



TASMANIA

1978

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 PARLIAMENT OF TASMANIA
 

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 PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS
 

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# MATTERS ARISING FROM AUDITOR-GENERAL'S REPORT 1977

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*Laid upon the Tables of both Houses of Parliament and ordered to be printed*

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## MEMBERS OF THE COMMITTEE

## LEGISLATIVE COUNCIL

Mr Bisdee  
Mr Gregory  
Mr W. C. Hodgman

## HOUSE OF ASSEMBLY

Mr Mather (Chairman)  
Mr Aulich  
Mr Sherry

## WITNESSES EXAMINED

P. M. Sinclair, Director-General of Planning and Development; R. E. Spinner, Administrative Officer, Department of Planning and Development; G. T. Webb Transport Commissioner; A. J. Pedder, Secretary, Transport Commission; D. A. Kearney, Registrar, University of Tasmania; M. J. Mulcahey, Secretary Education Department; J. R. Gill, Assistant Secretary (Finance), Education Department; E. L. Harris, Senior Executive Officer (Equipment), Education Department; T. Hawkes, Chief Accountant, Department of Health Services; E. J. Krenzer, Accountant, Department of Health Services; P. T. Unwin, Chief Commissioner for Forests; R. C. Mitchell, Chairman, Motor Accidents Insurance Board; A. R. Neilson, Chairman, Totalizator Agency Board; W. V. Wilson, General Manager, Totalizator Agency Board; R. C. Wilson, Regional Director of Education, Southern Region, Education Department; C. R. Cleary, Business Manager, Tasmanian College of Advanced Education; B. D. Oates, Senior Accounts Clerk, Tasmanian College of Advanced Education; and R. J. Dwyer, former Secretary, Cygnet Fire Brigade.

**REPORT**

Following the usual practice, the Committee discussed with the Auditor-General, Mr J. G. Lennox, his report tabled in September 1977 (Paper No. 41) and subsequently listed for enquiry a number of matters mentioned in that report.

Hearings were attended by a Treasury observer, the Public Accounts Officer, Mr J. Mathewson, and by the Auditor-General and senior Audit Department staff, Messrs J. Nicholls, M. P. Peck, K. T. Reeves and L. Collis.

**Industrial Development**

The Committee noted the Auditor-General's comments on page 11:—

The audit of the Division, formerly titled Directorate, was advanced with the objective of examining a busy year's Accounts to enable matters which might arise from the audit to be adequately discussed and assessed prior to this report being tabled.

The 1976 Report broke away from the practice previously adopted by Audit of refraining from reference to or identification of particular industries receiving assistance from the Directorate, provided the Act provisions had been complied with and all practicable steps taken to protect the Government funds advanced. Where I have deemed the circumstance appropriate and the broad situation of Companies is generally known, they have been named but in most cases specific reference has not been regarded as necessary.

The particular financial circumstances of the year 1976-77 have been such that the Directorate has been called upon for support to an unprecedented extent and the strains of handling a wide variety and number of applications were apparent in auditing the Division which has a relatively small staff.

Parliament has seen fit to provide specific Parliamentary authority for the complex investment of funds in the Electrona Carbide Works referenced in the 1976 Report but the overall difficulty remains that requests for financial support to other industries also have a background involvement of economic, political and sociological problems and particularly that of possible unemployment in areas where other employment is limited if not non-existent.

In these circumstances and sometimes only when the business concerned is in dire straits, applications for assistance have been made, the Division being in a position somewhat akin to that of a lender of last resort, hence the security available could be less attractive than in the case of an investor concentrating upon adequate security and a sufficient return on capital.

It is necessary that I make the further point that the principal Act which governs the Division's activities makes no reference to the taking of security in respect of advances made to assist in the development or extension of industries. Security has however been taken in all cases to date.

In reading the section of this Report on page 75 dealing with the affairs of the Division in more precise terms, due regard should be paid to the general circumstances outlined above.

Under the heading 'Assistance to New and Existing Industries' on page 77, the Auditor-General said in 1976-77 the Directorate had been called on for assistance in a far greater degree than in past years, under both the new or developing industries provisions, and for assistance to existing industries. The level and form of assistance required, the range of industries concerned, and in certain cases and local areas the necessity to take into consideration a background of political pressures, arising from sociological and employment problems, had, he said, placed a strain on its resources in the granting of assistance. These entailed the need for considerable investigatory work by the Directorate, and in some instances in his view, the acceptance of risks beyond the limitations normally imposed by the exercise of financial prudence: 'However, it is pertinent to note that the legislation does not impose strictures as to the Directorate taking security for advances made.'

