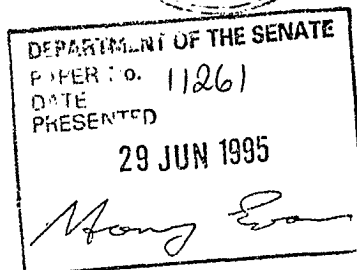


The Parliament of the Commonwealth of Australia  
Joint Committee of Public Accounts



## REPORT 337

# A Focus on Accountability: Review of Auditor-General's Reports, 1992-93

June 1995

Australian Government Publishing Service  
CANBERRA

on Accountability:

Auditor-General's Reports,  
1992-93

June 1995

© Commonwealth of Australia 1995

ISBN 0 644 45352 4

## MEMBERSHIP OF THE COMMITTEE

Mr L J Scott, MP (Chairman)

Mr A M Somlyay, MP<sup>1</sup>  
Senator W R Parer (Vice-Chairman)<sup>2</sup>  
Senator J O W Watson (Vice-Chairman)<sup>3</sup>

Senator the Hon T G Aulich <sup>4</sup>	Mr K J Aldred, MP <sup>5</sup>
Senator B K Eishop <sup>6</sup>	Hon R J Brown, MP
Senator B Cooney <sup>7</sup>	Mr J H Beale, MP <sup>8</sup>
Senator K J Denman <sup>9</sup>	Mrs M Easson, MP <sup>10</sup>
Senator M G Forshaw <sup>11</sup>	Mr E J Fitzgibbon, MP
Senator B F Gibson <sup>12</sup>	Mr A P Griffin, MP
Senator P J Giles <sup>13</sup>	Mr C D Haviland, MP
Senator B J Neal <sup>14</sup>	Mr L B McLeay, MP <sup>15</sup>
Senator the Hon M Reynolds <sup>16</sup>	Mrs J E Moylan, MP <sup>17</sup>
Senator the Hon M Tate <sup>18</sup>	Mr W L Taylor, MP
Senator R L Woods <sup>19</sup>	Mr M A J Vaile, MP

Secretary: Mr G Harrison

1. Vice-Chairman from 29 June 1994
2. Appointed 19 August 1993, discharged 9 June 1994
3. Discharged 19 August 1993
4. Discharged 17 August 1993
5. Discharged 18 November 1993
6. Discharged 24 February 1994
7. Appointed 19 August 1993
8. Appointed 29 June 1994
9. Appointed 30 September 1993, discharged 17 March 1994
10. Appointed 9 February 1994
11. Appointed 12 May 1994
12. Appointed 28 February 1994
13. Discharged 17 August 1993
14. Appointed 17 March 1994
15. Discharged 9 February 1994
16. Discharged 12 May 1994
17. Appointed 18 November 1993, discharged 29 June 1994
18. Appointed 5 July 1993, discharged 19 August 1993
19. Appointed 9 June 1994

MEMBERSHIP OF THE  
SECTIONAL COMMITTEE ON  
AUDITOR-GENERAL'S REPORTS

Mr L J Scott, MP (Chairman)

Senator B Gibson

Mr E J Fitzgibbon, MP

Mr A P Griffin, MP

Mr C D Haviland, MP

Mr A M Somlyay, MP

Mr W L Taylor, MP

Mr M A J Vaile, MP

Secretary: Dr J G Carter

Review staff:<sup>20</sup> Ms L Gillies  
Mrs Y Rao

20. Other departmental staff and secondees who assisted the Committee in its review were: Ms S Cardell; Ms S Casburn; Mr S Chopra; Mr E Figureido; Dr S Hnatiuk; Mr P James; and Ms F Wilson.

DUTIES OF THE COMMITTEE

The Joint Committee of Public Accounts is a statutory committee of the Australian Parliament, established by the *Public Accounts Committee Act 1951*.

Section 8(1) of the Act describes the Committee's duties as being 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*;
- examine the financial affairs of authorities of the Commonwealth to which this Act applies and of inter-governmental bodies to which this Act applies;
- 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;
- 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;
- 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
- 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.

The Committee is also empowered to undertake such other duties as are assigned to it by Joint Standing Orders approved by both Houses of the Parliament.

CONTENTS

Chapter

Membership of the Committee	iii
Membership of the Sectional Committee	iv
Duties of the Committee	v
List of Abbreviations	xv
Chairman's Foreword	xvii
Recommendations	xix

PART ONE - INTRODUCTION

1. BACKGROUND

A Requirement to Review	3
Audit Reports Reviewed in this Report	4
The Review Process	4
<i>The Committee's Review</i>	4
<i>Audit Reports Reviewed Separately by</i>	
<i>the Committee</i>	5
<i>Review by Other Parliamentary</i>	
<i>Committees</i>	6
The Structure of the Report	8

PART TWO - REVIEW OF AUDIT REPORTS BY PORTFOLIO

2. ATTORNEY-GENERAL'S PORTFOLIO

Introduction	11
Comments	12

3. COMMUNICATIONS AND THE ARTS PORTFOLIO

Introduction	13
Comments	14

4. DEFENCE PORTFOLIO

Introduction	15
Significant Issues	16
Responses to Review Action	21
<i>Defence Science and Technology</i>	
<i>Organisation - Policy Framework</i>	21
<i>Defence Science and Technology</i>	
<i>Organisation - Exploitation of</i>	
<i>Commercial Opportunities, Industry</i>	
<i>Input</i>	23
<i>Defence Science and Technology</i>	
<i>Organisation - Exploitation of</i>	
<i>Commercial Opportunities, Management</i>	
<i>Issues</i>	25
<i>Department of Veterans' Affairs</i>	
<i>- Compensation Sub-program</i>	27

5. EMPLOYMENT, EDUCATION AND TRAINING PORTFOLIO

Introduction	33
Significant Issues	34
Responses to Review Action	38
<i>English as a Second Language Program</i>	
- <i>Introduction</i>	38
<i>English as a Second Language Program</i>	
- <i>Program Framework</i>	38
<i>English as a Second Language Program</i>	
- <i>Linkage of Grants with ESL</i>	
<i>Instruction Needs</i>	39
<i>Administration of the AUSTUDY Program</i>	41
<i>Industry Service Centres</i>	44

<b>6. ENVIRONMENT, SPORT AND TERRITORIES PORTFOLIO</b>	
Introduction	46
Audit Reports Referred to Other Parliamentary Committees	47
Significant Issues	47
Responses to Review Action	50
<i>The Great Barrier Reef Marine Park Authority Aquarium</i>	50
<b>7. FINANCE PORTFOLIO</b>	
Introduction	52
Audit Reports Referred to Other Parliamentary Committees	54
Significant Issues	54
Responses to Review Action	57
<i>Retirement Benefits Office</i>	57
<b>8. FOREIGN AFFAIRS AND TRADE PORTFOLIO</b>	
Introduction	59
Significant Issues	60
<i>Selection of Diplomatic Airfreight Contractor</i>	62
<b>9. HOUSING AND REGIONAL DEVELOPMENT PORTFOLIO</b>	
Introduction	63
Comments	64
<b>10. HUMAN SERVICES AND HEALTH PORTFOLIO</b>	
Introduction	65
Significant Issues	66
Response to Review Action	69
<i>Health Insurance Commission - Introduction</i>	69

	<i>Health Insurance Commission - Issues Arising from Audit Report No. 17, 1992-93</i>	69
	<i>Health Insurance Commission - Issues Arising from the Public Hearing</i>	72
<b>11. IMMIGRATION AND ETHNIC AFFAIRS PORTFOLIO</b>		
Introduction	76	
Significant Issues	77	
Response to Review Action	79	
<i>Grants for Community Assistance</i>	79	
<b>12. INDUSTRIAL RELATIONS PORTFOLIO</b>		
Introduction	82	
Comments	83	
<b>13. INDUSTRY, SCIENCE AND TECHNOLOGY PORTFOLIO</b>		
Introduction	84	
Audit Reports Referred to Other Parliamentary Committees	85	
Significant Issues	85	
Response to Review Action	88	
<i>Pharmaceutical Industry Development Program - The Factor f Scheme</i>	88	
<b>14. PARLIAMENTARY DEPARTMENTS PORTFOLIO</b>		
Introduction	91	
Comments	91	
<b>15. PRIMARY INDUSTRIES AND ENERGY PORTFOLIO</b>		
Introduction	92	
Audit Reports Referred to Other Parliamentary Committees	93	
Significant Issues	93	
Responses to Review Action	97	

	<i>Joint Coal Board - Valuation of Provision for Claims Outstanding</i>	97
	<i>Joint Coal Board - Reconciliations</i>	99
	<i>Department of Primary Industries and Energy Investment Unit</i>	100
<b>16.</b>	<b>PRIME MINISTER AND CABINET PORTFOLIO</b>	
	Introduction	102
	Audit Reports Reviewed by Other Parliamentary Committees	103
	Comments	103
<b>17.</b>	<b>SOCIAL SECURITY PORTFOLIO</b>	
	Introduction	104
	Significant Issues	105
	Response to Review Action	107
	<i>Administration of Special Benefit</i>	107
<b>18.</b>	<b>TOURISM PORTFOLIO</b>	
	Introduction	110
	Comments	111
<b>19.</b>	<b>TRANSPORT PORTFOLIO</b>	
	Introduction	112
	Comments	113
<b>20.</b>	<b>TREASURY PORTFOLIO</b>	
	Introduction	114
	Significant Issues	115
	Response to Review Action	119
	<i>Australian Taxation Office - Storage Facilities</i>	119
	<i>Australian Taxation Office - Qualification of Financial Statement</i>	120
	<i>Insurance and Superannuation Commission</i>	123

	<i>Waivers Approved by the Minister for Finance</i>	125
--	---	-----

### PART THREE - REVIEW OF CROSS-PORTFOLIO AUDIT REPORTS

<b>21.</b>	<b>CROSS-PORTFOLIO AUDITS</b>	
	Introduction	129
	Common-use Contracts	130
	<i>Introduction</i>	130
	<i>Audit Report No. 7, 1992-93, Efficiency Audit, Saving Time and Money with Common-use Contracts</i>	130
	<i>Scrutiny by Parliamentary Committees</i>	131
	<i>Conclusion</i>	132
	Senior Officer Work-Related Expenses	132
	<i>Introduction</i>	132
	<i>Audit Report No. 30, 1992-93 Efficiency Audit, Senior Officer Work-related Expenses</i>	133
	<i>The Committee's Review</i>	133
	<i>Response to the Committee's Review Action</i>	134
	The Financial Obligations of the Federal Government	135
	<i>Audit Report No. 34, 1992-93, Project Audit, The National Bankcard - Who Will Pay the Piper? - A Report on the Financial Obligations of the Federal Government</i>	135
	<i>The Committee's Review</i>	137
	Review of Financial Management Systems	139
	<i>Introduction</i>	139
	<i>Audit Report No. 37, 1992-93, Review of Financial Management Systems</i>	140
	<i>The Committee's Review</i>	141
	<i>Response to the Committee's Review Action</i>	142

Information Technology Acquisitions	142
<i>Introduction</i>	142
<i>Audit Report No. 38, 1992-93,</i>	
<i>Information Technology Acquisitions</i>	143
<i>The Committee's Review</i>	144
Public Sector Internal Auditing	144
<b>22. AUDIT REPORT NO. 25 1992-93, THE JOBS, EDUCATION AND TRAINING PROGRAM</b>	
Introduction	146
The Committee's Review	147
Further Comment	161
<i>Verification of Application for</i>	
<i>Child Care Places</i>	161
<b>PART FOUR - REVIEW OF AUDIT REPORT NO. 22, 1992-93, ON THE NEW SUBMARINE PROJECT</b>	
<b>23. NEW SUBMARINE PROJECT - OVERVIEW OF THE COMMITTEE'S CONSIDERATION</b>	165
<b>24. NEW SUBMARINE PROJECT - BACKGROUND AND THE AUDIT REPORT</b>	
Background	168
The New Submarine Project	169
<i>Introduction</i>	169
<i>The Australian Submarine Corporation</i>	169
<i>Cost of the Project and Payments</i>	
<i>Schedule</i>	170
<i>Australian Industry Involvement</i>	171
<i>Contract Monitoring and Control</i>	
<i>System</i>	172
<i>Contract Performance Guarantee and</i>	
<i>Liquidated Damages</i>	172
<i>Contract Amendments Procedures</i>	172
The Project Office	173
The Audit Report	173
<i>The Audit Approach</i>	173
<i>The Findings of the Audit</i>	174

Criticisms of the Audit Process	176
<b>25. NEW SUBMARINE PROJECT - CONSIDERATION OF THE MAJOR RISKS</b>	
Introduction	178
Financial Risks - Loss of Funds and Funds Advanced Without Benefit to the Commonwealth	178
<i>Payment Profile</i>	179
<i>Performance Guarantees</i>	181
<i>Conclusion</i>	182
Cost Risk - Paying Too Much	187
Cost Risk - Minimising Costs	190
<i>Introduction</i>	190
<i>Rescheduling of Packages -</i>	
<i>Opportunity Cost</i>	190
<i>Conclusion</i>	193
A More Commercial Focus for Project Management	194
Schedule Risk - Late Delivery	196
Australian Industry Involvement Risk - Objectives Not Achieved	199
<b>26. NEW SUBMARINE PROJECT - GENERAL ISSUES</b>	
Introduction	202
Significance of the Audit Findings	202
Relationship Between Defence and the ASC	203
Access to Contractor Records	205
Defence Internal Audit Reports	209
Long Term Prospects for the Australian Submarine Corporation	210
<i>Introduction</i>	210
<i>Future Orders</i>	211
<i>Shareholder Attitude</i>	212



## APPENDICES

Appendix I	Audit Reports Reviewed	215
Appendix II	Submissions	220
Appendix III	Exhibits	228
Appendix IV	Witnesses at Public Hearings	229
Appendix V	The Six Recommendations to which Defence Maintained Its Objections	232

## LIST OF ABBREVIATIONS

AGCC	Australian Government Credit Card
AII	Australian industry involvement
ANAO	Australian National Audit Office
ASC	Australian Submarine Corporation Pty Ltd
ATSIC	Aboriginal and Torres Strait Islander Commission
CAP	Contract Amendment Proposal
CES	Commonwealth Employment Service
CMACS	Contract Monitoring and Control System
CUCs	Commonwealth common use contracts
DAS	Department of Administrative Services
DEET	Department of Employment, Education and Training
DEST	Department of Environment, Sport and Territories
DFAT	Department of Foreign Affairs and Trade
DHSH	Department of Human Services and Health
DIEA	Department of Immigration and Ethnic Affairs
DIR	Department of Industrial Relations
DIST	Department of Industry, Science and Technology
DITARD	Department of Industry, Technology and Regional Development
Defence	Department of Defence
DPIE	Department of Primary Industries and Energy
DSD	Defence Signals Directorate

DSS	Department of Social Security
DSTO	Defence Science and Technology Organisation
DVA	Department of Veterans' Affairs
ESL	English as a Second Language
Finance	Department of Finance
GBRMPA	Great Barrier Reef Marine Park Authority
HIC	Health Insurance Commission
JCB	Joint Coal Board
JET	Jobs, Education and Training Program
MOU	Memorandum of Understanding
MRC	Migrant Resource Centre
NATA	National Association of Testing Authorities
NEPS	National Equity Program for Schools
PBS	Pharmaceutical Benefits Scheme
PSU	Public Service Commission
RBO	Retirements Benefits Office
RMA	Repatriation Medical Authority
RSL	Returned and Services League of Australia
TEO	Trainee Employment Officer
the Mint	Royal Australian Mint

## CHAIRMAN'S FOREWORD

This report reviews 37 reports of the Auditor-General which were tabled in the financial year 1992-93.

The report is prepared in accordance with section 8(1)(ab) of the *Public Accounts Committee Act 1951*, which requires the Joint Committee of Public Accounts to examine all reports of the Auditor-General.

The Committee has not canvassed in detail all of the issues raised in the audit reports, but instead has focussed on the key recommendations in the reports. The Committee's review has shown that in the vast majority of cases, agencies have responded positively and promptly to the Auditor-General's recommendations. In some cases, however, it is clear that agencies have disagreed with the recommendations, or have not taken appropriate or effective remedial action. It is these cases which are commented upon in this report.

The report is in four parts:

- the first part explains the scope and nature of the Committee's review;
- the second part considers, on a portfolio by portfolio basis, each of the audit reports tabled in 1992-93;
- the third part considers the various cross-portfolio audit reports presented in 1992-93; and
- the final part gives detailed consideration to a number of the issues raised in *Audit Report No. 22, 1992-93, Department of Defence, New Submarine Project*.

The Committee decided to pay particular attention to the audit of the new submarine project principally because of the significance of the project, but also because of the nature of some of the audit findings. An overview of the Committee's consideration of *Audit Report No. 22, 1992-93* can be found at the beginning of Part Four of this report.

This report is confirmation of the Committee's commitment to ensuring that the reports of the Auditor-General receive close parliamentary attention. As the Chairman said in his foreword to the last compendium review of audit reports tabled by the Committee, reports of the Auditor-General make an essential contribution to parliamentary and public scrutiny of the Executive.<sup>1</sup> By reviewing each audit report the Parliament signals to government agencies that the process of accountability and scrutiny is continuous and proceeds beyond the tabling of an audit report.

In conclusion, and on behalf of the Committee, I would like to express our thanks to those people who contributed to these reviews by preparing submissions and giving evidence at public hearings.

Les Scott, MP  
Chairman

## RECOMMENDATIONS

### Recommendation 1

The Auditor-General should continue to monitor the Department of Employment, Education and Training's performance in reducing the level of debts associated with the AUSTUDY program. (paragraph 5.29)

### Recommendation 2

The Health Insurance Commission should continue to develop and implement strategies aimed at identifying and discouraging Medicare fraud and overservicing. (paragraph 10.34)

### Recommendation 3

The Australian National Audit Office should monitor the performance of the Health Insurance Commission in its efforts to combat Medicare fraud and overservicing. (paragraph 10.35)

### Recommendation 4

The Joint Coal Board should resolve the discrepancies between the valuations provided by its existing system and that provided by its independent firm of actuaries and adopt a valuation methodology which makes prudent provision for claims outstanding. (paragraph 15.16)

### Recommendation 5

The Australian National Audit Office should monitor the Joint Coal Board's progress in settling a new valuation basis and methodology. (paragraph 15.17)

### Recommendation 6

The Department of Social Security should finalise the implementation of procedures to verify the second and subsequent requests for payment from service providers for temporary add-on child care places for JET participants. (paragraph 22.15)

<sup>1</sup> Joint Committee of Public Accounts, *Report 330, Review of Auditor-General's Reports, May 1991 - September 1992*, AGPS, Canberra, March 1994, p. xvi.

Recommendation 7

In future projects of comparable size and nature, the Department of Defence should ensure that contracts contain provisions which:

- (a) limit or prohibit the repatriation of dividends until the major project risks have been overcome;
- (b) require careful assessments to be made of the quantum and timing of advance payments; and
- (c) allow the Commonwealth to recover advance payments which have not been used in accordance with the contract (paragraph 25.38)

Recommendation 8

The Department of Defence should, where appropriate, apply incentive pricing principles to:

- (a) future amendments to the contract for the submarine project; and
- (b) future contracts for procurement projects, particularly projects involving payments to a prime contractor. (paragraph 25.45)

Recommendation 9

In responding to the recommendations contained within this report, the Department of Defence should report to the Committee on:

- (a) current practice within the Submarine Project Office in regard to assessing and considering the opportunity cost implications of payments to the Australian Submarine Corporation; and
- (b) the results of its general consideration of opportunity cost issues in contract development and administration. (paragraph 25.67)

Recommendation 10

As recommended by the Industry Commission in its August 1994 report on defence procurement, the Department of Defence should contract out the procurement process for a few selected projects, to improve the efficiency of the procurement process and provide a benchmark for its in-house administrative costs. (paragraph 25.74)

Recommendation 11

In responding to the recommendations contained within this report, the Department of Defence should report to the Committee on:

- (a) the causes of any delays between current anticipated delivery dates and the delivery dates originally specified in the contract;
- (b) whether any claims for liquidated damages have yet been made on the contractor;
- (c) whether the Commonwealth has agreed to waive any claims for liquidated damages; and

- (d) whether the Commonwealth's capacity to claim for liquidated damages at a future point in the contract has been limited by any other revisions to the contract. (paragraph 25.86)

Recommendation 12

In responding to the recommendations contained within this report, the Department of Defence should report to the Committee on:

- (a) its experience with the provisions of the contracts for the ANZAC ships and Minehunters projects which allow Commonwealth access to some of the contractor's business records; and
- (b) whether this experience has any bearing on the potential benefits of allowing ANAO access to contractor's business records. (paragraph 26.27)

Recommendation 13

The Department of Defence, in consultation with other relevant Commonwealth agencies, should consider the merits of Commonwealth legislation similar to the truth in negotiation legislation which has been enacted in the United States of America. (paragraph 26.28)

Recommendation 14

The Department of Defence should:

- (a) finalise all outstanding internal audit reports on the submarine project within three months of the tabling of this report; and
- (b) develop and maintain a rigorous program of internal audit assessments throughout the life of the submarine project. (paragraph 26.32)

Recommendation 15

The Department of Defence, the Department of Finance and the Department of Industry, Science and Technology should consult closely in relation to the proposed sale of AIDC Ltd to consider and resolve any implications for the submarine project. (paragraph 26.55)

PART ONE -

INTRODUCTION

## BACKGROUND

**A Requirement to Review**

1.1 Under section 8(1)(ab) of the *Public Accounts Committee Act 1951*, the Committee is required to examine all reports of the Auditor-General, including efficiency audit reports. The Committee regards this task as an important part of its work and intends to table the results of its examinations on a regular basis. On occasions this will result in compilation reports, like this report, which consider a number of reports at once. On other occasions the Committee will review and report on individual audit reports.<sup>1</sup>

1.2 In addition to this statutory review process, the House of Representatives has, over the last decade, developed the practice of referring some audit reports to its standing committees and to certain joint committees.

1.3 The Committee acknowledges that the referral of some audit reports to other committees is appropriate in some circumstances - for example, where an audit report is relevant to a subject already being considered by another committee, or where an audit report deals with an issue in which another committee has developed a particular expertise.

1.4 However, the requirement to review described in the *Public Accounts Committee Act* is not satisfied by the referral of an audit report to another committee. It is the Committee's responsibility to examine all reports by the Auditor-General which are tabled in the Parliament. Although the Committee is conscious of the need to avoid unnecessary duplication, it will examine audit reports which have been referred to other

---

<sup>1</sup> For example, in September 1994 the Committee tabled reports on *Audit Report No. 21, 1993-94, Efficiency Audit, Department of Finance, The Australian Government Credit Card - its debits and credits*, and *Audit Report No. 33, 1992-93, The sale of Aussat and best practice for the sale of Commonwealth assets* (see *Report 332, The Australian Government Credit Card*, and *Report 333, The Sale of Aussat*).

committees. It is anticipated that, at times, this examination will show that another committee has reviewed or is reviewing the major issues identified in the audit report. At other times, the Committee may decide that further review is needed.

1.5 The Committee's aim will be to ensure that the reports of the Auditor-General are given appropriate and timely consideration by the Parliament.

### **Audit Reports Reviewed in this Report**

1.6 The Committee's last major review of audit reports was in *Report 330, Review of Auditor-General's Reports May 1991 - September 1992* which was tabled in March 1993. *Report 330* concluded with the Committee's consideration of *Audit Report No. 1, 1992-93, Report on Ministerial Portfolios - Budget Sittings 1992*, which had been tabled in September 1992.

1.7 This report contains the Committee's comments on the series of audit reports tabled between October 1992 and June 1993. In total 37 audit reports are considered in this report. The list of audit reports reviewed in this report is at Appendix I.

1.8 Audit reports tabled after June 1993 are currently being reviewed by the Committee and will be reported on separately.

### **The Review Process**

#### *The Committee's Review*

1.9 The purpose of the Committee's review is twofold: first, to assess whether audited agencies have responded appropriately to the audit findings; secondly, to determine whether the intentions expressed by agencies in their responses have been acted upon.

1.10 The Committee began its review by seeking written comments, from the agencies involved in the audit reports. Specifically, the agencies were asked to:

- describe any actions taken, or proposed, in response to the findings of the audit report; and
- outline a timetable for the implementation of these actions.

1.11 After written submissions on these points were received, they were considered by the Committee and forwarded to the Australian National Audit Office (ANAO) for comment. It was by this process that the Committee was able to identify which responses were adequate and appropriate, and which were not. The vast majority of responses were adequate and appropriate, but in some cases it was apparent that there was a difference of opinion between the ANAO and the audited agency, or that the audited agency had been slow in implementing its initial response.

1.12 At this point the Committee sought additional information in writing from a number of agencies. In relation to the Health Insurance Commission and the Departments of Defence and Veterans' Affairs the Committee sought additional information at public hearings.

1.13 A list of submissions and exhibits can be found at Appendices II and III, and details of public hearings at Appendix IV.

#### *Audit Reports Reviewed Separately by the Committee*

1.14 Several audit reports tabled during 1992-93 were reviewed separately, or were included as part of other inquiries by the Committee. These were:



- *Audit Report No. 5, 1992-93, Project Audit, Australian Taxation Office - Electronic Lodgment Service,*<sup>2</sup>
- *Audit Report No. 6, 1992-93, Efficiency Audit, Auscript - Commercialisation of the Commonwealth Reporting Service;*
- *Audit Report No. 16, 1992-93, Efficiency Audit, An Audit Commentary of Aspects of Commercialisation in the Department of Administrative Services,*<sup>3</sup> and
- *Audit Report No. 33, 1992-93, Efficiency Audit, The sale of Aussat and best practice for the sale of Commonwealth assets.*<sup>4</sup>

#### *Review by Other Parliamentary Committees*

1.15 As mentioned earlier, the House of Representatives occasionally refers audit reports to one or other of its standing committees, or to certain joint committees.

1.16 Of the audit reports reviewed in this report six were referred to House of Representatives Standing Committees. These reports were:

- *Audit Report No. 10, 1992-93, Efficiency Audit, Living with our Decisions - Commonwealth Environmental Impact Assessment Processes,*<sup>5</sup>

2 The review was included in the Committee's inquiry into the Australian Taxation Office and reported on separately in *Report 326, An Assessment of Tax*, AGPS, Canberra, November 1993.

3 The review of *Audit Report No. 6, 1992-93* and *Audit Report No. 16, 1992-93* was included in the Committee's inquiry into the Commercialisation of Public Sector Operations and reported on separately in *Report 336, Public Business in the Public Interest*, AGPS, Canberra, April 1995.

4 The Committee reported on this review in *Report 333, The Sale of Aussat*, AGPS, Canberra, 1994.

5 This audit report was referred to the House of Representatives Standing Committee on the Environment Recreation and the Arts. This committee reported its findings in *Commonwealth Environmental Assessment Processes, A Review of Audit Report No. 10, 1992-93*, AGPS, Canberra, June 1994.

- *Audit Report No. 11, 1992-93, Efficiency Audit, Department of Administrative Services - Procedures for Dealing with Fraud on the Commonwealth,*<sup>6</sup>
- *Audit Report No. 15, 1992-93, Efficiency Audit, Aboriginal and Torres Strait Islander Commission - Regional Administration,*<sup>7</sup>
- *Audit Report No. 32, 1992-93, Efficiency Audit, Implementation of an Interim Greenhouse Response, Department of Primary Industries and Energy - Energy Management Programs,*<sup>8</sup>
- *Audit Report No. 35, 1992-93, Efficiency Audit, Program Evaluation Strategies, impact and practices - Industry, Technology and Regional Affairs Portfolio,*<sup>9</sup> and
- *Audit Report No. 36, 1992-93, Project Audit, Aboriginal and Torres Strait Islander Commission Community Infrastructure.*<sup>10</sup>

6 This audit report was referred to the House of Representatives Standing Committee on Banking, Finance and Public Administration. This committee reported its findings in *Focusing on Fraud, Report on the Inquiry into Fraud on the Commonwealth*, AGPS, Canberra, November 1993.

7 This audit report was referred to the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs in December 1992.

8 This audit report was referred to the House of Representatives Standing Committee on the Environment Recreation and the Arts. This committee reported its findings in *Greenhouse Response, Effectiveness of the Implementation of an Interim Program, A Review of Audit Report No. 32, 1992-93*, AGPS, Canberra, May 1994.

9 This audit report was referred to the House of Representatives Standing Committee on Industry, Science and Technology in May 1993.

10 This audit report was referred to the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs. This committee reported its findings in *Review of Auditor-General's Audit Report No. 36, 1992-93; Audit Report No. 1, 1993-94, Volume 3, Sections 1.13-1.39; and Audit Report No. 27, 1993-94, Sections 16.19-16.24*, AGPS, Canberra, May 1994.

### The Structure of the Report

1.17 The Report's structure reflects the structure of the Commonwealth's ministerial portfolios after the changes to Administrative Arrangements announced on 25 March 1994.<sup>11</sup> Through the report the Committee uses the departmental names which were current at the time of the audit reports.

1.18 The Report is divided into four parts:

- Part One, comprising this chapter;
- Part Two, which reviews issues pertaining to the 19 portfolios beginning (in Chapter 2) with an assessment of the audit reports of the Attorney-General's portfolio, and ending (in Chapter 20) with the audit reports of the Treasury portfolio;<sup>12</sup>
- Part Three, comprising Chapters 21 and 22 which review a number of audit reports tabled in the period October 1992 to June 1993 in which the Auditor-General examined programs and issues affecting more than one portfolio; and<sup>13</sup>
- Part Four, which reviews *Audit Report No. 22, 1992-93* on the Department of Defence's New Submarine Project.

11 In those changes the Department of Administrative Services was included in the finance portfolio and the Department of Veterans' Affairs was transferred from the human services and health portfolio to the defence portfolio.

12 Each chapter begins with a brief description of the portfolio concerned and a list of the audit reports being reviewed. Any significant issues arising from the audit reports are then described and tabulated. The tables show the response of each agency to the Committee's initial request for comments, and highlight any further review action taken by the Committee. The chapter concludes with an analysis of the issues and statement of the Committee's view on those issues.

13 The audit report relating to the Jobs, Education and Training Program, which considered the performance of three departments, is reviewed separately in Chapter 22 due to the complexity of the issues that arose from the audit report.

## PART TWO -

### REVIEW OF AUDIT REPORTS BY PORTFOLIO

## ATTORNEY-GENERAL'S PORTFOLIO

### Introduction

2.1 The Attorney-General's portfolio includes the Attorney-General's Department and 56 other bodies - 35 of which are statutory authorities.<sup>1</sup>

2.2 All organisations, including the department, fall within the program structure adopted for the portfolio, which currently consists of six programs, as follows:

- Program 1: Legal Services to the Commonwealth;
- Program 2: Business and Consumer Affairs;
- Program 3: Community Affairs;
- Program 4: Administration of Justice;
- Program 5: High Court of Australia; and
- Program 6: Maintenance of Law, Order and Security.<sup>2</sup>

2.3 In the period October 1992 to June 1993 the Auditor-General produced one report concerning aspects of the performance of agencies within the portfolio. The subject of the audit was the Auscript, and the report was:

- *Audit Report No. 6, 1992-93, Efficiency Audit, Auscript - Commercialisation of the Commonwealth Reporting Service.*

---

1 Senate Standing Committee on Finance and Public Administration, *List of Commonwealth Bodies*, AGPS, Canberra, June 1993, pp. 13-31.

2 For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Attorney-General's Portfolio*, Budget Related Paper No. 4.1, AGPS, Canberra, May 1995, pp. 11-13.

2.4 In addition, the Auditor-General's reports on the results of his examination of financial statements and his on-going audits within ministerial portfolios commented on agencies with the Attorney-General's portfolio.<sup>3</sup>

### Comments

2.5 The Committee considered the issues raised in *Audit Report No. 6, 1992-93* as part of its broader inquiry into the commercialisation of public sector operations. The report of this inquiry, *Report 336, Public Business in the Public Interest*, was tabled in May 1995.

2.6 The responses of Attorney-General's portfolio agencies to the issues raised in the 1992-93 financial statement and ministerial portfolio audit reports were satisfactory.

3 Auditor-General: *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992; Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sitings 1993; Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92.*

# 3

## COMMUNICATIONS AND THE ARTS PORTFOLIO

### Introduction

3.1 The communications and the arts portfolio includes the Department of Communications and the Arts and 80 other bodies - of which 21 are statutory authorities.<sup>1</sup>

3.2 All organisations, including the department, fall within the program structure adopted for the portfolio, which currently consists of four programs, as follows:

- Program 1: Department of Communications and the Arts;
- Program 2: Arts and Heritage Services;
- Program 3: Broadcasting, Film and Multimedia Services;
- Program 4: Communications Infrastructure and Services.<sup>2</sup>

3.3 In the period October 1992 to June 1993 the Auditor-General produced two reports concerning aspects of the performance of agencies within this portfolio.

3.4 The Australian Postal Corporation and the Department of Communications were the subject of these audit reports, which were:

1 This information was provided by the Senate Finance and Public Administration Legislation Committee which is currently reviewing and updating the information published by the former Senate Standing Committee on Finance and Public Administration in *List of Commonwealth Bodies*, Canberra, June 1993. The Committee was advised by the Senate committee that the numbers should be regarded as indicative only and that a new *List of Commonwealth Bodies* is currently being prepared.

2 For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Communications and the Arts Portfolio*, Budget Related Paper No. 4.2, AGPS, Canberra, May 1995, p. 3.

- *Audit Report No. 27, 1992-93, Registered Publications Service - A Response to Senate Questions Regarding Australian Postal Corporation; and*
- *Audit Report No. 33, 1992-93, Efficiency Audit, The sale of Aussat and best practice for the sale of Commonwealth assets.*

3.5 In addition, the Auditor-General's audit reports on the results of his examination of financial statements and his on-going audits within ministerial portfolios commented on agencies within the communications and the arts portfolio.<sup>3</sup>

### Comments

3.6 The Committee's view is that issues raised in *Audit Report No. 27, 1992-93* do not warrant further review, and that the responses of agencies within the portfolio to the 1992-93 financial statement and ministerial portfolio audit reports were satisfactory.

3.7 A number of significant issues were canvassed in *Audit Report No. 33, 1992-93*, and the Committee has already examined these in detail and reported separately.<sup>4</sup>

<sup>3</sup> Auditor-General: *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992; Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sitzings 1993; Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92.*

<sup>4</sup> *Report 333, The Sale of Aussat*, AGPS, Canberra, September 1994.

# 4

## DEFENCE PORTFOLIO

### Introduction

4.1 The defence portfolio comprises the Defence Organisation (including the Department of Defence and the Australian Defence Force), the Department of Veterans' Affairs (DVA) and 63 other bodies - 23 of which are statutory authorities.<sup>1</sup>

4.2 The program structures for the two principal elements of the portfolio are as follows:

#### The Defence Organisation

- Program 1: Forces Executive;
- Program 2: Navy;
- Program 3: Army;
- Program 4: Air Force;
- Program 5: Strategy and Intelligence;
- Program 6: Acquisition and Logistics;
- Program 7: Budget and Management; and
- Program 8: Science and Technology.<sup>2</sup>

#### Department of Veterans' Affairs

- Program 1: Compensation;
- Program 2: Health Care and Services;
- Program 3: War Graves;
- Program 4: Corporate Services; and

<sup>1</sup> This information was provided by the Senate Finance and Public Administration Legislation Committee which is currently reviewing and updating the information published by the former Senate Standing Committee on Finance and Public Administration in *List of Commonwealth Bodies*, Canberra, June 1993. The Committee was advised by the Senate committee that the numbers should be regarded as indicative only and that a new *List of Commonwealth Bodies* is currently being prepared.

<sup>2</sup> For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Defence Portfolio*, Budget Related Paper No. 4.3A, AGPS, Canberra, May 1995, pp. 13-23.

- Program 5: War Memorial.<sup>3</sup>

4.3 In the period October 1992 to June 1993 the Auditor-General produced three reports on aspects of the performance of defence portfolio agencies:

- *Audit Report No. 2, 1992-93, Efficiency Audit, Department of Defence - Commercial Activity in the Defence Science and Technology Organisation;*
- *Audit Report No. 8, 1992-93, Efficiency Audit, Department of Veterans' Affairs - Compensation pensions to veterans and war widows; and*
- *Audit Report No. 22, 1992-93, Efficiency Audit, Department of Defence - New Submarine Project.*

4.4 In addition, the Auditor-General's reports on the results of his examination of financial statements and his on-going audits within ministerial portfolios commented on agencies within the defence portfolio.<sup>4</sup>

### Significant Issues

4.5 *Audit Report No. 22* canvasses a number of significant issues in relation to the new submarine project. These issues are considered in Part Four of this report.

4.6 The Committee's examination of the Auditor-General's other reports concerning defence portfolio agencies revealed three issues which appeared to require further review. The issues concerned:

- the policy framework for commercial activities within the Defence Science and Technology Organisation (DSTO);
- DSTO's exploitation of commercial opportunities; and

<sup>3</sup> For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Department of Veterans' Affairs (Defence Portfolio)*, Budget Related Paper No. 4.3B, AGPS, Canberra, May 1995, p. 5.

<sup>4</sup> Auditor-General: *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992; Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sittings 1993; Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92.*

- administration of the Compensation Sub-program within the Department of Veterans' Affairs.

4.7 These issues are summarised in Table 4.1 below. The table also contains a description of the initial responses to the Committee from the agencies, and an outline of the Committee's subsequent action.

4.8 Detailed comments on the agency responses, and the Committee's findings in relation to each issue, are contained in the sections after the table.

