance and system reviews. The Committee expects to be informed of the outcome of the systems review.



R E Tickner, MP
Chairman