The Auditor-General went on to comment on specific instances.

First, the K-Pine Group of Companies having been placed in receivership, the Guarantee had been called on and an amount of \$218 896 (including interest) paid in 1976-77:—

Following audit examination, valuations of assets by Directors of the Companies were the subject of enquiry and the Director of Industrial Development asked to comment on steps taken to verify them. The general nature of his reply is considered to reveal insufficient care and attention by all parties concerned, to the proper safeguarding of the public moneys involved, having particular regard to the position subsequently shown in the Company's Statements of Affairs and to problems experienced in the milling of softwood timbers in Tasmania.

The Director-General of Planning and Development disagreed with the criticism made by the Auditor-General about the degree of care and attention shown prior to giving the guarantee. He said that it had been necessary to make a subjective judgment in this case and that in this respect the Department had been in good company, since three private lenders had all made the same judgment. It had been a family business led by a man with excellent reputation in the timber business. One family had been virtually bankrupted and another had lost about \$300 000.

It was stated in evidence that 'this was probably one of the best presented cases we have ever had put to us', and the Committee were told that all of the above investors were backing the company before the Government became involved.

The problems which caused the company to fail were a market slump due to a sudden decline in the building industry, a recovery rate of timber far below what had been expected and over-valuation of assets. The Director-General conceded that in such a speculative undertaking, involving a new and specialised type of venture, interstate consultants could have been brought in to value the assets. However, a subjective judgment had been made which seemed safe at the time. The Committee concluded from the evidence that the Department accepted too readily the assessments of the promoters which were affected by optimism. Guarantees should not be given in such cases without some reference to competent independent advice.

Another case, which involved an equally unfortunate failure of another family business, had a better result for the government.

The Auditor-General reported that a company engaged in fish processing, A. Thompson and Son Pty Ltd:—

... was granted a loan of \$80 000 in August 1976 for the purpose of providing working capital. It is now in liquidation. Evidence supplied to the Directorate prior to the loan being advanced, clearly suggested an unsound trading position. Following enquiry, I was informed that the decision to grant the loan was made after taking into consideration the economic circumstances of the East Coast and in particular the Triabunna region, and that detailed attention was given to adequate security being provided.

Where the security in the case of K-Pine had been the assets of the company which turned out to be over-valued, in the case of A. Thompson and Son Pty Ltd the security had been two farms. The Director-General said that these had been sold and that the Government would receive all the money it was owed and that there would therefore be no loss to the State.

The Director-General agreed that it had been realised that the company's trading position was unsound, but the loan was made 'to offset what would have been a very bad situation at Triabunna had the company closed at the time'. In the light that the loan was properly secured, the Committee accepts this explanation.

The Auditor-General mentioned also the Electrona Carbide Works which had been dealt with extensively in his previous Report. He noted that audit recommendations regarding specific Parliamentary approval had been adopted with the passing of the Carbide Industry Development Act 1976.

The Director-General spoke with enthusiasm on this project. He said that the Department's involvement started in 1975. They negotiated a purchase in the name of the Government or its nominees from Goldfields Pty Ltd. In fact, the Government did not ever own the works because the nominee company was formed before the Government had to take up the contract. The Director-General said that this had been one of the most complex negotiations in which he had ever been involved. He said that there was now 'a successful progressive company, which looks like expanding and all present indications show that we have a very successful operation using Tasmanian labour'. He said that subsequently part of the money which is under guarantee to this company will be spent in Tasmania and that all their profit figures are showing excellent results.

I have the greatest confidence this company will be one of the success stories of the Government, maybe ranking alongside the King Island Mine on which the Government also took similar action. To me personally this is a very pleasing achievement as far as retaining the 160 jobs down there and putting into effect a long-term benefit which particularly the Channel area and to a larger extent Tasmania will be proud of in the future.