Table 4.1  
Defence Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p><b>Defence Science and Technology Organisation (DSTO) - Policy Framework:</b></p> <p>Australian National Audit Office (ANAO) recommended DSTO provide a submission to government to obtain endorsement for its commercialisation activities and a statement of policy.<sup>5</sup></p> <p>ANAO considered that the policy regarding the retention of generated revenue was unclear. ANAO was concerned that incentives were inconsistent and there was uncertainty about how profits would be accessed.<sup>6</sup></p>	<p>The Department of Defence advised that a submission was being developed with an expectation of presenting it to government by 30 April 1993. (The April 1994 Quarterly Return to the Minister for Finance advised that the submission had been prepared for 'executive consideration' prior to presentation to the Minister.)</p> <p>Defence advised that profits would be added to normal revenue, but that large revenue increases and windfall profits would be considered separately.<sup>8</sup></p>	<p>Advice was sought from DSTO on progress in this matter and an explanation for the delays.</p> <p>Defence was asked to provide clarification concerning large revenue increases and windfall profits, and an explanation as to how profits would be accessed.</p>

5 Auditor-General, *Audit Report No. 2, 1992-93, Efficiency Audit, Department of Defence - Commercial Activity in the Defence Science and Technology Organisation*, AGPS, Canberra, 1992, Recommendation 1, p. 7.

6 Auditor-General, *Audit Report No. 2, 1992-93, Recommendation 4*, p. 9.

7 Department of Defence, *Submission*, p. S2517.

8 Defence, *Submission*, p. S2518.

Table 4.1 (continued)  
Defence Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p><b>DSTO - Exploitation of Commercial Opportunities:</b></p> <p>ANAO recommended that DSTO should establish a steering committee or panel of experts with industry representation to facilitate input from industry.<sup>9</sup></p> <p>ANAO noted that progress had been slow in providing central input in identifying opportunities, assessing competing demands for resources, and articulating performance targets.<sup>10</sup></p>	<p>Defence argued this was not a cost effective option and that the thrust of the recommendation could be met by the advisory committee and strategic alliances created in response to other recommendations.<sup>11</sup></p> <p>Procedures and frameworks were being developed to meet the objectives of the recommendations.<sup>12</sup></p>	<p>Advice was sought from DSTO concerning progress in creating the advisory committee and strategic alliances and mechanisms which facilitate input from industry experts.</p> <p>An update was sought from DSTO on progress with a timetable for completion.</p>

9 Auditor-General, *Audit Report No. 2, 1992-93, Recommendation 13*, p. 14.

10 Auditor-General, *Audit Report No. 2, 1992-93, Recommendations 17-20*, pp. 16-18.

11 Defence, *Submission*, p. S2522.

12 Defence, *Submission*, pp. S2523-5.

Table 4.1 (continued)  
Defence Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p><b>Department of Veterans' Affairs - Compensation Subprogram:</b></p> <p>The Auditor-General recommended that, in view of his findings and the cost of the Subprogram, there be a fundamental review of the appropriateness of the design of the Subprogram and supporting legislation to reflect better:</p> <ul style="list-style-type: none"> <li>. the consequences of the aging of the veteran population;</li> <li>. the needs of younger veterans, in particular, those suffering psychiatric conditions;</li> <li>. the need for equitable treatment of veterans and their dependents; and</li> <li>. to achieve more cost effective arrangements for appeal.<sup>13</sup></li> </ul>	<p>While having difficulty with recommendations pertaining to policy matters, DVA acknowledged that there was a need for a 'thorough review' of the structure and range of benefits provided to veterans.<sup>14</sup></p> <p>The audit report was attacked by the Returned Services League of Australia who argued that:</p> <ul style="list-style-type: none"> <li>. the Auditor-General had exceeded his authority by intruding on Government policy; and</li> <li>. that no credence should be given to his findings as the report was illegally based.<sup>15</sup></li> </ul>	<p>The Committee sought submissions from organisations representing past servicemen and women and held a public hearing on 22 November 1993.</p>

13 Auditor-General, *Audit Report No. 8, 1992-93, Efficiency Audit, Department of Veterans' Affairs, Compensation pensions to veterans and war widows*, AGPS, Canberra, 1992, p. x.

14 Department of Veterans' Affairs, *Submission*, p. S2572-3.

15 Returned Services League of Australia, *Submission*, p. S2804.

## Responses to Review Action

### *Defence Science and Technology Organisation - Policy Framework*

4.9 In *Audit Report No. 2, 1992-93* the Auditor-General observed that the commercialisation policy framework within which DSTO operated was developed from comments made in Ministerial speeches which, although indicating the philosophy of the change in policy, lacked the substance of a comprehensive policy direction. The audit found that the policy had been inconsistently interpreted by the Department of Defence (Defence) and that the primary constraint on commercial activity is a self imposed 1 per cent of outlays. As well, the long term distribution of profits from commercial activity had not been resolved.<sup>16</sup>

4.10 The Auditor-General recommended that DSTO gain endorsement from the Government for its commercialisation activities and that a clear policy be developed for the retention of revenue generated by DSTO's commercial activity.<sup>17</sup>

4.11 The recommendation regarding endorsement of activities was accepted and Defence subsequently advised the Committee that a submission was expected to be presented to Government by 30 April 1993.<sup>18</sup> The Committee, however, noted the advice contained within the April 1994 Quarterly Return to the Minister for Finance that the submission had been prepared for executive consideration prior to presentation to the Minister. Accordingly the Committee sought further information from DSTO on this matter.

4.12 The Chief Defence Scientist responded to the Committee's request by advising that policy for commercial activities has been agreed through established departmental mechanisms while successive Ministers have endorsed the

16 Auditor-General, *Audit Report No. 2, 1992-93*, pp. 1-2.

17 Auditor-General, *Audit Report No. 2, 1992-93*, Recommendations 1 and 4, pp. 7 and 9.

18 Defence, *Submission*, p. S2517.



activity and been kept informed of developments. The Chief Scientist considered that the small scale of activity and growth limitations dictated by DSTO's primary role of supporting the Defence Force did not warrant further action on this matter.<sup>19</sup>

4.13 Although this represents a departure from the initial acceptance of the audit recommendation, the Committee accepts that the current position is appropriate.

4.14 The audit recommendation calling for a clear policy for the retention of revenue generated by DSTO's commercial activity was not accepted by Defence, which argued that the departmental policy currently in place was sufficient. The departmental policy of revenue retention was enunciated in the Defence Program Management Committee minutes and the implementation mechanism was contained in departmental finance instructions. DSTO could expect to retain revenues produced from commercial activities as an increment to normal budget allocations, but exceptions would include windfall gains and particularly large revenue increases which would need to be considered separately.<sup>20</sup>

4.15 The concern expressed by the Auditor-General was that the policy was not specific for DSTO and there was inconsistency in providing incentives for commercial activity whilst not making a commitment for the retention of revenue generated.<sup>21</sup>

4.16 The Committee sought further advice on this matter and in particular DSTO's access to large revenue increases and windfall profits.

4.17 The Department responded by providing an extract of its Revenue and Savings Retention Policy which indicated that if revenue within a Program exceeded forecast levels by 25 per cent, the excess would be re-allocated under Program arrangements. The submission added that DSTO had not

19 Defence Science and Technology Organisation, *Submission*, p. S4023.

20 Defence, *Submission*, p. S2518.

21 ANAO, *Submission*, p. J16.

received any windfalls to date and 'if it were to receive windfall receipts, these would be returned to the Portfolio for re-allocation.'<sup>22</sup>

4.18 The Committee is persuaded by Defence's argument expressed in *Audit Report No. 2, 1992-93*, that DSTO exists principally to serve the needs of Australia's defence organisation and that any commercial activity should not detract from this role. Moreover, Defence noted, the commercial potential for defence research was low and consequently only 1 per cent of DSTO's annual appropriations (about \$2 million) was applied to its commercial activities.<sup>23</sup>

4.19 In these circumstances, the Committee considers that the revenue retention policies applying to DSTO are appropriate.

*Defence Science and Technology Organisation - Exploitation of Commercial Opportunities, Industry Input*

4.20 In *Audit Report No. 2, 1992-93* the Auditor-General noted there was no formal exchange between DSTO and industry that focuses on the technology transfer process. Consequently, it was recommended that 'DSTO establish a steering committee or "panel of experts" with industry representation for each of [DSTO's] core technology areas.'<sup>24</sup>

4.21 In rejecting this recommendation Defence argued, both in the audit report and in its submission to the Committee, that the process was not cost effective and the thrust of the recommendation could be met through an advisory committee and strategic industry alliances established in response to two other recommendations.<sup>25</sup>

22 Defence, *Submission*, p. S4093.

23 Auditor-General, *Audit Report No. 2, 1992-93*, p. 5.

24 Auditor-General, *Audit Report No. 2, 1992-93*, p. 14.

25 Auditor-General, *Audit Report No. 2, 1992-93*, p. 14; Defence, *Submission*, p. S2522.

4.22 The ANAO commenting on this strategy noted that the composition of the advisory committee would be different from its proposed steering committee and its concern was that industry views were not adequately taken into account in the technology transfer process.<sup>26</sup>

4.23 In assessing the action taken by DSTO in response to the audit report, the Committee considered whether DSTO's strategy adequately addresses the Auditor-General's concerns.

4.24 DSTO advised the Committee that in June 1993 the Defence Industry Committee created an Advisory Subcommittee on Commercialisation of DSTO Technologies. The subcommittee's role was to gather industry-based advice on the development and management of DSTO's commercial activity and to provide an industry-based perspective of the effectiveness of those activities. After a detailed survey of industry, the subcommittee reported in August 1993 whereupon it was discharged. An action plan had been developed to implement the subcommittee's recommendations which, DSTO advised, would be incorporated in its Commercial Business Plans.<sup>27</sup>

4.25 Responding to the Auditor-General's recommendation that strategic alliances be struck with companies in Australian industry, DSTO had established six alliances and was proceeding to negotiate further alliances. It was expected that such alliances would create an environment suited to exchanges of staff with industry thus accommodating a further recommendation in the audit report calling for the establishment of DSTO/industry staff exchange schemes.<sup>28</sup>

4.26 The Committee is satisfied that DSTO has met the Auditor-General's recommendation that there be greater industry input into developing DSTO's business opportunities.

<sup>26</sup> ANAO, *Submission*, p. J17.

<sup>27</sup> DSTO, *Submission*, p. S4024.

<sup>28</sup> DSTO, *Submission*, p. S4024.

*Defence Science and Technology Organisation - Exploitation of Commercial Opportunities, Management Issues*

4.27 In providing an assessment of Defence's initial submission to the Committee, ANAO commented that progress was slow in the provision of DSTO central input, for direction and management of its commercial activities, especially in regard to identifying opportunities, balancing demands for resources and providing performance targets.<sup>29</sup>

4.28 DSTO's update advised that a business plan was being prepared and the number of DSTO Laboratory Divisions had 'been reduced from four to two, increasing the Director's span of control and better integrating the exploitation of the Division's commercial potential.' Also the move towards corporate management of commercial activities, commencing in 1995, would permit management integration across all DSTO Divisions.

4.29 DSTO argued that the objectives for DSTO's industry interaction enumerated in the Defence White Paper of December 1994 created difficulties in creating performance indicators. The objectives were:

- *to improve Australian industry's ability to support Australia's defence effort and self reliance, and*
- *through support to industry, to contribute to national wealth creation including through the support of exports.*

The White Paper set the context and expectations surrounding DSTO's commercial activities by stating that these activities were not necessarily expected to make a profit, and that they should not be a significant drain on allocated funds or scarce staff skills. DSTO concluded that:

<sup>29</sup> ANAO, *Submission*, p. J17.

... while it will be possible to have some performance indicators that are measurable, ... it will prove elusive to seek overall indicators that are both measurable and complete.<sup>30</sup>

4.30 The Auditor-General had noted that a commercial environment precluded DSTO's scientists receiving the normal recognition through publication of research findings and recommended that the commercial achievements of DSTO scientists be recognised as part of their performance assessment.<sup>31</sup>

4.31 DSTO advised the Committee that a comprehensive document addressing policy on rewards had been issued in May 1994 to Defence programs including DSTO and that the normal rewards for performance in contributing to the achievement of DSTO's commercial objectives would apply to all staff.<sup>32</sup>

4.32 In the allocation of DSTO's resources to commercialisation activities the Auditor-General considered there needed to be an improved priority setting mechanism. The response in the audit report acknowledged the difficulties in assessing commercial potential and indicated DSTO would continue to evaluate various methodologies.<sup>33</sup>

4.33 In its update to the Committee, DSTO listed the mechanisms that had been raised in various forums and indicated that those appearing to be relevant and feasible had been trialled. It had concluded that no one mechanism had met all requirements and advised the Committee that it would continue to examine alternatives.<sup>34</sup>

30 DSTO, *Submission*, p. S4025.

31 Auditor-General, *Audit Report No. 2, 1992-93*, Recommendation 18, p. 17.

32 DSTO, *Submission*, pp. S4025-6.

33 Auditor-General, *Audit Report No. 2, 1992-93*, pp. 17-18.

34 DSTO, *Submission*, p. S4026.

4.34 The Committee considers that DSTO is continuing to address constructively the management issues raised by the Auditor-General.

*Department of Veterans' Affairs - Compensation Sub-program*

4.35 The Compensation Sub-program is one of four sub-programs within the Benefits Program administered by DVA. Its objectives, as stated in the department's annual report are:

*To compensate eligible veterans and other eligible persons for the loss of physical or mental well-being resulting from incapacity caused by eligible war or defence service, and the effects of that loss on lifestyle (including employability); and*

*To compensate dependants for the death of a spouse or parent as a result of eligible service.<sup>35</sup>*

4.36 The two major elements of the sub-program, the disability pensions and the war widows' and widowers' pensions, accounted for a total expenditure in the financial year 1992-93 of \$1 495 million paid to 239 345 recipients.<sup>36</sup> It was these two elements of the Compensation Sub-program which were the subject of *Audit Report No. 8, 1992-93*.

4.37 In reporting the results of his audit, the Auditor-General identified five key findings, which were that:

- 'claims are frequently accepted which involve tenuous links between service and disability or cause of death';
- 'most grants of War Widows Pensions are made to widows of veterans who died at unexceptional ages of causes which are unexceptional by community norms';

35 Repatriation Commission, Department of Veterans' Affairs, *Annual Report 1992-93, Volume 1*, AGPS, Canberra, 1993, pp. 39-40.

36 Repatriation Commission, *Annual Report 1992-93, Volume 1*, p. 41.

- 'most conditions accepted as war caused for the purposes of grants of Disability Pension to elderly veterans are associated with advancing age and are not atypical of the community generally';
- the sub-program is unable to handle adequately the 'complex issues arising from claims for psychiatric conditions ... the most significant factor affecting disability pension increases for Vietnam veterans'; and
- inconsistencies in decision-making and certain aspects in program design result in inequitable treatment of many veterans and their dependents.<sup>37</sup>

4.38 In the foreword to the audit report, the Auditor-General commented that there was a need for a:

*... fundamental review of a number of areas of the Compensation Sub-program ... [and that] this might be appropriately addressed by a bipartisan Select Parliamentary Committee.*<sup>38</sup>

4.39 In its response both within the audit report and, later to the Committee, DVA did not agree with the recommendations which called for a review of the key elements of the Sub-program, saying that they were entrenched in legislation and were matters of policy.<sup>39</sup>

4.40 The tabling of the audit report also elicited a response from the National President of the Returned and Services League of Australia (RSL), Brig. A Garland AM, who wrote to the Clerk of the House of Representatives and to the Clerk of the Senate. The letters were forwarded to the Committee, which subsequently sought a submission from the RSL.

37 Auditor-General, *Audit Report No. 8, 1992-93*, p. x.

38 Auditor-General, *Audit Report No. 8, 1992-93*, p. v.

39 DVA, *Submission*, pp. S2677-80.

4.41 The submission asserted that the audit report contained errors which raised doubts on its validity and that much of the audit report 'exceeds legal authority by its intrusion into matters of Government Policy as distinct from strictly Departmental efficiency matters'.

4.42 The methodology of the audit was criticised as being unsoundly based since those officers who produced the report did not seek advice, nor did they consult at any time with client groups of the Repatriation System. The report was:

*... insensitive in its recommendations which make disadvantageous proposals on the legislative policies and practices which affect the Veteran Community ... [and] shows biased perceptions in relation to such matters as 'cause and effects' of smoking and premature aging.*<sup>40</sup>

4.43 The submission concluded that where recommendations related to administrative or departmental changes they should be dealt with by an expert committee and involve thorough consultation.<sup>41</sup>

4.44 In the light of the comments within *Audit Report No. 8, 1992-93*, and the strong reaction from the RSL, the Committee decided to seek further evidence on the matter.

4.45 To this end the Committee sought, and received, submissions from various ex-service organisations affiliated to the RSL.<sup>42</sup> A public hearing was held on 22 November 1993 at which evidence was received from representatives of ANAO, DVA, RSL, and the Vietnam Veterans Association of Australia. A list of witnesses can be found at Appendix IV.

40 *Submission*, p. S2804.

41 RSL, *Submission*, p. S2804.

42 Australian Veterans & Defence Services Council, *Submission*, pp. S3265-6; War Widows' Guild of Australia, *Submission*, pp. S3306-9; Australian Federation of Totally & Permanently Incapacitated Ex-Servicemen & Women, *Submission*, pp. S3346-52; Regular Defence Force Welfare Association, *Submission*, pp. 3454-61; and Legacy Co-ordinating Council, *Submission*, pp. 3462-7.

4.46 After the hearing the Committee became aware of an independent review by Professor Peter Baume AO of the Veterans' compensation pensions system. The review included issues raised by the Auditor-General and the effects of a recent decision in the High Court.<sup>43</sup>

4.47 The Committee decided to await the results of the Baume review and the Government's response to that review, before considering whether further review action was necessary.

4.48 The report of the Baume review, *A Fair Go - Report on Compensation for Veterans and War Widows*, was presented to the Government in March 1994 and in the 1994-95 Budget the Government announced a number of initiatives to reform the Compensation Sub-program.

4.49 The initiatives included:

- a package directed towards treating post-traumatic stress disorder;
- increased resources for the Vietnam Veterans Counselling Service; and
- the creation of a Repatriation Medical Authority to formulate statements of principle relating to the linkage of veteran's diseases and injuries to war service.<sup>44</sup>

4.50 Further initiatives were announced in the 1995-96 Budget which included easier access for Vietnam veterans to post-traumatic stress disorder treatment programs.<sup>45</sup>

<sup>43</sup> The then Minister for Veterans' Affairs, Senator the Hon John Faulkner, in announcing the review also advised he was creating a Ministerial Advisory Council on Veterans' Issues comprising of representatives of the seven major ex-service organisation with administrative support provided by DVA.

<sup>44</sup> The Hon Con Sciacca, MP, Minister for Veterans' Affairs, *News Release, New program and benefits for veterans*, 10 May 1994.

<sup>45</sup> The Hon Con Sciacca, MP, Minister for Veterans' Affairs, *News Release, Simplified and Expanded Services for Veterans*, 9 May 1995.

4.51 Another development after the Committee's hearing occurred in December 1994 when the Auditor-General tabled the results of a follow-up audit of the Compensation Sub-program.<sup>46</sup>

4.52 In his follow-up audit the Auditor-General made the following comments:

- the Government's establishment of the Repatriation Medical Authority (RMA) went some way to addressing ANAO concerns regarding causal links between disability and service, TPI grants to elderly veterans, and the effect of age on pension assessments;
- measures had been introduced to address the health and welfare needs of Vietnam and younger veterans;
- the creation of RMA should reduce inconsistency of decision-making and equity between claimants; and
- the level of appeals was likely to be reduced, and the efficiency of appeal mechanisms improved.<sup>47</sup>

4.53 The Committee is satisfied that the issues raised by *Audit Report No. 8, 1992-93* have in the main been addressed by the Baume review and Budget announcements. The follow-up audit, however, has drawn the Committee's attention to some additional concerns expressed by the Auditor-General.

4.54 The Committee intends to consider these issues as part of its review of 1994-95 audit reports. The review will include an assessment whether DVA has adequately addressed the Auditor-General's concerns that, following the Government's initiatives, DVA needed to:

- address the quality and use of evidence to realise the potential for improved consistency in decision making;

<sup>46</sup> Auditor-General, *Audit Report No. 15, 1994-95, Project Audit, Department of Veterans' Affairs, Follow-up of an Efficiency Audit on Compensation Pensions to Veterans and War Widows*, AGPS, Canberra, 1994.

<sup>47</sup> Auditor-General, *Audit Report No. 15, 1994-95*, p. vii.

- review the effectiveness of its project management arrangements following the implementation of its Compensation Claims Processing System; and
- adequately monitor the rate and reason for appeals as a base for the assessment of the effects of recent policy changes.<sup>48</sup>

48 *Audit Report No. 15, 1994-95*, pp. 8, 12, 19.

## 5

## EMPLOYMENT, EDUCATION AND TRAINING PORTFOLIO

## Introduction

5.1 The employment, education and training portfolio comprises the Department of Employment, Education and Training (DEET), and 45 other bodies - 14 of which are statutory authorities.<sup>1</sup>

5.2 All organisations, including the department, fall within the program structure adopted for the portfolio, which currently consists of six programs, as follows:

- Program 1: Schools;
- Program 2: Higher Education;
- Program 3: Vocational Education and Training;
- Program 4: Employment;
- Program 5: Student, Youth and Aboriginal Education Support; and
- Program 6: Portfolio Administration and Advising.<sup>2</sup>

5.3 In the period October 1992 to June 1993 the Auditor-General produced four reports concerning aspects of the performance of portfolio agencies. These reports, which concerned the University of Canberra and DEET, were:

- *Audit Report No. 9, 1992-93, Project Audit, University of Canberra - Administration Computing Systems;*
- *Audit Report No. 14, 1992-93, Efficiency Audit, Department of Employment, Education and Training - English as a Second Language;*

1 Senate Standing Committee on Finance and Public Administration, *List of Commonwealth Bodies*, AGPS, Canberra, June 1993, pp. 47-58.

2 For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Employment, Education and Training Portfolio*, Budget Related Paper No. 4.4, AGPS, Canberra, May 1995, pp. 9-11.

- *Audit Report No. 20, 1992-93, Project Audit, Department of Employment, Education and Training - The Administration of the AUSTUDY Program Turn-around Times, Post-payment Verification Debt Recoveries; and*
- *Audit Report No. 21, 1992-93, Project Audits, Department of Employment, Education and Training - Industry Service Centres, Special Entry Level Training, Subsidised Private Overseas Students, Revenue Collection, Advances, Trust Accounts.*

5.4 In addition, the Auditor-General's reports on the results of his examination of financial statements and his on-going audits within ministerial portfolios commented on agencies within the employment, education and training portfolio.<sup>3</sup>

### Significant Issues

5.5 The Committee's examination of the Auditor-General's reports on employment, education and training portfolio agencies revealed three issues relating to DEET which required further review. The issues concerned:

- the English as a Second Language (ESL) Program;
- the administration of the AUSTUDY Program; and
- performance evaluation of Industry Service Centres.

5.6 These issues are summarised in Table 5.1 below. The table also contains a description of the initial responses to the Committee from DEET, and an outline of the Committee's subsequent action.

5.7 Detailed comments on DEET's responses, and the Committee's findings in relation to each issue, are contained in the sections after the table.

<sup>3</sup> Auditor-General: *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992; Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sitzings 1993; Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92.*

Table 5.1  
Employment, Education and Training Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p><b>English as a Second Language Program:</b></p> <p>ANAO made several recommendations relating to the program framework and funding conditions.<sup>4</sup></p> <p>ANAO was concerned at the lack of linkage between the New Arrivals grant and the level of the instruction subsequently provided to students.<sup>5</sup></p>	<p>DEET rejected the recommendations as unrealistic, beyond the Commonwealth's responsibility, irrelevant or inappropriate. It advised that relevant aspects would be taken into account during negotiations with education authorities during 1993 over a new National Equity Program.<sup>6</sup></p> <p>DEET rejected the linkage mechanisms proposed as impractical, administratively complex and outside the proper role of the department.<sup>7</sup></p>	<p>An update was sought from DEET concerning the negotiations, the extent to which ANAO's recommendations had been taken into account and the outcome of the negotiations.</p> <p>Clarification was sought from DEET regarding the rationale for the department's stand.</p>

<sup>4</sup> Auditor-General, *Audit Report No. 14, 1992-93, Efficiency Audit, Department of Employment, Education and Training - English as a Second Language*, AGPS, Canberra, 1992, Recommendations 1, 2, 4, 7 and 8, pp. 54-63.

<sup>5</sup> Auditor-General, *Audit Report No. 14, 1992-93, Recommendations 5 and 6*, pp. 59-61.

<sup>6</sup> Department of Employment, Education and Training, *Submission*, pp. S2603-5.

<sup>7</sup> DEET, *Submission*, p. S2604.

Table 5.1 (continued)  
Employment, Education and Training Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p><b>Administration of the Austudy Program</b></p> <p>ANAO recommended that a concerted effort be made to finalise old debts.<sup>8</sup></p>	<p>Old debts had been reduced significantly from \$11.7m in Dec 1991 to \$7m in June 1992. Resources had been provided under New Policy Strategy for collection in 1991-92 and 1992-93. Ongoing monitoring has confirmed the success of these strategies.<sup>10</sup></p>	<p>DEET was asked to substantiate the level of success achieved, the level of old debt which was deemed as acceptable, and when this target was likely to be reached.</p>
<p><b>Industry Service Centres (ISCs)</b></p> <p>ANAO recommended that:</p> <p>DEET consider development of additional performance indicators at the Commonwealth Employment Service area level to measure the performance of the ISCs in their core functions;<sup>9</sup></p>	<p>A joint evaluation was being undertaken with the Public Sector Union (PSU) of the Differentiated Service Centres delivery structure under the Client Service Reforms.<sup>11</sup></p>	<p>DEET was asked to provide advice as to the outcome of the evaluation in relation to ANAO's recommendation.</p>

8 Auditor-General, *Audit Report No. 20, 1992-93, Project Audit, Department of Employment, Education and Training - The Administration of the AUSTUDY Program Turnaround Times, Post-payment Verification Debt Recoveries*, AGPS, Canberra, 1992, Recommendation 6, p. 19.

9 Auditor-General, *Audit Report No. 21, 1992-93, Project Audits, Department of Employment, Education and Training - Industry Service Centres, Special Entry Level Training, Subsidised Private Overseas Students, Revenue Collection, Advances, Trust Accounts*, AGPS, Canberra, 1992, Recommendation 2, p. 6.

10 DEET, *Submission*, p. S2581.

11 DEET, *Submission*, p. S2609.

Table 5.1 (continued)  
Employment, Education and Training Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p><b>Industry Service Centres (continued)</b></p> <p>DEET actively encourage State Offices to recruit external applicants with appropriate skills and experience for specialist positions;<sup>12</sup> and</p> <p>DEET develop a staffing policy that encourages ISC staff to remain in ISCs for longer and fosters the development of career plans for ISC staff.<sup>13</sup></p>	<p>The department had initiated a Trainee Employment Officer scheme allowing competitive external entry, which was expected to become the major method of network recruitment.<sup>14</sup></p> <p>Such a policy was in place prior to the audit. Staff have a right to advancement.<sup>15</sup> DEET will be able to evaluate staff rotation policy as part of the joint review with the PSU which commenced in September 1992.<sup>16</sup></p>	<p>Confirmation was sought from DEET that the scheme was in place and that it was meeting expectations.</p> <p>DEET was asked to provide advice as to the outcome of the review.</p>

12 Auditor-General, *Audit Report No. 21, 1992-93, Recommendation 4*, p. 7.

13 Auditor-General, *Audit Report No. 21, 1992-93, Recommendation 5*, p. 8.

14 DEET, *Submission*, p. S2610.

15 DEET, *Submission*, p. S2610.

16 Auditor-General, *Audit Report No. 21, 1992-93*, p. 8.



## Responses to Review Action

### *English as a Second Language Program - Introduction*

5.8 The ESL program, which is administered by DEET, provides funding for intensive ESL instruction for newly arrived migrant students and supplementary assistance to education authorities and schools to provide ESL instruction as part of their curriculum.

5.9 *Audit Report No. 14, 1992-93* raised two general issues of interest to the Committee - first, the program framework and funding provisions and, secondly, the linkage between the level of grant provided and instruction received by students.

### *English as a Second Language Program - Program Framework*

5.10 The Auditor-General made several recommendations relating to the program framework, including that:

- education authorities be required to provide details of ESL expenditure;
- specific operational objectives and performance targets be set for the program;
- estimates of program reach be prepared; and
- education authorities provide information about their fund allocation principles.<sup>17</sup>

5.11 DEET did not accept the Auditor-General's recommendations, stating that they were unrealistic, beyond the Commonwealth's responsibility, irrelevant or inappropriate. However, DEET added, in its initial submission to the Committee, that it would bear in mind the recommendations during

<sup>17</sup> Auditor-General, *Audit Report No. 14, 1992-93*, Recommendations 1, 2, 4, 7 and 8, pp. 54-63.

negotiations in 1993 with States and non-government authorities concerning the National Equity Strategy and the National Equity Program for Schools (NEPS).<sup>18</sup>

5.12 Responding to the Committee's request for an update, DEET advised that:

*NEPS became fully operational in 1994 ... [and contained] the requirement that education authorities enter into public agreements with the Commonwealth. The funding agreements cover roles and responsibilities, objectives, priorities and use of funds under the NEPS as well as strategies for improved reporting on inputs and outcomes.*<sup>19</sup>

5.13 The Department also advised that ANAO was conducting a follow-up of the audit report and was examining the NEPS agreement and the Department's progress in implementing the recommendations concerning the program framework. DEET anticipated that a favourable conclusion would be drawn.<sup>20</sup> This view was subsequently supported by comments within the follow-up audit.<sup>21</sup>

5.14 The Committee considers the DEET has adequately addressed this issue.

### *English as a Second Language Program - Linkage of Grants with ESL Instruction Needs*

5.15 The Auditor-General also advocated the linking of the Commonwealth per capita grant with the level and cost of ESL provision, as well as varying the amount of grant depending on the needs of students and recognising the higher costs associated with ESL instruction in small class sizes.<sup>22</sup> The Auditor-

<sup>18</sup> DEET, *Submission*, pp. S2603-5.

<sup>19</sup> DEET, *Submission*, p. S4017.

<sup>20</sup> DEET, *Submission*, p. S4018.

<sup>21</sup> Auditor-General, *Audit Report No. 23, 1994-95, Follow-up Audit, Department of Employment, Education and Training, English as a Second Language*, AGPS, Canberra, 1995, p. vii.

<sup>22</sup> Auditor-General, *Audit Report No. 14, 1992-93*, Recommendations 5 and 6, p. 21.

General added that while it was appropriate for education authorities and schools to determine the level of ESL instruction to individual students, it was reasonable for the Commonwealth to determine the level of funding for a given level of ESL provision.<sup>23</sup>

5.16 The recommendations were rejected by DEET as 'impractical, administratively complex and outside the proper role of the Department.'<sup>24</sup>

5.17 DEET responded to the Committee's request for further advice by suggesting that the recommendations were flawed because they were based on the premise that the Commonwealth was exclusively responsible for English instruction to New Arrivals students, DEET also argued that the introduction of variable funding:

*... would also introduce unwelcome inflexibility and administrative complexity to the program. ... the definition, assessment and verification of a student's need for intensive ESL would need to be resolved. The resulting costly and cumbersome reporting and accountability requirements for education authorities would be inconsistent with other Commonwealth programs for schools.'*<sup>25</sup>

5.18 The issue has been resolved following the implementation of the NEPS Agreement. The Auditor-General's follow-up audit concluded that the roles and responsibilities of the Commonwealth and education authorities in regard to funding had been clearly stated and that the issue ceased to be of concern.<sup>26</sup>

<sup>23</sup> Auditor-General, *Audit Report No. 14, 1992-93*, p. 60.

<sup>24</sup> DEET, *Submission*, p. S2604.

<sup>25</sup> DEET, *Submission*, p. S4018.

<sup>26</sup> Auditor-General, *Audit Report No. 23, 1994-95*, pp. 9-10.

### *Administration of the AUSTUDY Program*

5.19 The AUSTUDY program provides financial support to students undertaking full time study at secondary or post secondary levels. Debts arise in the program through overpayments of the allowance and DEET has in place procedures for recovery of this debt.

5.20 In *Audit Report No. 20, 1992-93*, which was a follow-up to an earlier audit report,<sup>27</sup> the Auditor-General reviewed the performance of DEET in recovering AUSTUDY debts and recommended that a concerted effort be made to finalise old debt, defined as debts over one year old.<sup>28</sup>

5.21 DEET advised the Committee that it had allocated additional resources to the finalisation of old debt and that ongoing monitoring had confirmed the success of its strategies.<sup>29</sup> The Committee subsequently sought further advice from DEET on the matter and, in particular, a substantiation of the success achieved and an indication of performance targets for old debt collection.

5.22 DEET's old debt collection performance was also the subject of a follow-up audit tabled in October 1994.<sup>30</sup> The Auditor-General reported that 'no evidence could be found that DEET had evaluated the results of deploying the additional staff resources, particularly in relation to the collection of old debts' and consequently recommended that 'DEET regularly assess the cost effectiveness of its debt collection strategies.'<sup>31</sup>

<sup>27</sup> Auditor-General, *Audit Report No. 24, 1989-90, Department of Employment, Education and Training - administration of the Austudy program*, AGPS, Canberra, 1989.

<sup>28</sup> Auditor-General, *Audit Report No. 20, 1992-93*, Recommendation 6, p. 19.

<sup>29</sup> DEET, *Submission*, p. S2581.

<sup>30</sup> Auditor-General, *Audit Report No. 5, 1994-95, Follow-up Audits, Department of Employment, Education and Training - New Enterprise Incentives Scheme (NEIS) - Protective Security - AUSTUDY*, AGPS, Canberra, 1994.

<sup>31</sup> Auditor-General, *Audit Report No. 5, 1994-95*, Recommendation 1, p. 38.

5.23 The 1994 follow-up audit also observed that DEET's performance in finalising old debt had deteriorated both in absolute and relative terms during the first half of 1993-94, but noted DEET's advice that the proportion of old debt had fallen from 52 per cent in 1991 to 44 per cent in 1994.<sup>32</sup> DEET added, in its submission to the Committee, that this period coincided with a rapid increase in the level of student assistance outlays.<sup>33</sup>

5.24 The Department argued that it focussed on recovering the debts raised in each academic year since the recovery rate for new debts was always higher than for old debts. Furthermore, most debts were repaid through instalment plans, causing some debts to age and, although these were under active repayment plans, they would still be counted in 'old debt' statistics. DEET also suggested that changes in the proportion of old debt provided an incomplete picture of performance since this value would be influenced by success at reducing current debt or by writing off old debts.<sup>34</sup>

5.25 Responding to the Committee's request for information about the Department's debt recovery targets, DEET advised that it used:

*... various performance indicators to measure the success of debt collection strategies ... [including] average age of debts, average time for full repayment of debts, proportion of debts under active repayment plans and the average value of new debts.*<sup>35</sup>

<sup>32</sup> Auditor-General, *Audit Report No. 5, 1994-95*, pp. 39-40.

<sup>33</sup> DEET, *Submission*, p. S4019.

<sup>34</sup> DEET, *Submission*, p. S4019.

<sup>35</sup> DEET, *Submission*, p. S4019.

5.26 The Committee acknowledges DEET's argument concerning the need to have a variety of performance measures and that relying solely on the proportion of old debt as an indicator might give a distorted view. However, the Committee notes that the follow-up audit found that the total level of debt had increased from \$48.6 million to \$60.3 million during the first half of 1993-94 and that, in five specified debt age ranges, only one category (that is, debt of between six months and one year old) had registered an improvement.<sup>36</sup>

5.27 The Committee is aware that taking a six months snap shot of what may be a cyclical variation in debt levels is not necessarily a true representation of DEET's performance in reducing AUSTUDY debts, but considers that DEET should maintain its efforts in this area.

5.28 In his follow-up audit, the Auditor-General made two recommendations concerning debt recovery.<sup>37</sup> The Committee endorses these recommendations and intends to revisit this issue when it examines the follow-up audit as part of its ongoing review of Auditor-General's reports.

#### 5.29 Recommendation 1

*The Auditor-General should continue to monitor the Department of Employment, Education and Training's performance in reducing the level of debts associated with the AUSTUDY program.*

<sup>36</sup> Auditor-General, *Audit Report No. 5, 1994-95*, Table 1, p. 39.

<sup>37</sup> The recommendations concerned the need for DEET to regularly assess the cost effectiveness of its debt collection strategies, and the need to finalise its arrangements with the Department of Social Security aimed at improving information exchange.

*Industry Service Centres*

5.30 By June 1991 DEET had established some 90 ISCs as part of the Commonwealth Employment Service (CES) network. The role of ISCs is to actively promote DEET programs and services, and the Government's Training Reform Agenda, to industry and employers. Specifically, the objectives for ISCs are to:

- support industry involvement in Commonwealth regional strategies on employment and training through the promotion of investment by industry in training;
- increase equity in employment; and
- analyse regional labour markets to identify key growth areas, the demand and supply of skills and local industry structure.<sup>38</sup>

5.31 In *Audit Report No. 21, 1992-93* the Auditor-General recommended that DEET:

- consider the development of additional performance indicators for ISCs;
- actively encourage the recruitment of external applicants with appropriate skills and experience for specialist positions; and
- develop a staffing policy which fostered the retention of staff and the development of career plans.<sup>39</sup>

5.32 Responding to the Committee's initial request for further information on these recommendations, DEET advised that:

- performance indicators were already available, but that a joint evaluation was being undertaken with the PSU of the structure for delivering DEET programs via separate service centres;

<sup>38</sup> Auditor-General, *Audit Report No. 21, 1992-93*, p. 3.

<sup>39</sup> Auditor-General, *Audit Report No. 21, 1992-93*, Recommendations 2, 4 and 5, pp. 6-8.

- a newly initiated Trainee Employment Officer (TEO) scheme, which allowed external entry, was expected to become the major method of recruitment; and
- an appropriate staffing policy was already in place and staff had a right to seek advancement.<sup>40</sup>

5.33 DEET had also commented in the audit report that its staff rotation policy would also be reviewed as part of the joint PSU evaluation.<sup>41</sup>

5.34 The Committee sought further information from DEET on these issues.

5.35 The Department advised the Committee that:

- the ISCs had been integrated with other CES services into 'one stop shop' Regional Offices. This had overtaken the joint PSU review and performance indicators for all CES services have been addressed through client service standards;
- approximately 1030 staff had graduated from the TEO scheme since its inception, up to 75 per cent of which had been externally recruited. A recent review had indicated the program had been 'overwhelmingly successful at attracting suitably qualified staff'; and
- the Regional Office configuration offered far greater scope for staff rotation.<sup>42</sup>

5.36 The Committee considers that DEET has adequately addressed the concerns raised in *Audit Report No. 21, 1992-93*.

<sup>40</sup> DEET, *Submission*, pp. S2609-2610.

