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 PARLIAMENT OF TASMANIA

 PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS

STORES CONTROL: HYDRO-ELECTRIC COMMISSION AND EDUCATION DEPARTMENT

Laid upon the Tables of both Houses of Parliament on 20 July 1971

The Committee was appointed under the provisions of section 2 of the Public Accounts Committee Act 1970 (No. 54).

MEMBERS OF THE COMMITTEE

LEGISLATIVE COUNCIL

Mr Fenton
Mr Gregory
Mr McKay

HOUSE OF ASSEMBLY

Mr Costello (Chairman)
Mr Barrenger
Mr Braid

REPORT

The Parliamentary Standing Committee of Public Accounts have the honour to report having investigated stores control procedures in the Hydro-Electric Commission and the Education Department.

In his 1970 Report, the Auditor-General made the following comments on these authorities (reference pp. 257, 258):—

HYDRO-ELECTRIC COMMISSION

The Commission has thirty-seven main stores for maintenance and construction programmes and held, at 30 June 1970, stock to the value of \$4,277,000. It is noted that plant and vehicle spare parts are included in this figure.

There has been an increase of approximately 9.66% in the capital investment in stock, at 30 June 1970, as compared with last year.

During the year the Commission's Internal Audit Section visited twenty-nine main stores, examining in most cases complete stores, and in others, substantial proportions of particular stores divisions. Salvage and Reclaimed Materials Sections also received attention.

Particulars of the various stocktakings carried out are as follows:—

	1968-69 \$	1969-70 \$
Value of stock at the various dates of physical verification	2,974,808	3,206,423
Total value of items found surplus	16,036	10,810
Total value of items found deficient	13,575	14,149
Overall net discrepancy revealed by stocktaking	+\$2,461	-\$3,339
Total number of stock cards examined	39,356	56,155
Total number of discrepancies between stock found and the ledger balances	1,565	3,043

The percentage of stock items showing discrepancies in the year 1969-70 represented 5.41% of the stock items examined in that year. The percentage for inspections made during 1968-69 was 3.97% and in 1967-68 3.1%. The results of examination of individual stores varied considerably, and in 1969-70 ranged between less than 1% to 17% of all stock lines examined.

Stock discrepancies in excess of 10% were established in respect of Hobart, Deloraine, Kingston and printing and stationery stores. Both the Commission's internal audit staff and my officers have over the years commented on the high discrepancy rate at the Hobart No. 1 Store, and I am concerned that the position has not improved, but has in fact, deteriorated.

I have written to the Secretary requesting details of any investigations made into the operation of this store, and of action taken or contemplated to improve the situation.

Stock and equipment have been examined for retail store establishments (5), garages (7) and other miscellaneous departments. During the year, Internal Audit Section has also verified furniture and equipment relative to hospitals, chalets, staff houses, etc.

EDUCATION DEPARTMENT

Resulting from an unsatisfactory audit report following an inspection of the Devonport Maintenance Store, the Education Department carried out a survey of the systems in operation at the stores at both Devonport and Burnie, and introduced a bin and ledger card control of all stock items at these centres.

A printed instruction of stores procedure has been issued to each storeman, and a system to record minimum and maximum stock holdings is to be introduced.

As mentioned in last year's Report several unsatisfactory points in connection with School Books and Materials Suspense Account stores were raised, and action was promised to rectify these matters. Subsequent follow-up revealed that all points except two had been completed, and these were in the process of receiving attention.

The audit inspection of Suspense Account stores during the year proved generally satisfactory, with the exception of those at the Teaching Aids Centre Substore, where discrepancies appeared excessive, particularly in view of the fact that this store is subject to internal checking approximately every six months.

In addition to Suspense Account stores over which a financial as well as a physical control is maintained, the Education Department has large quantities of stores, over which stock control in quantity only is exercised.

These stores consist mainly of items of furniture and equipment which have been purchased and paid for from funds voted specifically for this purpose, and are held in store pending eventual issue to schools. They are commonly known as non-suspense stores.

Audit examination of these stores revealed a large number of discrepancies, due chiefly to reasons related to recording, the main one being the failure to record items returned to store.