The plant now looks like becoming an acetylene carbon black plant now. Whereas that was the 'cream of the cake' it is now becoming the 'cake', and the orders coming now from all over South East Asia and various parts of the world are putting down a base which will prove that this company has a tremendously long-term profitability and will be one of the major companies in Tasmania. This product is the basis of dry cell batteries, and although technologists have tried for many years to form a substitute for it they have now given up. It can only be made from calcium carbide. It requires four tons of calcium carbide to make one ton of acetylene carbon black, and the orders are now over 2 000 tons a year, so we are talking about 8 000 tons of carbide. The plant's future looks assured. The new furnace will be installed in June of this coming year.

### Transport Commission Employment Savings

The Committee noted from page 169 of the Auditor-General's Report that the Commission's net loss fell sharply in 1976-77.

| The net loss comprised:—                            | 1974-75            | 1975-76            | 1976-77            |
|---|--------------------|--------------------|--------------------|
|   | \$                 | \$                 | \$                 |
| Coastal Shipping Service Operating Loss             | 2 389 698          | 877 562            | 1 820 644          |
| Bruny Island Ferry Operating Loss                   | 127 201            | 265 282            | 300 934            |
| Trans-Derwent Ferry Service Operating Loss (Profit) | 17 971             | 528 727            | 508 143            |
| Tool Annexe Operating Loss                          | 3 793              | 21 572             | 769                |
| General Expenditure (net)                           | 729 565            | 844 335            | 1 288 120          |
|   | <u>\$3 232 286</u> | <u>\$4 537 478</u> | <u>\$3 918 610</u> |

Bearing in mind that sudden reductions in operations, for example the transfer of the railways to the Commonwealth Government, cannot immediately be matched by proportionate reductions in administrative costs, the Committee thought it important to enquire as to what savings in employment had so far been made.

The Transport Commission provided the Committee with budget forecasts for the year 1977-78. The loss on the operations of the Bruny Island Ferry Service was expected to rise to \$320 000, coastal shipping services to fall further to \$1 300 000, and the Trans-Derwent Ferry Service to \$250 000, and the estimated loss for the Precision Tool Annexe would be \$30 000. Net general expenditure was estimated at \$893 000. On these estimates, the net loss would be \$2 793 000, again a very large reduction.

The Commission also provided comprehensive staff employment figures which are reproduced in full:—

### SUMMARY OF STAFF EMPLOYED

|                               | 30.6.75    | 30.6.76    | 30.6.77    | 30.11.77   |
|-------------------------------|------------|------------|------------|------------|
| <i>Secretariat—</i>           |            |            |            |            |
| Clerical                      | 44         | 44         | 42         | 45         |
| Cleaners                      | 22         | 22         | 20         | 22         |
| Smithton Aerodrome            | 1          | 1          | 1          | 1          |
| <i>Finance—</i>               |            |            |            |            |
| General Accounts              | 37         | 39         | 42         | 44         |
| Data Processing               | 19         | 20         | 20         | 20         |
| Shipping                      | 6          | 5          | 5          | 4          |
| <i>Shipping Services—</i>     |            |            |            |            |
| Administration                | 13         | 13         | 12         | 12         |
| Bruny Island Ferry Service    | 12         | 12         | 10         | 15         |
| Coastal Shipping Services     | 72         | 39         | 34         | 33         |
| Trans Derwent Ferry Service   | 56         | 40         | 35         | 1          |
| <i>Precision Tool Annexe</i>  | 47         | 56         | 59         | 65         |
| <i>Public Vehicle Section</i> | 42         | 42         | 51         | 52         |
|                               | <u>371</u> | <u>333</u> | <u>331</u> | <u>314</u> |
| <i>Tasmanian Railways</i>     | 2069       | 1975       | 1839       | 1780       |

The significant area in which savings have been made is the coastal shipping services. The high costs incurred formerly were the result of operating the 'Rah', necessary because of the sinking of the 'Straitsman', and of operating the 'Joseph Banks'. With both vessels disposed of, the services will be confined to operating the 'Straitsman' to serve King Island. The Committee notes that Coastal Shipping Services staff have been reduced to less than half the numbers at 30 June 1975.

The Commissioner explained that the Railways has no finance section so that accounting work has been done by the Commission and the cost charged to the Railway Account. This arrangement was to remain until 30 June 1978. The Commonwealth Government will at some stage take over accounting activities. Data processing for the railways will be handled by the computer and Port Augusta, South Australia, and about thirty employees of the Transport Commission will become redundant.