<sup>41</sup> Auditor-General, *Audit Report No. 21, 1992-93*, p. 8.

<sup>42</sup> DEET, *Submission*, p. S4020.

## ENVIRONMENT, SPORT AND TERRITORIES PORTFOLIO

### Introduction

6.1 The environment, sport and territories portfolio comprises the Department of Environment, Sport and Territories (DEST) and 40 other bodies - 13 of which are statutory authorities.<sup>1</sup>

6.2 All organisations, including the department, fall within the program structure adopted for the portfolio, which currently consists of six programs, as follows:

- Program 1: Environment;
- Program 2: Antarctic;
- Program 3: Meteorology;
- Program 4: Sport and Recreation;
- Program 5: Territories; and
- Program 6: Corporate Services, Coordination and Public Affairs.<sup>2</sup>

6.3 In the period October 1992 to June 1993 the Auditor-General produced one report on aspects of the performance of agencies within this portfolio. This report, which concerned the Commonwealth Environment Protection Agency, was:

- *Audit Report No. 10, 1992-93, Efficiency Audit, Living with our Decisions - Commonwealth Environmental Impact Assessment Processes.*

<sup>1</sup> Senate Standing Committee on Finance and Public Administration, *List of Commonwealth Bodies*, AGPS, Canberra, June 1993, pp. 77-87.

<sup>2</sup> For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Environment, Sport and Territories Portfolio*, Budget Related Paper No. 4.5, AGPS, Canberra, May 1995, p. 3.

6.4 In addition, the Auditor-General's reports on the results of his examination of financial statements and his on-going audits within ministerial portfolios commented on agencies within the environment, sport and territories portfolio.<sup>3</sup>

### Audit Reports Referred to Other Parliamentary Committees

6.5 On 17 August 1993, the Hon Frank Walker, MP, then a Special Minister of State, asked the House of Representatives Standing Committee on the Environment, Recreation and the Arts to examine and report on *Audit Report No. 10, 1992-93*.<sup>4</sup>

6.6 The Environment, Recreation and the Arts Committee presented the results of its examination in, *Commonwealth Environmental Impact Assessment Processes*, which was tabled on 27 June 1994. The Committee is of the view that the Environment Committee's report gives appropriate consideration to the matters raised in *Audit Report No. 10, 1992-93*. The Committee does not propose at this time to review the matters further.

### Significant Issues

6.7 The Committee's examination of the Auditor-General's other reports concerning environment, sport and territories portfolio agencies revealed one issue which appeared to require further review:

- the viability of the Great Barrier Reef Marine Park Authority (GBRMPA) Aquarium in Townsville.

<sup>3</sup> Auditor-General: *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992; Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sittings 1993; Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92.*

<sup>4</sup> The Hon F Walker, the then Special Minister of State, letter to House of Representatives Standing Committee on the Environment, Recreation and the Arts, dated 17 August 1993.

6.8 This issue is summarised in Table 6.1. The table also contains a description of the initial responses to the Committee from DEST, and an outline of the Committee's subsequent action.

6.9 Detailed comments on DEST's response, and the Committee's findings in relation to the issue, are contained in the sections after the table.

Table 6.1  
Environment, Sport and Territories Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p><b>Great Barrier Reef Marine Park Authority Aquarium</b></p> <p>ANAO expressed concern at the viability of the Authority's aquarium following an overall loss of almost \$1 million.<sup>5</sup></p>	<p>The Department of Environment, Sport and Territories advised that an interdepartmental working group had recommended that the aquarium be given access to funds through the normal budget process.<sup>6</sup></p>	<p>A submission was sought from the Authority after the issue was raised again by the Auditor-General in a subsequent audit report.<sup>7</sup></p>

<sup>5</sup> Auditor-General, *Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sitings 1993*, AGPS, Canberra, 1993, p. 110.

<sup>6</sup> Department of Environment, Sport and Territories, *Submission*, p. S3159.

<sup>7</sup> Auditor-General, *Audit Report No. 27, 1993-94, Report on Ministerial Portfolios - Autumn Sitings 1994*, AGPS, Canberra, 1994, p. 92.

## Responses to Review Action

### *The Great Barrier Reef Marine Park Authority Aquarium*

6.10 The GBRMPA administers an aquarium in Townsville as an educational facility. The aquarium was established on the basis that it would be self-funding.

6.11 In *Audit Report No. 28, 1992-93* the Auditor-General expressed concern at the Aquarium's financial viability reporting that the overall loss during 1991-92 was almost \$1 million and was facing a critical cash flow position as repayments to earlier loans were required.<sup>8</sup> In 1991 the Department of Finance provided a \$1 million loan to assist in meeting the costs of the aquarium's operations.<sup>9</sup>

6.12 In its initial submission to the Committee, DEST advised that an interdepartmental working group had examined possible future funding options for the Aquarium. The group had found that the Aquarium provided a valuable contribution particularly in public education and had recommended that access to additional funds be provided through normal budget processes. \$228 000 had been provided in Additional Estimates in 1992-93 to cover the Aquarium's loan repayment for that year. Longer term funding arrangements were being considered.<sup>10</sup>

6.13 In the following year the Auditor-General again raised concerns at the Aquarium's financial viability, reporting continued trading losses and advising of a significant drop in its cash holdings.<sup>11</sup>

<sup>8</sup> Auditor-General, *Audit Report No. 28, 1992-93*, p. 110.

<sup>9</sup> Auditor-General, *Audit Report No. 27, 1993-94*, p. 92.

<sup>10</sup> DEST, *Submission*, p. S3159.

<sup>11</sup> Auditor-General, *Audit Report No. 27, 1993-94*, p. 92.

6.14 The GBRMPA responded to the Committee's request for further information advising that operating costs and overheads had been progressively reduced during the previous five years and that resolution of the Aquarium's financial problems required an increase in revenue. The submission detailed the steps being undertaken to improve the situation and these included:

- steps to improve the marketing and promotion of the Aquarium in the local area;
- the establishment of an advisory board that had developed a business plan which recognised the need for financial viability;
- the promotion of the facility through the creation of a Friends of the Aquarium group; and
- the undertaking of externally funded research on a cooperative or cost recovery basis.<sup>12</sup>

6.15 The Authority also noted that its activities had met approximately 80 per cent of its operating costs which it regarded as being high considering the local population and visitor numbers compared to other national facilities.<sup>13</sup>

6.16 The Committee notes that the Minister for Environment, Sport and Territories has initiated a review of the funding of GBRMPA, with specific reference to the Authority's aquarium. In the Committee's view the steps currently being taken to address the audit concerns about funding arrangements for the aquarium are appropriate.

<sup>12</sup> Great Barrier Reef Marine Park Authority, *Submission*, 1993-94 Series, pp. S1122-3.

<sup>13</sup> GBRMPA, *Submission*, 1993-94 Series, p. S1123.

### Introduction

7.1 The finance portfolio comprises the Department of Finance (Finance), the Department of Administrative Services (DAS) and 76 other bodies - nine of which are statutory authorities.<sup>1</sup>

7.2 All organisations, including the departments, fall within the program structure adopted for the portfolio, which currently consists of 16 programs divided between the two departments, as follows:

#### Department of Finance

- Program 1: Budget Development and Management;
- Program 2: Resource Management and Framework;
- Program 3: Government Financial Administration and Services;
- Program 4: Retirement Benefits;
- Program 5: Specific Payments and Receipts Activities;
- Program 6: Asset Sales;
- Program 7: Corporate Services;
- Program 8: Australian National Audit Office; and
- Program 9: Office of Government Information Technology.<sup>2</sup>

<sup>1</sup> This information was provided by the Senate Finance and Public Administration Legislation Committee which is currently reviewing and updating the information published by the former Senate Standing Committee on Finance and Public Administration in *List of Commonwealth Bodies*, Canberra, June 1993. The Committee was advised by the Senate committee that the numbers should be regarded as indicative only and that a new *List of Commonwealth Bodies* is currently being prepared.

<sup>2</sup> For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Finance Portfolio*, Budget Related Paper No. 4.6A, AGPS, Canberra, May 1995, p. 3.

#### Department of Administrative Services

- Program 1: Business Services;
- Program 2: Government Services;
- Program 3: Purchasing and Information;
- Program 4: Corporate Management;
- Program 5: Commonwealth Grants Commission;
- Program 6: Australian Electoral Commission; and
- Program 7: Royal Commissions and Inquiries<sup>3</sup>

7.3 In the period October 1992 to June 1993 the Auditor-General produced four reports on aspects of the performance of portfolio agencies. Finance and DAS were the subject of these audit reports which were:

- *Audit Report No. 11, 1992-93, Efficiency Audit, Department of Administrative Services - Procedures for Dealing with Fraud on the Commonwealth;*
- *Audit Report No. 13, 1992-93, Efficiency Audit, Department of Administrative Services - Overseas Property Group;*
- *Audit Report No. 16, 1992-93, Efficiency Audit, An Audit Commentary of Aspects of Commercialisation in the Department of Administrative Services; and*
- *Audit Report No. 24, 1992-93, Project Audit, Department of Finance - Interface Systems.*

7.4 In addition, the Auditor-General's reports on financial statements and on-going audits in ministerial portfolios commented on agencies within the finance portfolio.<sup>4</sup>

<sup>3</sup> For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Department of Administrative Services (Finance Portfolio)*, Budget Related Paper No. 4.6B, AGPS, Canberra, May 1995, pp. 10-12.

<sup>4</sup> Auditor-General: *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992; Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sitings 1993; Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92.*



### Audit Reports Referred to Other Parliamentary Committees

7.5 On 16 December 1992 *Audit Report No. 11, 1992-93* was referred to the House of Representatives Standing Committee on Banking, Finance and Public Administration.<sup>5</sup> Consideration of the audit report formed part of that committee's broader inquiry into fraud on the Commonwealth.

7.6 On 25 November 1993 the Banking Committee tabled its report *Focusing on Fraud, Report of the Inquiry into Fraud on the Commonwealth*. The Committee is of the view that the Banking Committee's report gives appropriate consideration to the matters raised in *Audit Report No. 11, 1992-93*. The Committee does not propose at this time to review the matters further.

### Significant Issues

7.7 On 16 June 1993, the Committee resolved to inquire into the commercialisation of public sector operations. The examination of the commercial activities of the then Department of Arts and Administrative Services formed part of the inquiry's terms of reference. The issues raised in *Audit Report No. 16, 1992-93* was considered as part of the commercialisation inquiry, the report of which was tabled on 11 May 1995.<sup>6</sup>

7.8 The Committee's examination of the other Auditor-General's reports on finance portfolio agencies revealed one issue which required further review. This related to the operations of the Retirement Benefits Office (RBO) and concerned the administration of superannuation funds.

<sup>5</sup> House of Representatives, *Votes and Proceedings*, 1990-93, AGPS, Canberra, 1992, p. 1941.

<sup>6</sup> Joint Committee of Public Accounts, *Report 336, Public Business in the Public Interest*, AGPS, Canberra, April 1995.

7.9 This issue is summarised in Table 7.1 below. The table also contains a description of the initial responses to the Committee from Finance and RBO, and an outline of the Committee's subsequent action.

7.10 Detailed comments on RBO's and Finance's responses, and the Committee's findings in relation to the issue, are contained in the sections after the table.

Table 7.1  
Finance Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p>Retirement Benefits Office (RBO)</p> <p>ANAO found that:</p> <ul style="list-style-type: none"> <li>the RBO had breached sections of the <i>Audit Act 1901</i> and the <i>Superannuation Act 1976</i> because it had combined the financial transactions of the Superannuation Fund No. 1 (PSS Fund) with the Commonwealth Superannuation Fund No. 2 (CSS Fund); and</li> <li>the RBO was unable to determine the amount due for superannuation pay-as-you-go contributions from approved authorities.<sup>7</sup></li> </ul>	<p>The RBO was endeavouring to overcome the problem. A working party had been formed and all but four employer agencies were submitting separate PSS and CSS remittances.<sup>8</sup></p> <p>The RBO was investigating the development of computer systems to rectify the problem.<sup>9</sup></p>	<p>The Committee sought a further submission from RBO following the issue again being raised by the Auditor-General.<sup>10</sup></p>

7 Auditor-General, *Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92, AGPS, Canberra, 1994*, p. 90.

8 Department of Finance, *Submission*, p. S2989.

9 Finance, *Submission*, p. S2990.

10 Auditor-General, *Audit Report No. 18, 1993-94, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1993, AGPS, Canberra, 1994*, p. 2.

## Responses to Review Action

### Retirement Benefits Office

7.11 The RBO provides administrative support for the management of the Public Sector Superannuation Scheme (PSS) and the Commonwealth Superannuation Scheme (CSS). The Auditor-General qualified RBO's financial statement because it had:

- combined the financial transactions of the PSS Fund with the CSS Fund, thereby breaching section 60 of the *Audit Act 1901*;
- failed to differentiate between monies of the two funds, thereby breaching section 40 of the *Audit Act 1901*; and
- been unable to determine the amount due for superannuation pay-as-you-go contributions from approved authorities, preventing the Audit Office from determining whether contributions received differed materially from contributions due.<sup>11</sup>

7.12 Finance advised the Committee that all but four employer agencies had commenced to provide separate remittances for the two funds and that, of these, three were amending their in-house systems to enable separate remittances to be made. The RBO had also created a working party to plan a strategy to separate its PSS and CSS accounting records.<sup>12</sup>

7.13 Finance also advised that RBO's information technology systems did not allow the Office to check that the superannuation contributions from each agency equated with the amount due, but it was investigating possible improvements to the system.<sup>13</sup>

11 Auditor-General, *Audit Report No. 29, 1992-93*, p. 90.

12 Finance, *Submission*, p. S2989.

13 Finance, *Submission*, p. S2990.

7.14 Further information was provided by RBO following the Auditor-General again qualifying RBO's 1992-93 financial statement.<sup>14</sup>

7.15 In its submission to the Committee the RBO advised that the Government would be providing funding commencing in the 1993-94 Budget 'for the replacement and enhancement of the RBO's management systems to remove, inter alia, areas of ongoing audit criticism.' It was noted that, although RBO's systems did not allow separate accounts and records to be maintained at the individual member level, the funds had been administered separately since July 1992. Moreover, ANAO's concerns had not extended to individual member accumulations or future entitlement to benefits.<sup>15</sup>

7.16 The Committee considers that this issue is being adequately addressed by RBO and does not intend, at this stage, to pursue the matter further.

<sup>14</sup> Auditor-General, *Audit Report No. 18, 1993-94*, p. 2.

<sup>15</sup> Retirement Benefits Office, *Submission, 1993-94 Series*, pp. S182-3.

## 8

FOREIGN AFFAIRS AND TRADE  
PORTFOLIO

## Introduction

8.1 The foreign affairs and trade portfolio comprises the Department of Foreign Affairs and Trade (DFAT) and 52 other bodies - four of which are statutory authorities.<sup>1</sup>

8.2 All organisations, including the department, fall within the program structure adopted for the portfolio, which currently consists of eight programs, as follows:

- Program 1: International Relations, Trade and Business Liaison;
- Program 2: Passport and Consular Services;
- Program 3: Services for Other Agencies;
- Program 4: Secure Government Communications and Security Services;
- Program 5: Executive and DFAT Corporate Services;
- Program 6: Development Co-operation;
- Program 7: Austrade; and
- Program 8: Australian Secret Intelligence Service.<sup>2</sup>

<sup>1</sup> Senate Standing Committee on Finance and Public Administration, *List of Commonwealth Bodies*, AGPS, Canberra, June 1993, pp. 103-112.

<sup>2</sup> For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Foreign Affairs and Trade Portfolio*, Budget Related Paper No. 4.7, AGPS, Canberra, May 1995, pp. 4-6.

8.3 In the period October 1992 to June 1993 the Auditor-General produced no specific reports concerning the performance of agencies within this portfolio. However, the Auditor-General's reports on his examination of financial statements and his on-going audits within ministerial portfolios commented on agencies within the foreign affairs and trade portfolio.<sup>3</sup>

### Significant Issues

8.4 The Committee's examination of the Auditor-General's reports concerning foreign affairs and trade portfolio agencies revealed one issue which appeared to require further review. This issue concerned the selection by DFAT of a contractor for diplomatic airfreight.

8.5 This issue is summarised in Table 8.1. The table also contains a description of the initial responses to the Committee from the agencies, and an outline of the Committee's subsequent action.

8.6 Detailed comments on the agency's response, and the Committee's findings in relation to the issue, are contained in the sections after the table.

<sup>3</sup> Auditor-General: *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992, Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sitings 1993; Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92.*

Table 8.1  
Foreign Affairs and Trade Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p><b>Diplomatic Airfreight Contractor</b></p> <p>ANAO found that:</p> <ul style="list-style-type: none"> <li>• documentation supporting the selection of a contractor as preferred supplier for diplomatic airfreight services was unavailable for scrutiny; and</li> <li>• there was no documentation of the reasons for <u>not</u> inviting other potential suppliers to quote for the service, this included companies currently contracted with the Commonwealth for international services.<sup>4</sup></li> </ul>	<p>The Department provided a description of the selection process but did not respond to the specific criticism of lack of documentation.<sup>5</sup></p>	<p>The Department was asked to respond to the specific criticisms in the audit report.</p>

<sup>4</sup> Auditor-General, *Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92, AGPS, Canberra, 1994, p. 98.*

<sup>5</sup> Department of Foreign Affairs and Trade, *Submission, p. S3248.*

*Selection of Diplomatic Airfreight Contractor*

8.7 As part of its audit of DFAT the ANAO reviewed the agreement with a contractor for international courier and remail services provided to Asian and Far Eastern posts - the value of which was some \$2 million in 1991-92. The documentation retained by the Department was found to inadequately explain why some potential suppliers, including some currently contracted to other Commonwealth agencies for similar services, had not been invited to quote for the service.<sup>6</sup>

8.8 Both DFAT's response in the audit report and to the Committee described the process by which the contractor was selected, through the trial of several companies with Canberra offices, but did not respond to the specific criticism of lack of documentation which, the audit report noted, was required by the *Buyers Guide* issued by the Department of Administrative Services to be available for audit examination.<sup>7</sup>

8.9 The Committee sought further information.

8.10 The Department advised the Committee that the documentation in support of the preferred courier had been fragmented as it had been maintained on its regional files. The information was subsequently consolidated and made available for audit scrutiny. It was acknowledged that the documentation when first presented had been inadequate but that the consolidated record now, DFAT advised, 'provided ample evidence that other interested suppliers were tried, but failed to provide a satisfactory level of service.'<sup>8</sup>

8.11 The Committee notes DFAT's advice that it was finalising formal tender and contract arrangements for a new contract for carriage of diplomatic mail through to 1997-98,<sup>9</sup> and trusts that documentation in support of the contract decisions will be complete and consolidated.

6 Auditor-General, *Audit Report No. 29, 1992-93*, p. 98.

7 Auditor-General, *Audit Report No. 29, 1992-93*, p. 98; DFAT, *Submission*, p. S3248.

8 DFAT, *Submission*, p. S4015.

9 DFAT, *Submission*, p. S4015.

## 9

HOUSING AND REGIONAL  
DEVELOPMENT PORTFOLIO

## Introduction

9.1 The housing and regional development portfolio comprises the Department of Housing and Regional Development and 20 other bodies - three of which are statutory authorities.<sup>1</sup>

9.2 All organisations, including the department, fall within the program structure adopted for the portfolio, which currently consists of six programs, as follows:

- Program 1: Housing;
- Program 2: Regional Development;
- Program 3: National Capital Planning;
- Program 4: Corporate;<sup>2</sup>

9.3 In the period October 1992 to June 1993 the Auditor-General produced no specific reports concerning the performance of agencies within this portfolio. However, the Auditor-General's reports on his examination of financial statements and his on-going audits within ministerial portfolios commented on agencies within the housing and regional development portfolio.<sup>3</sup>

1 This information was provided by the Senate Finance and Public Administration Legislation Committee which is currently reviewing and updating the information published by the former Senate Standing Committee on Finance and Public Administration in *List of Commonwealth Bodies*, Canberra, June 1993. The Committee was advised by the Senate committee that the numbers should be regarded as indicative only and that a new *List of Commonwealth Bodies* is currently being prepared.

2 For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Housing and Regional Development Portfolio*, Budget Related Paper No. 4.8, AGPS, Canberra, May 1995, p. 5.

3 Auditor-General: *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992; Audit Report No. 29, 1992-93, Report on Ministerial Portfolios - Autumn Sitting 1993; Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92.*

## Comments

9.4 In the Committee's view, the responses of portfolio agencies to the issues raised in the financial statement and ministerial portfolio audit reports were satisfactory.

# 10

## HUMAN SERVICES AND HEALTH PORTFOLIO

### Introduction

10.1 The human services and health portfolio comprises the Department of Human Services and Health (DHSH) and 105 other bodies - 34 of which are statutory authorities.<sup>1</sup>

10.2 All organisations, including the department, fall within the program structure adopted for the portfolio, which currently consists of six programs, as follows:

#### Department of Human Services and Health

- Program 1: Health Advancement;
- Program 2: Health Care Access;
- Program 3: Family and Children's Services;
- Program 4: Aged and Community Care;
- Program 5: Disability Programs;
- Program 6: Corporate Services and Support.<sup>2</sup>

10.3 In the period October 1992 to June 1993 the Auditor-General produced one report on aspects of the performance of portfolio agencies which concerned the Health Insurance Commission (HIC). The report was:

- *Audit Report No. 17, 1992-93, Project Audit, Medi-fraud and Excessive Servicing - Health Insurance Commission.*

<sup>1</sup> This information was provided by the Senate Finance and Public Administration Legislation Committee which is currently reviewing and updating the information published by the former Senate Standing Committee on Finance and Public Administration in *List of Commonwealth Bodies*, Canberra, June 1993. The Committee was advised by the Senate committee that the numbers should be regarded as indicative only and that a new *List of Commonwealth Bodies* is currently being prepared.

<sup>2</sup> For a description of the activities encompassed by these programs see: *Portfolio Budget Measures Statements 1994-95, Human Services and Health Portfolio*, Budget Related Paper No. 4.9, AGPS, Canberra, May 1995, p. 3.

10.4 In addition, the Auditor-General reported on the financial statements of the portfolio agencies, and provided details of his on-going audits in his report on ministerial portfolios.<sup>3</sup>

### Significant Issues

10.5 The Committee's examination of the Auditor-General's reports on human services and health portfolio agencies revealed one issue which required further review. This related to the operations of HIC and concerned the agency's efforts to combat medifraud and overservicing.

10.6 The Committee considered that the issue was of such significance as to warrant examination at a public hearing. The hearing was held on 25 October 1993 and witnesses from HIC and ANAO gave evidence. A list of witnesses can be found at Appendix IV.

10.7 Table 10.1 below summarises the contentious audit recommendations and the main issues canvassed at the public hearing. The table also contains a summary of HIC's initial responses to the audit report and the issues raised at the hearing, and an outline of the Committee's follow-up action.

10.8 The Committee's findings in relation to each issue are contained in the sections after the table.

<sup>3</sup> Auditor-General, *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992; Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sitings 1993; Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92.*

Table 10.1  
Human Services and Health Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p><b>Health Insurance Commission (HIC) - Medifraud and Overservicing</b></p> <p>ANAO recommended that:</p> <ul style="list-style-type: none"> <li>there be a review of the Medical Services Committee Inquiry process;</li> <li>there be enhancement of HIC's legislated powers; and</li> <li>there be computer matching of data where there is an indication of fraud.<sup>4</sup></li> </ul> <p>ANAO noted that:</p> <ul style="list-style-type: none"> <li>the Committee's <i>Report 236</i>, on pathology, recommended annual renewal of approval of pathology practices after consultation with National Association of Testing Authorities (NATA).<sup>5</sup></li> </ul>	<p>HIC advised that:</p> <ul style="list-style-type: none"> <li>a joint task force was examining the legislated powers of HIC to combat fraud;</li> <li>legislative amendments had been introduced to Parliament on 30 September 1993; and</li> <li>discussions had begun with individual organisations regarding possible data matching.<sup>6</sup></li> </ul> <p>NATA had a large backlog of inspections and had had to resort to providing temporary interim approval.<sup>7</sup></p>	<p>Advice was sought from HIC regarding progress in implementing these measures and the results of the measures that had been introduced.</p>

<sup>4</sup> Auditor-General, *Audit Report No. 17, 1992-93, Project Audit, Medifraud and Excessive Servicing - Health Insurance Commission, AGPS, Canberra, 1992, Recommendations 2, 3 and 7, pp. 6, 10 and 23.*

<sup>5</sup> Joint Committee of Public Accounts, *Report 236, Medical Fraud & Overservicing - Pathology, AGPS, Canberra, 1995, Recommendation 4, p. 59.*

<sup>6</sup> Health Insurance Commission, *Submission, pp. S3290, S3291-2 and S3294.*

<sup>7</sup> Auditor-General, *Audit Report No. 17, 1992-93, p. 40.*

Table 10.1 (continued)  
Human Services and Health Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p><b>Issues arising from the public hearing of 25 October 1993</b></p> <p>The level of fraud and overservicing estimation via extrapolation from 1981-82 figures considered by the HIC to be inadequate.<sup>8</sup></p> <p>ANAO had supported the implementation of computer-based artificial intelligence systems to detect unethical medical practices.<sup>9</sup></p>	<p>HIC was implementing sourced-based audits to enable an estimate to be made.<sup>10</sup></p> <p>HIC was targeting abnormal patterns of practitioners' returns rather than actual overservicing or fraud; investigation teams follow up on abnormal patterns.<sup>11</sup></p> <p>HIC is providing practitioners with written feedback on their level of servicing which has resulted in a drop in payouts.<sup>12</sup></p>	<p>Advice was sought from HIC on progress in implementing these measures and the results of the measures that had been introduced.</p>

8 Transcript, p. 57 (Canberra, 25 October 1993).

9 Auditor-General, *Audit Report No. 17, 1992-93*, Recommendation 16, p. 31.

10 HIC, *Transcript*, p. 57 (Canberra, 25 October 1993).

11 HIC, *Transcript*, p. 58 (Canberra, 25 October 1993).

12 HIC, *Transcript*, p. 64 (Canberra, 25 October 1993).

## Response to Review Action

### *Health Insurance Commission - Introduction*

10.9 The Commission is responsible for the provision of health insurance through Medibank Private and administers payments under the Pharmaceutical Benefits Scheme.

10.10 In *Audit Report No. 17, 1992-93* the Auditor-General reported on HIC's efforts in combating Medifraud and overservicing following a series of earlier reports into the issue by the Committee.<sup>13</sup>

### *Health Insurance Commission - Issues Arising from Audit Report No. 17, 1992-93*

10.11 The Auditor-General made 17 recommendations in the audit report, all of which were accepted by HIC. Three recommendations were of interest to the Committee. These were that:

- there be a review of the Medical Services Committee Inquiry process, with consideration being made to the creating independent tribunals specific to each case;
- HIC's legislative powers be enhanced and apply equally to all Medicare providers and to fraud committed by the public; and
- computer matching of data be implemented where there was a definite indication of fraud.<sup>14</sup>

13 See:  
 • Report 203, *Medical Fraud & Overservicing - Progress Report* (tabled in 1982);  
 • Report 212, *Finance Minute on Report 203 - Medical Fraud and Overservicing - Progress Report* (tabled in 1983);  
 • Report 236, *Medical Fraud & Overservicing - Pathology* (tabled in 1985); and  
 • Report 260, *Finance Minute on Report 236 - Medical Fraud & Overservicing - Pathology* (tabled in 1986).

14 Auditor-General, *Audit Report No. 17, 1992-93*, Recommendations 2, 3 and 7, pp. 6, 10 and 23.



10.12 In addition the Auditor-General drew the Committee's attention to HIC's performance in meeting the Committee's recommendation, in *Report 236*, that pathology practices have their approval renewed annually after consultation with National Association of Testing Authorities (NATA).<sup>15</sup>

10.13 The audit report noted that NATA had such a large backlog of inspections that it had to resort to providing temporary 'interim approval' licences which lasted for 12 months. As interim approval could be re-issued each year the quality control of certain pathology laboratories was open to question.<sup>16</sup>

10.14 In its initial response to the Committee,<sup>17</sup> HIC advised that, in relation to the three recommendations identified above:

- an amendment Bill had been introduced to Parliament in September 1993 to specifically address issues of medical fraud and overservicing;
- a joint task force was examining the legislation to ensure HIC had sufficient powers to meet its legislated responsibilities for all forms of Medicare fraud; and
- discussions had begun with individual State-based organisations concerning future computer data matching, and that any data matching arrangement would conform to guidelines issued by the Privacy Commissioner.<sup>18</sup>

10.15 In its initial response to the Committee, HIC made no reference to the annual renewal of approval of pathology practices.

<sup>15</sup> JCPA, *Report 236*, p. 59.

<sup>16</sup> Auditor-General, *Audit Report No. 17, 1992-93*, p. 40.

<sup>17</sup> In relation to *Audit Report No. 17, 1992-93* HIC provided the Committee with three submissions prior to the hearing on 25 October 1993. These submissions reflected the state of flux as amendments to the relevant legislation were being developed. The third submission, dated 14 October 1993, superseded the previous two and is referred to as the 'initial submission' in this report.

<sup>18</sup> HIC, *Submission*, pp. S3290-2 and S3294.

10.16 This information was subsequently expanded and updated by the Commission in the following terms.

10.17 The Commission advised that, the joint task force review had resulted in the *Health Legislation (Powers of Investigation) Amendment Act 1994* which took effect in July 1994. This had given HIC coercive powers of investigation enabling its officers to obtain information, conduct searches, and seize evidential material.

10.18 Seven cases of alleged breaches of the *Health Insurance Act* had been approved for investigation, HIC advised, and involved:

- one medical entrepreneur;
- two approved pathology authorities;
- an optometrist; and
- three medical practitioners.<sup>19</sup>

10.19 Further, the Act established an independent statutory position of Director, Professional Services Review. Following its investigations the Commission can refer cases of inappropriate practice by medical practitioners to the Director who may establish a specific committee to investigate the issue. This investigative committee must report within 90 days and its determination may be reviewed under the *Administrative Decisions (Judicial Review) Act 1977* or by appeal to the Federal Court of Australia.

10.20 The Commission advised that, although no cases had been referred to the Director as at January 1995, 74 cases had been identified as possible referrals and were awaiting review after mandatory counselling to determine whether there had been any changes in the practitioner's behaviour.<sup>20</sup>

<sup>19</sup> HIC, *Submission*, p. S4046.

<sup>20</sup> HIC, *Submission*, pp. S4043-4.

10.21 The Commission advised that it 'has systems in place to permit cross matching of data where this is permitted by law.' Guidelines issued by the Privacy commissioner controlled the matching of the Medicare and Pharmaceutical Benefits Scheme (PBS) programs.<sup>21</sup>

10.22 The submission from HIC also addressed the issue of inspections of pathology practices by NATA. Significant progress had been made by NATA in dealing with delays. New laboratory applicants were visited by NATA to determine whether an inspection should be timetabled as a matter of priority. Subsequently, most applicants were inspected 'within months of the application being received, ... [and] all are inspected within a year.'<sup>22</sup>

10.23 Concerning the issue of quality control, HIC advised that:

*Where applications for accreditation are received by [HIC] there are transitional arrangements contained in principles determined by the Minister ... pending an inspection by NATA. ... The Minister must be satisfied that there are sufficient staff with adequate experience ... and that the laboratory is enrolled in relevant quality assurance programs.*<sup>23</sup>

10.24 In the Committee's view adequate steps have been taken to address the three issues of concern identified in paragraph 10.11.

#### *Health Insurance Commission - Issues Arising from the Public Hearing*

10.25 At the Committee's public hearing on 25 October 1993 three issues related to HIC's efforts to reduce fraud and overservicing were discussed:

<sup>21</sup> HIC, *Submission*, p. S4045.

<sup>22</sup> HIC, *Submission*, p. S4045.

<sup>23</sup> HIC, *Submission*, p. S4047.

- the adequacy of estimates of fraud and overservicing;
- the use of computer based artificial intelligence systems (or artificial neural networks) to detect unethical medical practices; and
- the provision of feedback to practitioners on their level of servicing.<sup>24</sup>

10.26 Mr Kenneth Hazell, Acting Manager, HIC, considered that the Department of Health's original estimates of fraud and overservicing were inadequate. He advised that HIC was implementing a system of source based audits to provide an improved estimate.<sup>25</sup>

10.27 HIC responded to the Committee's request for further information with a supplementary submission which advised that a pilot program of source based audits had commenced in August 1993.<sup>26</sup> Upon its completion in December 1994 the pilot had resulted in 85 follow-up actions resulting from 328 audits of some 1 600 services. These follow-ups had been in response to the identification of 'critical errors' which had caused 'inappropriate payment of benefit.' It was intended to expand the program across all Medicare and PBS services.<sup>27</sup>

10.28 The Commission was also using artificial neural networks as a means of utilising better its resources for detecting unethical medical practices. As Mr Hawkins, Manager, Research and Analysis, Compliance Branch, explained:

<sup>24</sup> *Transcript*, p. 57, and p. 58 (Canberra, 25 October 1993) referring to *Audit Report No. 17, 1992-93*, Recommendation 16, p. 31.

<sup>25</sup> HIC, *Transcript*, p. 57 (Canberra, 25 October 1993).

<sup>26</sup> These audits had been restricted to Medicare direct bill pathology and diagnostic imaging claims and PBS claims from metropolitan areas.

<sup>27</sup> HIC, *Submission*, p. S4046.

*What the neural networks do is encapsulate the decision making capabilities of a panel of experts in a particular speciality and provide that expertise, in effect, to anyone who is using the system. ... We are targeting abnormality ... we then send out investigators, medical advisers or pharmacists, as appropriate, to investigate those cases.<sup>28</sup>*

10.29 The automated neural network was being used to categorise practitioners to identify types of practitioners who are prone to engage in inappropriate practice. Changes in these categories over time provided a measure of the effectiveness of all factors influencing change.<sup>29</sup>

10.30 Finally, HIC was providing practitioners with written feedback about, for example, the amount of services they order. Such feedback is provided approximately quarterly and HIC had observed that the attitude to such feedback had changed over time. Initially practitioners were resistant, but a recent survey showed that 80 per cent now found the information to be useful.<sup>30</sup>

10.31 The Commission had attempted to evaluate the effectiveness of its feedback strategies and had retained a number of consultants to assist. Of 720 practitioners who had been counselled by medical advisers because of their higher rates of rendering or requesting services, there had been a slower rate of increase in servicing compared to a reference group.<sup>31</sup>

10.32 HIC concluded that although it was not possible at present to reliably determine the impact of the feedback strategy, initial results were encouraging and it was anticipated that better evaluation methods would be developed in 1995.

<sup>28</sup> HIC, *Transcript*, p. 58 (Canberra, 25 October 1993).

<sup>29</sup> HIC, *Submission*, p. S4047.

<sup>30</sup> HIC, *Transcript*, p. 64 (Canberra, 25 October 1993).

<sup>31</sup> HIC, *Submission*, p. S4047.

10.33 The Committee is satisfied, on the evidence before it, that HIC is endeavouring to develop appropriate strategies to combat Medicare fraud and overservicing. Nevertheless, because of the size of the health budget and the potential scope for fraud, HIC needs to be vigilant in its efforts.

#### 10.34 Recommendation 2

*The Health Insurance Commission should continue to develop and implement strategies aimed at identifying and discouraging Medicare fraud and overservicing.*

#### 10.35 Recommendation 3

*The Australian National Audit Office should monitor the performance of the Health Insurance Commission in its efforts to combat Medicare fraud and overservicing.*

## IMMIGRATION AND ETHNIC AFFAIRS PORTFOLIO

### Introduction

11.1 The immigration and ethnic affairs portfolio comprises the Department of Immigration and Ethnic Affairs (DIEA) and eight other bodies - two of which are statutory authorities.<sup>1</sup>

11.2 All organisations, including the department, fall within the program structure adopted for the portfolio, which currently consists of five programs, as follows:

- Program 1: Immigration, Multicultural and Population Research;
- Program 2: Onshore Program Delivery;
- Program 3: Offshore Program Delivery;
- Program 4: Independent Review Tribunal; and
- Program 5: Corporate Services.<sup>2</sup>

11.3 In the period October 1992 to June 1993 the Auditor-General produced one report on aspects of the performance of portfolio agencies. This audit concerned DIEA and the report was:

- *Audit Report No. 19, 1992-93, Project Audits, Department of Immigration, Local Government and Ethnic Affairs, Adult Migrant English Program and Other Audits.*

<sup>1</sup> Senate Standing Committee on Finance and Public Administration, *List of Commonwealth Bodies*, AGPS, Canberra, June 1993, pp. 143-145.

<sup>2</sup> For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Immigration and Ethnic Affairs Portfolio*, Budget Related Paper No. 4.10, AGPS, Canberra, May 1995, p. 5.

11.4 In addition, the Auditor-General reported on the financial statements of the portfolio agencies, and provided details of his on-going audits in his report on ministerial portfolios.<sup>3</sup>

### Significant Issues

11.5 The Committee's examination of the Auditor-General's reports on immigration and ethnic affairs portfolio agencies revealed one issue which required further review - DIEA'S administration of grants for community assistance.

11.6 This issue is summarised in Table 11.1 below. The table also contains a description of the initial responses to the Committee from DIEA, and an outline of the Committee's subsequent action.

11.7 Detailed comments on DIEA's responses, and the Committee's findings in relation to the issue, are contained in the sections after the table.