I was dissatisfied with the standard of internal checking of these stores and submitted proposals to the Department designed to facilitate recording, strengthen control, and ensure that adequate internal checking is carried out.

The Department has agreed to implement most of the suggestions, but has stated that for the present no guarantee can be given that non-suspense stores will be fully checked in each year.

It is my opinion that the Department should plan to increase the extent of internal checking so that 100% annual coverage is attained at the earliest possible date, particularly in respect of the predominant stockholding in Hobart, and that in the meantime the more attractive items should be examined more frequently.

The Committee heard evidence from the following witnesses:—S. Harris, Stores Superintendent, Hydro-Electric Commission; R. J. Purves, Chief Administrative Officer, J. C. Besier, Acting Secretary and E. L. Harris, Senior Executive Officer, Education Department; and J. G. Lennox, Deputy Auditor-General, and made tours of inspection of the Hobart No. 1 Store, Hydro-Electric Commission, at Moonah, the Teaching Aids Centre Substore, Education Department, in Brisbane Street, Hobart.

Hydro-Electric Commission

The Auditor-General's comments were referred to the Commission and in reply the following statement was submitted in evidence:—

As at 30 June 1970 the Commission had thirty-seven stores consisting of 7 base (located at Hobart and Launceston), 17 rural district, 3 construction (Gowrie Park, Strathgordon and Scotts Peak) and 10 power station and sundry stores with a stock value totalling \$4,117,116. (The figure given in the Auditor-General's Report of \$4,277,000 was approximately only and was given before the final completion of the Commission's end of year accounts.) We have a total stock classification of approximately 40,000 items with approximately 70,000 items in all stores.

Procedure and control is under the direction of the Stores Superintendent and officers of his department visiting all stores from time to time on matters affecting procedure, stores layout and any other details which may require attention. Staff at base and construction stores are under his direction and rural and power stations are under the supervision of the officers in charge. The Commission's Internal Audit staff carry out regular stocktakings at all stores in conjunction with the Auditor-General's staff. From stock-taking reports submitted from time to time by the Internal Auditor investigations are carried out by officers from Stores Superintendent's Department.

Depending on the type and nature of the store, discrepancies can range quite considerably, whereas a minor store with little movement may show a particularly good result, a major store such as Hobart or a construction store with a very large volume of material and with a greater turnover of material and also personnel could show a very adverse report at different periods. Labour is a particular problem as we have a constant turnover in storemen and in training staff it is not always possible to secure suitable personnel and frequently before errors are discovered the staff concerned have left the Commission.

In respect to Deloraine and Kingston, discrepancies were due to clerical errors. Although storemen have, in the main, been doing a satisfactory job their limited capabilities to perform the clerical side of their duties often results in errors of recording. Discrepancy statements do not necessarily indicate that items have been misappropriated. These items could have been used within the Commission but the necessary paper work has not been completed. Both of these stores have been instructed in procedural matters since the last report of the Commission's Auditors and it is anticipated that stocktakings in future will show an improvement.

With respect to Printing and Stationery Store this is an isolated instance where the percentage of errors exceed 10%. This appears to be due to the volume which was passing through the store at this particular time. Recent stocktaking shows a discrepancy figure of 5.5% which is on an average the general results obtained by this store.

I cannot agree entirely with the Auditor-General's statement concerning Hobart Store. During the period under review quite good results have been obtained with discrepancies ranging from 2% to 11% but I must admit that other stocktakings have shown discrepancies higher than would normally be expected. However it is difficult to determine what is a permissible number of errors particularly with a store such as Hobart where there are a large number of personnel involved in all phases of receiving, issuing and recording. Dependent on the nature of material held under various stock divisions, one would expect the number of discrepancies in relation to movements to vary and this is what has happened in relation to this particular stocktaking. Whilst no doubt some of these discrepancies could be eliminated by instituting a regular check system this would prove costly and in considering the economics of the proposition it is pointed out that for the year ended 30 June 1970 the total value of discrepancies in Hobart Store was \$108. (This figure was later corrected to \$248.) The value of stock at this store as at 30 June 1970 was \$672,611 with ledger postings totalling 52,000 covering 4,500 stock items.