The Commissioner agreed that a loss of \$1 300 000 to operate the 'Straitsman' is very high but as he said, for the service to the Island to be maintained, this loss is inescapable, given that 'the cost of running ships today is fantastic'

The Committee is satisfied that the Transport Commission's efforts to contain, and wherever possible, to reduce costs, are adequate.

The Committee will watch with considerable interest movements in the Commission's accounts and expenditure over the next few years.

#### **Totalizator Agency Board: Audit of Accounts**

The Auditor-General drew the Committee's attention to comments he made on this subject on page 167:—

Section 55 of the Racing and Gaming Act requires the Board to submit its annual report to the Minister not later than 31 October and to include the audited Accounts and Balance Sheet for the year ended on the preceding 31 July. So far as I am aware there is no similar provision in any other Act which in effect requires completion of the audit on the Accounts prior to 31 October.

Having regard to my Department's manifold commitments I have requested that the Minister should seek Parliament's consent to amend section 55, thereby removing the absolute priority accorded the audit of the T.A.B. Accounts *vis-a-vis* all other Accounts.

He said he was very concerned at this provision which, although it suited the Board very well, was not practical. The position in October 1977 was that of the two auditors experienced in this work, one was engaged on another assignment which led to police action and the other was sick.

The Chairman of the Totalizator Agency Board opposed any change to the system. He said that as an organisation of some magnitude, it could eventuate that accounting procedures adopted by the Board may be the subject of disputation on the part of the Auditor-General and it would not be satisfactory to the Board for such a matter to be raised subsequent to the annual accounts and reports being submitted to the Minister. The Board believes in having the protection of audited accounts and that that protection should be given within the time span provided for in the legislation.

He drew attention to the fact that in all other States and in New Zealand, the audit is completed within a three month span. In Queensland, Western Australia and New Zealand, the audit is conducted not by the Auditor-General but by a private firm of auditors.

The foregoing facts demonstrate that Tasmania is the only State where the annual accounts of the Totalizator Agency Board are not audited within three months of balance date. There is nothing in the operations of the Tasmanian organisation which makes audit any more complex or difficult than in other States.

The view of the Board in that the Audit Department in Tasmania has no greater number of commitments than its counterparts in the mainland States. The remedy therefore appears to lie in the staff of the Audit Department being augmented sufficiently to cope with its responsibilities. The Board recognises that this is matter for the Auditor-General to determine, but for its part it very strongly persists in the view that its accounts should be audited and certified within three months of balance date. If the Auditor-General cannot comply with the requirements of Section 55, the Board would seek an amendment enabling it to have its accounts audited by a firm of public accountants.

The Chairman was examined on this submission at some length but at no stage did he impress the Committee that in this context his is anything other than a trading organisation, by no means the only one operated by the Government in this State.

Considering the scale of operations of the Boards in places like New South Wales and Victoria, and the sizes of those States' Audit Departments, it is not particularly helpful to point out that they observe similar deadlines.

The Committee have, of course, complete confidence in the Auditor-General and his staff. No question has ever arisen in the Parliament as to their integrity and efficiency and judgment, shown over many years. Therefore the Committee believe that the logical way to treat the Board's accounts is to leave it to the Auditor-General to use his discretion in programming this audit. The Committee point out that in a given year the Auditor-General alone is in a position to know what the priorities are, and accordingly we recommend that the Racing and Gaming Act be amended to remove the deadline, and that the Totalizator Agency Board's accounts continue to be audited by the Auditor-General.

### **Education Department: Equipment Expenditure**

The Committee noted the following comment on page 56 of the Auditor-General's Report:—

Expenditure on equipment amounted to \$3 773 630 or \$1 273 630 above the sum originally proposed. The June 1977 expenditure of \$1 303 490 was noted to include the following types of equipment:—Colour television sets (226), tractors (12), sewing machines (100), universal milling machines (5), centre lathes (50), video cassette recorders (35), dividing screens (130), a P.D.P. computer \$126 400 and various gymnasium equipment, \$47 160.