<sup>3</sup> Auditor-General: *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992; Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sitings 1993; Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92.*

Table 11.1  
Immigration and Ethnic Affairs Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p><b>Grants for Community Assistance.</b></p> <p>ANAO recommended that there needed to be:</p> <ul style="list-style-type: none"> <li>• simplification of instructions;</li> <li>• changes in assessment procedures; and</li> <li>• consolidation of the three grant schemes.<sup>4</sup></li> </ul>	<p>DIEA responded that:</p> <ul style="list-style-type: none"> <li>• new guidelines were expected to be issued in December 1993 and a new Resource Handbook was being developed;</li> <li>• equal consideration in the assessment process was being accorded to existing grant holders and new applicants; and</li> <li>• the schemes would be reviewed.<sup>5</sup></li> </ul>	<p>DIEA was asked to provide:</p> <ul style="list-style-type: none"> <li>• confirmation that new guidelines and resource handbook had been issued;</li> <li>• clarification as to how DIEA was intending to reconcile the reported strong community support<sup>6</sup> for ensuring that grant recipients had more secure funding, with the stated policy that previous receipt of a grant would not influence assessment of subsequent grant applications; and</li> <li>• advice as to the outcome of the review of the schemes.</li> </ul>

<sup>4</sup> Auditor-General, *Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sitting 1993*, AGPS, Canberra, 1993, p. 163.

<sup>5</sup> Department of Immigration and Ethnic Affairs, *Submission*, pp. S3199-3200.

<sup>6</sup> DIEA, *Submission*, p. S3200.

## Response to Review Action

### Grants for Community Assistance

11.8 In 1991 DIEA administered three grants schemes aimed to increase the capacity of recently arrived migrants to participate in the economic and social life of Australia. These schemes were:

- the Grant in Aid Scheme;
- the Migrant Access Projects Scheme; and
- the Pilot Equity and Access Projects Scheme.<sup>7</sup>

11.9 *Audit Report No. 28, 1992-93* contained the results of an audit undertaken during 1991 in South Australia to ascertain whether adequate systems were in place to ensure program objectives were met. The Auditor-General made several recommendations intended to improve administration of the program and also suggested that the three schemes in the program be consolidated.<sup>8</sup>

11.10 In its initial submission to the Committee, DIEA advised that it had conducted an evaluation of ethnic services delivery which had included the Grants in Aid Scheme and the Migrant Resource Centre (MRC) program. The Department reported that there was strong community support for community input to planning and policy formulation and that concern had been expressed for more secure funding for MRCs.

11.11 In responding specifically to the findings of the audit report, DIEA advised that:

- it was reviewing the grants schemes;
- it was rewriting and simplifying the instructions/guidelines for the schemes and MRC program, and a new resource book was being developed;

<sup>7</sup> DIEA, *Submission*, p. S4084.

<sup>8</sup> Auditor-General, *Audit Report No. 28, 1992-93*, pp. 162-3.

- Funding Advisory Committees had been created in each State/Territory to classify and rank all applications for funding;
- equal consideration was being accorded to both existing grants and new applicants, and that being the holder of an existing grant would not be influential in the assessment process; and
- all documentation in the grants administration process was being recorded as a matter of course.<sup>9</sup>

11.12 In reviewing DIEA's submission, ANAO commented that there appeared to be a conflict between the Department's acknowledgment of the community's desire for MRCs to have more secure funding and its position that being a recipient of a grant would not influence the assessment process. ANAO observed:

*It is difficult to envisage a system which retains the Government's flexibility in the annual budgets, involves annual applications and assessments which are genuinely not biased towards existing grants recipients ...*<sup>10</sup>

11.13 In seeking clarification from DIEA on this matter, the Committee also sought an update on the result of the review of the three schemes and preparation of the instructions/guidelines and resource hand book.

11.14 On the issue of the need to balance more secure funding with equity in application assessment, the Department subsequently advised that:

- the funding period for MRCs had been extended in 1992-93 from a three year to a four-year term and additional resources had been provided for training and an increase in personnel;
- the MRC scheme was not an applications-based scheme; core funding was provided to the centres concerned, subject to their meeting financial and program accountability requirements;

<sup>9</sup> DIEA, *Submission*, pp. S3199-200.

<sup>10</sup> ANAO, *Submission*, p. J64.

- the Funding Advisory Committees assist DIEA in assessing grant applications on their merits against identified needs/priorities; and
- an internal audit of the grants schemes in 1994-95 had indicated that operational and monitoring processes accord with the recommendations of the Auditor-General's best practice guide.<sup>11,12</sup>

11.15 The Auditor-General's recommendation that the grants scheme be consolidated had in essence been acted upon, DIEA advised, as the Pilot Equity and Access Projects Scheme had been subsumed into the Migrant Access Projects Scheme in 1991, and since 1993 this scheme and the Grant in Aid Scheme had been administered as a single scheme.

11.16 Also, simplified guidelines for the grants schemes had been released in December 1993 and guidelines for the MRC program were expected to become available in March 1995. It was anticipated that the resource handbook would be completed during 1995.<sup>13</sup>

11.17 The Committee considers that DIEA has adequately addressed the concerns arising from the audit report.

<sup>11</sup> Auditor-General, *Best Practice for the Administration of Grants*, AGPS, Canberra, 1993.

<sup>12</sup> DIEA, *Submission*, pp. S4085-6.

<sup>13</sup> DIEA, *Submission*, pp. S4085-6.

INDUSTRIAL RELATIONS  
PORTFOLIO

## Introduction

12.1 The industrial relations portfolio comprises the Department of Industrial Relations (DIR) and 32 other bodies - 30 of which are statutory authorities.<sup>1</sup>

12.2 All organisations, including the department, fall within the program structure adopted for the portfolio, which currently consists of three programs, as follows:

- Program 1: Industrial Relations Policy Development, Workplace Reform and Best Practice;
- Program 2: Public Sector Workplace Development and Services; and
- Program 3: Corporate Direction and Support.<sup>2</sup>

12.3 In the period October 1992 to June 1993 the Auditor-General produced no specific reports concerning the performance of agencies within this portfolio. However, three audit reports were produced which detailed the results of his examination of financial statements and his on-going audits within ministerial portfolio agencies.<sup>3</sup>

---

1 Senate Standing Committee on Finance and Public Administration, *List of Commonwealth Bodies*, AGPS, Canberra, June 1993, pp. 147-160.

2 For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Industrial Relations Portfolio*, Budget Related Paper No. 4.11, AGPS, Canberra, May 1995, p. 6.

3 Auditor-General: *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992*; *Audit Report No. 29, 1992-93, Report on Ministerial Portfolios - Autumn Sitings 1993*; *Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92*.

## Comments

12.4 In the Committee's view, the responses of the agencies to the issues raised in the financial statement and ministerial portfolio audit reports for this portfolio were satisfactory.

## INDUSTRY, SCIENCE AND TECHNOLOGY PORTFOLIO

### Introduction

13.1 The industry, science and technology portfolio comprises the Department of Industry, Science and Technology (DIST) and 112 other bodies - 21 of which are statutory authorities.<sup>1</sup>

13.2 All organisations, including the department, fall within the program structure adopted for the portfolio, which currently consists of ten programs, as follows:

- Program 1: Department of Industry, Science and Technology;
- Program 2: Industrial Property;
- Program 3: Australian Manufacturing Council;
- Program 4: National Standards;
- Program 5: Textiles, Clothing and Footwear;
- Program 6: Anti-Dumping;
- Program 7: Marine Science;
- Program 8: Customs;
- Program 9: Nuclear Science and Technology;
- Program 10: Scientific and Industrial Research.<sup>2</sup>

13.3 In the period October 1992 to June 1993 the Auditor-General produced three reports on aspects of the performance of portfolio agencies. The reports which concerned the Australian Customs Service and the then Department of Industry, Technology and Regional Development (DITARD), were:

1 This information was provided by the Senate Finance and Public Administration Legislation Committee which is currently reviewing and updating the information published by the former Senate Standing Committee on Finance and Public Administration in *List of Commonwealth Bodies*, Canberra, June 1993. The Committee was advised by the Senate committee that the numbers should be regarded as indicative only and that a new *List of Commonwealth Bodies* is currently being prepared.

2 For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Industry, Science and Technology Portfolio*, Budget Related Paper No. 4.12, AGPS, Canberra, May 1995, pp. 6-9.

- *Audit Report No. 3, 1992-93, Efficiency Audit, Australian Customs Service - Management of the marine fleet;*
- *Audit Report No. 26, 1992-93, Project Audit, Department of Industry, Technology and Regional Development, Pharmaceutical Industry Development Program - The Factor f Scheme; and*
- *Audit Report No. 35, 1992-93, Efficiency Audit, Program Evaluation Strategies, impact and practices - Industry, Technology and Regional Affairs Portfolio.*

13.4 In addition, the Auditor-General produced three audit reports detailing the results of his examination of financial statements and his on-going audits within ministerial portfolio agencies.<sup>3</sup>

### Audit Reports Referred to Other Parliamentary Committees

13.5 On 26 May 1993 *Audit Report No. 35, 1992-93* was referred to the House of Representatives Standing Committee on Industry, Science and Technology.<sup>4</sup> That committee has yet to report its findings.

### Significant Issues

13.6 The Committee's examination of the Auditor-General's reports on industry, science and technology portfolio agencies revealed one issue which required further review, DITARD's administration of the Pharmaceutical Industry Development Program.

3 Auditor-General: *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992; Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sittings 1993; Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92.*

4 House of Representatives, *Votes and Proceedings*, 1990-93, AGPS, Canberra, 1993, p.107.



13.7 This issue is summarised in Table 13.1 below. The table also contains a description of the initial responses to the Committee from DITARD, and an outline of the Committee's subsequent action.

13.8 Detailed comments on DITARD's responses, and the Committee's findings in relation to the issue, are contained in the sections after the table.

Table 13.1  
Industry, Science and Technology Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p><b>Pharmaceutical Industry Development Program - The Factor f Scheme</b></p> <p>ANAO recommended that DITARD should:</p> <ul style="list-style-type: none"> <li>· advise all companies in the scheme of the availability, in general terms, of extensions of time and the limited circumstances in which they may be considered; and</li> <li>· provide general advice of the availability of extensions, rather than inviting companies to apply for extensions, as this would preserve impartiality and an arm's length relationship with companies.<sup>5</sup></li> </ul>	<p>DITARD advised that:</p> <ul style="list-style-type: none"> <li>· requests for extensions are considered on a case-by-case basis and advising companies of the availability of extensions could undermine the scheme's credibility as:</li> <li>- some companies could intentionally provide bolder forecasts to maximise assistance, then apply for an extension; and</li> <li>- it was not possible to predict the nature of delays so there was a degree of flexibility was necessary;</li> <li>· in the event, further extensions of time were unlikely to be applied for under Phase I of the scheme.<sup>6</sup> (No information about Phase II of the scheme was provided.)</li> </ul>	<p>DIST was asked to provide:</p> <ul style="list-style-type: none"> <li>· information about Phase II of the scheme and whether it allows for extensions of time;</li> <li>· advice as to whether DIST's position regarding extensions remained as reported in the audit report; and</li> <li>· an assessment of the legal implications of DIST's position on the granting of extensions.</li> </ul>

<sup>5</sup> Auditor-General, Audit Report No. 26, 1992-93, Project Audit, Department of Industry, Technology and Regional Development, Pharmaceutical Industry Development Program - The Factor f Scheme, AGPS, Canberra, 1993, Recommendations 9 and 10, p. 16.

<sup>6</sup> DITARD, Submission, p. S3922.

## Response to Review Action

### *Pharmaceutical Industry Development Program - The Factor f Scheme*

13.9 It has been estimated that the Australian prices for pharmaceuticals is of the order of 50 - 60 per cent of world average prices. This is because the Commonwealth meets the main portion of the cost of drugs prescribed under the Pharmaceutical Benefits Scheme (PBS) and thus, through its monopoly buyer position, has been able to restrict the prices paid for PBS drugs. Unfortunately this had acted as a disincentive to investment in Australia's pharmaceutical industry. The introduction of the Factor f Scheme in 1987 was designed to rectify the situation and encourage an innovative and internationally competitive Australian pharmaceutical industry.<sup>7</sup>

13.10 The Scheme provides payments to approved companies which have agreed to increase Australian activity for value added<sup>8</sup> on exports and domestic sales and research and development.

13.11 *Audit Report No. 26, 1992-93* reviewed the original Factor f Scheme, but did not evaluate the extension to the scheme, guidelines for which had received ministerial approval in July 1992. The Auditor-General made two recommendations concerning the original scheme which were not agreed to by DITARD. These were that the Department should:

- advise all companies in the scheme of the availability, in general terms, of extensions of time and the limited circumstances in which they may be considered; and

<sup>7</sup> Auditor-General, *Audit Report No. 26, 1992-93*, pp. 1-2.

<sup>8</sup> Value added is defined as the difference between the factory selling price and the landed cost of imported ingredients and materials.

- provide general advice of the availability of extensions, rather than inviting companies to apply for extensions, as this would preserve impartiality and an arm's length relationship with companies.<sup>9</sup>

13.12 In its initial response to the Committee, DITARD maintained that requests for extensions should be dealt with on a case by case basis as this would prevent possible undermining of the scheme's intent and preserve a degree of flexibility. Whilst providing no information about the extension of the Factor f Scheme, DITARD advised that applications for extensions were unlikely under Phase II.<sup>10</sup>

13.13 The Committee subsequently sought further information from DIST on the nature of Phase II and confirmation of its earlier advice concerning the granting of extensions, as well as the legal implications of not advising participating companies of the availability of extensions in the event that this option remained under Phase II.

13.14 DIST advised that under Phase II payments were made directly to participating companies based on actual activity undertaken up to an agreed annual limit. Companies were required to provide quarterly reports detailing actual activity and an audited annual report permitting reconciliation of activity.

13.15 Unlike Phase I, which operated until a company completed its program (usually lasting three years), Phase II of the scheme has a set expiry date of 30 June 1999. Moreover, there is a contract between each participating company and the Commonwealth which specifies specific commencement and expiry dates. Consequently, the issue of extensions and any legal consequences of not advising participants of the availability of extensions did not arise.<sup>11</sup>

<sup>9</sup> Auditor-General, *Audit Report No. 26, 1992-93*, Recommendations 9 and 10, p. 16.

<sup>10</sup> DITARD, *Submission*, p. S3922.

<sup>11</sup> DIST, *Submission*, pp. S4029-30.

13.16 The Committee considers that the issues arising from *Audit Report No. 26, 1992-93* have been adequately addressed by DIST.

**14****PARLIAMENTARY DEPARTMENTS  
PORTFOLIO****Introduction**

14.1 The parliamentary departments portfolio comprises the Departments of the Senate, the House of Representatives, the Parliamentary Reporting Staff, the Parliamentary Library and the Joint House Department.

14.2 In the period October 1992 to June 1993 the Auditor-General produced no specific reports concerning the performance of agencies within this portfolio. However, three audit reports were produced which detailed the results of his examination of financial statements and his on-going audits within portfolio agencies.<sup>1</sup>

**Comments**

14.3 In the Committee's view, the responses of the agencies to the issues raised in the financial statement and ministerial portfolio audit reports for this portfolio were satisfactory.

---

<sup>1</sup> Auditor-General: *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992; Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sittings 1993; Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92.*

## PRIMARY INDUSTRIES AND ENERGY PORTFOLIO

### Introduction

15.1 The primary industries and energy portfolio comprises the Department of Primary Industries and Energy (DPIE) and 111 other bodies - 58 of which are statutory authorities.<sup>1</sup>

15.2 All organisations, including the department, fall within the program structure adopted for the portfolio, which currently consists of four programs, as follows:

- Program 1: Industries Development;
- Program 2: Industry and Community Services;
- Program 3: Research and Assessment; and
- Program 4: Corporate Management and Policy.<sup>2</sup>

15.3 In the period October 1992 to June 1993 the Auditor-General produced two reports on aspects of the performance of agencies within the portfolio. These reports which concerned DPIE, were:

- *Audit Report No. 12, 1992-93, Project Audit, Department of Primary Industries and Energy - Information Technology Environment;* and
- *Audit Report No. 32, 1992-93, Efficiency Audit, Implementation of an Interim Greenhouse Response, Department of Primary Industries and Energy - Energy Management Programs.*

<sup>1</sup> Senate Standing Committee on Finance and Public Administration, *List of Commonwealth Bodies*, AGPS, Canberra, June 1993, pp. 77-87.

<sup>2</sup> For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Primary Industries and Energy Portfolio*, Budget Related Paper No. 4.13, AGPS, Canberra, May 1995, p. 5.

15.4 In addition, the Auditor-General produced three audit reports detailing the results of his examination of financial statements and his on-going audits within ministerial portfolio agencies.<sup>3</sup>

### Audit Reports Referred to Other Parliamentary Committees

15.5 On 26 May 1993 *Audit Report No. 32, 1992-93* was referred to the House of Representatives Standing Committee on the Environment, Recreation and the Arts.<sup>4</sup> The committee's findings were published in the report, *Greenhouse Response - Effectiveness of the Implementation of an Interim Program*, which was tabled on 30 May 1994. The Committee does not propose to review further the audit report.

### Significant Issues

15.6 The Committee's examination of the Auditor-General's reports on primary industries and energy portfolio agencies revealed three issues which required further review. This related to the operations of the Joint Coal Board (JCB) and DPIE and concerned:

- the JCB's valuation of future compensation and insurance liabilities;
- the conduct of regular reconciliations between elements of JCB's accounting systems; and
- accounting procedures within DPIE's investment units.

<sup>3</sup> Auditor-General: *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992; Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sittings 1993; Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92.*

<sup>4</sup> House of Representatives, *Votes and Proceedings, 1990-93*, AGPS, Canberra, 1991, p. 107.

15.7 These issues are summarised in Table 15.1 below. The table also contains a description of the initial responses to the Committee from JCB and DPIE, and an outline of the Committee's subsequent action.

15.8 Detailed comments on JCB's and DPIE's responses, and the Committee's findings in relation to the issues, are contained in the sections after the table.

Table 15.1  
Primary Industries and Energy Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p><b>Joint Coal Board (JCB) - Valuation of provision for claims outstanding</b></p> <p>ANAO recommended that actuarial assumptions needed to be reviewed to avoid possible future material errors or distortions.<sup>5</sup> ANAO noted that the problem had persisted into the following year.<sup>6</sup></p> <p><b>Joint Coal Board - Reconciliations</b></p> <p>Regular reconciliations between various accounting systems were not occurring.<sup>7</sup></p>	<p>In July 1993 the Department of Primary Industries and Energy (DPIE) advised the Committee that JCB would review the assumptions in detail.<sup>8</sup> Subsequently, in March 1994, JCB advised ANAO that a review would be conducted by an independent firm of consulting actuaries.<sup>9</sup></p> <p>DPIE advised the Committee that reconciliations were now being regularly completed.<sup>10</sup></p>	<p>The Committee sought further advice from JCB on this issue.</p> <p>ANAO advised, in November 1993, that JCB was still not undertaking regular reconciliations.<sup>11</sup> The Committee sought advice from DPIE and JCB to resolve the conflict in information.</p>

<sup>5</sup> Auditor-General, *Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sitings 1993*, AGFS, Canberra, 1993, p. 231.

<sup>6</sup> Auditor-General, *Audit Report No. 27, 1993-94, Report on Ministerial Portfolios - Autumn Sitings 1994*, AGFS, Canberra, 1994, p. 189.

<sup>7</sup> Auditor-General, *Audit Report No. 28, 1992-93*, p. 231.

<sup>8</sup> Department of Primary Industries and Energy, *Submission*, p. S3066.

<sup>9</sup> Auditor-General, *Audit Report No. 27, 1993-94*, p. 189.

<sup>10</sup> DPIE, *Submission*, p. S3066.

<sup>11</sup> ANAO, *Submission*, p. J87.

Table 15.1 (continued)  
Primary Industries and Energy Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p>Department of Primary Industries and Energy</p> <p>ANAO recommended that DPIE's Investment Unit should design procedures to ensure that premiums on maturing investments are properly accounted for.<sup>12</sup></p> <p>ANAO noted that the issue had been raised in previous audits,<sup>13</sup> and advised the Committee in November 1993 that the problem had persisted into the 1992-93 audit.<sup>14</sup></p>	<p>DPIE advised in July 1993 that procedures had been put in place to properly account for the premiums.<sup>15</sup> (Identical advice was provided in the September 1993 Quarterly Return to the Minister for Finance)<sup>16</sup></p>	<p>The Committee sought further information from DPIE.</p>

<sup>12</sup> Auditor-General, *Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92, AGFS, Canberra, 1993*, p. 146.

<sup>13</sup> Auditor-General, *Audit Report No. 23, 1991-92, Aggregate and Departmental Financial Statements 1990-91, AGFS, Canberra, 1992*, p. 113.

<sup>14</sup> ANAO, *Submission*, p. 489.

<sup>15</sup> DPIE, *Submission*, p. S3074.

<sup>16</sup> DPIE, *Quarterly Return to the Minister for Finance, 15 September 1993*, p. 32.

## Responses to Review Action

### *Joint Coal Board - Valuation of Provision for Claims Outstanding*

15.9 The JCB was originally constituted under the *Coal Industry Act 1946* primarily to regulate the coal industry in New South Wales. After an amendment proclaimed in September 1992 the Board's function has been restricted to providing workers' compensation insurance, occupational health and rehabilitation services and promoting the welfare of coal industry workers and coal mining communities.<sup>17</sup>

15.10 The Auditor-General found that while the aggregate provision for claims outstanding was fairly stated, the underlying assumptions and logic needed review to avoid future material errors or distortions.<sup>18</sup>

15.11 DPIE subsequently advised the Committee that it was 'proposed to review all of the items referred to [in the audit report] in detail prior to the finalisation of the 30 June 1993 provisions'.<sup>19</sup>

15.12 However, in *Audit Report No. 27, 1993-94*, the audit of Ministerial portfolios, the Auditor-General again raised the issue. The JCB's response contained within the audit report advised that an independent firm of consulting actuaries would review the valuation methods.<sup>20</sup>

15.13 The Committee sought from DPIE a response to the observation in the audit report.

<sup>17</sup> Auditor-General, *Audit Report No. 28, 1992-93*, pp. 230-1.

<sup>18</sup> Auditor-General, *Audit Report No. 28, 1992-93*, p. 231.

<sup>19</sup> DPIE, *Submission*, p. S3066.

<sup>20</sup> Auditor-General, *Audit Report No. 27, 1993-94*, p. 189.

15.14 The Department subsequently advised that while the independent actuary's valuation was, in aggregate, within five per cent of the Board's valuation, the various components differed significantly. DPIE had recommended to JCB that it would be unwise to 'adopt parts of the actuary's approach or assumptions as it may inadvertently eliminate the implicit prudential margins in the Board's existing valuation.' DPIE added that:

*The Board has accepted that further actuarial advice is required before any parts of the valuation basis and methodology be changed and ... at this stage they [sic] will continue with their [sic] existing valuation systems.<sup>21</sup>*

15.15 The Committee notes that both JCB's and the actuary's aggregate valuation is a substantial amount - of the order of \$225 million - and is concerned at the 'significant differences' between the various components. The Committee considers that the discrepancies need to be resolved and that an appropriate methodology should be determined.

#### 15.16 Recommendation 4

*The Joint Coal Board should resolve the discrepancies between the valuations provided by its existing system and that provided by its independent firm of actuaries and adopt a valuation methodology which makes prudent provision for claims outstanding.*

#### 15.17 Recommendation 5

*The Australian National Audit Office should monitor the Joint Coal Board's progress in settling a new valuation basis and methodology.*

<sup>21</sup> DPIE, *Submission*, p. S1198.

#### *Joint Coal Board - Reconciliations*

15.18 *Audit Report No. 28, 1992-93* reported that regular reconciliations were not being conducted between three elements of JCB's accounting systems and the general ledger. The Auditor-General noted that various remedial actions had been proposed by JCB.<sup>22</sup>

15.19 DPIE subsequently advised the Committee that regular reconciliations were being performed between two of JCB's accounting elements and the general ledger and that JCB was proposing to discuss with the auditors alternative procedures to achieve the desired controls with the remaining accounting element.<sup>23</sup>

15.20 As part of the review process comment is sought from ANAO on submissions received by the Committee. The ANAO commented on DPIE's advice concerning reconciliations with the advice, on 16 November 1993, that 'although reconciliations are being made they have not been performed regularly.'<sup>24</sup> The Committee sought an explanation from JCB.

15.21 The JCB disputed ANAO's criticism and, in its submission, included a copy of a letter dated 1 December 1993 from the Auditor-General to the then Minister for Resources, Mr Michael Lee MP. The letter advised the Minister that 'regular reconciliations between the subsidiary accounting systems and the general ledger are now being performed.'<sup>25</sup>

15.22 The Committee concludes that the issue had indeed been adequately addressed by JCB.

<sup>22</sup> Auditor-General, *Audit Report No. 28, 1992-93*, p. 231.

<sup>23</sup> DPIE, *Submission*, p. S3066.

<sup>24</sup> ANAO, *Submission*, p. J87.

<sup>25</sup> Joint Coal Board, *Submission*, p. S4014.

*Department of Primary Industries and Energy Investment Unit*

15.23 In *Audit Report No. 29, 1992-93* the Auditor-General commented on various deficiencies in the procedures employed by DPIE's Investment Unit. Of particular note was the recurrence of an issue which had been reported in a previous audit report - an error in accounting for a premium on a maturing investment.<sup>26</sup> The audit revealed that the Investment Unit had not expensed the premium (of almost \$182 000) which had created an overstatement of the asset, and in turn had required a correction to the Department's financial statement.<sup>27</sup>

15.24 DPIE advised in the audit report that a procedure to rectify the problem had been agreed to following discussions with ANAO, and this advice was repeated by the Department in July 1993 in its initial submission to the Committee.<sup>28</sup>

15.25 Commenting on this submission, ANAO advised in November 1993:

*The problem of accounting for investment was again raised during the 1992-93 audit. The Department will have to revise its accounting methodology.*<sup>29</sup>

15.26 The Committee sought further advice from DPIE on this matter.

<sup>26</sup> Auditor-General, *Audit Report No. 23, 1991-92*, p. 113.

<sup>27</sup> Auditor-General, *Audit Report No. 29, 1992-93*, pp 145-6

<sup>28</sup> DPIE, *Submission*, p. S3074.

<sup>29</sup> ANAO, *Submission*, p. J89.

15.27 The Department responded that:

*... subsequent to the 1992-93 financial audit process ... procedures accepted by the ANAO were put in place to ensure correct future reporting. The ANAO's audit process for the 1993-94 financial statements confirms that the issue has now been resolved and no further action is required.*<sup>30</sup>

15.28 The Committee is satisfied that the Department has adequately addressed this issue, but is concerned that a problem first identified in the 1990-91 financial statements appears to have taken until the 1993-94 statements to be rectified.

<sup>30</sup> DPIE, *Submission*, p. S4022.



## PRIME MINISTER AND CABINET PORTFOLIO

### Introduction

16.1 The Prime Minister and Cabinet portfolio comprises the Department of the Prime Minister and Cabinet and 32 other bodies - 22 of which are statutory authorities.<sup>1</sup>

16.2 All organisations, including the department, fall within the program structure adopted for the portfolio, which currently consists of eight programs, as follows:

- Program 1: Departmental Policy Co-ordination;
- Program 2: Government Support Services;
- Program 3: Special Policy & Program Functions;
- Program 4: Corporate Services;
- Program 5: Governor-General;
- Program 6: Portfolio Policy Advising Agencies;
- Program 7: Public Administration & Accountability;
- Program 8: Aboriginal & Torres Strait Islander Affairs<sup>2</sup>

16.3 In the period October 1992 to June 1993 the Auditor-General produced two reports on aspects of the performance of agencies within the portfolio. The reports, which concerned the Aboriginal and Torres Strait Islander Commission (ATSIC), were:

- *Audit Report No. 15, 1992-93, Efficiency Audit, Aboriginal and Torres Strait Islander Commission - Regional Administration;* and

<sup>1</sup> Senate Standing Committee on Finance and Public Administration, *List of Commonwealth Bodies*, AGPS, Canberra, June 1993, pp. 217-228.

<sup>2</sup> For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Prime Minister and Cabinet Portfolio*, Budget Related Paper No. 4.14A, AGPS, Canberra, May 1995, p. 6.

- *Audit Report No. 36, 1992-93, Project Audit, Aboriginal and Torres Strait Islander Commission Community Infrastructure.*

16.4 In addition, the Auditor-General's reports on his examination of financial statements and his on-going audits within ministerial portfolios commented on agencies within the Prime Minister and Cabinet portfolio.<sup>3</sup>

### Audit Reports Reviewed by Other Parliamentary Committees

16.5 On 16 December 1992 and 26 May 1993 the House of Representatives resolved to refer *Audit Report No. 15, 1992-93* and *Audit Report No. 36, 1992-93* respectively to the House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs.<sup>4</sup>

16.6 On 30 May 1994 the Aboriginal and Torres Strait Islander Affairs Committee tabled its findings in relation to *Audit Report No. 36, 1992-93*.<sup>5</sup> The Committee is of the view that the Aboriginal and Torres Strait Islander Affairs Committee's report gives appropriate consideration to the matters raised in the audit report. The Committee does not propose at this time to review further the audit report.

### Comments

16.7 In the Committee's view, the responses of the agencies to the issues raised in the financial statement and ministerial portfolio audit reports for this portfolio were satisfactory.

<sup>3</sup> Auditor-General: *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992; Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sitings 1993; Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92.*

<sup>4</sup> House of Representatives, *Votes and Proceedings*, AGPS, Canberra, 1992, p. 1941 and 1993 p. 944.

<sup>5</sup> House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs, *Review of Audit Report No. 36, 1992-93 ... and Audit Report No. 1, 1993-94 ... and Audit Report No. 27, 1993-94 ...*, AGPS, Canberra, 1994.

### Introduction

17.1 The social security portfolio comprises the Department of Social Security (DSS) and six other bodies - two of which are statutory authorities.<sup>1</sup>

17.2 All organisations, including the department, fall within the program structure adopted for the portfolio, which currently consists of six programs, as follows:

- Program 1: Income Security for the Retired;
- Program 2: Income Security for People with Disabilities and the Sick;
- Program 3: Income Security for the Unemployed;
- Program 4: Income Security for Families with Children;
- Program 5: Provisions for Special Circumstances; and
- Program 6: Corporate and Other Services.<sup>2</sup>

17.3 In the period October 1992 to June 1993 the Auditor-General produced one report on aspects of the performance of portfolio agencies. This audit concerned DSS and the report was:

- *Audit Report No. 18, 1992-93, Efficiency Audit, Department of Social Security - Administration of Special Benefit.*

<sup>1</sup> Senate Standing Committee on Finance and Public Administration, *List of Commonwealth Bodies*, AGPS, Canberra, June 1993, pp. 231-232.

<sup>2</sup> For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Social Security Portfolio*, Budget Related Paper No. 4.15, AGPS, Canberra, May 1995, p. 5.

17.4 In addition, the Auditor-General's reports on his examination of financial statements and his on-going audits within ministerial portfolios commented on agencies within the social security portfolio.<sup>3</sup>

### Significant Issues

17.5 The Committee's examination of the Auditor-General's reports on social security portfolio agencies revealed a number of issues in relation to the administration of the Special Benefit Program which required further review.

17.6 This issue is summarised in Table 17.1 below. The table also contains a description of the initial responses to the Committee from DSS, and an outline of the Committee's subsequent action.

17.7 Detailed comments on DSS's responses, and the Committee's findings in relation to the issues, are contained in the sections after the table.

<sup>3</sup> Auditor-General: *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992; Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sitings 1993; Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92.*

Table 17.1  
Social Security Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p><b>Department of Social Security - Administration of Special Benefit</b></p> <p>ANAO identified the need to tighten the program, and suggested that savings up to \$7m were achievable.<sup>4</sup></p> <p>ANAO recommended that DSS:</p> <ul style="list-style-type: none"> <li>• ensure that the policy with respect to residential criteria for Special Benefit was reflected in the Social Security Act; and</li> <li>• review, for advice to Government, the impact of recent actions of State Governments on the levels of Commonwealth assistance to homeless children under 16 years of age, as the respective responsibilities remained unresolved.<sup>5</sup></li> </ul>	<p>A Special Benefit Reform Package introduced in March 1993 would address many of ANAO's concerns and was expected to save \$3.7m annually through streamlined administration.<sup>6</sup></p> <p>DSS's Quarterly Return to the Minister for Finance for September 1993 indicated amendment of the Act 'at the earliest opportunity'.<sup>7</sup></p> <p>DSS's Quarterly Return also advised that a protocol had been agreed in principle by the States and Commonwealth to 'clarify responsibilities for the care, protection and financial support of unsupported under 16 year olds.' The protocol should be endorsed in each State by October 1993.<sup>7</sup></p>	<p>The Committee sought advice as to whether the anticipated savings had been realised.</p> <p>The Committee sought an update on these matters.</p>

<sup>4</sup> Auditor-General, *Audit Report No. 18, 1992-93, Efficiency Audit, Department of Social Security - Administration of Special Benefit*, AGPS, Canberra, 1992, p. viii.

<sup>5</sup> Auditor-General, *Audit Report No. 18, 1992-93, Recommendations 20 and 23*, pp. 46 and 51.

<sup>6</sup> Department of Social Security, *Submission*, p. S2741 and S2744.

<sup>7</sup> DSS, *Quarterly Return to the Minister for Finance, 13 September 1993*, p. 2 and pp. 2-3.

## Response to Review Action

### Administration of Special Benefit

17.8 The aim of the Special Benefit Sub-program administered by DSS is to meet cases of special need where people are ineligible to receive any other pension or benefit. Under the *Social Security Act 1991* the Secretary to DSS has the discretion to pay Special Benefit to a person who resides in Australia during the period of payment, provided they are not an illegal immigrant, and who is unable to earn sufficient livelihood.<sup>8</sup>

17.9 The key findings of a 1991-92 audit into the administration of the sub-program, which were of concern to the Committee, included:

- the possibility of annual savings in payments amounting to \$7 million through the more rigorous application of existing guidelines;
- the need to review aspects of supporting legislation, particularly in relation to the eligibility criteria for new arrivals to Australia; and
- the need for clarification of Commonwealth, State and Territory Governments' responsibilities in the assistance provided to children under 16 years of age.<sup>9</sup>

17.10 In its initial response to the Committee, following the tabling of the audit report, DSS questioned the statistical validity of the Auditor-General's assertion that savings of \$7 million were achievable. Nevertheless, the Department advised that the introduction of a Special Benefit Reform Package 'was expected to save \$3.7 million in a full year.' This would be achieved by:

<sup>8</sup> Auditor-General, *Audit Report No. 18, 1992-93*, p. 1.

<sup>9</sup> Auditor-General, *Audit Report No. 18, 1992-93*, p. viii.

... streamlined administration ... transfer of Special Benefit clients to mainstream payments and from these, through labour market programs and/or rehabilitation interventions, off payments into employment.<sup>10</sup>

17.11 Regarding the other two issues of concern to the Committee (amendments to the legislation, and clarification of responsibility for under 16 year olds), the Department's submission contained little of substance.

17.12 However, the Committee noted that the issue had been addressed in the DSS *Quarterly Return to the Minister for Finance* for September 1993.

17.13 The Department acknowledged the audit comments concerning payments of Special Benefit to new arrivals in Australia and advised the Minister that the *Social Security Act 1991* would be amended at the earliest opportunity.

17.14 The *Quarterly Return* also contained the advice that a protocol had been agreed in principle by the States and Commonwealth to 'clarify responsibilities for the care, protection and financial support of unsupported under 16 year olds.' It was expected that the protocol would be endorsed in each State by October 1993.<sup>11</sup>

17.15 On both issues DSS advised the Minister for Finance that it regarded the matters as finalised.

17.16 For the purposes of its review the Committee sought further advice from the Department on whether the legislation had been amended and whether the protocol had been signed. As well, confirmation was sought that the level of savings predicted by DSS from the introduction of its reform package had been realised.

<sup>10</sup> DSS, *Submission*, pp. S2743-4.

<sup>11</sup> DSS, *Quarterly Return to the Minister for Finance, 13 September 1993*, p. 2 and pp. 2-3.

17.17 In its supplementary submissions to the Committee DSS advised that:

- the reform package had resulted in 896 cancellations from March to September 1993 saving \$4.16 million, and during 1993-94 running costs and administration savings had amounted to \$0.43 million;<sup>12</sup>
- Section 729 of the Act, relating to qualifications for Special Benefit had been amended; and
- the signing of the youth protocol by the final State had been completed on 16 December 1994 with implementation finalised on 2 February 1995.<sup>13</sup>

17.18 Although the Committee considers that the issues raised in the audit report have now been adequately addressed, it is interesting to note that Commonwealth-State youth protocol was not finalised until December 1994, some 14 months after DSS advised the Minister for Finance that the matter had been finalised.

<sup>12</sup> DSS, *Submission*, p. S4079.

<sup>13</sup> DSS, *Submission*, pp. S4066-7.

### Introduction

18.1 The tourism portfolio comprises the Department of Tourism and six other bodies - one of which are statutory authorities.<sup>1</sup>

18.2 All organisations, including the department, fall within the program structure adopted for the portfolio, which currently consists of four programs, as follows:

- Program 1: Tourism;
- Program 2: Bureau of Tourism Research;
- Program 3: Australian Tourist Commission; and
- Program 4: Executive and Support.<sup>2</sup>

18.3 In the period October 1992 to June 1993 the Auditor-General produced no specific reports concerning the performance of agencies within this portfolio. However, three audit reports were produced which detailed the results of his examination of financial statements and his on-going audits within ministerial portfolio agencies.<sup>3</sup>

- 
- 1 This information was provided by the Senate Finance and Public Administration Legislation Committee which is currently reviewing and updating the information published by the former Senate Standing Committee on Finance and Public Administration in *List of Commonwealth Bodies*, Canberra, June 1993. The Committee was advised by the Senate committee that the numbers should be regarded as indicative only and that a new *List of Commonwealth Bodies* is currently being prepared.
- 2 For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Tourism Portfolio*, Budget Related Paper No. 4.16, AGPS, Canberra, May 1995, p. 9.
- 3 Auditor-General: *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992; Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sitings 1993; Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92.*

### Comments

18.4 In the Committee's view, the responses of agencies in the tourism portfolio to the issues raised in the financial statement and ministerial portfolio audit reports were satisfactory.