We are constantly looking at new systems and endeavouring to improve the standard of work not only in our main store but all stores throughout the Commission. A supervisory officer has been appointed to Hobart Store and the Stock Section is one of the sections directly supervised by him. Following this appointment results during this financial year show improvement with discrepancies of 7.64%, 12.13% and 9.1%.

The Committee were interested in the witness' submission that the total value of discrepancies in the Hobart Store for 1969-70 was only \$248. He explained that this figure represented the difference between surpluses and deficiencies found when checking was carried out. In other words, if on one item there was a surplus of \$12.00 worth of goods and on another a deficiency of \$14.00, the total discrepancy was considered to be \$2.00. The Committee were told that the Commission concern themselves with the total discrepancies calculated on this basis because most discrepancies result from items being stored incorrectly

with similar items. Thus if there is a surplus of say 3-inch bolts and an equal deficiency of 2½-inch bolts, it is reasonable to regard the two errors as cancelling each other out. The Committee consider that though this concept has its uses, it should be used within proper limits, otherwise quite misleading results can be expected. A check of Division 24 of the Hobart No. 1 Store carried out on 20 September 1969, illustrates this:—

<i>Item</i>	<i>Surplus</i> \$	<i>Deficiency</i> \$
Hose PVC, ½-inch	1.80	....
Pipe, asbestos cement	....	11.52
Copper tubing, ½-inch x 18 G	....	1.60
Copper tubing, 5⁄8-inch x 18 G	4.42	....
Copper tubing, ¾-inch x 18 G	....	2.10
Total	\$6.22	\$15.22

For the purposes of arriving at a balance, the Commission's records show that there was a net deficiency for this division of \$9.00. However, a more realistic approach would be to consider, for the purposes of checking, that this division consists of three unlike groups. In this way the following results would have been arrived at:—

<i>Item</i>	<i>Surplus</i> \$	<i>Deficiency</i> \$
PVC hose	1.80	....
Asbestos cement pipe	....	11.52
Copper tubing	0.72	....
Total	\$2.52	\$11.52

The difference is still \$9.00, but the point is that it is clear that there are surpluses and deficiencies in the various items, which in no way offset one another. Therefore in assessing the effectiveness of storekeeping within this division it can be said that there is a total discrepancy of \$14.04. There are cases in the records of genuine compensating errors in items such as bolts, drills, screws, and so on, which are kept in a large variety of sizes, and in these areas, it is legitimate to reconcile discrepancies between individual items. However, the Commission can take no consolation from the fact that though there were three steel fape measures missing on 20 May 1969, there was a surplus of one screwdriver. The Stores Superintendent, Mr Harris, assured the Committee that he was satisfied that where deficiencies occur they are not the result of misappropriation but of errors in storekeeping. The main problem seemed to be the difficulty of recruiting and holding satisfactory staff. Storemen are not well paid, and opportunities for promotion are so limited that there is no question of people with satisfactory clerical ability being induced to make a career in this direction. Staff appointments are not made for storekeeping positions. In fact, a storeman advances in wages when he is moved to truck driving. Mr Harris supplied the following table, which sets out discrepancies in Launceston, Hobart, Deloraine, Kingston and Printing and Stationery stores, as well as turnover and stock totals for the year 1969-70.

VALUE OF STOCK AND TURNOVER, 1969-70

	<i>Launceston</i>	<i>Hobart</i>	<i>Deloraine</i>	<i>Kingston</i>	<i>Printing and Stationery</i>
	\$	\$	\$	\$	\$
Total value of stock audited	246,713	873,108	11,563	82,757	51,228
Surplus found	1,494	12	251	188
Deficiency found	1,246	146	266	315
Total discrepancy	2,740	158	517	503
Net surplus	248	....	....	....
Net deficiency	134	15	127
Percentage net deficiency against value	0.028%	1.16%	0.049%	0.248%