The Department in evidence pointed out that equipment purchases are an integral part of the total capital works program: the Loan Fund allocation 'Education Department Purposes Generally' has been operated as a one line appropriation for many years:

There has been considerable flexibility within the Loan fund allocation to re-organise budget provisions and undertake commitments across the whole spectrum of transactions making up the Capital Works Program. Due to changes in predicted expenditure in these areas, the Department must adopt a continuous and flexible budgeting system in respect of the total Capital Works Program . . . The over-expenditure in equipment must be related to the total program position. In this regard, it should be noted that the total expenditure in the Department Loan Fund was \$29 655 276 or \$905 276 in excess of the original budget proposal of \$28 750 000. This represents a budget variation of 3.1%, an acceptable variation in view of the large and complex nature of the Department's Capital Works Program. The Department, with Ministerial approval, embarked on an intensive equipment purchasing program in February, March and April 1977 as a result of a budget prediction that there would be a substantial under-expenditure in the Major Building Projects component of the Capital Works Program.

The Committee notes that for 1976-77, expenditure for equipment was about 12½% of the total loan fund expenditure for the Department, against a proposed proportion of 8%, and points out that purchases of television sets, sewing machines and the like are different from building works in that they result in the money flowing out of the State.

The Department tendered in evidence a report from the Tasmania Media Centre dated February 1976, recommending the change-over to colour television in schools at an estimated cost of \$433 595. The decision to effect the change-over was apparently based on this report, a passage from which is quoted here:—

Research is still being carried out throughout the world as to the educational advantage of colour. Much of it is inconclusive and even contradictory. Some is encouraging. In 1971 Dwyer was able to demonstrate across a range of media that greater student achievement occurred when coloured visuals were used compared with black and white visuals.

Dwyer's general finding was that colour added to black and white images tended to bring about greater cognitive learning. He also found that excessive stimulation caused a lessening of learning. Coloured line drawings were found to be more effective than coloured photographs for instance. On the basis of Dwyer's research, teachers would be disposed to select a colour system as being of inherently greater educational potential than black and white T.V.

### **Education Department: Accommodation for Teachers at Hobart and Launceston**

Although this subject has not been commented upon by the Auditor-General, the Committee decided to seek information from the Department. In evidence, the Department said that while housing is provided in country areas, in the main centres only 'transit accommodation' for a year is provided: 'teachers who are moved into these centres and are allocated housing are expected to use their period of tenancy as a time when they can look around and find their own accommodation'.

Overseas and interstate recruits who are brought in to fill specialist positions are guaranteed accommodation for two years, and many find their own accommodation before this time is up.

Teachers transferred from country areas to Hobart or Launceston are given a high priority; the Department makes sure accommodation is available before the transfer is made. When teachers are transferred at their own request, requests for assistance with accommodation are treated on their merits.

Teachers applying for promotion are given advance warning that where promotion involves a change of household from one locality to another, the responsibility for housing rests with the applicant and no guarantees of Departmental assistance is given. When accommodation is available assistance is given.

Accommodation is granted on the basis of need. Preference is given to couples with children over couples with no dependents. There is no provision for providing accommodation for single tenants but applications would be considered on limited tenancy if accommodation was vacant.

In Launceston, the Department has eight houses, ten units and four flats. The Committee were told that in March 1978 all were occupied and there was no waiting list. In Hobart sixteen houses and fifteen flats are available. There were six unsuccessful applicants for accommodation at the end of 1977. One of these, a teacher with dependents had subsequently been offered accommodation and it was believed the other five had obtained satisfactory private accommodation.

#### **Motor Accidents Insurance Board Reserves**

The Auditor-General commented upon the high level of the Board's reserves on page 132, as follows:—

The Revenue Statement for the year ending 30 June 1977 discloses a surplus of \$4 821 167 which comprises an underwriting surplus of \$3 072 755 and income from investments of \$1 748 412. The surplus of \$4 821 167 was applied to the Contingency Revenue which was increased by \$567 867 to meet anticipated growth in claim costs and management expenses, resulting in an Appropriation Account surplus of \$3 541 498 being carried forward. The establishment of a Contingency Reserve is based on the August 1976 Report of the Premiums Board and is a calculated component of premium rates. Premiums were reinstated without change on 1 December 1976 and have effect for a period of twelve months. Seemingly the 1976-77 Revenue surplus of \$4 821 167, as compared with the prior year's surplus of \$182 865, has been influenced by—

- (a) A full year's impact during 1976-77 of premium increases from 1 December 1975.
- (b) Over provision at 30 June 1976 for outstanding and unreported claims.
- (c) Increased income from investments, the 1976-77 amount being \$1 748 412 compared with \$846 684 in 1975-76.