**Introduction**

19.1 The transport portfolio comprises the Department of Transport and 169 other bodies - 12 of which are statutory authorities.<sup>1</sup>

19.2 All organisations, including the department, fall within the program structure adopted for the portfolio, which currently consists of four programs, as follows:

- Program 1: Aviation;
- Program 2: Land Transport;
- Program 3: Maritime; and
- Program 4: Corporate Direction and Support.<sup>2</sup>

19.3 In the period October 1992 to June 1993 the Auditor-General produced no specific reports concerning the performance of agencies within this portfolio. However, three audit reports were produced which detailed the results of his examination of financial statements and his on-going audits within ministerial portfolio agencies.<sup>3</sup>

1 This information was provided by the Senate Finance and Public Administration Legislation Committee which is currently reviewing and updating the information published by the former Senate Standing Committee on Finance and Public Administration in *List of Commonwealth Bodies*, Canberra, June 1993. The Committee was advised by the Senate committee that the numbers should be regarded as indicative only and that a new *List of Commonwealth Bodies* is currently being prepared.

2 For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Transport Portfolio*, Budget Related Paper No. 4.17, AGPS, Canberra, May 1995, p. 8.

3 Auditor-General: *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992; Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sitings 1993; Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92.*

**Comments**

19.4 In the Committee's view, the responses of agencies in the transport portfolio to the issues raised in the financial statement and ministerial portfolio audit reports were satisfactory.

## Introduction

20.1 The Treasury portfolio comprises the Department of the Treasury and 16 other bodies - 11 of which are statutory authorities.<sup>1</sup>

20.2 All organisations, including the department, fall within the program structure adopted for the portfolio, which currently consists of eight programs, as follows:

- Program 1: Treasury;
- Program 2: Royal Australian Mint;
- Program 3: Australian Bureau of Statistics;
- Program 4: Taxation Administration;
- Program 5: Industry Commission;
- Program 6: Trade Practices Commission
- Program 7: Insurance and Superannuation Commission; and
- Program 8: Prices Surveillance Authority.<sup>2</sup>

20.3 In the period October 1992 to June 1993 the Auditor-General produced two reports on aspects of the performance of portfolio agencies. These reports, which concerned the Royal Australian Mint (the Mint) and the Australian Taxation Office (ATO), were:

- *Audit Report No. 4, 1992-93, Project Audit, Royal Australian Mint - Review of Manufacturing Resources Planning System;* and

<sup>1</sup> Senate Standing Committee on Finance and Public Administration, *List of Commonwealth Bodies*, AGPS, Canberra, June 1993, pp. 279-285.

<sup>2</sup> For a description of the activities encompassed by these programs see: *Portfolio Budget Statements 1995-96, Treasury Portfolio*, Budget Related Paper No. 7.18, AGPS, Canberra, May 1995, pp. 3-4.

- *Audit Report No. 5, 1992-93, Project Audit, Australian Taxation Office - Electronic Lodgment Service.*

20.4 In addition, the Auditor-General's reports on the results of his examination of financial statements and his on-going audits within ministerial portfolios commented on agencies within the treasury portfolio.<sup>3</sup>

## Significant Issues

20.5 The Committee's examination of the Auditor-General's reports on treasury portfolio agencies revealed four issues which required further review. These issues related to:

- the ATO's Highett Annex storage facility;
- the qualification of ATO's financial statement;
- the accounting systems of the Insurance and Superannuation Commission; and
- arrangements for obtaining the Minister for Finance's approval to waive outstanding amounts of principle and interest on Commonwealth loans to the States.

20.6 These issues are summarised in Table 20.1 below. The table also contains a description of the initial responses to the Committee from the agencies involved, and an outline of the Committee's subsequent action.

20.7 Detailed comments on agency responses, and the Committee's findings in relation to the issues, are contained in the sections after the table.

<sup>3</sup> Auditor-General: *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992; Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sitings 1993; Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92.*

Table 20.1  
Treasury Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p><b>Australian Taxation Office (ATO) - Storage Facilities</b></p> <p>ANAO considered that:</p> <ul style="list-style-type: none"> <li>the Highbett Annex storage facility in Victoria was under utilised;</li> <li>a review of the future of the annex was needed, and</li> <li>ATO should plan its storage on an Australia-wide basis.<sup>4</sup></li> </ul> <p><b>Australian Taxation Office - Qualification of Financial Statement</b></p> <p>The ANAO was unable to form an opinion on the extent to which tax evasion and other breaches of the tax law affected taxation revenue.<sup>5</sup></p>	<p>ATO advised that a working party had been established to review facility use. The combined use of a facility by Victorian offices was also being considered.<sup>6</sup></p> <p>ATO did not accept the qualification, arguing that ANAO's opinion was not supported by generally accepted accounting practice. Similar qualifications are not applied to other revenue collecting authorities either by State or overseas auditors.<sup>7</sup></p>	<p>The Committee requested advice on the outcome of the review and the reasons why ANAO's recommendation for the planning of Australia-wide storage facilities appeared to have been ignored.</p> <p>ATO was asked to provide further information on this dispute.</p>

4 Auditor-General, *Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sitings 1993*, AGPS, Canberra, 1993, pp. 291-3.

5 Auditor-General, *Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92*, AGPS, Canberra, 1993, p. 205.

6 Australian Taxation Office, *Submission*, pp. S2933-4.

7 ATO, *Submission*, pp. S2939-40.

Table 20.1 (continued)  
Treasury Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p><b>Insurance and Superannuation Commission (ISC)</b></p> <p>ANAO noted that:</p> <ul style="list-style-type: none"> <li>reconciliations between the Finance Ledger System and ISC's subsidiary systems had not always been performed. The problem had been reported in the previous two years.</li> <li>on numerous occasions moneys received in respect of superannuation supervisory levies had not been promptly banked.<sup>8</sup></li> </ul> <p>Both problems had persisted into the following year and ANAO noted numerous banking errors and delays.<sup>9</sup></p>	<p>ISC advised the Committee in July 1993 that:</p> <ul style="list-style-type: none"> <li>it was ensuring that the relevant reconciliations were being undertaken in a timely manner; and</li> <li>the problem had been caused by lack of resources and inaccurate mechanical cheque readers. Additional staff had been employed to reduce the backlog and ISC was monitoring its performance and making improvements.<sup>10</sup></li> </ul>	<p>The Committee sought further information from ISC in relation to these matters.</p>

8 Auditor-General, *Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92*, AGPS, Canberra, 1993, p. 222.

9 Auditor-General, *Audit Report No. 27, 1993-94, Report on Ministerial Portfolios - Autumn Sitings 1994*, Canberra, 1994, p. 263.

10 Insurance and Superannuation Commission, *Submission*, p. S2974.



Table 20.1 (continued)  
Treasury Portfolio

Significant Matters	Initial Responses	Committee Review Action
<p><b>Waivers approved by the Minister for Finance</b></p> <p>The ANAO recommended that Treasury investigate arrangements to improve the timeliness of submissions requesting approval of the Minister to waive outstanding amounts of principle and interest.<sup>11</sup></p> <p>(<i>Audit Report No. 23, 1992-93</i> indicated that 19 applications for waivers had been made during the financial year totalling some \$40 million.<sup>12</sup>)</p>	<p>Treasury had considered efficiency and accountability would be enhanced if departments administering loans could approach Finance directly.<sup>13</sup></p>	<p>The Committee sought further information from Finance and Treasury on this issue.</p>

<sup>11</sup> Auditor-General, *Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92*, AGPS, Canberra, 1993, p. 195.

<sup>12</sup> Auditor-General, *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992*, AGPS, Canberra, 1993, p. 36.

<sup>13</sup> Auditor-General, *Audit Report No. 29, 1992-93*, p. 195.

## Response to Review Action

### *Australian Taxation Office - Storage Facilities*

20.8 The ATO is required to retain various documents such as income tax returns and ATO audit papers for specified periods. These documents need to be accessible to assist with taxation audits and in answering taxpayers' queries. *Audit Report No. 28, 1992-93* included the results of an audit of the ATO Melbourne Branch Office leased storage facilities known as the Hightt Annexe. The audit report included consideration of the cost effectiveness of maintaining the facility.

20.9 The Auditor-General concluded that the storage facility was under utilised, its future needed to be reviewed, and ATO should plan its document storage on an Australia-wide basis.<sup>14</sup>

20.10 The ATO advised the Committee in its initial submission in July 1993, that it had an obligation under the lease to retain the use of the Annexe until June 1994 but had established a working party to review the use of the facility after its obligation had expired. The review would consider, amongst other issues:

- the suitability of a centralised archival/storage facility;
- other options for storage, e.g. Australian Archives; and
- the storage needs for the ATO on a regional basis for Victoria.<sup>15</sup>

20.11 The Committee sought advice on the outcome of ATO's review and the reason why document storage on an Australian-wide basis appeared not under consideration.

<sup>14</sup> Auditor-General, *Audit Report No. 28 1992-93*, pp. 291-3.

<sup>15</sup> ATO, *Submission*, pp. S2933-4.

20.12 The Committee was advised that the working party's interim report had been inconclusive but that a project officer had been appointed to examine in detail the options that had been identified by the working party. The ATO had sought the views of the Australian Estate Manager who had recommended that the lease be renewed for a further period of five years. This advice had been rejected and the option had been exercised to extend the lease to June 1995 with a further option to extend to December 1995 should this be necessary. The ATO intends to close the Highett Annexe by December 1995 at the latest.

20.13 The ATO added that although it did not accept that storage should be planned on an Australia-wide basis, it agreed that such storage should not be arranged by individual offices. Steps are now being taken by the ATO to plan storage requirements on a regional basis.<sup>16</sup>

20.14 The Committee considers that ATO is adequately addressing the concerns raised by the Auditor-General.

#### *Australian Taxation Office - Qualification of Financial Statement*

20.15 The ATO's 1991-92 financial statement was qualified in three respects:

- an undetermined proportion of taxation revenue legally due to the Commonwealth was not brought to account and ANAO was unable to determine whether this was a 'material' amount;
- the ageing of certain overdue receivables and creditors did not comply with the financial statement guidelines; and
- various amounts in the Supplementary Financial Information were understated.<sup>17</sup>

<sup>16</sup> ATO, *Submission*, p. S4041-2.

<sup>17</sup> Auditor-General, *Audit Report No. 29, 1992-93*, pp. 204-5.

20.16 The audit report acknowledged that the last two qualifications arose from the inability of ATO's systems to provide the relevant information,<sup>18</sup> but it was the first point which was of concern to the Committee as it had prompted a dispute between ANAO and ATO.

20.17 The Commissioner of Taxation referred to this aspect of the qualification as a 'quasi qualification', a point disputed by the Auditor-General, who maintained:

*The qualification in 1991-92 arose from changes ... to the audit reporting requirements issued by the professional auditing bodies, and incorporated into the ANAO Auditing Standards, details of which were provided to the ATO prior to the issue of the audit opinion.<sup>19</sup>*

20.18 The Commissioner, the audit report added, was concerned that the qualification might be misinterpreted, being taken to indicate laxity by ATO, whereas the ability to estimate the amount of tax legally owed but not declared was 'internationally recognised as an extremely complex matter, and one which no other jurisdiction has settled.' The Commissioner did not see it as an efficient use of ATO resources to estimate globally the amount of missing tax due.<sup>20</sup>

20.19 This argument was pursued in the ATO's submission to the Committee in which it was suggested that the use of risk analysis and targeting of enforcement activities was more appropriate. In addition, the ATO argued that the qualification had no support from 'public statements of generally accepted accounting practice',<sup>21</sup> and did not apply in other jurisdictions

<sup>18</sup> These shortcomings were subsequently rectified, see Auditor-General, *Audit Report No. 27, 1993-94, Report on Ministerial Portfolios Autumn Sittings 1994*, AGPS, Canberra, 1994, p. 246.

<sup>19</sup> Auditor-General, *Audit Report No. 29, 1992-93*, p. 205.

<sup>20</sup> Auditor-General, *Audit Report No. 29, 1992-93*, p. 206.

<sup>21</sup> Meaning the Statement of Accounting Concepts 4 released by the Australian Accounting Standards Board; Exposure Draft 55 released by the Australian Accounting Research Foundation; and the Minister for Finance Guidelines. See ATO, *Submission*, pp. 2939-40.

such as the Australian States and overseas. The submission noted that the New Zealand tax office, recognised taxes as revenue on the same basis as ATO, that is when the debt becomes due upon issue of an assessment.<sup>22</sup>

20.20 In commenting on the ATO submission, ANAO reiterated its position that it had to be satisfied that the revenue collected by ATO was materially complete and that, for ATO to be satisfied that it had identified and collected all revenue, within the limits of materiality, an estimate was necessary of taxpayers' non-compliance.

20.21 The ANAO added:

*... it is accepted that the 'tax evasion and breaches of taxation law' item is not specifically mentioned in ... [accounting practice] statements. However, the Minister for Finance Guidelines use SAC4 in defining an asset and it is considered that the tax not collected through evasion, and other breaches represent 'receivables' in terms of the definition.<sup>23</sup>*

20.22 Following the application of a similar qualification to ATO's financial statement for 1992-93, the Committee sought further advice from the ATO.<sup>24</sup>

20.23 In its response ATO drew the Committee's attention to the fact that the Office's 1993-94 financial statements were not qualified and that the qualification on the 1992-93 financial statements had been retrospectively lifted.

20.24 The ATO advised that by publishing more information in its annual report about risk assessments undertaken and compliance measures adopted, and making similar information available to the ANAO, the ANAO was able to judge that reasonable controls were in place to ensure

<sup>22</sup> ATO, *Submission*, pp. S2939-40.

<sup>23</sup> ANAO, *Submission*, p. J85.

<sup>24</sup> Auditor-General, *Audit Report No. 27, 1993-94*, pp. 245-6.

taxpayer compliance. This test was sufficient to avoid a qualification in 1993-94 and warrant the removal of the 1992-93 qualification.<sup>25</sup>

20.25 Although the retrospective withdrawal of qualification did not extend to the 1991-92 financial statement, which was the subject of *Audit Report No. 29, 1992-93*, the Committee believes that the issue has been resolved satisfactorily.

#### *Insurance and Superannuation Commission*

20.26 The ISC was established in November 1987 to administer the Commonwealth's insurance and superannuation policy functions and associated actuarial functions.

20.27 In *Audit Report No. 29, 1992-93* the Auditor-General noted an ongoing problem with reconciliations between the Finance Ledger System and ICS's subsidiary systems. This issue had also been noted in an earlier report by the Committee.<sup>26</sup>

20.28 The audit report also found that on numerous occasions superannuation supervisory levy money had not been promptly banked.<sup>27</sup>

20.29 Responding to the Committee's initial request for information on this matter, ISC advised in July 1993 that it was 'ensuring that relevant reconciliations ... are undertaken in a timely manner.' The delays in banking cheques promptly had resulted in inadequate resources and inaccurate mechanical cheque readers. The backlog had been corrected but some short delays were still being experienced due to technology conversion. The ISC claimed that it was monitoring its processing and making improvements.<sup>28</sup>

<sup>25</sup> ATO, *Submission*, 1993-94 Series, p. S1379.

<sup>26</sup> Joint Committee of Public Accounts, *Report 330, Review of Auditor-General's Reports May 1991 - September 1992*, AGPS, Canberra, 1994, p. 115.

<sup>27</sup> Auditor-General, *Audit Report No. 29, 1992-93*, p. 222.

<sup>28</sup> ISC, *Submission*, p. S2974.

20.30 These issues were raised again in *Audit Report No. 27, 1993-94*, which was tabled in March 1994. The audit report 'again recommended the Commission perform regular reconciliations' and noted 'numerous banking errors and delays'.<sup>29</sup>

20.31 Concerning reconciliations, ISC advised the Committee that appropriate interface mechanisms were now in place and that regular reconciliations are being carried out between the Finance Ledger System and ISC's new management information system.<sup>30</sup>

20.32 The ISC also advised that it had virtually eliminated errors in its banking of levies due to the addition of an interface between its superannuation system and its management information system which, performs the banking function. The Commission endeavoured to ensure banking within 24 hours of receipt and was satisfied with its performance in this area but was continuing to review its processes.<sup>31</sup>

20.33 In recording its satisfaction with ISC's advice, the Committee notes the importance of cash management and the recent audit reports on this issue.<sup>32</sup> The Committee is currently conducting a review of cash management by Commonwealth departments and intends to report on this issue separately.

<sup>29</sup> Auditor-General, *Audit Report No. 27, 1993-94*, p. 263.

<sup>30</sup> ISC, *Submission*, 1993-94 Series, p. S1244.

<sup>31</sup> ISC, *Submission*, p. S4033.

<sup>32</sup> Auditor-General, *Audit Report No. 22, 1993-94, Efficiency Audit, Cash Management in Commonwealth Government Departments*, AGPS, Canberra, 1993; *Audit Report No. 10, 1994-95, Efficiency Audit, Cash Management in Commonwealth Government Departments*, AGPS, Canberra, 1994.

#### *Waivers Approved by the Minister for Finance*

20.34 In *Audit Report No. 29, 1992-93* the Auditor-General commented on the Treasury's coordination of various financial assistance arrangements provided to the Governments of South Australia, Tasmania and the Northern Territory. Under these arrangements the Commonwealth has agreed to forgo recoveries of interest and principal on various advances administered by:

- the Department of Arts, Sports, the Environment, Tourism and Territories;
- Immigration, Local Government and Ethnic Affairs; and
- Primary Industries and Energy.

20.35 Treasury coordinates these waivers by:

- obtaining information from the administering Commonwealth departments regarding the amounts to be waived each year; and
- requesting the Minister for Finance to waive the recovery of the amounts due to the Commonwealth.<sup>33</sup>

20.36 The ANAO considered that Treasury's coordination was tardy and recommended that alternative arrangements be investigated to improve timeliness. Treasury responded in the audit report that it considered efficiency and accountability could be enhanced if departments administering loans were responsible for approaching the Department of Finance directly.<sup>34</sup>

20.37 The Committee sought further advice on the issue from both Treasury and Finance.

<sup>33</sup> Auditor-General, *Audit Report No. 29, 1992-93*, p. 195.

<sup>34</sup> Auditor-General, *Audit Report No. 29, 1992-93*, p. 195.

20.38 Finance advised the Committee that both agencies had agreed that administering departments would approach Finance directly and Treasury would be advised of this and the outcome of the deliberations by the Minister. Both departments advised that under the proposed Financial Management and Accountability Bill, the process would become obsolete as the legislation, as proposed, allowed prospective waiver of debts.<sup>35</sup>

20.39 The Committee considers that this issue has been adequately addressed by Treasury and Finance.

## PART THREE -

## REVIEW OF CROSS-PORTFOLIO AUDIT REPORTS

---

<sup>35</sup> Department of the Treasury, *Submission*, pp. S4031-2; Department of Finance, *Submission*, pp. S4036-7.

**Introduction**

21.1 From time to time the Auditor-General reports on issues which have relevance across the whole of the Australian Public Service or concern programs administered by several departments. Such reports are known as cross-portfolio audit reports.

21.2 In the period October 1992 to June 1993 the Auditor-General produced the following cross-portfolio audit reports:

- *Audit Report No. 7, 1992-93, Efficiency Audit, Saving Time and Money with Common-use Contracts;*
- *Audit Report No. 25, 1992-93, Efficiency Audit, The Jobs, Education and Training Program - Departments of Social Security, Employment, Education and Training, Health, Housing, Local Government and Community Services;*
- *Audit Report No. 30, 1992-93, Efficiency Audit, Senior Officer Work-related Expenses;*
- *Audit Report No. 34, 1992-93, Project Audit, The National Bankcard, Who Will Pay the Piper? - A Report on the Financial Obligations of the Federal Government;*
- *Audit Report No. 37, 1992-93, Project Audit, Review of Financial Management Systems - Australian Federal Police, Australian Securities Commission, Director of Public Prosecutions, Department of Health, Housing, Local Government and Community Services, Department of Immigration and Ethnic Affairs;*

- *Audit Report No. 38, 1992-93, Project Audit, Information Technology Acquisitions - Attorney-General's Department, Department of the Arts and Administrative Services, Comcare Australia, Department of Finance; and*
- *A Practical Guide to Public Sector Auditing.*

21.3 The following paragraphs contain comments about each of these reports, with the exception of *Audit Report No. 25, 1992-93* which is discussed in the following chapter because of the number and complexity of issues to be reviewed.

## Common-use Contracts

### Introduction

21.4 Commonwealth common use contracts (CUCs) are standing offers made by suppliers to supply goods and services at an agreed price if and when ordered by government agencies. Purchasing Australia, a division within the Department of Administrative Services (DAS), is responsible for the Commonwealth's general purchasing policy and, in particular, for managing and administering CUCs.

### *Audit Report No. 7, 1992-93, Efficiency Audit, Saving Time and Money with Common-use Contracts*

21.5 *Audit Report No. 7, 1992-93* detailed the findings of the Auditor-General's investigation of the efficiency and administrative effectiveness of the management of CUCs. The audit did not cover the purchase of information technology, but included comments on aspects of the use of the Australian Government Credit Card (AGCC).

21.6 The five key agencies involved in the audit were:

- the Department of the Arts, Sport, the Environment and Territories;

- the Department of Defence;
- the Australian Customs Service;
- the Department of Health, Housing and Community Services; and
- the Department of Industry, Technology and Commerce.

21.7 *Audit Report No. 7, 1992-93* contained 17 recommendations, all of which were accepted or accepted in part by the agencies involved.

### Scrutiny by Parliamentary Committees

21.8 Whilst not being specifically referred to any parliamentary committee, *Audit Report No. 7, 1992-93* received attention from the House of Representatives Standing Committee on Industry, Science and Technology during its inquiry into government purchasing policies. That committee's report, *Australian Government Purchasing Policies: Buying our Future - First Report*, was tabled on 23 March 1994 and contained nine recommendations relating to CUCs and four relating to the AGCC.

21.9 The Government's White Paper on Employment and Growth partially adopted the recommendations of the report. The Government subsequently responded to the Industry Committee's report on 12 December 1994.

21.10 During 1993-94 the Auditor-General again reviewed AGCC usage and tabled the following audit reports:

- *Audit Report No. 21, 1993-94, Efficiency Audit, Department of Finance, The Australian Government Credit Card - its debits and credits; and*
- *Audit Report No. 41, 1993-94, Project Audit, The Australian Government Credit Card - Some Aspects of its Use.*

21.11 The Committee reviewed these two audit reports in mid-1994 and held a public hearing on 6 July 1994. The Committee tabled its findings on 22 September 1994.<sup>1</sup>

#### Conclusion

21.12 The Committee considers that the issues raised by *Audit Report No. 7, 1992-93* have been adequately reviewed elsewhere.

### Senior Officer Work-Related Expenses

#### Introduction

21.13 The Senior Officer Work-related Expenses (SOWRE) scheme was introduced in November 1991 as part of a package of benefits agreed to by the Department of Industrial Relations (DIR) and the then Public Service Union (PSU). The agreement had resulted from a claim for senior officer grades lodged by the PSU.

21.14 Prior to the introduction of the package, several agencies had introduced improved conditions for senior officers because of PSU pressure. The aim of the agreement was to subsume these prior agreements in individual agencies by creating consistent service-wide arrangements to enhance a stable industrial relations environment as well providing enhanced remuneration and employment conditions for senior officers.<sup>2</sup>

21.15 The SOWRE scheme ensured reimbursement of certain expenses of a work-related nature and did not therefore establish a salary entitlement.

<sup>1</sup> Joint Committee of Public Accounts, *Report 332, The Australian Government Credit Card*, AGPS, Canberra, 1994.

<sup>2</sup> Auditor-General, *Audit Report No. 30, 1992-93, Efficiency Audit, Senior Office Work-related Expenses*, AGPS, Canberra, 1993, p. 1.

#### *Audit Report No. 30, 1992-93, Efficiency Audit, Senior Officer Work-related Expenses*

21.16 The objective of the audit was to assess the efficiency and effectiveness of the administration by DIR of the SOWRE scheme. The audit also focussed on the internal management of the scheme by four agencies:

- the Department of Employment, Education and Training;
- the Department of Social Security;
- the Australian Taxation Office; and
- the Australian Customs Service.<sup>3</sup>

21.17 The major findings of the audit were that:

- the scheme cost some \$20 million annually;
- the scheme appeared to include elements of private benefit, throwing doubts on its work-related nature;
- variations between agencies could give rise to inequities;
- four agencies had continued to reimburse certain expenses in addition to the limits set out in the SOWRE scheme; and
- the scheme should be evaluated.<sup>4</sup>

21.18 The audit report's eight recommendations concerning DIR and the other four agencies were generally accepted.

#### *The Committee's Review*

21.19 The Committee's initial review of the audit report revealed that only one issue remained unresolved - the recommendation that DIR formally evaluate the scheme.

<sup>3</sup> Auditor-General, *Audit Report No 30, 1992-93*, pp. 1 and x.

<sup>4</sup> Auditor-General, *Audit Report No. 30, 1992-93*, AGPS, Canberra, 1993, p. vii.



21.20 DIR advised in its submission that, as it had foreshadowed in the audit report, there would be a review of the Senior Officers package agreement, this review had commenced and would take into account ANAO's findings regarding SOWRE.<sup>5</sup> The Quarterly Return to the Minister for Finance for November 1993 contained the additional advice that the review was due to be completed in March 1994.

21.21 The Committee subsequently requested further information from DIR concerning its review.

#### *Response to the Committee's Review Action*

21.22 DIR advised the Committee that its review had been completed. It had contacted 138 agencies and received responses from 50. One of the two recommendations of this review had been that the SOWRE menu of reimbursable items be devolved to agencies to enable flexibility consistent with devolved decision-making within the public sector.<sup>6</sup>

21.23 It was also suggested that SOWRE be converted to a cash amount, which would remove an administratively costly element of the scheme and reduce the Fringe Benefits Tax liability of agencies. Constraints to this option were recognised as being that:

- it would remove the link to work related expenditure and be seen to be a surrogate pay rise;
- the value of SOWRE would need to be enhanced to allow for the effects of personal taxation;
- inclusion of a cashed-out SOWRE as salary would necessitate additional superannuation contributions from both the senior officer and employer; and
- SOWRE was not included in the current APS Workplace Bargaining Agreement.<sup>7</sup>

<sup>5</sup> Department of Industrial Relations, *Submission*, p. S3181.

<sup>6</sup> DIR, *Submission*, p. S4052.

<sup>7</sup> DIR, *Submission*, pp. S4057-8.

21.24 The Department concluded that SOWRE would be considered along with the senior officer package in negotiations with the unions as provided by an Interim APS Agreement.<sup>8</sup>

21.25 The Committee is satisfied that the issues raised in *Audit Report No. 30, 1992-93* are being adequately addressed by DIR.

#### **The Financial Obligations of the Federal Government**

*Audit Report No. 34, 1992-93, Project Audit, The National Bankcard - Who Will Pay the Piper? - A Report on the Financial Obligations of the Federal Government*

21.26 The Auditor-General produced *Audit Report No. 34, 1992-93* in response to what he perceived to be increasing concern within the community about Australia's public sector debt levels and concern within the ANAO that government assets and liabilities were not being fully disclosed.<sup>9</sup>

21.27 The audit focussed on the financial obligations of the Commonwealth with the objectives of:

- determining the obligations of the Commonwealth government as at 30 June 1992; and
- considering how these obligations should be disclosed so that they could be better understood and their significance be assessed.<sup>10</sup>

<sup>8</sup> DIR, *Submission*, p. S4053.

<sup>9</sup> Auditor-General, *Audit Report No. 34, 1992-93, Project Audit, The National Bankcard - Who Will Pay the Piper? - A Report on the Financial Obligations of the Federal Government*, p.1. See also *Audit Report No. 34, 1991-92, Accounting for and reporting of departmental assets and liabilities*, AGPS, Canberra, 1992.

<sup>10</sup> Auditor-General, *Audit Report No. 34, 1992-93*, p. 1.

21.28 In determining the obligations for the whole of the Commonwealth, the Auditor-General assessed the obligations entered into by the following types of entities:

- departments;
- departmental undertakings;
- statutory authorities; and
- corporations.

21.29 It was decided to exclude government owned or controlled companies because they have a responsibility to pay their own debts. However, Commonwealth guarantees over company borrowings were included.<sup>11</sup>

21.30 The audit identified outstanding Federal Government obligations, prior to the exercise of its taxation powers, as being in excess of \$125 billion. The audit report stated that the figure was known to be understated, but the extent of the underestimate was not known.

21.31 To meet these obligations the Commonwealth had available liquid assets totalling \$57 billion, but the report added that the Commonwealth's power to tax should ensure that it remained solvent at all times.

21.32 The Auditor-General reported that, while the Government was currently able to meet its obligations, there needed to be improvements in existing monitoring systems to control the level and impact of these obligations. Funding decisions taken by the Government lacked the benefit of the information normally available in any well run company.<sup>12</sup>

21.33 The Auditor-General also asserted that current accountability to the Parliament and the taxpayer was deficient, because:

- available data was not easily assessable and failed to highlight relevant benchmarks;

<sup>11</sup> Auditor-General, *Audit Report No. 34, 1992-93*, pp. 1-2.

<sup>12</sup> Auditor-General, *Audit Report No. 34, 1992-93*, p. ix.

- no federal agency had a responsibility to accumulate, monitor, manage or report on the total obligations;
- budget papers provided only a short term view on the impact of funding decisions; and
- practices adopted in the financial reporting of obligations, including superannuation, were significantly below the standards adopted in the private sector.<sup>13</sup>

21.34 The Auditor-General concluded that more accessible and better information was needed to protect Australia's medium to long term interests.

21.35 However, the audit report does acknowledge that the introduction of accrual accounting for departments and agencies is a significant step forward, and will lead to better reporting of assets and liabilities. The report also urged the Government to introduce whole of government reporting on an accrual basis.<sup>14</sup> In all, *Audit Report No. 34, 1992-93*, made 15 recommendations aimed at improving the management and disclosure of the Government's financial obligations.

#### *The Committee's Review*

21.36 Following the tabling of the audit report, the Committee sought and received a submission from the Finance and subsequently received comments on the submission from ANAO.

21.37 While Finance generally accepted the recommendations in the audit report, the Department expressed concern about the general tenor of the audit report.

<sup>13</sup> Auditor-General, *Audit Report No. 34, 1992-93*, p. x.

<sup>14</sup> Auditor-General, *Audit Report No. 34, 1992-93*, p. x.

21.38 In its submission Finance stated that it:

*... strongly supports the need to enhance accountability and information for decision-making in the public sector ... [but its concern] was not so much with the recommendations but with the unbalanced nature of the Report's presentation and the critical judgements and comments contained therein, on the Government's financial position and financial management.<sup>15</sup>*

21.39 Finance particularly objected to what it perceived as the implications in the report:

- that there was a lack of information upon which the Government could make its planning decisions;
- that the obligations of the Commonwealth would lead to increased taxation; and
- that there was a need to fund the superannuation liabilities now to remove the burden from future generations.<sup>16</sup>

21.40 Finance strongly contested each of these implications.

21.41 The ANAO responded by welcoming Finance's general acceptance of the audit report, but argued that Finance had misconstrued the central theme of the report - which was not to question the Government's financial management, but to assert that there was a 'lack of information, which makes it impossible for the taxpayer or Parliament to make any such assessments.'<sup>17</sup>

21.42 The Committee acknowledges that Finance has played a leading role in reforming public sector management over the last decade and that these reforms have improved the quality of information available to decision makers, improved the extent and quality of reporting on performance and have led to a greater public and parliamentary accountability.

<sup>15</sup> Department of Finance, *Submission*, p. S3234.

<sup>16</sup> Finance, *Submission*, pp. S3234-8.

<sup>17</sup> ANAO, *Submission*, p. J69.

21.43 However, as Finance notes in its submission, 'there is room for further improvements in the reporting of the Federal Government's financial obligations'.<sup>18</sup> The Committee supports this view and believes that the adoption of accrual reporting by all departments for the financial year ending June 1995 is another significant step in the reform process.

21.44 A number of the concerns reported in *Audit Report No. 34, 1992-93* will be addressed with the publication by all departments of accrual accounts. Most of the other issues will be resolved if and when the Government agrees to take the next step of publishing whole of government financial reports.

21.45 The Committee is currently giving further consideration to the implementation of accrual reporting and the publication of whole of government reports, and will report separately on these matters.

## Review of Financial Management Systems

### Introduction

21.46 During the 1980s a computer package, initially developed for the Australian Federal Police, was adapted and improved into a computer software system called 'FINEST'. The system currently consists of 15 inter-related modules which enable management of areas such as budgeting, accounts, assets and reconciliation with Finance financial management computer systems.

21.47 FINEST was first introduced, under another name, at the Attorney-General's Department in 1988. Since then the package has been installed in other Commonwealth agencies including:

- the Australian Securities Commission;
- the Director of Public Prosecutions;

<sup>18</sup> Finance, *Submission*, p. S3234.

- the then Department of Health, Housing, Local Government and Community Services; and
- the Department of Immigration and Ethnic Affairs (DIEA).<sup>19</sup>

*Audit Report No. 37, 1992-93, Review of Financial Management Systems*

21.48 The ANAO examined the implementation of FINEST in the five agencies listed above. The agencies were moving from a centralised control approach to one where line management took primary responsibility for the control and administration of their own financial affairs.<sup>20</sup>

21.49 The purpose of the audit was to determine whether:

- the operation of the system could provide assurance that accounting records were complete, accurate and valid;
- the system provided an adequate level of support for the management of the agency's financial affairs; and
- the computer and support environment for the system was effective.

21.50 The key findings of the audit report were that:

- FINEST was generally being successfully utilised by the agencies;
- the systems had supported the process of devolution within the agencies;
- the agencies did not have effective arrangements in place for the separation of duties to minimise the risk of fraudulent processing;

<sup>19</sup> Auditor-General, *Audit Report No. 37, 1992-93, Project Audit, Review of Financial Management Systems - Australian Federal Police, Australian Securities Commission, Director of Public Prosecutions, Department of Health, Housing, Local Government and Community Services, Department of Immigration and Ethnic Affairs*, AGPS, Canberra, 1993, pp. 40-41.

<sup>20</sup> Auditor-General, *Audit Report No. 37, 1992-93*, p. 1.

- most of the agencies needed to generally strengthen financial processing procedures and practices;
- there had been a move towards giving an officer complete responsibility for all aspects of a financial transaction, in some cases, without an assessment of the risk and the establishment of compensating controls; and
- the process of selecting and acquiring the software was generally well managed.<sup>21</sup>

21.51 The ANAO subsequently made 40 recommendations aimed at rectifying the deficiencies it had identified.

*The Committee's Review*

21.52 The Committee sought and received submissions from the five audited agencies and received subsequent comments on those submissions from ANAO. These submissions, and information contained in subsequent *Quarterly Returns to the Minister for Finance*, indicated that the agencies substantially agreed with the audit recommendations.

21.53 The one outstanding issue concerned a review of information technology security being undertaken by DIEA. The Department's submission had indicated that:

*... a consultancy commenced with the task of reviewing existing information technology security and the development of principles, policies and approaches to be used in the management of information technology security in DIEA which will ensure that appropriate levels of availability, reliability, integrity and security of departmental resources are achieved. The consultancy [was] due to be completed by the end of August 1993.*<sup>22</sup>

<sup>21</sup> Auditor-General, *Audit Report No. 37, 1992-93*, p. vi.

<sup>22</sup> DIEA, *Submission*, p. S3208.

21.54 The Committee wrote to DIEA seeking an up-date on the consultant's review of information technology security, especially in the light of the apparent breakdown of computer security revealed in *Audit Report No. 44, 1993-94, Project Audit - Department of Immigration and Ethnic Affairs - Electronic Capture of passenger card data*.

#### *Response to the Committee's Review Action*

21.55 The Department advised in a supplementary submission that the consultant had completed a draft Information Technology Security Policy in September 1993. The draft policy had been reviewed by the Defence Signals Directorate (DSD) in April 1994 following the recommendation in *Audit Report No. 44, 1993-94* that DSD review DIEA's computer security.<sup>23</sup>

21.56 DSD had noted that the draft policy was 'overly generalised and recommended that it be made more specific.' The draft was subsequently revised and submitted to DSD and the Attorney-General's Department for comment in January 1995. In the interim this draft policy had been implemented within DIEA.<sup>24</sup>

21.57 The Committee is satisfied with the progress to date on this issue, but will revisit the matter when it reviews *Audit Report No. 44, 1993-94*.

### **Information Technology Acquisitions**

#### *Introduction*

21.58 In 1991-92 ANAO undertook audits of four projects concerned with the acquisition of information technology. The value of each purchase exceeded \$5 million and, in accordance

23 Auditor-General, *Audit Report No. 44, 1993-94, Project Audit - Department of Immigration and Ethnic Affairs - Electronic Capture of passenger card data*, AGPS, Canberra, 1994, Recommendation 22, p. 33.

24 DIEA, *Submission*, p. S4088.

with government policy at that time, required consideration by an acquisition council prior to government approval.<sup>25</sup>

#### *Audit Report No. 38, 1992-93, Information Technology Acquisitions*

21.59 The audits aimed to determine whether:

- the acquired facilities accorded with the overall strategy of the organisation;
- the acquisition process was managed appropriately;
- the tender process was unbiased and equitable; and
- the acquisition was in accordance with Government policy.<sup>26</sup>

21.60 The audits revealed that each of the purchasing agencies had ensured the selected acquisition had met their needs, but that the projects had been subject to delays. The Auditor-General considered that the delays arose because the complexity of the acquisition process was not recognised at a sufficiently early stage of the project.

21.61 The Auditor-General considered that:

- the management of IT projects would be improved by the appointment of a senior executive project manager;
- agencies should focus, throughout the project, on the full costs and benefits associated with the project not just any additional funding requirements;
- acquisition councils should be established on the basis of total cost, not the need for additional funding; and

25 Auditor-General, *Audit Report No. 38, 1992-93, Project Audit, Information Technology Acquisitions - Attorney-Generals Department, Department of the Arts and Administrative Services, Comcare Australia, Department of Finance*, AGPS, Canberra, 1993, p. vii.