TURNOVER AND VALUE OF STOCK, 1969-70

	<i>Turnover</i> \$	<i>Stock as at</i> 30.6.70 \$	<i>Turnover</i> Rate %
Launceston	776,686	247,900	3.04
Hobart	1,665,894	672,611	2.51
Kingston	39,568	30,245	1.66
Deloraine	34,546	8,397	3.51
Printing and stationery	124,971	62,334	2.20

Education Department

The Education Department was also asked to present evidence in reply to the Auditor-General's comments and the Chief Administrative Officer, Mr Purves, submitted the following statement:—

The Education Department maintains stores at the Teaching Aids Centre in Brisbane Street and at Harrington Street and other locations in the Hobart area. There are also stores in Launceston, Devonport and Burnie.

Suspense stores, so-called, are stores financed from the School Books and Material Suspense Account and are for the purpose of holding stocks required for the operation of the Teaching Aids Centre and workshop, the Science Centre and workshop and the furniture workshop. These stores are located at Brisbane Street and Harrington Street and other centres in Hobart and at Launceston, Devonport and Burnie are used for holding goods for eventual issue to schools; the cost of these purchases is met from funds specifically allocated for the purpose.

The points raised by the Auditor-General which were not completely rectified would appear to relate to the unit of issue and the re-numbering at certain stores.

With regard to the unit of issue arrangements have been made for these to be reduced to the lowest possible unit as required by the nature of the stores concerned.

Re-numbering of stores was necessary at Launceston, Devonport, Burnie and certain sections in Hobart.

This has been completed in Burnie, Launceston and Devonport but is incomplete in Hobart.

The excessive discrepancies in the Teaching Aids Centre substore have been a matter of concern to the Department for some time. It is realised that some of the problems may be attributed to the lack of suitable accommodation. The Department endeavoured to correct this situation and has made some reallocation of space. A new building for the Teaching Aids Centre is planned and working drawings and specifications are in course of preparation. The completion of this building should overcome the problems associated with storage.

There have also been some difficulties arising out of the changes in staff and the fact that some personnel of the Teaching Aids Centre have not been completely familiar with stores procedures resulting in some confusion in documentation.

The Department will continue its efforts with more vigour to eliminate the discrepancies that are occurring in this area.

The system of posting returns to stock for non-suspense stores has been rectified. The pink or original copy of the returns to stock together with the duplicate copy is forwarded to the storeman with the material. The storeman retains the original copy which details all aspects of the article being returned, that is, a full description, its condition and from whence it came. The duplicate copy containing the same details bears the storeman's signature and indicates his balance on hand and the part number to which the material has been returned to store.

This type of documentation is made in relation to the furniture and particularly equipment returned from schools which have been closed for some reason or section of a school which is closed due to a change in curriculum. An officer recently appointed to the Equipment Section has the responsibility of ensuring that returns to stock are fully accountable and that the procedure detailed above is carried out.

Internal checking of non-suspense material has been increased and to date a full check of all non-suspense stock held at Hobart has been carried out. The Department, in July 1970, could not give the Auditor-General a guarantee that a 100% check would be made in a twelve months' period. However, it is expected that such a check can be made as stocktaking officers' itinerary includes the Launceston Store holdings to be carried out in May together with Devonport Stores holding. A stocktaking will be made at Burnie during September and as stated it is expected that in the following year, this thirteen months period will be reduced to twelve months or under. Hobart has been completed.

The Department's non-suspense holdings are based on the need to store furniture and equipment for buildings to be completed in accordance with the Department's building programme; a copy of the monthly listing of completion dates of contracts is attached for your information.

Stock holdings are determined by the number and type of buildings to be completed. Some buildings have in-built furniture while in others, it becomes the responsibility of the Department to provide furniture and fittings. Any undue delay in completing the building by the contractor tends to increase stock holdings as the amount of stock held by the Department is based on a three to four-month purchasing period.

Any stocks held for maintenance purposes are minor and are the type that require immediate supply to enable departmental workmen to continue their repairs and maintenance.