The Chairman of the Motor Accidents Insurance Board took the position that the Board was obliged to make an estimate of what the reserve should be and to set funds aside accordingly. He said that in the nature of motor accident insurance, it was inevitable that over-provision for claims would occur in some cases. He gave hypothetical examples, including one of a young man with no dependents seriously injured in a motor cycle accident. In the light of the prognosis \$50 000 is provided, but the man suddenly dies and only \$2 000 in hospital expenses has been paid out. The Chairman said that estimates were framed carefully by experienced people, but conceded that premiums had been too high since the introduction of the no-fault scheme.

The Chairman of the Board expressed the view that motor accidents insurance could be settled more quickly and efficiently if the legislation were amended to clear up the problem of the driver who escapes injury and refuses to make a report on an accident which will allow an injured passenger's claim to be met. At present, payment depends upon this report being made by the driver. He also felt that the eventual abrogation of the common law action, which occasions great delays, would be beneficial.

The Committee are satisfied from hearing the Chairman and from discussions with the Auditor-General that the Board has a good accounting system. As the Auditor-General said, it is rather early to say whether the reserves are excessive or not. But it does seem that assistance from an actuary would facilitate better assessment of reserves needed and the Committee recommend that this be considered.

**Forestry Commission: Tender Documents for Softwood Cutting**

The Auditor-General, on page 83, commented as follows:—

On pages 88 and 89 of the last Report reference was made to the calling of tenders by the Commission for the cutting of softwood in the North-East of the State and in particular to the omission from the tender documents of reference to the levy payable under the Timber Promotion Act 1970, the refusal of the successful tendering company to pay the levy and the resultant decision by the Forestry Commission to pay the levy out of royalties received from the Company

I have reviewed the circumstances leading to the omission of the levy payable from the tender documents and in subsequent reports to the Commission and to the Minister for Primary Industry referred *inter alia* to—

- (a) a memorandum from the then Regional Forester, Launceston, prior to calling of tenders in which he drew the Commission's attention to the need for clarification regarding the levy in the tender documents, and
- (b) the fact that the tender documents specified that tenderers were deemed to have acquainted themselves with the provisions of the Forestry or any other Act and Regulations applicable.

In reply, the Minister pointed out that the tender documents were fully vetted by the Crown Law Department prior to their issue and the fault was not recognised. A legal loophole had been found by the Company's solicitors and the officers of the Commission involved in the drafting of the tender should not be blamed for what was considered by the Minister to be a genuine mistake.

It has been estimated that the cost of the levy to the Commission over the five-year period to 30 June 1980 will be of the order of \$40 000

In evidence from the Forestry Commission, the Committee were told that care was exercised by Commission staff in drawing up the tender documents and they were checked by the Crown Law Department prior to being distributed. The tender documents specified on page 13 that, 'Tenderers shall be deemed to have inspected the forests under offer and to have familiarised themselves with the provisions of the Forestry Act and Regulations in respect to the taking of timber under the sale, and with the requirements of any other Act or Regulations applicable'.

The Chief Commissioner for Forests confirmed that the Regional Forester at Launceston had queried the need for specific mention of the Timber Promotion Act in the tender documents. No action was taken on the query because—

- (a) tender documents had already been widely distributed at that time and there was no reasonable means of ascertaining who might hold such documents; and
- (b) it was still considered that the Timber Promotion Act would be covered under 'any other Act or Regulations applicable'.

Subsequent upon Tasmanian Softwoods Pty Ltd being awarded the sale under both tenders, the Company refused to pay additional royalty under the Timber Promotion Act and advised that it would take the dispute to the supreme court if pressed.

Subsequently, legal advice revealed that the inclusion of the words 'deemed to have familiarised themselves with the provisions of the Forestry Act and Regulations in respect to the taking of timber under the sale, and with the requirements of any other Act or Regulations applicable', was found not to have the strength in law which it appeared to the Commission was applicable.