26 Auditor-General, *Audit Report No. 38, 1992-93*, p. viii.

- to minimise any perceptions of unfair treatment, agencies should conduct their evaluation processes in an open manner.<sup>27</sup>

#### *The Committee's Review*

21.62 The Committee sought and received submissions from the audited agencies and comments on these submissions from ANAO. These submissions and comments indicated that the agencies had accepted the audit recommendations.

21.63 The Committee considers that each of the audited agencies have responded adequately to the audit report.

#### **Public Sector Internal Auditing**

21.64 In early 1993, ANAO published *A Practical Guide to Public Sector Auditing*. This was a third project undertaken in response to the Committee's recommendation in *Report 296 - The Auditor-General: Ally of the People and Parliament*, that ANAO undertake a comprehensive survey of internal audit practices.<sup>28</sup>

21.65 The Committee commented upon the *Practical Guide* in its *Report 330*.<sup>29</sup>

<sup>27</sup> Auditor-General, *Audit Report No. 38 1992-93, Project Audit, Information Technology Acquisitions - Attorney-General's Department, Department of the Arts and Administrative Services, Comcare Australia, Department of Finance*, AGPS, Canberra, 1993, pp. viii-ix.

<sup>28</sup> The first project had consisted of a questionnaire to agencies which had led to the second project, *Audit Report No. 50, 1991-92, Efficiency Audit, Internal Audit in Selected Commonwealth Organisations*, AGPS, Canberra, 1992.

<sup>29</sup> Joint Committee of Public Accounts, *Report 330 - Review of Auditor-General's Reports May 1991 - September 1992*, AGPS, Canberra, 1994, pp. 122-131.

21.66 In *Report 330* the Committee recommended that several agencies should revise their internal audit manuals, in a manner consistent with the *Practical Guide*. The responses from each agency, which were contained in a Finance Minute provided to the Committee and reproduced in the Committee's *Report 335, Finance Minutes Tabled in 1994*, were considered to have satisfactorily addressed the recommendation.

**AUDIT REPORT NO. 25 1992-93,  
THE JOBS, EDUCATION AND  
TRAINING PROGRAM**

**Introduction**

22.1 The Jobs, Education and Training Program (JET) was introduced in March 1989 to address the low workforce participation rate of sole parents. It became fully operational in 1991-92. The objective of JET is:

*... to improve the financial circumstances of sole parents by aiding their entry to the labour market through an integrated program of assistance providing individual advice and counselling and access to child care and education, training and employment opportunities.<sup>1</sup>*

22.2 The program is jointly administered by Department of Social Security (DSS), Department of Employment, Education and Training (DEET) and Human Services and Health (DHS) with DSS having the prime responsibility for administration, delivery, promotion and evaluation. JET is overseen by a JET Steering Committee, chaired by DSS and comprising of departmental and ministerial representatives.

22.3 The Auditor-General reviewed the JET program over the period December 1991 to April 1992 with the object of assessing:

*... the processes associated with the management and administration of the program, including those processes put in place to measure the extent to which the objectives are achieved.<sup>2</sup>*

1 Auditor-General, *Audit Report No. 25, 1992-93, Efficiency Audit, The Jobs, Education and Training Program - Departments of Social Security, Employment, Education and Training, Health, Housing, Local Government and Community Services*, AGPS, Canberra, 1993, p. 3.

2 Auditor-General, *Audit Report No. 25, 1992-93*, p. 7.

22.4 The results of the review were published in *Audit Report No. 25, 1992-93, Efficiency Audit, the Jobs, Education and Training Program*. The key findings of the audit were that:

- estimated employment and savings outcomes had fallen short of expectations due to the economic recession and the incidence of part time work (which results in retention of part of the pension);
- estimates of future net costs needed to be reviewed;
- methods for measuring outcomes in employment and savings in the pension payments needed to be refined; and
- program management and accountability could be enhanced through a variety of suggested improvements.<sup>3</sup>

22.5 The audit report contained 25 recommendations, 13 of which were rejected by the administering departments.

**The Committee's Review**

22.6 The Committee focussed on the 13 disputed recommendations in its review and sought further comments from the audited agencies and ANAO. Each of the issues are summarised in the following tables.

22.7 The tables also outline the initial and subsequent comments from the audited agencies. Such further comment as the Committee considers necessary appears in the section following the tables.

3 Auditor-General, *Audit Report No. 25, 1992-93*, p. viii.

Table 22.1  
The Jobs, Education and Training Program

Initial Comment in the Audit Report	Initial Responses by the Departments	Additional Departmental Comments
<p><b>Referral of JET Participants to Educational Institutions</b></p> <p>JET participants may be referred by DSS officers to educational institutions without first consulting with the Commonwealth Employment Service (CES) - participants may not therefore be fully informed. DSS had advised ANAO that direct referrals to non-Austudy courses was always intended as CES offices do not necessarily have expertise in the area. DEET had advised ANAO that it disagreed with DSS's view.<sup>4</sup></p>	<p>Both DEET and DSS rejected the resulting ANAO recommendation. DEET's submission considered that the issues had been addressed in the JET Evaluation Report of June 1992 and both departments advised that the referral arrangements would continue to be monitored by the JET Steering Committee.<sup>5</sup></p>	<p>DEET advised that the Government's <i>Working Nation</i> initiative had extended the case management approach to JET clients. Additional training was being provided to DEET officers and there were no unresolved issues between DEET and DSS.<sup>6</sup></p> <p>DSS advised that a joint paper on the roles of DSS and DEET officers was developed in the latter half of 1993 and a joint DSS/DEET workshop on the paper was conducted in early 1994. The exercise had confirmed the arrangements prevalent at the time of the ANAO audit.<sup>7</sup></p>

<sup>4</sup> Auditor-General, *Audit Report No. 25, 1992-93*, pp. 17-8.

<sup>5</sup> Department of Employment, Education and Training, *Submission*, p. S3135; Department of Social Security, *Submission*, p. S3165.

<sup>6</sup> DEET, *Submission*, p. S4074.

<sup>7</sup> DSS, *Submission*, p. S4068.

Table 22.1 (continued)  
The Jobs, Education and Training Program

Initial Comment in the Audit Report	Initial Responses by the Departments	Additional Departmental Comments
<p><b>Communication Between DSS (JET Advisers) and DEET (JET Contact Officers)</b></p> <p>Better communication was needed between DSS and DEET officers, and more time on employment outcome monitoring was needed as it was possible for JET participants to obtain employment without the help of the CES (DEET).<sup>8</sup></p>	<p>Both departments rejected the ensuing recommendation, DEET advising it was already monitoring outcomes. Both departments indicated that the anticipated linkage of DEET and DSS systems would improve the exchange of data.<sup>9</sup></p>	<p>DSS advised that the interface between its JET On-line System and DEET Jobsystem came operational in April 1994 and that the ensuing automatic exchange of data had streamlined and enhanced client follow-up employment monitoring processes.<sup>10</sup></p>

<sup>8</sup> Auditor-General, *Audit Report No. 25, 1992-93*, p. 22.

<sup>9</sup> DEET, *Submission*, p. S3136; DSS, *Submission*, p. S3168.

<sup>10</sup> DSS, *Submission*, p. S4069.



Table 22.1 (continued)  
The Jobs, Education and Training Program

Initial Comment in the Audit Report	Initial Responses by the Departments	Additional Departmental Comments
<p><b>A Qualifying Period for JET Program Eligibility</b></p> <p>The proportion of long term sole parent pension recipients joining JET would decline as the backlog of long term pensioners was cleared. Short term pensioners were more likely to gain employment without help as they have more recent work experience. A qualifying period would mean the program was better directed to the longer term unemployed and be consistent with other labour market programs.<sup>11</sup></p>	<p>DEET suggested the program had not been in operation long enough to justify the need for a qualifying period.<sup>12</sup></p> <p>DSS disagreed with the ensuing ANAO recommendation stating that ANAO's speculation was incorrect and that 85% of the participants were long term pensioners.<sup>13</sup></p>	<p>DEET advised that a qualifying period had not been established and that it supported the argument that entry to the program should not be restricted because:</p> <ul style="list-style-type: none"> <li>• it was not possible to predict whether a new sole parent pensioner was likely to be short term (and so would have left the system irrespective of the program's support); and</li> <li>• restriction designed to advantage the more needy would penalise, in the short term, some pensioners for whom the program is designed.<sup>14</sup></li> </ul>

<sup>11</sup> Auditor-General, *Audit Report No. 25, 1992-93*, pp. 27-8.

<sup>12</sup> DEET, *Submission*, p. S3136.

<sup>13</sup> DSS, *Submission*, p. S3169.

<sup>14</sup> DEET, *Submission*, p. S4075.

Table 22.1 (continued)  
The Jobs, Education and Training Program

Initial Comment in the Audit Report	Initial Responses by the Departments	Additional Departmental Comments
<p><b>The Registering of JET Participants</b></p> <p>Only DSS officers could register a person to JET. CES officers needed to be aware of the advantages offered by JET and refer potential participants to DSS. It may be inconvenient for a sole parent pensioner to visit DSS, e.g. in remote areas. The Evaluation Report in 1992 had recommended the JET Steering Committee examine such a course of action.<sup>15</sup></p>	<p>Both departments indicated they were examining the operational issues and would be reporting to the Steering Committee on how this matter should be implemented.<sup>16</sup></p>	<p>Both departments advised that the DSS/DEET interface allowed JET eligible clients presenting themselves to the CES to be flagged on DEET's Jobsystem as potential JET clients. The monthly update passed this information to DSS. DEET advised that, if clients required childcare, DEET officers referred them to their DSS counterparts immediately.<sup>17</sup></p>

<sup>15</sup> Auditor-General, *Audit Report No. 25, 1992-93*, pp. 32-3.

<sup>16</sup> DEET, *Submission*, p. S3137; DSS, *Submission*, p. S3170.

<sup>17</sup> DEET, *Submission*, p. S4075; DSS, *Submission*, p. S4069.

Table 22.1 (continued)  
The Jobs, Education and Training Program

Initial Comment in the Audit Report	Initial Responses by the Departments	Additional Departmental Comments
<p><b>Independent Verification of Applications for Child Care Places</b></p> <p>After the initial application for funding of child care to JET participants by JET Child Care Resource Workers, subsequent applications had to be made by the child care providers themselves. There was no independent check that temporary child care places were needed.<sup>18</sup></p>	<p>DHSH advised that compliance testing will be expanded to include coverage of JET. DHSH workers had no contact with the client and needed to be informed by DSS whether a client was still eligible and still participating in the program. DHSH was continuing an consultation with DSS to determine an appropriate degree of eligibility testing and the method by which this might be implemented.<sup>19</sup></p>	<p>DHSH advised that DSS had agreed to provide it with monthly listing of 'ceased' JET clients and had amended its Privacy Instrument accordingly. The completion of the task had been scheduled for June 1994 but this target date had not been met and now had been extended to until at least June 1995.<sup>20</sup></p> <p>Both departments, DHSH advised, 'agree that the matter must be resolved as soon as possible and will continue to seek progress reports until it is finalised.'<sup>20</sup></p>

<sup>18</sup> Auditor-General, *Audit Report No. 25, 1992-93*, p. 37.

<sup>19</sup> Department of Human Services and Health, *Submission*, pp. S2954-2955.

<sup>20</sup> DHSH, *Submission*, p. S4064.

Table 22.1 (continued)  
The Jobs, Education and Training Program

Initial Comment in the Audit Report	Initial Responses by the Departments	Additional Departmental Comments
<p><b>A Review of the DEET Child Care Assistance (CCA) Scheme</b></p> <p>The CCA Scheme was implemented by DEET before JET. Sole parent pensioners may receive a lesser level of benefit under CAA than they are entitled to under JET.<sup>21</sup></p>	<p>DEET advised that the CCA Scheme was under review.<sup>22</sup></p> <p>DHSH noted that there were sole parents who were not receiving a qualifying pension or benefit under JET, but who would need assistance with child care.<sup>23</sup></p>	<p>DEET advised that the review indicated a need for improvement in monitoring and reporting and procedures had been agreed to between DEET and DHSH for 1994-95.</p> <p>While JET clients have better child care arrangements than under the CCA scheme, there was still a need for the scheme to enable access to child care for all Labour Market Program participants.<sup>24</sup></p>

<sup>21</sup> Auditor-General, *Audit Report No. 25, 1992-93*, pp. 41-2.

<sup>22</sup> DEET, *Submission*, p. S3138.

<sup>23</sup> DHSH, *Submission*, p. S2955.

<sup>24</sup> DEET, *Submission*, pp. S4075-6.

Table 22.1 (continued)  
The Jobs, Education and Training Program

Initial Comment in the Audit Report	Initial Responses by the Departments	Additional Departmental Comments
<p><b>The Need for Operating Targets</b></p> <p>In the process of referring JET interviewees to CES to take up labour market programs, a number of people drop out at each stage (that is: referral to CES, reporting to CES, and registration by CES). Setting targets for intermediate stages would ensure there wasn't a shortfall. Quarterly targets would promote a more even flow through the referral process.<sup>25</sup></p>	<p>DEET commented that the number of DSS referrals needed to meet the labour market placement target had been established at the beginning of the program. Current monitoring systems were adequate. Quarterly target setting and revising would not be an efficient practice, and endorsement of targets was not a role for the JET Steering Committee.<sup>26</sup></p> <p>DSS responded that the issue of lapsing of clients had been considered in the context of that, when implemented scheduled for 1994, and the systems linkage scheduled for 1994, and that, when implemented DSS officers would receive more regular and timely advice and would be able to follow up lapsed client circumstances with CES officers where appropriate.<sup>27</sup></p>	<p>Both departments advised that an annual target of 24 000 placements had been agreed to for Jet participants under the <i>Working Nation</i> initiatives.</p> <p>DEET added that the target is divided among the 19 DEET Areas with monthly monitoring of progress. Program performance was reported quarterly to the JET Steering Committee and monthly reports are provided to JET Directors.<sup>28</sup></p>

<sup>25</sup> Auditor-General, *Audit Report No. 25, 1992-93*, pp. 45-7.

<sup>26</sup> DEET, *Submission*, p. S3140.

<sup>27</sup> DSS, *Submission*, p. S3172.

<sup>28</sup> DEET, *Submission*, p. S4076; DSS, *Submission*, p. S4070.

Table 22.1 (continued)  
The Jobs, Education and Training Program

Initial Comment in the Audit Report	Initial Responses by the Departments	Additional Departmental Comments
<p><b>Removing JET Participants from the CES Register</b></p> <p>JET participants could be removed from the CES registers if they did not respond to correspondence, but DSS might still regard them as participants. DSS had advised ANAO that a <i>National Review of DEET Administrative Arrangements for the JET Program</i> had identified DEET's lapsing of non-responding clients as a possible factor affecting DEET's ability to meet operational targets.</p> <p>There needed to be a better cooperation and understanding between DSS and DEET. The matter had been an ongoing source of contention between the departments.<sup>29</sup></p>	<p>DEET stated that the <i>National Review</i> had no formal status within DEET and was considerably out of date. The most common reason for JET participant lapsing was the positive outcome of employment placement.<sup>30</sup></p> <p>DEET submitted that ANAO had not established that the lapsing of JET participants from the CES register was a significant problem and that, since eligibility for most labour market programs was immediate for JET clients, they were not disadvantaged by lapsing. Regular updating of client records in DEET aided operating efficiency.<sup>31</sup></p>	<p>DEET advised that before the implementation of the JET DEET/DSS systems interface in April 1994 there had been considerable liaison between DEET and DSS officers which had resulted in more accurate recording of JET client details.<sup>32</sup> The level of cooperation between the two departments had improved still further following the implementation of the systems interface.</p>

<sup>29</sup> Auditor-General, *Audit Report No. 25, 1992-93*, pp. 48-9, and xviii.

<sup>30</sup> Auditor-General, *Audit Report No. 25, 1992-93*, p. 49.

<sup>31</sup> DEET, *Submission*, p. S3141.

<sup>32</sup> DEET, *Submission*, p. S4076.

Table 22.1 (continued)  
The Jobs, Education and Training Program

Initial Comment in the Audit Report	Initial Responses by the Departments	Additional Departmental Comments
<p><b>Follow up of Sole Parent Pensioners</b></p> <p>Referrals to educational institutions by DSS officers are much higher than the consequent placements. There was no consistent follow-up by DSS officers. ANAO had estimated there was scope for adjustment of existing priorities.</p> <p>There was a need for program staff to learn more about why sole parent pensioners do not always follow through with intended courses of action - such feedback would improve effectiveness.<sup>33</sup></p>	<p>DSS stated it was inaccurate to assume the gap between referral and placement equated to non-participation (another reason could result from competitive enrolment for courses). The most effective follow-up was by telephone which was lengthy. Redeployment of resources to achieve a high response rate would result in reduced program throughput and outcomes. There was limited opportunity to adjust existing priorities.<sup>34</sup></p> <p>The new systems linkage would enable a broader range of follow-up strategies to be put in place, including JET clients who do not take up an education place.<sup>35</sup></p>	<p>DSS advised that follow-up information was obtained via:</p> <ul style="list-style-type: none"> <li>• the DEET/DSS interface which identifies clients which had not progressed beyond the first interview; and</li> <li>• the monthly listings of clients in receipt of an Employment Entry Payment or Education Entry Payment.</li> </ul> <p>Further follow-up was at the discretion of DSS officers who had to balance program monitoring obligations and accountability with the need to respect the voluntary nature of the program.<sup>36</sup></p>

<sup>33</sup> Auditor-General, *Audit Report No. 25, 1992-93*, pp. 50 and xviii.

<sup>34</sup> Auditor-General, *Audit Report No. 25, 1992-93*, pp. xxviii and 50.

<sup>35</sup> DSS, *Submission*, p. S3173.

<sup>36</sup> DSS, *Submission*, p. S4070.

Table 22.1 (continued)  
The Jobs, Education and Training Program

Initial Comment in the Audit Report	Initial Responses by the Departments	Additional Departmental Comments
<p><b>The Measurement of Employment Outcomes</b></p> <p>Although DSS officers obtained information regarding employment outcomes, there was no consistency of approach, or in the frequency of entering information into the JET On-line system.</p> <p>The following also needed to be addressed:</p> <ul style="list-style-type: none"> <li>• defining employment outcome;</li> <li>• whether all employment outcomes should be attributed to the program; and</li> <li>• how long should a sole parent pensioner be regarded as a JET participant.<sup>37</sup></li> </ul>	<p>DEET responded that data gathering processes had been refined through the DEET Management Reports System. Both DEET and DSS referred to the linkage of their information systems as providing improved coordination. DSS added that specific survey activity would be considered in the 1995 JET Evaluation.<sup>38</sup></p>	<p>Both departments advised that they considered that the features of the DEET/DSS systems link and the provision monthly listings to DSS officers had addressed audit concerns.<sup>39</sup></p>

<sup>37</sup> Auditor-General, *Audit Report No. 25, 1992-93*, pp. 52-3.

<sup>38</sup> DEET, *Submission*, p. S3142; DSS, *Submission*, p. S3173.

<sup>39</sup> DEET, *Submission*, p. S4077; DSS, *Submission*, p. S4071.

Table 22.1 (continued)  
The Jobs, Education and Training Program

Initial Comment in the Audit Report	Initial Responses by the Departments	Additional Departmental Comments
<p><b>Access of JET Participants to Jobstart</b></p> <p>The 1992 Program Evaluation Report showed that the highest percentage of employment places for JET participants in 1990-91 resulted from participation in Jobstart. The Report also found that JET participants do not take part in Jobstart to the extent of other sole parents, or other groups, and that JET participants are more likely to proceed to further education after completing labour market programs.</p> <p>ANAO noted that the Report did not address whether JET participants should have more access to Jobstart.<sup>40</sup></p>	<p>DSS advised that sole parents tend to have relatively low levels of education. It was likely therefore that JET participants would seek to improve their educational qualifications after an initial period of training. DSS was unaware of any limitation of access of JET participants to Jobstart.<sup>41</sup></p> <p>DEET stated that all JET clients are eligible for Jobstart on registration with CES and their participation is monitored. The budget limited nature of labour market programs and JET funding is such that increasing Jobstart places for JET clients would necessitate a reduction in their access to other labour market programs which may be more appropriate.<sup>42</sup></p>	<p>DEET advised that the earlier trend for the highest percentage of employment placements from JET participants in Jobstart had continued.</p> <p>The <i>Working Nation</i> initiatives had provided sufficient places to meet the needs of all groups including JET clients, and that the DEET Area Manager could distribute Labour Market Program places to meet the demands of any specific client group. The case management arrangements include the creation of Activity Agreements with clients based on their particular needs.<sup>43</sup></p>

40 Auditor-General, *Audit Report No. 25, 1992-93*, pp. 54-5.

41 Auditor-General, *Audit Report No. 25, 1992-93*, p. xxix.

42 DEET, *Submission*, p. S3143.

43 DEET, *Submission*, p. S4077.

Table 22.1 (continued)  
The Jobs, Education and Training Program

Initial Comment in the Audit Report	Initial Responses by the Departments	Additional Departmental Comments
<p><b>The Assumptions for the Estimation of Program Savings</b></p> <p>ANAO examined actual program costs and savings against Budget expectations and questioned the methodology for calculating savings. ANAO concluded that savings outcomes would have to be viewed as indicative only.</p> <p>ANAO observed that program savings were predicated on sole parent pensioners mostly going into full-time employment but a trend to part-time work had reduced expected program savings. The underlying assumptions for the estimation of program savings had not been revised since their creation in 1988.<sup>44</sup></p>	<p>In the audit report DSS did not agree that there were conceptual difficulties with its calculations, or that the assumptions should be reviewed.<sup>45</sup></p> <p>The submission from DSS, however, advised that the issues raised in the audit report had been costed in relation to JET savings for 1991-92 and it had concluded that the impact of the recommendations was very marginal. A similar exercise was to be carried out as part of the current calculation for the 1992-93 JET program.<sup>46</sup></p>	<p>DSS advised that in 1991-92 the savings methodology had been made consistent with that used for other employment access programs and broadly agreed with by the Department of Finance. The assumptions behind the calculations had been tested each year.</p> <p>In 1992-93 the actual savings of \$36.4 million for the JET program had exceeded estimates by \$1.2 million and for 1993-94 savings had been \$54 million exceeding estimates by \$16.4 million.<sup>47</sup></p>

44 Auditor-General, *Audit Report No. 25, 1992-93*, pp. 55-9.

45 Auditor-General, *Audit Report No. 25, 1992-93*, p. 58.

46 DSS, *Submission*, pp. S3173-4.

47 DSS, *Submission*, p. S4072.

Table 22.1 (continued)  
The Jobs, Education and Training Program

Initial Comment in the Audit Report	Initial Responses by the Departments	Additional Departmental Comments
<p><b>The Monitoring of Employment Outcomes</b></p> <p>There was a target level of savings to be achieved each year and this should be translated into an employment outcomes target which should be monitored throughout the year. Reporting on program performance would be on the results expected v results achieved with reasons for divergence. Monitoring arrangements for employment outcomes and savings targets needed tightening to achieve this.<sup>48</sup></p>	<p>Both departments stated that appropriate monitoring was in place and that an employment target was not feasible given that outcomes are largely dependent on external factors such as the state of the labour market.<sup>49</sup></p>	<p>DSS advised that the employment outcomes for JET clients had continued to improve as they had progressed through education and training programs. The employment results in 1993-94 were double those of 1991-92.</p> <p>The setting of exact yearly employment targets would be very difficult because of the different time lines of client's individual action plans. There were also indications in the available statistics that the mix between full-time and part-time employment taken up by JET clients varies over the years. A reduced pension is provided to those in part-time employment.</p> <p>The 1996 evaluation of the JET program would include further work analysing the nature of employment outcomes and include the possibility of setting employment targets.<sup>50</sup></p>

48 Auditor-General, *Audit Report No. 25, 1992-93*, p. xxx.

49 DEET, *Submission*, p. S3144; DSS, *Submission*, p. S3174.

50 DSS, *Submission*, p. S4072.

**Further Comment**

22.8 Overall the Committee considers that the responses from each of the administering departments have adequately addressed the Auditor-General's concerns. However, there is one issue on which the Committee would like to comment further: the independent verification of applications for child care places.

*Verification of Application for Child Care Places*

22.9 Child care is available to JET participants and most of those using formal child care take up permanent places under DSHS Children's Services Program. If a permanent place is unavailable, a temporary 'add-on' place can be funded under the JET program. Although the funds are appropriated to DSS, they are administered by DSHS.

22.10 The Auditor-General noted that JET participants have to pay fees, including any gap fees, to approved childcare providers but that a level of fee relief is provided by the JET program. Payments to service providers are made for 13 weeks in advance and, while the original application was made by the JET Child Care Resource Worker, second and subsequent applications were made by the service provider. It was found that there was no independent verification that a child care place was required when a follow-on applications was made by the service provider.<sup>51</sup>

22.11 The Auditor-General recommended that DSHS introduce procedures to ensure the independent verification of applications from service providers.<sup>52</sup>

51 Auditor-General, *Audit Report No. 25, 1992-93*, pp. 35-7.

52 Auditor-General, *Audit Report No. 25, 1992-93*, Recommendation 12, p. 37.

22.12 As noted in the Table above, at page 152, there has been a delay in addressing this recommendation and both DSHS and DSS have acknowledged that 'the matter must be resolved as soon as possible.'<sup>53</sup>

22.13 A supplementary submission from DSHS indicated that about \$5.5 million was available in 1994-95 for childcare assistance and the department advised that its statistics indicated that only 13.5 percent of payments in 1993-94 were for second and subsequent payments. Moreover, provision of further funding was not automatic as the child care provider had to provide an acquittal form stating that the child was still in care and that a permanent place was still not available.

22.14 The delay in resolving the matter appears to be caused primarily by the low priority attached to the task by the Systems Support Application Branch in DSS. The Committee acknowledges that the amount of money at risk is a comparatively small component of the total childcare assistance budget (approximately \$740 000 per annum).<sup>54</sup> Nevertheless, a remedy has been apparent for several years and the Committee considers that the matter should be resolved expeditiously.

22.15 Recommendation 6

*The Department of Social Security should finalise the implementation of procedures to verify the second and subsequent requests for payment from service providers for temporary add-on child care places for JET participants.*

---

53 DSHS, *Submission*, p. S4064.

54 DSHS, *Submission*, pp. 4080-1.

PART FOUR -

REVIEW OF AUDIT REPORT  
NO. 22, 1993-93 ON THE  
NEW SUBMARINE PROJECT

NEW SUBMARINE PROJECT -  
OVERVIEW OF THE COMMITTEE'S  
CONSIDERATION

23.1 The construction and purchase of six new submarines for the Royal Australian Navy represents a significant investment by the Government in Australia's defence capability.

23.2 The project will cost the Government nearly \$5 000 million and for this expenditure the Government hopes to acquire six 'state of the art' submarines, and also to achieve:

*the capability in Australian industry to support them for 30 years; a major transfer of technology to Australian industry; local involvement in design and construction; a major saving in expenditure overseas and significant export potential as the only successful submarine builder in the region.<sup>1</sup>*

23.3 Key features of the procurement process to date have been the decision to construct all six submarines in Australia, the conduct of extensive and competitive tendering and project definition phases, the granting of a contract to the Australian Submarine Corporation, the establishment of construction facilities in South Australia, and the commencement of sea-trials for Submarine 01 in October 1994.

23.4 In conducting its review of *Audit Report No. 22, 1992-93* the Committee adopted a forward looking approach. We have not sought to review the nature of the contract between the Commonwealth and the Australian Submarine Corporation, nor to investigate in detail any specific transactions that have taken place between the Project Office and the

---

<sup>1</sup> Department of Defence comments contained in Auditor-General, *Audit Report No. 22, 1992-93, Efficiency Audit, Department of Defence, New Submarine Project*, p. ix.



contractor. The Committee accepts that the contract was finalised after a competitive process, and that, in the management of major capital projects such as this, some individual transactions will favour the contractor and others will favour the client.

23.5 The Committee's concern has been to assess those risks which the audit report identified as being inadequately managed, and to consider whether steps can be taken to improve the management of these risks for the remainder of the submarine project and for future defence projects.

23.6 In taking this approach the Committee acknowledges that the Department of Defence has managed many of the risks successfully. For example, evidence to date indicates that the Project Office has taken all reasonable steps to ensure that the submarine construction and performance standards will be satisfied. Arguably these are the most significant risks facing the project - if these standards are not satisfied, the submarines may make a less than optimal contribution to Australia's defence capabilities.

23.7 However, there are areas where project management improvements can be made. Some of the audit findings in relation to financial and scheduling risks, for example, warrant close attention by the Department.

23.8 On current predictions the first submarine is not scheduled to enter operational service until about 1997, the last will not be commissioned until late 1999. There remains much work to be done on the project and accordingly, there are substantial risks yet to be confronted (the delays in the commencement of sea trials for the first submarine are evidence of this). The challenge for the Department of Defence will be, as it has been throughout the project, to ensure that the Commonwealth's interests are protected and, where appropriate, advanced. As the Auditor-General highlighted, these interests include financial as well as technical considerations.

23.9 Given the magnitude of the new submarine project, and the fact that much work remains to be done, it would be appropriate for the Australian National Audit Office to revisit the project at a later date. It is likely that any follow-up audit conducted by ANAO would be of interest to the Committee.

## NEW SUBMARINE PROJECT - BACKGROUND AND THE AUDIT REPORT

### Background

24.1 This part of the report reviews *Audit Report No. 22, 1992-93, Efficiency Audit, Department of Defence, New Submarine Project*, which was tabled in Parliament on 17 December 1992. The report contains the results of the Auditor-General's assessment of the performance of the Department of Defence in managing the risks to the Commonwealth involved in the procurement of six new 'Collins Class' submarines for the Royal Australian Navy.

24.2 The Committee decided to pay particular attention to this audit report because of the size of the submarine project (which will cost the Commonwealth nearly \$5 billion and involves construction over a 12 year period); because of the concerns expressed in audit report about the project; and because of comments made by the Minister for Defence in response to the audit report.<sup>1</sup>

24.3 In conducting its review the Committee sought and received written submissions from Defence, the Australian Submarine Corporation Pty Ltd (ASC) and ANAO.<sup>2</sup>

24.4 In addition, the Committee took evidence at public hearings from Defence, ASC and ANAO.<sup>3</sup> The Committee inspected ASC's construction facilities at Osborne in South Australia, and, at various times, received private briefings from key witnesses. The Committee also took evidence in-camera on a number of occasions.

1 Senator the Hon Robert Ray, *Senate Hansard*, 17 December 92, pp. 5411, 5419.

2 A list of the submissions and exhibits received is at Appendices II and III.

3 A list of the witnesses who gave evidence at public hearings is at Appendix IV.

## The New Submarine Project

### Introduction

24.5 In May 1983 the then Minister for Defence, the Hon Gordon Scholes, MP announced that the Government had decided to replace the current fleet of six Oberon class submarines which had been purchased from the United Kingdom's Royal Navy in the 1960s, and 1970s.

24.6 Following a definition study lasting two years it was announced that the Swedish Type 471 design, submitted by the Australian Submarine Corporation (ASC) had been selected. The six submarines which were to be built would contain a combat system submitted by Rockwell Ship System Australia Pty Ltd.<sup>4</sup>

24.7 Under the contract ASC was to deliver the first submarine in January 1995 with delivery of the final submarine in October 1999.<sup>5</sup>

### The Australian Submarine Corporation

24.8 From the time the contract was signed, in June 1987, the shareholding of new submarine project subcontractor, ASC, has been as follows:

- Kockums Pacific Pty Ltd: 49% of company shares;
- AIDC Ltd: 48.45% of company shares; and
- RCI Ltd: 2.55% of company shares.<sup>6</sup>

24.9 As well as supplying the six submarines and associated requirements, services and documentation, the contractor is also responsible for:

4 Minister for Defence, *News Release No. N067/87*, 18 May 1987.

5 Department of Defence, *Submission*, p. S3277.

6 Kockums Pacific is wholly owned by the Swedish company Kockums, a major player in the Swedish defence industry; AIDC Ltd is over 80% owned by the Commonwealth Government's Australian Industry Development Corporation; and RCI Ltd is a wholly owned subsidiary of James Hardie Industries.

- the implementation and management of the Australian Industry Involvement Program; and
- the implementation and maintenance of the Contract Monitoring and Control System.<sup>7</sup>

#### *Cost of the Project and Payments Schedule*

24.10 The price basis described in the contract involved:

- variable prices (which are subject to variation, but only in accordance with formula contained in the contract);
- provisional prices (which are subject to adjustment when the scope of particular work packages had been determined); and
- budgetary prices (for the packages of Integrated Logistics Support work).<sup>8</sup>

24.11 The contract provides that when the scope of provisional or budgetary priced packages has been determined, the prices are converted to variable (or firm contract) prices by means of a contract amendment.

24.12 At the time the contract was signed in June 1987, the contract price was \$3 369 million: comprising \$2 678 million firmly priced in the contract (that is, variable price); \$152 million provisionally priced; and \$530 million budgetary price.<sup>9</sup>

24.13 The most recent information available to the Committee shows that, in December 1993 prices, the estimated cost of the project was \$5 009 million.<sup>10</sup> This comprised \$4 295 million in expenditure on the prime contract, with ASC, and

<sup>7</sup> Defence, *Submission*, p. S3272.

<sup>8</sup> Integrated Logistic Support products include: management information systems; operating and repair documentation; maintenance systems; spares inventories; training courses; simulations and other infrastructure (see Defence, *Submission*, p. S3276).

<sup>9</sup> Defence, *Submission*, p. S3273.

<sup>10</sup> Defence, *Submission*, p. S4090.

\$714 million in expenditure on items provided by the Commonwealth, for associated infrastructure expenditure and contingencies.

24.14 The estimated project cost is reviewed annually by Ministers. According to Defence, the only variations have been for inflation and exchange rate variations.<sup>11</sup>

24.15 The contract required the Commonwealth to make an initial advance payment of \$456 million, to be acquitted in the fourth to seventh years of the contract, and an advance progress payment of \$64 million, to be acquitted against work performed in first three months of the contract.<sup>12</sup>

24.16 The contract provides for subsequent payments to be made on a monthly basis, based on certified progress in the proceeding month.

24.17 The progress payments are secured by the progressive vesting to the Commonwealth of the legal title to the components and materials acquired or produced by the contractor.

#### *Australian Industry Involvement*

24.18 The contract requires ASC to ensure that 70% of the work on the submarine platforms, and 45% of the work on the combat systems is performed by Australian industry.<sup>13</sup> Australian industry is defined as including 'an Australian company or companies, partnerships and other registered business incorporated under the laws of any State or Territory of Australia.'<sup>14</sup>

24.19 In addition ASC has undertaken to develop or enhance internationally competitive activities in Australia.<sup>15</sup>

<sup>11</sup> Defence, *Submission*, p. S4090.

<sup>12</sup> Defence, *Submission*, p. S3273.

<sup>13</sup> Auditor-General, *Audit Report No. 22, 1992-93*, AGPS, Canberra, 1992, p. 64.

<sup>14</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. 57.

<sup>15</sup> Defence, *Submission*, p. S3274.

*Contract Monitoring and Control System*

24.20 The Contract Monitoring and Control System (CMACS) is the central data base for the submarine project. It comprises:

- the Contractor's plan for undertaking the work;
- the agreed basis for refining the plan;
- the form in which progress is reported; and
- the form in which the Contractor makes claims for payment.<sup>16</sup>

24.21 It is through CMACS that the Commonwealth obtains information to enable it to measure expenditure to date on individual work packages, to assess progress to date, and to estimate future expenditure.

*Contract Performance Guarantee and Liquidated Damages*

24.22 The contract requires ASC to provide a bank guarantee to the value of \$56 million. These funds can be drawn on by the Commonwealth in the event that ASC defaults on any aspects of the contract.

24.23 The ASC is also liable to pay specified amounts in liquidated damages for deficiencies in the performance of the submarines and delays in delivery. This amounts to \$2.5 million per submarine after 20 weeks delay.

*Contract Amendments Procedures*

24.24 The contract contains defined procedures for amending the contract to:

- incorporate additional scope of work including changes to the specification (engineering changes) required by the Commonwealth;

<sup>16</sup> Defence, *Submission*, p. S3274.

- vary the price basis of packages of work from either provisional or budgetary to variable;
- incorporate changes to the start and finish dates of packages of work; and
- to amend schedules of local content or Defence offsets.

24.25 When seeking to make such amendments, the contract requires ASC to provide access to such records as are necessary for the Commonwealth to be satisfied with the price proposed for any additional work.<sup>17</sup>

**The Project Office**

24.26 The Commonwealth's interests in the new submarine project are being represented by Defence, specifically by the Submarine Project Office within the department.

24.27 Defence's terms of reference for the Project Office describes the role of the Project director to:

*... acquire, including the oversight and management of the detailed design, the production and introduction into service, with further provision for through life support, six Kockums Type 471 (Collins Class) submarines within the approved budget of \$3 892 million at April 1986 prices and exchange rates and to the contracted timescale.<sup>18</sup>*

**The Audit Report***The Audit Approach*

24.28 The ANAO began its audit of the new submarine project in October 1991. The approach taken by the audit team was to identify and analyse the possible risks to the Commonwealth involved in the new submarine project.

<sup>17</sup> Defence, *Submission*, p. S3276.

<sup>18</sup> Defence, *Exhibit No. 11*, p.2.

24.29 The ANAO identified risks in six categories:

- Technical:
  - risk of inadequate submarine performance;
  - risk of poor construction quality;
- Financial risk:
  - loss of Commonwealth funds;
  - Commonwealth funds placed at risk for no benefit;
- Cost:
  - risk of paying too much;
  - risk of failure to minimise funding costs;
- Schedule:
  - risk of delayed delivery and/or acceptance;
- Contract amendments:
  - risk of excessive cost for contract amendments;
  - risk of reduced quality or performance from contract amendments;
  - risk of delay induced by contract amendments; and
- Australian Industry Involvement (AII):
  - risk that the objectives of the AII program would not be achieved.