The Committee were told that the Department has a system whereby an officer apart from the stocktaking officers makes frequent spot checks on attractive items selected by him. The stores held by the Department are suited to this selective method of control, since it is obviously appropriate and economical to apply special checks for the more attractive items. The Committee visited the Teaching Aids Centre substore in Brisbane Street, Hobart and found that quite a large volume of material, much of it in printed form and therefore difficult to count, was stored under difficult conditions. However, as the Committee were told in the evidence quoted above, it is expected that there will be considerable improvement when the new building is completed. The Department agreed that a larger and better trained staff would be able to reduce discrepancies, but witnesses thought that the economics of this would be somewhat doubtful. In response to a request from the Committee the Department provided a summary of the results of the last four checks carried out at the Teaching Aids Centre substore.

<i>Date</i>	SURPLUS		DEFICIENCY	
	<i>No. of Items</i>	<i>Value</i> \$	<i>No. of Items</i>	<i>Value</i> \$
December 1969	335	27.75	1,295	78.49
April 1970	276	38.38	452	68.06
November 1970	815	67.63	358	23.39
April 1971	600	33.57	301	16.42
	<u>2,026</u>	<u>\$167.33</u>	<u>2,406</u>	<u>\$186.36</u>

As in the case of the Hydro-Electric Commission there would be some cancelling out between surplus items and deficient items. In addition to this information the Department supplied details of the checks and some of the more prominent were discussed with the witnesses. In one case a publication called 'Welding Forging Theory' showed a surplus quantity of 177 in December 1969 and a deficiency of 180 at the following check in April 1970. The witnesses agreed that it appeared the original surplus was the result of an error in counting, perhaps double counting. The stock ledger would have been adjusted following the first count and in this way a false deficiency was discovered when the next count was made. There was a similar case with a publication called 'This Island', which showed a surplus of eighty-four in December 1969 and a deficiency of sixty-nine in April 1970. The witnesses said that a similar error would have occurred in this case. It seems clear that where large discrepancies occur under the conditions that exist at the store the Department should see that the item concerned is double checked before any alteration to the stock ledger is made. This suggestion was put to the Department, which agreed the procedure should be instituted.

CONCLUSIONS

The Committee discussed with the Deputy Auditor-General the aspects of storekeeping which are most important from his Department's point of view. Different systems of stores management control are required by each Department, varying according to the volume and nature of the material kept. However, it is necessary that any store should have—

- (i) adequate procedures for the verification and recording of inward goods;
- (ii) depending upon the size of staff, as wide a division of functions as practicable;
- (iii) satisfactory issue procedure;
- (iv) effective control and performance by the storeman in charge;
- (v) maintenance of the system through internal audit;
- (vi) verification of the effectiveness of the system by external audit.

The Committee found that both the Hydro-Electric Commission and the Education Department are aware of the shortcomings in the workings of their stores control systems. After examination of witnesses from both the Commission and the Education Department and discussion with the Deputy Auditor-General, and in the light of the records of discrepancies produced, the Committee found no reason to believe that misappropriation has occurred in either authority. The Committee anticipate that the Education Department's store at the Teaching Aids Centre will work more efficiently when improved facilities are available. In the meantime attention should be given to investigating large discrepancies that show up in checks, at the time.

The Commission's problems seem mainly to be the result of clerical inaccuracies. In this case, the volume of materials is large enough and valuable enough to warrant full consideration being given to improved status for staff. The point of keeping stock records, apart from ensuring security, is to provide information on the resources available for use. If records are kept accurately it is a simple matter to maintain stores at the optimum level. This is particularly important in an authority with the scale of operations of the Hydro-Electric Commission. Discrepancies between stock ledgers and actual holdings can result either in over purchases or unavailability of particular materials. In recent years, vacancies resulting from retirements have been filled by award personnel. This has occurred because duties and conditions appear to correspond to the appropriate award. The organisation of the Commission's stores personnel has therefore become bottom heavy.

It is recommended that the Commission carry out a reorganisation of stores personnel to provide for an adequate number of supervisory officers with appropriate salary scales and opportunities for promotion. Continuous in-service training should be provided at all levels, leading to a reduction in the excessive level of discrepancies.

L. COSTELLO, Chairman

Ministerial Party Room,
House of Assembly,
Hobart, 24 June 1971