The Chief Commissioner for Forests concluded that—

The Commission considers that the omission of any reference to 'additional royalty payable under the provisions of the Timber Promotion Act 1970' in the original tender documents was an inadvertent error, for which it must accept responsibility.

The Committee were assured that great care would be exercised in drawing up future documents to ensure that there would be no escape from full payment of royalties.

**University of Tasmania: Internal Auditor**

The Auditor-General reported on page 178 that the position of internal auditor at the University 'remains vacant at this time. This is disappointing and requires that additional time be given by Departmental Auditors to conduct a continuous audit'.

The Registrar, Mr Kearney, told the Committee that the position had been established in the University's 1975 budget. An appointment was made in April 1975, the appointee to have the following duties:—



- (a) ensuring that the established principles of certification and authorisation are being followed in the accounts office. This will include the checking of all aspects of the accounting routine;
- (b) ensuring that authorities for all salary payments are in order;
- (c) periodic checking of all cash held in the University and the oversight of the arrangements for the handling of cash;
- (d) ensuring that financial and related matters which should be placed before Council and its committees and the Professorial Board and its committees are tabled and that the resolutions are implemented;
- (e) verification of the inventory;
- (f) reviewing insurance requirements;
- (g) reviewing the accounting (and allied) systems reporting on their efficiency and suggesting improvements where necessary;
- (h) such other duties as the Vice-Chancellor may deem appropriate.

The Registrar said the officer was to be responsible to the Vice-Chancellor and it was never envisaged that the work which he performed would relieve the officers of the Audit Department of any duties. 'However, it is conceded that the Audit officers would be entitled to rely on the work performed by the Internal Auditor to some extent.'

Two persons held the position at different stages, from April to September 1975 and from May to August 1976. The Committee were told that the University has been in a difficult financial position since 1975. The system of triennial funding was abandoned in that year and grants were made available on a 'no growth' basis, despite the fact that the University had commitments consequent upon decisions of earlier years. It has therefore been necessary to effect economies in all areas of expenditure. One of the most important economy measures taken has been the setting up of a 'Committee on the Filling of Staff Vacancies' under the chairmanship of the Vice-Chancellor. This committee examines carefully every staff vacancy as it occurs and does not give permission for it to be filled unless there are special circumstances. At the present time, some 43 positions remain vacant; these include the position of Internal Auditor.

Mr Kearney said that it will be at least 1979 before there can be any improvement in the University's financial position. It is therefore most unlikely that it will be possible to fill the position of Internal Auditor before then.

The Committee accept that the University is in a very difficult position in filling this vacancy at present but urge that it be given a high priority as one which can be expected to produce administrative savings.

#### **School of Dental Health Services: Qualified Certificates in Respect of Accounts for 1974-75 and 1975-76**

The Committee noted on page 222 that the Auditor-General reported having given qualified certificates for two years. On page 38 he said that 'to effect improvement in the overall accounting standard, urgent attention should be given to the introduction of a system which will provide adequate internal controls and checks over the accounting functions including the costing of the payroll.'

Witnesses from the Department of Health Services were called to explain the reasons for the abovementioned qualified certificates. The problem had been a number of errors which cancelled out in allocations and apportionments between the three sections of the School Dental Health Service, that is the School Field Service, the School of Dental Therapy and the Orthodontic Service. These errors were attributed to several factors. The scheme had been introduced too rapidly for the Department's man-power and machine capacity. The scheme's separate sections, each had its own changing guidelines and costing requirements. 'Also this was only one of a large number of programs which gained momentum during the years of the Labor Government.

The Public Service Board had recognized the Department's predicament in 1976 when two additional officers were appointed to monitor Australian Government subsidised programs. With the recent appointment of a further two additional officers, an internal auditor and a personnel officer, the Department expected its problems to be resolved.

The Committee accept the Department's explanation of the circumstances which occurred in this case, where accounting functions dramatically expanded beyond capacity.

#### **Tasmanian College of Advance Education: Qualified Certificates in Respect of Accounts for 1975 and 1976**

This matter was recorded on page 222 of the Auditor-General's Report, and the Committee noted the following comments on page 161:—

The audit of the Accounts for the years ended 31 December 1975 and 31 December 1976 has been completed.