24.30 Having identified these risks, ANAO then evaluated the contractual provisions and the procedures employed by the Project Office in order to assess whether the risks were being managed effectively.<sup>19</sup>

#### *The Findings of the Audit*

24.31 The ANAO found that the technical risks facing the submarine project were being managed appropriately. Specifically, the audit report concluded that the contract included the necessary performance standards and that the Project Office was testing performance against these standards. The Office was also taking reasonable steps to ensure that the submarines would meet quality requirements.<sup>20</sup>

<sup>19</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. xi.

<sup>20</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. vii.

24.32 However, ANAO did express concern in relation to the way in which some of the financial, cost and scheduling risks were being managed. The main findings in relation to these risks were that:

- *the contract does not adequately protect the Commonwealth against loss;*
- *the Commonwealth has advanced funds (initially \$120 million) to the Contractor without adequate demonstration of a need for those funds;*
- *in its dealings with the Contractor, the Project Office has frequently taken a position which would be more appropriate if it were dealing with a fellow Government entity rather than a commercial organisation with a primary responsibility to its shareholders;*
- *the Project Office has not given sufficient weight to the importance of the timing of payments;*
- *the Project Office's assertion that the project is on schedule is not supported by data that can be obtained from the Contract Monitoring and Control System and ANAO believes the slippage which is evident within the schedule will be difficult to recover prior to the launch and commissioning dates for the first submarine;*
- *contract amendment procedures may have resulted in excessive prices being charged by the Contractor.<sup>21</sup>*

24.33 The Auditor-General made 30 recommendations aimed primarily at overcoming these concerns in future contracts for comparable items of Defence expenditure.

24.34 Although Defence agreed or agreed in principle with about half of the audit recommendations, the audit report noted that 'Defence contests a number of the audit findings'.<sup>22</sup>

<sup>21</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. vii.

<sup>22</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. vii. In the early stages of the Committee's review it seemed that Defence accepted 12 of the 30 recommendations made by ANAO. During the course of the review Defence indicated that it had taken steps to address the substance of a further 12 recommendations leaving a balance of 6 audit recommendations with which Defence does not agree. A table describing the disputed recommendations, Defence objections and ANAO's further comments is at Appendix V.

24.35 The extent of the disagreement between Defence and the Auditor-General was highlighted in a statement to the Senate made by the Minister for Defence, Senator the Hon Robert Ray, on 17 December 1992, shortly after the tabling of the audit report. The Minister was critical of:

- various procedural matters relating to the conduct of the audit and the preparation of the audit report; and
- a number of the audit recommendations concerning contractual arrangements and financial management of the project.<sup>23</sup>

The criticisms of the audit process are considered below, while the contractual and financial matters are discussed in the following chapter.

#### Criticisms of the Audit Process

24.36 The criticisms of the audit process and the counter claims made by ANAO during the Committee's hearings are evidence of a relationship which deteriorated dramatically during the final stages of the audit.

24.37 In most cases the criticisms amount to disagreements in which the Committee does not have an interest. There are, however, some instances where the disagreements reveal issues of some significance. For example, it was said by Defence that ANAO should have consulted with ASC before the audit was finalised. In response, the Auditor-General explained to the Committee that the auditors had not approached ASC because they were auditing the performance of the Department in managing the contract, not the performance of the contractor. Furthermore, the Auditor-General said the auditors had been told by Defence's Project Director that it would be detrimental to the project if ASC had been approached.<sup>24</sup>

<sup>23</sup> Senator the Hon Robert Ray, *Senate Hansard*, 17 December 1992, pp. 5411-9.

<sup>24</sup> Auditor-General, *Transcript*, p. 83 (Canberra, 29 October 1993).

24.38 It is conceivable that had ANAO consulted with ASC during the course of the audit the audit team would have obtained useful information and comment, which may have resulted in changes to the final report.

24.39 It is impossible to assess accurately the impact that such changes may have had, but, on balance, the Committee believes that it is likely that the substance of ANAO's concerns would have remained.

24.40 Much of the confusion and many of the disagreements between Defence and ANAO could have been resolved if there was earlier and better communication between the auditors and the Project Office, and between senior management in both organisations.

24.41 The Committee notes that in a more recent audit of the ANZAC Ship Project, the prime contractor, Transfield Shipbuilding Pty Ltd, was given the opportunity by ANAO, and was allowed by Defence, to comment on the proposed report.<sup>25</sup>

24.42 This is a far more co-operative and constructive approach than was evident in the audit of the submarine project. It is to be hoped that this spirit of co-operation continues in future audits of Defence projects involving private sector contractors.

<sup>25</sup> Auditor-General, *Audit Report No. 11, Efficiency Audit, Department of Defence, ANZAC Ship Project Monitoring and Contracting*, AGPS, Canberra, 1993.

## NEW SUBMARINE PROJECT - CONSIDERATION OF THE MAJOR RISKS

### Introduction

25.1 The Committee's hearings focussed on the management by Defence of some of the major commercial risks facing the project. Specifically, these are:

- financial risks (such as the risk of loss of Commonwealth funds, and the risk that Commonwealth funds are placed at risk for no benefit);
- cost risks (such as the risk of paying too much for the submarines, and the risk of failure to minimise funding costs);
- schedule risks (the risk of delayed delivery of the submarines); and
- Australian industry involvement risks (the risk that local content objectives will not be achieved).

25.2 This chapter considers the audit findings, and the Defence responses, in relation to each of these risks. This chapter also comments on ANAO's suggestion that Defence should take a more commercial focus in its management of major procurement projects.

### Financial Risks - Loss of Funds and Funds Advanced Without Benefit to the Commonwealth

25.3 In assessing the Commonwealth's exposure to financial risk, ANAO judged that an effective risk management strategy would require:

- a payment profile which balanced the contractor's need for an adequate cash flow with the Commonwealth's desire to see payment linked to the achievement of major milestones and the adequate resolution of technical risks; and
- the existence of adequate, independently funded, performance guarantees.<sup>1</sup>

### Payment Profile

25.4 The ANAO reported that as at December 1992, over 60 per cent of the total contract price for the six submarines had already been paid to ASC.<sup>2</sup> During the Committee's hearings this information was updated by an ASC manager who advised that payments from the Commonwealth had risen to 76 per cent of total cost and were continuing at the rate of about 1¼ to 1½ per cent per month.<sup>3</sup>

25.5 The most recent advice available to the Committee is that, as at 31 December 1994, ASC had been paid 86 per cent of the contract price.<sup>4</sup>

25.6 This pattern of payments is not inconsistent with the requirements of the contract. Indeed the contract allowed for a significant level of advance, or start-up, funding as a means of providing working capital to ASC. In total, the Commonwealth advanced \$120 million to ASC in the early stages of the project.

25.7 The significant degree of up-front funding in the project has been explained by the Assistant Chief of Naval Staff, Rear Admiral Nicholas Hammond in the following terms:

<sup>1</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. 2.

<sup>2</sup> Auditor-General, *Audit Report No. 22, 1992-93*, pp. 2-3.

<sup>3</sup> Australian Submarine Corporation, *Transcript*, p. 104 (Canberra, 29 October 1993)

<sup>4</sup> Defence, *Submission*, p. S4090.

*This is a very advanced submarine. Some very significant new design has gone into it so, of course, all of the design costs that are part of the contract will be paid for long before the first submarine is delivered. Another very significant aspect of this submarine is the amount of software. It is the first fly by wire submarine in the world. It has probably the most advanced combat system. All of that is a very significant cost and, again, all of that cost will be expended before the first submarine is delivered. The cost of the software for the last five submarines is simply the cost of duplicating the tapes or diskettes on which it sits. So these two factors together, plus other peripheral things such as the cost of the facilities, make it inevitable that the large bulk of the price of the total contract will be paid early ... post the delivery of [the first submarine], which will be in 1995, the remaining work to be done is largely in the physical assembly and fitting out of the final submarines.<sup>5</sup>*

25.8 Mr Andrew Podger, the then Deputy Secretary, of Defence, explained further that had the contract not allowed for the payment of a high proportion of the total price by the time of acceptance of the first submarine, ASC would have suffered a negative cash flow in the initial stages and the total contract price may have been significantly greater.<sup>6</sup>

25.9 From the outset Defence's aim has been to establish, and maintain, a neutral or slightly positive cash flow for ASC. Evidence produced in the audit report shows that, contrary to this intention, ASC's cash flow has been buoyant, rather than slightly positive.

25.10 The ASC's cash flow has been such that it earned \$77 million in interest in the four years to 30 June 1991. The bulk of these earnings seem to have come from the investment of Commonwealth funds which were surplus to the immediate requirements of the project.<sup>7</sup> One example of ASC's healthy cash flow is that it appears to have the capacity to develop an

<sup>5</sup> Defence, *Transcript*, p. 102 (Canberra, 29 October 1993).

<sup>6</sup> Defence, *Transcript*, p. 103 (Canberra, 29 October 1993).

<sup>7</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p.9.

investment portfolio, including part ownership of a \$200 million 747 jumbo jet which is leased to QANTAS Australia.<sup>8</sup>

25.11 Further evidence of a healthy financial position is that ASC has paid \$88 million in dividends to its shareholders within the first four years of the contract. This represents a total return on investment of 880 per cent, or 220 per cent per annum.<sup>9</sup>

25.12 The ANAO considers that this return is significantly greater than a reasonable return on investment and repayment of principal and represents a more than adequate return for the whole project.<sup>10</sup>

25.13 Defence has acknowledged that the payment profile to date has resulted in a better cash flow for ASC than was originally envisaged.<sup>11</sup>

#### *Performance Guarantees*

25.14 The contract provides for a security guarantee to cover the difference between the amount paid to ASC by the Commonwealth and the value of the assets held by ASC which the Commonwealth had, or could obtain, legal title. The amount of the guarantee will reduce over time as more items are paid in full and the title of more assets, or components are vested in the Commonwealth.

25.15 Defence believes that the guarantees in place are adequate and that, in the unlikely event of default by ASC, sufficient assets will exist for the Commonwealth to arrange for the completion of work. The guarantees Defence has identified are:

<sup>8</sup> As reported in the ABC-TV program *The 7.30 Report* on 17 February 1994.

<sup>9</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. 2.

<sup>10</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. 2.

<sup>11</sup> Defence, *Transcript*, p. 101 (Canberra 29 October 1993).



- financial guarantees initially worth \$177 million;
- mortgages over the assets of ASC;
- progressive vesting of title in the supplies; and
- performance guarantees from the parents of the companies undertaking the major part of the work as sub-contractors to ASC.<sup>12</sup>

25.16 A senior Defence official, Mr William Drysdale, argued before the Committee that the network of performance guarantees in place between ASC and its sub-contractors spread the financial risk amongst a large number of companies, both in Australia and overseas.<sup>13</sup>

25.17 However, ANAO claimed in *Audit Report No. 22, 1992-93* that a combination of contract conditions and Project Office approval had reduced the value of the guarantees from the initial \$177 million to \$50 million, and considered that the reduced value was inadequate to protect fully the Commonwealth's interest.<sup>14</sup>

25.18 Moreover, the audit report notes that the contract provides:

*... no legal imperative for ASC shareholders to come to the rescue of the project if it should meet significant technical difficulties requiring unforeseen expenditure.*<sup>15</sup>

#### Conclusion

25.19 The Committee accepts that it is appropriate for the ASC, as a commercial enterprise, to:

- have a slightly positive cash flow;
- receive and recognise profit during the course of the project; and

<sup>12</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. 7.

<sup>13</sup> Defence, *Transcript*, p. 93 (Canberra, 29 October 1993).

<sup>14</sup> Auditor-General, *Audit Report No. 22, 1992-93*, pp. 8 and 4.

<sup>15</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. 2.

- make prudent and constructive use of any funds not required immediately.

25.20 However, it is clearly incumbent upon Defence to ensure that taxpayers' money is paid to contractors only when the contractor is able to demonstrate a need for the funds.

25.21 On the evidence before the Committee, it appears that Defence has not done enough, either at the contract negotiation stage or subsequently, to ensure that sufficient information is obtained from ASC to verify the need for advance and progress payments, and to determine the optimal timing for such payments.

25.22 Providing ASC with funding in excess of that needed to meet immediate project costs has benefited the company and its shareholders, without comparable benefit to the Commonwealth. Moreover, a considerable proportion of the contract price has been paid before some of the most significant project risks have been overcome.

25.23 Furthermore, there is sufficient reason to be concerned about the adequacy of the financial guarantees available to the Commonwealth.

25.24 The Committee has concluded that the Commonwealth appears to be bearing a disproportionate amount of the financial risk associated with the project. The Committee accepts ANAO's argument, that if something does go wrong in the project, any cost increases will, after a fairly short time, be borne by the Commonwealth.<sup>16</sup>

25.25 In *Audit Report No. 22, 1992-93* the Auditor-General made a number of recommendations aimed at improving the way in which the financial risks are managed for future projects. In summary, the recommendations are that:

<sup>16</sup> Auditor-General, *Transcript*, p. 92.

- where contracts are with single project corporations, the payment of dividends be restricted or prohibited until the major risk areas of the project have been overcome (recommendation 3);
- the Department require potential suppliers to provide all information necessary to undertake a comprehensive analysis of the benefits and risks associated with the payment of Commonwealth moneys (recommendation 4);
- the Department ensure that any funding provided to the contractor is recoverable if it eventuates that such funding is not necessary for the continued progress of the project (recommendation 5); and
- where contracts provide for up-front funding, such funding be provided on a trust basis, providing for the Commonwealth to be paid any interest earnings on the funds after subtraction of relevant administration costs by the contractor (recommendation 6).

25.26 The Committee supports the main thrust of all of the audit recommendations. They represent sound project management practices and a prudent approach to cash management.

25.27 However, Defence's initial reaction to these recommendations was equivocal.

25.28 The Committee is pleased to note that, in the time that has elapsed since the tabling of the audit report, Defence appears to have given more careful consideration to the recommendations.

25.29 In relation to recommendation 3, that the payment of dividends be restricted, Defence has recently advised that it is 'investigating the possibility of seeking provisions in the contracts with a single project corporation for limitation/conditions on the repatriation of dividends'.<sup>17</sup> Defence noted that such provisions were not seen as necessary

<sup>17</sup> Defence, *Submission*, pp. S3278-9.

for the recent Minehunter contract because the prime contractor was Australian Defence Industries, a Commonwealth government business enterprise.<sup>18</sup>

25.30 In relation to recommendation 4, that suppliers be required to provide the Department with adequate information prior to payments being made, the Committee was advised that an 'interim guidance' had been issued by Defence's CEP Division formally requiring that a comprehensive analysis of the benefits and risks associated with payments to potential suppliers be undertaken. Guidance with respect to payments to contractors has also been included in Defence manuals.<sup>19</sup>

25.31 An example of the type of contract provision envisaged by the audit recommendation can be found in the contract for the Minehunter project - which provides for all contract changes to include a full cost breakdown and certification that costs are reasonable and that the contract permitted access to the contractor records to enable Defence to investigate the reasonableness of proposed costs.<sup>20</sup>

25.32 In relation to recommendation 5, that funding be recoverable if it subsequently proves to have been unnecessary, Defence informed the Committee that it continued to oppose the recommendation because to include 'claw-back' provisions in fixed price contracts would introduce a cost-reimbursement element, thus undermining the fixed-priced nature of such contracts.<sup>21</sup>

25.33 In relation to recommendation 6, that up-front funding be provided on a trust basis, Defence advised that it would consider making advanced payments through a trust fund only in exceptional circumstances. Where contractors

<sup>18</sup> Defence, *Submission*, pp. S4093-94.

<sup>19</sup> Defence, *Submission*, p. S4093.

<sup>20</sup> Defence, *Submission*, p. S4092.

<sup>21</sup> Defence, *Submission* pp. S4093-94.

obviously fail to use advance payments in accordance with the original justification in the tender process, Defence would seek recovery of payments under the terms and conditions of the contract.<sup>22</sup>

25.34 In a supplementary submission addressing the question of recovering advance payments which subsequently proved to be unnecessary. Defence advised:

- that the submarine contract does not contain any provisions relating to the refunding of advance payments which were not used in accordance with the original justification; but
- that the contract for the Minehunter project, while not specifically stating that recovery action can be taken, does express a right to take recovery action in general terms. Defence explained further that 'actions pursuant to any recovery may require explanation in arbitration if the Contractor objects to the action.'<sup>23</sup>

25.35 On the whole, Defence appears to be moving to address the audit concerns in a constructive manner. In particular, it seems that action has been taken to ensure that suppliers provide the type of information needed to adequately assess the benefits and risks associated with the payment of Commonwealth money (recommendation 4).

25.36 Contract provisions directed at:

- limiting the repatriation of dividends;
- carefully controlling the assessment and timing of any advance payments; and
- recovering unnecessary or excessive advanced payments;

are important if the Commonwealth's exposure to financial risk is to be managed appropriately.

<sup>22</sup> Defence, *Submission*, pp. S4093-94.

<sup>23</sup> Defence, *Submission*, p. 4097.

25.37 As the principal financial backer of the submarine project, and of other major defence projects, the Committee believes that the Commonwealth is well placed to insist on contract conditions directed at these aims.

#### 25.38 Recommendation 7

*In future projects of comparable size and nature, the Department of Defence should ensure that contracts contain provisions which:*

- (a) *limit or prohibit the repatriation of dividends until the major project risks have been overcome;*
- (b) *require careful assessments to be made of the quantum and timing of advance payments; and*
- (c) *allow the Commonwealth to recover advance payments which have not been used in accordance with the contract.'*<sup>24</sup>

#### Cost Risk - Paying Too Much

25.39 The ANAO endeavoured to assess whether the Commonwealth was paying too much for the submarines by considering:

- Defence's practice of including a profit mark-up in negotiated amendments to the contract;
- the operation of the contingency fund of \$260 million, which is intended to cover ASC for underestimation errors in prices quoted for individual work packages;
- whether the contract contains sufficient incentive for ASC to obtain best price for the Commonwealth or to pass on to the Commonwealth any savings on original quoted prices; and

<sup>24</sup> Auditor-General, *Audit Report No. 22, 1992-93*, pp. 13-8.

- whether contract amendments have been agreed to which do not increase the scope of the work, but merely provide extra payment for work required by the contract.

25.40 In summary, ANAO concluded that the Commonwealth has paid more for the work done to date than would have been necessary had Defence taken more account of the commercial realities of ASC's position.<sup>25</sup> The audit report contained a number of recommendations aimed at minimising the risk of overpayment and ensuring that Defence, when negotiating future contracts amendments, consider rigorously the expected costs and benefits of any proposed new work. Defence accepted all of these recommendations.

25.41 One matter of particular interest to the Committee is the issue of incentive contracting. In its 1986 report on Defence project management (*Report 234, Defence Project Management*), the Committee recommended that 'increasing use be made of incentive pricing in Defence contracts for both cost reimbursement and fixed-price contracts.'

25.42 The Committee is disappointed to note that the contract for the submarine project does not contain any incentive pricing provisions. This means that there is no incentive for ASC to seek to achieve the minimum price possible for the Commonwealth, or to pass on any savings it may make on the initial prices quoted for individual work packages.

25.43 The ANAO concluded that if there is any incentive built into the submarine contract it is for the contractor to:

*... maximise the difference between what the Commonwealth pays it for a package and what it must pay sub-contractors and to also maximise the time between when it receives money for the Commonwealth and when it pays it out to sub-contractors.*<sup>26</sup>

25 Auditor-General, *Audit Report No. 22, 1992-93*, p. xviii.

26 Auditor-General, *Audit Report No. 22, 1992-93*, p. 14.

25.44 While such action is perfectly understandable from ASC's point of view, it is clearly not in the best interests of the Commonwealth.

25.45 Recommendation 8

*The Department of Defence should, where appropriate, apply incentive pricing principles to:*

- future amendments to the contract for the submarine project; and*
- future contracts for procurement projects, particularly projects involving payments to a prime contractor.*

25.46 Recent advice to the Committee indicates Defence is beginning to address the issue of providing incentives. Defence advised that there were:

*... no built in incentives to the Minehunter contractor ... along the lines recommended by the Committee in 1986 [but there is] a performance based management incentive fee which extends over the life of the contract and relates specifically to project management.*<sup>27</sup>

25.47 The Committee also notes that in the ANZAC ships project there is 'an agreed procedure for distributing costs and benefits that may arise from advances in technology'.<sup>28</sup>

27 Defence, *Submission*, p. S4092.

28 Auditor-General, *Audit Report No. 29, 1994-95, Project Audit, Energy Management in Defence; Preliminary Study, ANZAC Ship Project Contract Amendments; Preliminary Study, Overseas Visits by Defence Officers; Preliminary Study, National Landcare Program*, AGPS, Canberra, 1995, p. 33.

## Cost Risk - Minimising Costs

### Introduction

25.48 One of the most significant issues identified in the audit report was concern about the timing of payments made by the Commonwealth to ASC. The ANAO believes that Defence did not exercise commercially astute cash management principles in the timing of these payments and, consequently, that the Commonwealth has incurred significant and unnecessary opportunity costs.<sup>29</sup>

25.49 The Auditor-General identified two situations where the Commonwealth can incur unnecessary opportunity costs as a result of the timing of payments:

- where progress is claimed, and paid for, but has not yet been achieved; and
- where packages are advanced ahead of the contracted schedule for commercial reasons with no benefit to the Commonwealth.<sup>30</sup>

25.50 At the Committee's public hearing in October 1993 ANAO representatives identified the second of these situations as being especially significant.

### Rescheduling of Packages - Opportunity Cost

25.51 The submarines and their components are being constructed in individual work packages, which in accordance with the contract, are scheduled for completion at particular points in the construction schedule. The main reason for seeking to advance work packages is that it allows ASC and its sub-contractors to take advantage of economies of scale.

<sup>29</sup> The opportunity cost to the Commonwealth manifests itself either in interest foregone, or in the inefficient use of financial resources which could have been used more productively for other Defence projects or programs. For example, on page 19 of the audit report, ANAO noted that if every dollar in the contract were spent just one week early, the cost to the Commonwealth would be \$6 million.

<sup>30</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. 19.

25.52 The audit report claims that some work packages have been brought forward by several years, and that there is no indication that opportunity cost has been considered by Defence in any decisions regarding re-scheduling. Several instances of possible bulk purchases for all six submarines were cited in the audit report.<sup>31</sup>

25.53 It was also noted that the Departmental Program Performance Statements for 1992-93 reported that there had been an increased expenditure over Additional Estimates of \$68 million due to 'better than anticipated progress by the prime contractor during 1992-93'.<sup>32</sup>

25.54 The Committee acknowledges that it is not inappropriate for ASC to take advantage of economies of scale where they are available. However, it is important that any such advantages, which given the fixed price nature of the contract accrue only to the contractor and not the Commonwealth, are not provided at an unnecessary cost to the Commonwealth.

25.55 In the audit report, and in evidence to the Committee, ANAO expressed concern that Defence did not have in place sufficient controls to ensure that the Commonwealth did not incur unnecessary costs in agreeing to advance work packages.

25.56 Initially Defence disputed the audit findings and expressed the view that 'overall the Commonwealth's position has been well protected' and questioned the audit conclusion that the opportunity cost of funds to the project is significantly higher than it needed to be. Defence also questioned the basis on which ANAO drew its conclusions, referring to a number of procedural and checking failures as 'minor discrepancies'.<sup>33</sup>

<sup>31</sup> Auditor-General, *Audit Report No. 22, 1992-93*, pp. 24 and 26.

<sup>32</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. 26. The report added that the amount would have doubled had a payment due by 30 June 1993 been paid on time.

<sup>33</sup> Auditor-General, *Audit Report No. 22, 1992-93*, pp. xxxiv and 29.

25.57 However, more recently it seems that Defence have paid closer attention to the issue, perhaps as a result of a Defence internal audit report on the management of opportunity cost.

25.58 Defence's second submission to the Committee, stated that all changes to the work schedule had been examined and that 'in aggregate the schedule variations agreed so far have not increased costs to the Commonwealth.'<sup>34</sup>

25.59 This was confirmed at the Committee's hearings by the then Project Director, Rear Admiral Hughes, who stated that 850 packages had been examined following concerns raised by Defence's internal audit and ANAO, and that on balance the payments associated with those packages had actually favoured the Commonwealth and not ASC.<sup>35</sup>

25.60 Defence's second submission also revealed a more positive position in response to the audit recommendations dealing with opportunity cost. The submission indicated that opportunity cost considerations would be included in a review of Defence contract arrangements, estimated for completion in mid-1994, and that procedures would be implemented to analyse the opportunity cost of any proposed schedule changes in the future.<sup>36</sup>

25.61 Another concern in relation to the re-scheduling of work packages is the possibility that by allowing the contractor to bring forward some work packages (thus maintaining its cash flow and benefiting from economies of scale) Defence has diminished the incentive for ASC to make up for the slippage of other packages.<sup>37</sup>

<sup>34</sup> Defence, *Submission*, p. S3280.

<sup>35</sup> Defence, *Transcript*, p. 100 (Canberra, 29 October 1993).

<sup>36</sup> Defence, *Submission*, pp. S3279-80.

<sup>37</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. 25.

25.62 If the delayed work packages have slipped because they are less profitable for ASC, more time consuming or more technically challenging, then it is conceivable that the financial incentive for ASC to complete these packages may, as the project nears completion, be diminished.

### Conclusion

25.63 The Committee believes there is sufficient evidence to support ANAO concerns about the way in which opportunity costs have been assessed and considered when making judgements about the timing of payments to ASC.

25.64 The Committee is pleased to note Defence's comments that 'opportunity costs will be considered as part of Defence's on-going review of contract arrangements' and that procedures have been implemented within the Submarine Project Office to formally include and document opportunity cost analysis for any proposed schedule changes.' In addition, Defence recently advised the Committee that it had provided guidance in its capital equipment procurement manual on financial aspects of major capital equipment contracts.<sup>38</sup>

25.65 These comments suggest that Defence is now giving more serious attention to cash management than its initial response indicated.

25.66 The Committee is also pleased to note that a recent audit into the ANZAC ships project revealed that the 600 contract amendments made at the time of the audit had resulted in only a relatively small increase in costs, which had been funded from the project's contingency fund.<sup>39</sup>

<sup>38</sup> Defence, *Submission*, p. S4091.

<sup>39</sup> Auditor-General, *Audit Report No. 29, 1994-95*, p. 32.

**25.67 Recommendation 9**

*In responding to the recommendations contained within this report, the Department of Defence should report to the Committee on:*

- (a) *current practice within the Submarine Project Office in regard to assessing and considering the opportunity cost implications of payments to the Australian Submarine Corporation; and*
- (b) *the results of its general consideration of opportunity cost issues in contract development and administration.*

**A More Commercial Focus for Project Management**

25.68 Underpinning the various audit recommendations about the financial and cost risks facing the submarine project, is a concern that Defence has not adopted a sufficiently commercial attitude in their dealings with ASC. The ANAO believes that Defence's focus on the technical requirements of the project has been to the detriment of economic considerations.

25.69 The cost of administering defence procurement projects has recently been reviewed by the Industry Commission and one of the issues being considered by the Commission is how to obtain best value for money in defence procurement.

25.70 The Commission's report on the subject suggests that there may be scope for Defence to contract out some of the project and contract management services currently provided in-house. The Commission argues that contracting out may produce better value for money, because: 'private contractors subject to commercial imperatives - have greater incentives to adopt best practice.'<sup>40</sup>

<sup>40</sup> Industry Commission, *Defence Procurement*, (August 1994), p. 124.

25.71 The Commission does not advocate a particular approach, but suggests that consideration could be given to contracting out:

- elements of the bid assessment and tendering process;
- significant parts of the project, such as final contract negotiations; or
- the entire procurement process after key purchase decisions have been taken.<sup>41</sup>

25.72 The Committee acknowledges that Defence has developed considerable expertise in procurement management and that significant steps have been taken to make the process more efficient and cost effective. It is clear, however, based on the findings of the audit report and evidence arising from the Committee's review, that there is still room for improvement.

25.73 It is conceivable that considerable advantages could flow from the contracting out of parts of the procurement process. This could lead to direct cost savings and may establish a benchmark against which Defence could compare its costs and performance. The Committee supports the Industry Commission's recommendation that Defence contract out the procurement process for a few selected projects, to test the efficiency of the existing arrangements.

**25.74 Recommendation 10**

*As recommended by the Industry Commission in its August 1994 report on defence procurement, the Department of Defence should contract out the procurement process for a few selected projects, to improve the efficiency of the procurement process and provide a benchmark for its in-house administrative costs.*

<sup>41</sup> Industry Commission, *Defence Procurement*, (August 1994), p. 124.

### Schedule Risk - Late Delivery

25.75 At the time of the audit report Defence was highly confident that the submarines would be completed on time. However, ANAO was less certain.<sup>42</sup>

25.76 The ANAO's reservations were based on its concern that Defence was relying for its assurances on a Contract Management and Control System which was not constructed to the contract specifications, and did not, in all circumstances, provide a reliable and verifiable progress report on the project.

25.77 This concern was highlighted in a submission from the ANAO which quoted the former head of ASC as saying that only 'ASC could know the exact status of the project because only the ASC had knowledge of its own critical path network.'<sup>43</sup>

25.78 In October 1993 Defence advised the Committee that the first submarine would be delivered in January 1995 and that the final submarine would be delivered in October 1999.<sup>44</sup> Since then a number of media reports have indicated that the delivery schedule was under pressure as a result of computer software problems, a strike by employees of a sub-contractor, and leaking valves. The impact of these problems was acknowledged by the Minister representing the Minister for Defence in June 1994 when he announced that the due date for the delivery of Submarine 01 had slipped by some 11 months.

25.79 The Minister said:

*It has been acknowledged for some time that there have been significant delays in the delivery of the combat data systems software for the submarines. ... the subcontractors, Rockwell Systems Australia and Computer Sciences Corporation of Australia, have assured the Department of Defence that every effort is being made to overcome the current problems and dedicate the appropriate resources to*

42 Auditor-General, *Audit Report No. 22, 1992-93*, pp. xxxv and xxii.

43 ANAO, *Submission*, p. J98.

44 Defence, *Submission*, p. S3277.

*the remainder of the work. While the software is the principal cause of the delay, there has been a six-week strike by sandblasters and painters employed by a subcontractor, which has now been resolved.*<sup>45</sup>

25.80 This delay has affected the delivery of the subsequent submarines. A spokesman from ASC was reported in the *Adelaide Advertiser* as saying both the second and third crafts were suffering delays due to the problems with Submarine 01. The spokesman added that delays were shared by comparable projects around the world and offered the examples of the US Seawolf submarines which were 'years late', and the European fighter program 'up to two years late.'<sup>46</sup>

25.81 The most recent advice available to the Committee is that the slippage in delivery of Submarine 01 has been maintained at 11 months and this has flowed on to affect only Submarines 02 to 04.<sup>47</sup>

25.82 The principal means available to the Commonwealth to offset any extra costs that may arise from delays in the delivery dates is to invoke the liquidated damages provisions of the contract. These provisions allow for penalties amounting to \$2.5 million per submarine to be applied to ASC after 20 weeks delay. In total, it is possible for the Commonwealth to recoup \$15 million from ASC if the delivery of all six submarines is delayed.

25.83 The ANAO has argued that these penalties are insignificant when compared to:

- the total contract price; and
- the potential cost to the contractor of having to perform a major acceleration to achieve the commissioning deadline.<sup>48</sup>

45 *House of Representatives Hansard*, 6 June 1994, p. 1426.

46 'Black beast' of Osborne calmly waits to surface, in *Adelaide Advertiser*, 28 May 1994.

47 Defence, *Submission*, p. S4091.

48 Auditor-General, *Audit Report No. 22, 1992-93*, p. 35.



25.84 The Committee agrees with Defence's response that 'liquidated damages are not the principal drivers to encourage ASC to perform to schedule' and that 'it is clearly in ASC's interest to achieve success'.<sup>49</sup>

25.85 Nevertheless, if the worst case scenario envisaged by ANAO were to eventuate, the Commonwealth may find itself able to extract only a minimal level of compensation, or, alternatively, in a relatively weak bargaining position in the event of negotiations to waive the damages and reschedule the delivery dates in exchange for concessions from ASC.

#### 25.86 Recommendation 11

*In responding to the recommendations contained within this report, the Department of Defence should report to the Committee on:*

- (a) *the causes of any delays between current anticipated delivery dates and the delivery dates originally specified in the contract;*
- (b) *whether any claims for liquidated damages have yet been made on the contractor;*
- (c) *whether the Commonwealth has agreed to waive any claims for liquidated damages; and*
- (d) *whether the Commonwealth's capacity to claim for liquidated damages at a future point in the contract has been limited by any other revisions to the contract.*

<sup>49</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. 43.

### Australian Industry Involvement Risk - Objectives Not Achieved

25.87 The contract for the submarines requires ASC to:

*... achieve local content of 70 percent of the contract price for platform work and 45 percent of the combat systems work. Defence offsets are required for 30 percent of the imported elements of the combat system.*<sup>50</sup>

25.88 The ASC advised the Committee that as at July 1994 local content levels were \$65 million in excess of contract obligations.<sup>51</sup> By December 1994, Defence advised, this had risen to \$87 million.<sup>52</sup>

25.89 According to Defence, the benefits to Australian industry have included:

- the development of local capability to support the submarines after delivery;
- the transfer of technology to Australian companies;
- investment and product development by local companies in support of the project; and
- the development of capability within the Defence Force to support the submarines after delivery.<sup>53</sup>

25.90 The ANAO found that Defence is well placed to monitor the levels of Australian industry involvement (AII), but considered that there was a small risk that the contractor could exploit a 'possible contractual loophole to claim Australian industry involvement for work not previously considered to be Australian'.<sup>54</sup>

<sup>50</sup> Defence, *Submission*, p. S3274.

<sup>51</sup> ASC, *Submission*, p. S3994.

<sup>52</sup> Defence, *Submission*, p. S4090.

<sup>53</sup> Defence, *Submission*, pp. S3950-6.

<sup>54</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. 56.

25.91 To counteract this risk ANAO recommended that Defence seeks legal advice on whether work done by an overseas branch of an Australian company would qualify as a local content. Defence responded that such work is not regarded as local content and that no such work had been claimed by ASC.<sup>55</sup>

25.92 The Committee acknowledges that uncertainty in the operation of the Australian industry provisions of the contract does represent a risk. However, it is not clear to the Committee that the seeking of legal advice on the matter at this stage, as recommended by ANAO, will necessarily resolve the matter.<sup>56</sup>

25.93 A better approach may be seek such advice only if, at some future time, ASC acts contrary to the spirit of the contract and claims for offshore work. In coming to this view the Committee is mindful that there is no evidence that the local content requirements of the contract are currently in jeopardy.

25.94 Nevertheless, it is clearly desirable that such uncertainty be avoided in future Defence procurement contracts. The Committee is pleased to note that Defence agreed to the ANAO recommendation that in future contracts the Department obtain advice as to the optimum wording of Australian industry involvement provisions.<sup>57</sup>

25.95 During the course of its review the Committee was provided with a working copy of an internal audit being conducted by Defence on Australian industry involvement in the submarines project. It is to be hoped that this review will be finalised shortly and will consider such matters as:

- the Project Office monitoring of AII achievement;
- the recognition of AII achievement;

<sup>55</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. xxviii.

<sup>56</sup> Confirmation that overseas work could be claimed as local content, might prompt the contractor to make claims contrary to the spirit of the contract; conformation that offshore work by Australian companies does not fall within the scope of the contract achieves little.

<sup>57</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. xxviii.

- overseas procurement of components, materials and equipment;
- substantiation of AII;
- qualification of particular packages as AII; and
- pro-active approach to AII function.

## NEW SUBMARINE PROJECT - GENERAL ISSUES

### Introduction

26.1 This chapter considers the following matters, some of which were not specifically addressed in the audit report but which arose during the course of the Committee's review:

- significance of the issues raised by ANAO;
- relationship between Defence and the ASC;
- access to contractor records;
- Defence internal audit reports; and
- long term prospects for the ASC.

### Significance of the Audit Findings

26.2 In their various responses to the audit report, Defence noted that the audit report contains no suggestion of any wrong doing, corruption or fraud, and accordingly argued that there is no cause for misgivings about the development or management of the project.

26.3 The key issue for Defence is whether the submarines will be completed on time, within the estimated and approved budget and to the specified performance standards.<sup>1</sup>

26.4 In Defence's view, the audit report had an unduly narrow focus and did not reflect a broad appreciation of the size and complexity of the submarine project.<sup>2</sup>

<sup>1</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. xxxv.

<sup>2</sup> Department of Defence, *Transcript*, pp. 80-1 (Canberra 29 October 1993).

26.5 The Committee agrees that the project is large and of national significance. The Committee also agrees that many of the major risks in the early stages of the project, particularly the technical risks, appear to have been managed successfully. The Department is right to be proud of its achievements to date.

26.6 However, the ANAO argues that Defence could achieve greater economy, or better value for money, if it adopted a more 'commercial' approach to the project. The ANAO contrasted Defence's approach with that of a commercial project manager:

*Commercial project management would not be satisfied with completing a major project within a fairly generous budget. The ASC [for example] is no doubt striving to complete the submarines for the lowest possible cost as this maximises its profit.<sup>3</sup>*

26.7 The Committee believes that the business of achieving value for taxpayers' money is a significant matter. It is quite appropriate for ANAO to make recommendations to improve the financial management of this, and comparable future projects, if it believes such improvements to be necessary.

26.8 In this case it appears that the audit has identified some areas where such improvements can be made. Given the typical size of Defence projects, the dollar value of such improvements is potentially very significant.

### Relationship Between Defence and the ASC

26.9 In the audit report the Auditor-General argued that Defence tended to be 'consistently out-manoeuvred' in its dealings with the ASC.<sup>4</sup> During the Committee's hearings he suggested that this was because it had regarded ASC as an

<sup>3</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. xxv.

<sup>4</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. 61.

extension of itself, and that it, in contrast to ASC, had not taken an arm's length commercial attitude into the relationship.<sup>5</sup>

26.10 The Audit Manager added that there were 'lots of examples on file of the project office taking a much more reasonable approach to negotiation than the ASC, which was taking a more commercial approach.'<sup>6</sup>

26.11 Mr Andrew Podger, then Deputy Secretary of Defence did not agree that Defence was too accommodating in its relationship with ASC, arguing that a ten year contract tends to promote a 'good close relationship' and that any commercial firm with a contract with another commercial firm would also wish to get into a close arrangement.<sup>7</sup>

26.12 The Committee acknowledges that it is appropriate, indeed necessary, for project managers to develop close and constructive working relations with their contractors. However, it is clearly important that each party maintain their separate identities. Both are partners in a joint undertaking, but they have different masters and although their interests will be largely compatible, those interests will not always be identical. If the Commonwealth's project managers blur these lines of responsibility, the Commonwealth may find itself bearing more of the risk, and more of the cost, than it should.<sup>8</sup>

5 Auditor-General, *Transcript*, p. 94 (Canberra, 29 October 1993).

6 ANAO, *Transcript*, p. 95 (Canberra, 29 October 1993).

7 Defence, *Transcript*, p. 96 (Canberra, 29 October 1993).

8 An example of good practice in this area can be found in the ANZAC Ship Project, where the Project Office and the prime contractor have agreed to a 'partnering charter'. The Charter is separate to the prime contract and is intended to help maintain a good working relationship between the Project Office managers and their counterparts in the contractor's office (see Auditor-General, *Audit Report No. 29, 1994-95*, p. 34).

## Access to Contractor Records

26.13 During the course of the Committee's hearings there was much discussion about the adequacy of the information available to the Commonwealth when making assessments as to progress in the submarine project, and when considering contract amendment claims.

26.14 The ANAO contends that Defence's ability to make reliable and independent assessments would be improved considerably if it had better access to the records of transactions by and between and its major sub-contractors. The present contract does not provide Defence with the authority to request such information.

26.15 The main consequence of this restriction is that it is difficult and, in most cases, impossible for Defence to know whether the quotes submitted by ASC for price approval during the contract amendment process are the same as those which are eventually accepted by the contractor.

26.16 To make the pricing practices of the contractor more open to scrutiny, the Auditor-General made the following recommendations:

- **Recommendation 18** - that ASC be required to certify that all contract amendment proposals are made in good faith and based on accurate and complete data;
- **Recommendation 19** - that all future contracts provide for access by the Auditor-General to the records of contractors and major sub-contractors which support the expenditure of Commonwealth funds; and
- **Recommendation 20** - that all future contractors allow Defence to test the veracity of all information provided by contractors and to recover money if such information is shown to be inaccurate.<sup>9</sup>

9 Auditor-General, *Audit Report No. 22, 1992-93*, pp. xxvi-xxvii.

26.17 Initially Defence was not enthusiastic about these recommendations, arguing that contractors involved in fixed price contracts would not agree to such provisions (particularly to access by the Auditor-General) and that it was impractical for many contract amendments to be costed separately.<sup>10</sup>

26.18 Rear Admiral Hammond, claimed that for Defence to require details of every single element of cost would change the way contracts were administered and would require the establishment of a costly administrative and legal framework.<sup>11</sup>

26.19 The Committee acknowledges that reviewing the relevant business records of contractors can be a time consuming, intrusive and costly exercise, but it is an exercise which ought at least be considered. It does not seem unreasonable for the Commonwealth to protect its financial interests by requiring contractors to provide accurate and complete information in support of quotes and claims. In some cases, especially in large projects such as the submarine project, the benefits of such requirements may outweigh their costs significantly.

26.20 In relation to the specific circumstances of the submarine project, ANAO put the following arguments in support of its recommendations:

- it is unlikely that the two final tenderers would have forgone a \$4 billion project merely because ANAO may have looked at records related to the contract;
- with such a large use of taxpayers' money there was an obligation to ensure the money was protected;
- because the department negotiated the contract it must have relied heavily on information provided by the contractor. Consequently, the department has a right to be able to verify the information provided by the contractor. To rely on the contractor's honesty alone is unwise;

<sup>10</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. xxvii.

<sup>11</sup> Defence, *Transcript*, p. 88 (Canberra, 29 October 1993).

- the ANAO access to contractor records would improve accountability for Defence's management of the contract; and
- such access would have settled disagreements with the Project Office on, for example, cost related issues.

26.21 In addition, ANAO argued that the Commonwealth's capacity to rely on information provided by its contractors would be enhanced if the Government enacted 'truth in negotiations' legislation for defence contracts. Such legislation has been enacted in the United States of America and, as explained by ANAO, it 'requires contractors to supply the best available information to the government so that both parties can negotiate on the same information.' All contractors are required to allow the US Department of Defence and two US Government auditing agencies to examine their records, and significant amounts of defective pricing are uncovered each year. However, ANAO emphasised that it was 'not suggesting that Australia needs such a large organisation or such detailed legislative requirements' as exists in the USA.<sup>12</sup>

26.22 Despite Defence's initial reluctance to accept the audit recommendations on access to contractor's records, three subsequent developments suggest that Defence is becoming more receptive. The first, in a written submission to the Committee, was that Defence had sought information from the USA on the justification of prices by contractors when making contract changes. This information was being sought with a view to applying such procedures to future contracts.<sup>13</sup>

26.23 The second development, reported by Rear Admiral Hammond at the Committee's hearings, was that the contract for the ANZAC ships project contained provisions requiring contractors to provide to Defence details of sub-contractors' invoices when seeking to amend the contract.<sup>14</sup>

<sup>12</sup> ANAO, *Submission*, pp. S3914-5.

<sup>13</sup> Defence, *Submission*, p. S3281.

<sup>14</sup> Defence, *Transcript*, p. 88 (Canberra, 29 October 1993).

26.24 A similar provision has also been included in the contract for the Minehunters Project.<sup>15</sup> The existence of such provisions confirms that it is possible for the Commonwealth, as a customer making multi-million dollar purchases, to successfully negotiate the inclusion of stronger data verification provisions than are evident in the submarine project.

26.25 The Committee is encouraged by these developments particularly by the inclusion of verification provisions in the ANZAC ships and minehunter contracts.

26.26 In the light of these developments and its experience with the ANZAC ships and minehunter contracts, Defence should reconsider its opposition to allowing ANAO access to contractors' records and to legislation comparable to the US truth in negotiations legislation.

#### 26.27 Recommendation 12

*In responding to the recommendations contained within this report, the Department of Defence should report to the Committee on:*

- (a) *its experience with the provisions of the contracts for the ANZAC ships and Minehunters projects which allow Commonwealth access to some of the contractor's business records; and*
- (b) *whether this experience has any bearing on the potential benefits of allowing ANAO access to contractor's business records.*

#### 26.28 Recommendation 13

*The Department of Defence, in consultation with other relevant Commonwealth agencies, should consider the merits of Commonwealth legislation similar to the truth in negotiation legislation which has been enacted in the United States of America.*

<sup>15</sup> Defence, *Submission*, p. S4092.

## Defence Internal Audit Reports

26.29 As part of its routine management review processes, Defence had, at the time of the Committee's hearings, prepared eight internal audit reports on various aspects of the submarine project. Five of these internal audits had been seen by ANAO during their audit work. The other three reports (on profits, contract amendments, and Australian industry involvement) were in draft stage and were not considered by the audit team.<sup>16</sup>

26.30 The draft reports deal with a number of significant elements in the submarine project and if the potential advantages of a rigorous internal audit process are to be realised, it is important that they be finalised as soon as possible.

26.31 As the Committee has noted in many previous reports, a comprehensive program of internal audit can play a key role in ensuring effective and efficient project management. Internal auditors can provide an independent view point and can bring to the attention of senior management problems which may not be revealed by other internal review or evaluation activities. On a previous occasion the Committee has noted that Defence has demonstrated an understanding of and commitment to internal audit.<sup>17</sup>

<sup>16</sup> ANAO, *Transcript*, p. 116 (Canberra, 29 October 1993).

<sup>17</sup> Joint Committee of Public Accounts, *Report 330, Review of Auditor-General's Reports, May 1991 - September 1992*, p. 124.

26.32 Recommendation 14

*The Department of Defence should:*

- (a) *finalise all outstanding internal audit reports on the submarine project within three months of the tabling of this report; and*
- (b) *develop and maintain a rigorous program of internal audit assessments throughout the life of the submarine project.*

### Long Term Prospects for the Australian Submarine Corporation

#### *Introduction*

26.33 At various points in their evidence to the Committee, Defence argued that the financial viability of ASC is of critical importance to the success of the submarine project. The Committee agrees. If, at any point in the project, ASC's financial viability is undermined, the risks (and therefore the costs) are likely to fall to the Commonwealth.

26.34 During its review the Committee considered two matters which bear on both the financial viability of ASC and its long term prospects:

- the success of the company in attaining future orders; and
- the attitudes and intentions of the company shareholders.

#### *Future Orders*

26.35 At the moment there are three major shipbuilders working in the Australian naval market:

- Transfield Shipbuilding;
- Australian Defence Industries; and
- ASC.

26.36 In an interview in October 1993, the then Managing Director of ASC, Dr Don Williams, expressed the view that there was only room in the Australian market for two main players. In Dr Williams' opinion the submarine project, the ANZAC ships project, the construction of six new minehunter vessels and, in future years, the replacement for the Fremantle patrol boats, was a 'good base load to sustain two shipbuilders.'<sup>18</sup>

26.37 On this analysis, one of the main players is likely to be squeezed out of the market in the next four years.

26.38 The Committee notes that on 2 June 1994 the Minister for Defence announced that the contract for the minehunters project, for which ASC had bid, would be awarded to Australian Defence Industries. The contract was subsequently signed on 12 August 1994.

26.39 Responding to the announcement, ACS commented:

*In our view, the award ... will have the effect of fragmenting the industry, at least in the short to medium term. We see it as an aberration.*<sup>19</sup>

26.40 Although it is possible that some of ASC's assets and skills will be employed on a sub-contractor basis during the minehunter project, it is possible that ASC will not find sufficient local business to sustain its activities.

<sup>18</sup> Don Williams, Chief Executive, Australian Submarine Corp., in *Defence News*, 17 October 1993.

<sup>19</sup> ASC, *Submission*, p. S3997.

26.41 This may force the company to refocus its efforts on overseas markets - which have become highly competitive following the end of the Cold War.<sup>20</sup> However, a recent press report highlights the influence which could be exerted by the Swedish Government, via Kockums, in affecting ASC's ability to export to third countries.<sup>21</sup>

26.42 Despite the challenges the company is facing, there is no evidence to suggest that ASC's financial viability is under any jeopardy, or that it is behaving as a one product company.<sup>22</sup>

#### *Shareholder Attitude*

26.43 One of the major outstanding concerns in relation to the submarine project is that resolution of any significant problems which may arise during sea trials or the final production phases of the project, will rely to a great degree on the goodwill of ASC and its shareholders.

26.44 It must be said that to date there has been no evidence that ASC is anything but totally committed to the project. However, ANAO has identified, and Defence has acknowledged, that major risks are still to be addressed.

26.45 This situation, when combined with the facts that some 85 per cent of the contract price has already been paid and that the shareholders have already extracted most of their profit from the project, gives rise to the risk that the Commonwealth could be left carrying more than its share of the remaining risks and costs.

20 Defence has advised the Committee that the end of the Cold War had a two fold effect on the market for defence equipment: first, the reduction in super-power rivalry has reduced international demand for new equipment; and second, it has resulted in the sale of a considerable amount of surplus equipment.

21 Sweden may block sub sales to Jakarta, in *The Australian*, 10 March 1995.

22 The ASC's auditors have, for example, continued to certify that the company is 'a going concern'.

26.46 Defence has argued that it is highly unlikely that ASC would walk away from the project, - especially as the major shareholder, Kockums, has a substantial international reputation to protect. Moreover, Defence points to the existence of a memorandum of understanding (MOU) between the Australian and Swedish Governments on co-operation in defence production as offering some assurance that both governments would work to overcome any problems which may emerge.

26.47 The Committee acknowledges that it is unlikely that the company shareholders would risk their reputations, by reneging on their contract with the Commonwealth.

26.48 Nevertheless, in the event of major technical or financial problems arising in the later stages of the project, there is sufficient reason to be concerned that neither the level of guarantees and penalties specified in the contract, nor the existence of the MOU, would be sufficient to allow the project to be completed without the Commonwealth taking on a disproportionate amount of the risk. In any event, it appears that the Commonwealth will find itself in the position of having to rely substantially on the goodwill of the company and its shareholders in the final stages of the project.

26.49 Irrespective of the undoubted qualities, integrity and reputation of ASC and its shareholders, this is not a desirable position for the Commonwealth to be in.

26.50 Another issue to be addressed is the potential impact of the Government's announcement on 26 April 1994 that it intends to privatise AIDC Ltd, which itself holds 48.45 per cent of the shares in ASC.<sup>23</sup>

26.51 Defence is reported to have expressed serious concerns about the possible implications of any sale of AIDC Ltd.<sup>24</sup> There may also be considerable commercial implica-

23 Media Release, *Joint Statement by the Minister for Industry, Science and Technology, Senator Peter Cook, and the Minister for Finance, the Hon Kim Beazley, MP*, 26 April 1994.

24 *Defence Department worries about AIDC sell off*, in *Financial Review*, 29 April 1994.



tions for the submarine project if the current shareholding arrangements in ASC were altered during the sale process, or afterwards by any new owners of AIDC Ltd.

26.52 When the original request for tenders was distributed to potential submarine builders, it was announced that 'the project called for substantial Australian involvement in production'.<sup>25</sup> Further, Defence has stated that:

*The project was seen as an opportunity to enhance Australian industry capability and competitiveness, as well as to ensure indigenous support for the submarines throughout their operational lives of about 30 years.*<sup>26</sup>

26.53 The Committee notes that the current shareholding of ASC provides for a majority Australian ownership which is consistent with the Government's stated aims for the Project.

26.54 The possible implications of any changes in the ownership structure of ASC warrant close consideration by the Commonwealth before any final decisions are made about the sale of AIDC Ltd.

26.55 Recommendation 15

*The Department of Defence, the Department of Finance and the Department of Industry, Science and Technology should consult closely in relation to the proposed sale of AIDC Ltd to consider and resolve any implications for the submarine project.*

Les Scott, MP  
Chairman

21 June 1995

<sup>25</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. xxxi.

<sup>26</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. xxxi.



## APPENDIX I - AUDIT REPORTS REVIEWED<sup>1</sup>

- . *Audit Report No. 2, 1992-93, Efficiency Audit, Department of Defence - Commercial Activity in the Defence Science and Technology Organisation*
- . *Audit Report No. 3, 1992-93, Efficiency Audit, Australian Customs Service - Management of the marine fleet*
- . *Audit Report No. 4, 1992-93, Project Audit, Royal Australian Mint - Review of Manufacturing Resources Planning System*
- . *Audit Report No. 5, 1992-93, Project Audit, Australian Taxation Office - Electronic Lodgment Service*
- . *Audit Report No. 6, 1992-93, Efficiency Audit, Auscript - Commercialisation of the Commonwealth Reporting Service*
- . *Audit Report No. 7, 1992-93, Efficiency Audit, Saving Time and Money with Common-use Contracts*
- . *Audit Report No. 8, 1992-93, Efficiency Audit, Department of Veterans' Affairs - Compensation pensions to veterans and war widows*

<sup>1</sup> *Audit Report No. 1, 1992-93, Report on Ministerial Portfolios - Budget Sitings 1992*, was reviewed and reported on in Joint Committee of Public Accounts, *Report 330, Review of Auditor-General's Reports, May 1991 to September 1992*, AGPS, Canberra, 1994.

- . *Audit Report No. 9, 1992-93, Project Audit, University of Canberra - Administration Computing Systems*
- . *Audit Report No. 10, 1992-93, Efficiency Audit, Living with our Decisions - Commonwealth Environmental Impact Assessment Processes*
- . *Audit Report No. 11, 1992-93, Efficiency Audit, Department of Administrative Services - Procedures for Dealing with Fraud on the Commonwealth*
- . *Audit Report No. 12, 1992-93, Project Audit, Department of Primary Industries and Energy - Information Technology Environment*
- . *Audit Report No. 13, 1992-93, Efficiency Audit, Department of Administrative Services - Overseas Property Group*
- . *Audit Report No. 14, 1992-93, Efficiency Audit, Department of Employment, Education and Training - English as a Second Language*
- . *Audit Report No. 15, 1992-93, Efficiency Audit, Aboriginal and Torres Strait Islander Commission - Regional Administration*
- . *Audit Report No. 16, 1992-93, Efficiency Audit, An Audit Commentary of Aspects of Commercialisation in the Department of Administrative Services*
- . *Audit Report No. 17, 1992-93, Project Audit, Medifraud and Excessive Servicing - Health Insurance Commission*
- . *Audit Report No. 18, 1992-93, Efficiency Audit, Department of Social Security - Administration of Special Benefit*

- . *Audit Report No. 19, 1992-93, Project Audits, Department of Immigration, Local Government and Ethnic Affairs - Adult Migrant English Program and Other Audits*
- . *Audit Report No. 20, 1992-93, Project Audit, Department of Employment, Education and Training - The Administration of the AUSTUDY Program Turn-around Times, Post-payment Verification Debt Recoveries*
- . *Audit Report No. 21, 1992-93, Project Audits, Department of Employment, Education and Training - Industry Service Centres, Special Entry level Training, Subsidised Private Overseas Students, Revenue Collection, Advances, Trust Accounts*
- . *Audit Report No. 22, 1992-93, Efficiency Audit, Department of Defence - New Submarine Project*
- . *Audit Report No. 23, 1992-93, Aggregate Financial Statement prepared by the Minister for Finance year ended 30 June 1992*
- . *Audit Report No. 24, 1992-93, Project Audit, Department of Finance - Interface Systems*
- . *Audit Report No. 25, 1992-93, Efficiency Audit, The Jobs, Education and Training Program - Departments of Social Security, Employment, Education and Training, Health, Housing, Local Government and Community Services*
- . *Audit Report No. 26, 1992-93, Project Audit, Department of Industry, Technology and Regional Development, Pharmaceutical Industry Development Program - The Factor f Scheme*
- . *Audit Report No. 27, 1992-93, Registered Publications Service - A Response to Senate Questions Regarding Australia Postal Commission*

- . *Audit Report No. 28, 1992-93, Report on Ministerial Portfolios - Autumn Sittings 1993*
- . *Audit Report No. 29, 1992-93, Aggregate and Departmental Financial Statements 1991-92*
- . *Audit Report No. 30, 1992-93, Efficiency Audit, Senior Officer Work-related Expenses*
- . *Audit Report No. 31, 1992-93, Report on the audit of the Australian Wheat Board 1991-92*
- . *Audit Report No. 32, 1992-93, Efficiency Audit, Implementation of an Interim Greenhouse Response, Department of Primary Industries and Energy - Energy Management Programs*
- . *Audit Report No. 33, 1992-93, Efficiency Audit, The sale of Aussat and best practice for the sale of Commonwealth assets*
- . *Audit Report No. 34, 1992-93, Project Audit, The National Bankcard, Who Will Pay the Piper? - A Report on the Financial Obligations of the Federal Government*
- . *Audit Report No. 35, 1992-93, Efficiency Audit, Program Evaluation Strategies, impact and practices - Industry, Technology and Regional Affairs Portfolio*
- . *Audit Report No. 36, 1992-93, Project Audit, Aboriginal and Torres Strait Islander Commission Community Infrastructure*
- . *Audit Report No. 37, 1992-93, Project Audit, Review of Financial Management Systems - Australian Federal Police, Australian Securities Commission, Director of Public Prosecutions, Department of Health, Housing, Local Government and Ethnic Affairs, Department of Immigration and Ethnic Affairs*

- . *Audit Report No. 38, 1992-93, Project Audit, Information Technology Acquisitions - Attorney-General's Department, Department of the Arts and Administrative Services, Comcare Australia, Department of Finance*



## APPENDIX II - SUBMISSIONS

### Submissions<sup>1</sup>

- 72 Australian Bureau of Statistics
- 73 National Museum of Australia
- 74 Attorney-General's Department
- 75 Australian Customs Service
- 76 Department of Primary Industries and Energy
- 77 Department of Defence
- 78 Department of the Treasury
- 79 Australian Quarantine and Inspection Service
- 80 Department of Employment, Education and Training
- 81 Department of Industry, Technology and Commerce
- 82 Department of Defence
- 83 Australian Broadcasting Corporation
- 84 Department of Employment, Education and Training
- 85 Australian Taxation Office
- 86 Department of Sport, the Environment and Territories

<sup>1</sup> Submissions 1 to 71 were covered in Joint Committee of Public Accounts, *Report 330, Review of Auditor-General's Reports, May 1991 to September 1992*, AGPS, Canberra, 1994.

- 87 Department of Sport, the Environment and Territories
- 88 Department of the Arts and Administrative Services
- 89 Australian Taxation Office
- 90 Department of Veterans' Affairs
- 91 Department of Immigration and Ethnic Affairs
- 92 Department of Social Security
- 93 Department of the Arts and Administrative Services
- 94 Public Service Commission
- 95 Australian Taxation Office
- 96 Department of Finance
- 97 Department of Health, Housing, Local Government and Community Services
- 98 Department of Employment, Education and Training
- 99 The Returned and Services League of Australia Ltd
- 100 Department of Finance
- 101 Health Insurance Commission
- 102 Royal Australia Mint
- 103 Commissioner of Taxation
- 104 Industry Commission
- 105 Department of Health, Housing, Local Government and Community Services
- 106 Insurance and Superannuation Commission

- 107 Department of Social Security
- 108 Department of Finance
- 109 Department of Veterans' Affairs
- 110 Commonwealth and Defence Force Ombudsman
- 111 Merit Protection and Review Agency
- 112 Australian Bureau of Statistics
- 113 Department of Prime Minister and Cabinet
- 114 Department of Primary Industries and Energy
- 115 Department of Defence
- 116 The Department of Prime Minister and Cabinet
- 117 The Australian National Railways Commission
- 118 Australian Taxation Office
- 119 Department of Defence
- 120 Department of Administrative Services
- 121 Department of Employment, Education and Training
- 122 Department of the Environment, Sport and Territories
- 123 Department of Social Security
- 124 Australian Science and Technology Council
- 125 Department of Industrial Relations
- 126 Department of Immigration and Ethnic Affairs
- 127 Department of Finance

- 128 Department of Foreign Affairs and Trade
- 129 Department of Transport and Communications
- 130 Health Insurance Commission
- 131 Australian Veterans and Defence Services Council
- 132 Australian National University
- 133 Department of Defence
- 134 Department of Employment Education and Training
- 135 Health Insurance Commission
- 136 War Widows' Guild of Australia
- 137 Department of the Treasury
- 138 Australian Customs Service
- 139 Australian Bureau of Statistics
- 140 The Australian Federation of Totally and Permanently Incapacitated Ex-Servicemen and Women
- 141 Comcare Australia
- 142 Department of Veterans' Affairs
- 143 Department of Health, Housing, Local Government and Community Services
- 144 Australian Valuation Office
- 145 Australian Quarantine and Inspection Service
- 146 Department of Primary Industries and Energy
- 147 Department of the Environment, Sport and Territories

- 148 Department of Defence
- 149 Australian Estate Management
- 150 Department of Health, Housing, Local Government and Community Services
- 151 Regular Defence Force Welfare Association Inc.
- 152 Legacy Co-ordinating Council
- 153 Aboriginal and Torres Strait Islander Commission
- 154 Department of the Arts and Administrative Services
- 155 Australian Industrial Registry
- 156 Insurance and Superannuation Commission
- 157 Department of Defence
- 158 Department of Defence
- 159 Australian Federal Police
- 160 Department of Veterans' Affairs
- 161 Department of Finance
- 162 Department of Defence
- 163 Department of Immigration and Ethnic Affairs
- 164 Department of Defence
- 165 CSIRO
- 166 Aboriginal and Torres Strait Islander Commission
- 167 Health Insurance Commission
- 168 Health Insurance Commission

- 169 Australian National Audit Office
- 170 Health Insurance Commission
- 171 Department of Industry, Technology and Regional Development
- 172 Aboriginal and Torres Strait Islander Commission
- 173 Department of Defence
- 174 Department of Industry, Science and Technology
- 175 Arthur D Little International Inc.
- 176 Department of Communications and the Arts
- 177 Arthur D Little International Inc.
- 178 Department of Communications and the Arts
- 179 Australian Submarine Corporation Pty Ltd
- 180 Department of Industry, Science and Technology
- 181 Joint Coal Board
- 182 Department of Foreign Affairs and Trade
- 183 Department of Employment, Education and Training
- 184 Department of Primary Industries and Energy
- 185 Defence Science and Technology Organisation
- 186 Department of Industry, Science and Technology
- 187 Department of the Treasury
- 188 Insurance and Superannuation Commission
- 189 Department of Finance

- 190 Department of Defence
- 191 Commissioner of Taxation
- 192 Health Insurance Commission
- 193 Department of Industrial Relations
- 194 Department of Human Services and Health
- 195 Department of Social Security
- 196 Department of Employment, Education and Training
- 197 Department of Social Security
- 198 Department of Human Services and Health
- 199 Department of Immigration and Ethnic Affairs
- 200 Department of Defence
- 201 Department of Defence
- 202 Department of Defence

**Submissions from the Australian  
National Audit Office**

- A1 Submission dated 4 June 1993
- A2 Submission dated 18 June 1993
- A3 Submission dated 21 July 1993
- A4 Submission dated 27 July 1993
- A5 Submission dated 13 October 1993
- A6 Submission dated 18 October 1993

- A7 Submission dated 16 November 1993
- A8 Submission dated 1 December 1993
- A9 Submission dated 15 April 1994
- A10 Submission dated 26 April 1994
- A11 Submission dated 7 June 1994
- A12 Submission dated 10 June 1994
- A13 Submission dated 17 June 1994
- A14 Submission dated 30 June 1994
- A15 Submission dated 29 July 1994
- A16 Submission dated 15 April 1994
- A17 Submission dated 5 December 1994
- A18 Submission dated 12 December 1994
- A19 Submission dated 16 December 1994
- A20 Submission dated 25 January 1995
- A21 Submission dated 15 February 1995

**Confidential Submissions**

The Committee received a number of confidential submissions as part of its review.



## APPENDIX III - EXHIBITS

### Exhibits<sup>1</sup>

- 7 Department of Defence,  
- Audit Manual, Volume 1, General Policy
- 8 Department of Veterans' Affairs,  
- The decision-making process
- 9 Mr Hans Ohff, Professional Resume
- 10 Australian Submarine Corporation Pty Ltd,  
- Annual published accounts for ASC for the  
years ended June 30, 1988 to June 30, 1993  
inclusive
- 11 New Submarine Project,  
- Terms of Reference and Directive to the Project Direc-  
tor of Navy project 1114 (new Sumbarines).

### Confidential Exhibits

The Committee received a number of confidential exhibits as part of its review.

---

<sup>1</sup> Exhibits 1 to 6 were covered in Joint Committee of Public Accounts, *Report 330, Review of Auditor-General's Reports, May 1991 to September 1992*, AGPS, Canberra, 1994.



## APPENDIX IV - WITNESSES AT PUBLIC HEARINGS

Monday, 22 November 1993

### *Department of Veterans' Affairs*

Mr Lionel Woodward, Secretary

Mr Anthony Ashford, National Program Director, Benefits

Mr Neil Bayles, Director Benefits, Planning and Statistics

Dr Keith Horsley, Medical Services Adviser, Medical Reporting

Ms Fiona Tuckwell, Assistant Director, Research and Development Section, Compensation and Review Branch

### *Australian National Audit Office*

Mr John Taylor, AO, Auditor-General for Australia

Dr Christopher Bain, Consultant

Mr Warren Cochrane, Acting National Business Director, Performance Audit

Mr Alan Greenslade, Executive Director, Performance Audit

Ms Peta Roberts, Senior Performance Auditor

### *Returned and Services League of Australia*

Major-General William James, AO, MBE, MC, National President



Mr Laurance Mason, Adviser

Lieutenant-Colonel Johannes Wynen, Research Officer

*Vietnam Veterans Association of Australia*

Mr Timothy McCombe, Vice-President, National Executive

**Canberra, Monday 25 October 1994**

*Health Insurance Commission*

Mr Kenneth Hazell, Acting Managing Director, Health Insurance Commission

Mr Simon Hawkins, Manager, Research and Analysis, Compliance Branch

Mr John Nearhos, General Manager, Professional Review Division

Mr Warren Tuck, Manager, Pharmaceutical Benefits Branch

Mr Ralph Watzlaff, Manager, Compliance

**Canberra, Friday 29 October 1994**

*Australian Submarine Corporation*

Mr David Ipkendanz, Company Secretary and Treasurer

Mr Dennis Letford, Contracts and Procurement Manager

*Price Waterhouse*

Mr Aubrey Whitear, Partner

*Department of Defence*

Mr William Drysdale, Business Manager, New Submarine Project

Rear Admiral Nicholas Hammond, Assistant Chief of Naval Staff, Material

Mr Francis Harvey, Inspector-General

Rear Admiral Owen Hughes, (Retired)

Mr Michael Ives, First Assistant Secretary, Capital Equipment Program

Mr Andrew Podger, Deputy Secretary, Acquisition and Logistics

Commodore Geoffrey Rose, Project Director, New Submarine Project

*Australian National Audit Office*

Mr John Taylor, AO, Auditor-General

Mr Patrick Farrelly, Senior Director

Mr Peter Johnson, Senior Director, Efficiency Audit

Mr Tony Minchin, Executive Director

# V

## APPENDIX V - THE SIX RECOMMENDATIONS TO WHICH DEFENCE MAINTAINED ITS OBJECTIONS

<i>Recommendation</i>	<i>Defence's Objection</i>	<i>Auditor-General's Comment</i>
<p><b>Recommendation 9:</b></p> <p>That in future fixed-price contracts the product specification be the ultimate arbiter of what is included in the contract price and individual package descriptions are only used to determine advance payments and provide guidance as to what is required to meet the production schedule.<sup>1</sup></p>	<p>Potential conflict between different parts of the contract are avoided by stipulating the precedence between terms and conditions, specifications and other parts during contract negotiations. The Attorney-General's Department checks this aspect during its involvement in the development of Requests for Tender and contract documentation. This prevents the transfer of risk to the Commonwealth in the event of changes to the work breakdown structure.<sup>2</sup></p>	<p>Allowing the contractor to rely on different specifications - the product specification and the schedule of packages provides significant freedom for the contractor to transfer risk back to the Commonwealth.<sup>3</sup></p> <p>Defence should reconsider in the light of examples in the audit report.<sup>4</sup></p>

1 Auditor-General, *Audit Report No. 22, 1992-93*, p. xix.

2 Defence, *Submission*, p. S3279.

3 Auditor-General, *Audit Report No. 22, 1992-93*, p. xxi.

4 ANAO, *Submission*, p. J4.

<i>Recommendation</i>	<i>Defence's Objection</i>	<i>Auditor-General's Comment</i>
<p><b>Recommendation 12:</b></p> <p>That liquidated damages for delay in future contracts provide significant incentive for the contractor to complete on time. For instance damages should be required to be significant when compared to the cost of slippage recovery and the extent of delay covered by liquidated damages be unlimited (ie if the item is two years late then the liquidated damages should be recovered for two years delay).<sup>5</sup></p>	<p>Liquidated damages are standard in major defence contracts. Inclusion of 'incentives' unrelated to the cost of delay to the Commonwealth is unsustainable in law. If there was no cap on liquidated damages, the amount could become substantial in comparison to the contractor's expected profits or capitalisation. This would lead to inclusion of large risk premiums in tendered prices and ultimately possible repudiation of contract. Such a strategy is therefore unrealistic.<sup>6</sup></p>	<p>The liquidated damages in the contract amount to less than ½% of the contract price and provide a unnecessarily small ceiling, given the potential cost of maintaining defence capability in the event of, say, a five year delay, eg by causing a refit of an Oberon submarine. In contrast, if the Commonwealth fails to meet its obligations to the contractor unlimited damages can result. The contractor may also make a commercial decision to deliver the submarines late because the cost of liquidated damages is significantly less than remedying any delay.<sup>7</sup></p>

5 Auditor-General, *Audit Report No. 22, 1992-93*, p. xxiii.

6 Defence, *Submission*, p. S3280.

7 ANAO, *Submission*, p. J5.

<i>Recommendation</i>	<i>Defence's Objection</i>	<i>Auditor-General's Comment</i>
<p><b>Recommendation 19:</b></p> <p>That all future major contracts provide for direct access by the Auditor-General to records of transactions of contractors or major sub-contractors which support the expenditure of Commonwealth funds.<sup>8</sup></p>	<p>Contractors involved in fixed-price contracts are unlikely to agree to this proposition.<sup>9</sup></p> <p>The current practice of contracts providing Defence with full and free access to specified records and data will continue. Depending on circumstances there will continue to be propriety and/or commercial data to which access is inappropriate or which cannot be negotiated at an acceptable price and risk.<sup>10</sup></p>	<p>This was a key recommendation. The ANAO was unable to assess the accuracy of information provided to the Project Office by the contractor because access to the contractor was not permitted by Defence. In the United States of America and New Zealand such access is a matter of law. Access by ANAO should be a standard provision in major defence contracts. Such rights would be exercised in only a small number of cases, and only 'proprietary business data' supporting adverse ANAO findings would become public property due to public interest.<sup>11</sup></p>

8 Auditor-General, *Audit Report No. 22, 1992-93*, p. xxvii.

9 Defence in *Audit Report No. 22, 1992-93*, p. xxvii.

10 Defence, *Submission*, p. S3281.

11 ANAO, *Submission*, pp. J8-9.

<i>Recommendation</i>	<i>Defence's Objection</i>	<i>Auditor-General's Comment</i>
<p><b>Recommendation 20:</b></p> <p>That the Department take immediate steps to improve the ability of the Project Office to negotiate with the ASC in regard to the commercial aspects of CAPs. This should include the concept that evidence supporting CAP prices which comes from partners in the ASC consortium should be given little weight in determining the reasonableness of CAP prices.<sup>12</sup></p>	<p>Department processes in place ensure that authorised departmental officers are satisfied that such amendments provide due benefits and proportional cost. Appropriate engineering, financial and costing expertise are applied in evaluating proposals. The Department is satisfied that contract amendments are only agreed where there is a commensurate benefit to the Commonwealth.<sup>13</sup></p>	<p>The ANAO does not agree with Defence's assessment, referring to case studies outlined in Appendix 3 of <i>Audit Report No. 22, 1992-93</i>. An imminent Defence internal audit was expected to provide useful additional information.<sup>14</sup></p>

12 Auditor-General, *Audit Report No. 22, 1992-93*, p. xxvii.

13 Defence, *Submission*, p. S3279.

14 ANAO, *Submission*, p. J8.

<i>Recommendation</i>	<i>Defence's Objection</i>	<i>Auditor-General's Comment</i>
<p><b>Recommendation 23:</b></p> <p>That the Department obtain legal opinion as to whether work done by an overseas branch of an Australian company would qualify as local content.<sup>15</sup></p>	<p>Work done offshore by an Australian company is not regarded as local content nor has any such work been claimed by ASC.<sup>16</sup></p>	<p>The ANAO does not share Defence's confidence in the certainty of the definition of local content and disputes whether the two officers in the Project Office's Australian Industry Involvement section would be aware of whether overseas materials or components were being claimed as local content. The officers would have to sight invoices for all materials and components acquired through dozens of subcontractors and thousands of individual transactions.<sup>17</sup></p>

<sup>15</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. xxviii.

<sup>16</sup> Defence, *Submission*, p. S3281.

<sup>17</sup> ANAO, *Submission*, p. J9.

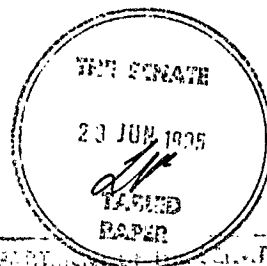
<i>Recommendation</i>	<i>Defence's Objection</i>	<i>Auditor-General's Comment</i>
<p><b>Recommendation 25:</b></p> <p>That in future major contracts the Commonwealth establish certain minimum commercial terms and conditions to be agreed to by contractors before tendering which could then be taken into account by contractors as a baseline in framing their offers.<sup>18</sup></p>	<p>Tenderers are required to state that their offer complies with draft terms and conditions in the Request for Tender. The Commonwealth negotiating team is directed on the permitted degree of movement on particular terms without seeking authorisation. Indicating in advance that some aspects are not negotiable is generally a poor negotiating tactic and unlikely to lead to the best outcome for the Commonwealth.<sup>19</sup></p>	<p>The ANAO disagrees with Defence's assessment. The differences in the terms and conditions offered by the two submarine tenderers meant comparisons between the two tenders were difficult. Comparisons would have been easier if certain key commercial aspects providing a minimum level of protection for the Commonwealth were fixed.<sup>20</sup></p>

<sup>18</sup> Auditor-General, *Audit Report No. 22, 1992-93*, p. xxix.

<sup>19</sup> Defence, *Submission*, p. S3282.

<sup>20</sup> ANAO, *Submission*, p. J9.

The Parliament of the Commonwealth of Australia



DEPARTMENT OF PARLIAMENTS	SENATE
DOCUMENT NO.	11262
DATE PRESENTED	29 JUN 1935
<i>Henry Evans</i>	

---

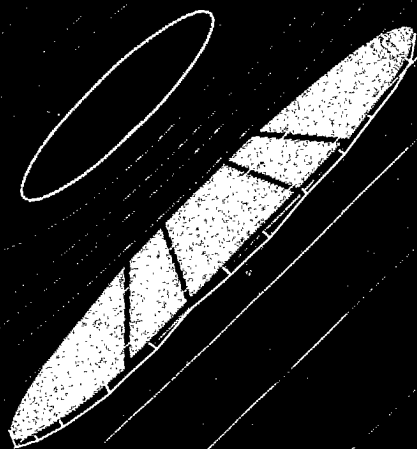
**RADIO AND TELEVISION BROADCASTING OF  
PARLIAMETARY PROCEEDINGS**

---

The Joint Committee on  
the Broadcasting of Parliamentary Proceedings

May 1995

Australian Government Publishing Service  
Canberra



May 1995