My Report under date 13 September 1977 addressed to the Council of Advanced Education included an expression of concern in respect of the unsatisfactory standard of financial control and account-keeping revealed for the period under review. These inadequacies together with lengthy delays experienced in obtaining adequate information and/or explanations, particularly in relation to the 1975 year required an investment of audit time greatly in excess of acceptable limits.

During the course of the audit, a misappropriation of College funds amounting to \$16 530 and extending over a period of almost two and a half years, was disclosed.

The fraud arose from the lack of proper internal control over a number of accounts at the periphery of the College affairs, e.g. the Needy Students Account, Students Housing Account, etc. There are a number of such accounts which require the fullest scrutiny and the implementation of proper and continuing controls as should be the case for all forty-five accounts maintained by the College irrespective of whether central to or at the edge of its total activity.

It is understood that steps have been taken to improve the overall accounting system within the College and to introduce fundamental elements necessary to provide a sound system of internal control. The effectiveness of the remedial measures will be the subject of close review at next audit.

Statements for the years ended 31 December 1975 and 1976 have received my certificate subject to the qualifications recorded in my report to the Council.

Witnesses representing the College freely admitted that the College's standard of accounting during the period had been 'absolutely woeful, due in part to staff changes and other factors there. About 47 different accounts were maintained. We have consolidated them into one big form. A variety of people were responsible for all the accounts and it was difficult to pin the trouble to one person'. Administrative control had since been transferred from Hobart to Launceston, and priority had been given to ensuring that current practice was correct. As the opportunity arises, attention is being directed to attempts to clear up the older suspense accounts which are not reconcilable.

The Council had appointed an inventories officer whose duties include reviewing accounting systems. Witnesses felt confident that under the new arrangements with accounting centralised at Newnham, accounting would be satisfactory in future, though they were pessimistic about the extent to which the accounts for 1975 and 1976 could be reconciled.

The Committee are concerned that the situation which arose at the College could occur. It should not be necessary now to point out the importance of constant review of accounting practices at top administration level. However, a real attempt appears to the Committee to have been made to meet the College's problems. The Auditor-General's comments on the results of future audits will be followed closely.

#### **Savings Bank of Tasmania Building Hobart: Delay in taking up Space**

The Committee noted the following comments by the Auditor-General on page 90 of his report:—

Further to comments in the previous Report concerning delay in Government occupation of leased accommodation in the State Savings Bank Building, Hobart, the Arbitrator found that the date of commencement of the tenancy should be 1 September 1975, which resulted in rental being required to be paid for the ten months prior to actual occupation. The excessive delay in occupation appears to have been due to the fact that the decision to take space in the building was made when the main structure was virtually complete and it was not therefore possible to arrange contracts for the installation of fittings and partitions in advance of the practical completion of the building. Delay was stated to be inevitable from the outset.

An inquiry is in progress at present and will be the subject of a later report.

**Cygnet Fire Brigade: Qualified Certificates in Respect of Accounts for 1974-75 and 1975-76**

This matter was recorded on Page 222 of the Auditor-General's Report.

The former Secretary of the Cygnet Fire Brigade, in evidence, explained that the qualified certificates resulted from inability to produce vouchers for most payments made by the Board. He provided a copy of a letter he wrote to the Auditor-General on 25 November 1976, the relevant part of which is quoted here:—

**2. EXPENDITURE**

The board members were of the opinion that as each of the accounts that are paid are considered at a Board meeting and minuted for payment and the cheques paying these accounts are drawn 'not negotiable', this is sufficient authority and discharge for the payments. They were also of the opinion that in line with modern auditing techniques it is more important that authority for a payment be in order than a receipt given. As explained to your officers, the statements etc. are sent with the cheques and, in most cases, they are not returned in spite of a request to do so. We find it virtually impossible then to supply invoices that are not returned to us. We were also advised by your officers that, provided the paid cheques were returned from the bank, this would be sufficient authority and discharge for the payment.

In answer to a question as to whether the Board has changed its practice since the 1976 audit, the witness said that 'it is clearly a difference of opinion on what constitutes a safe discharge for payment'. In support of the Board's position, he pointed out that payments are recorded on the cheque butts.

The Committee do not accept that there is any need for the Cygnet Fire Brigade Board to depart from standard Government accounting procedures by not retaining invoices to support payments made. We note that this situation has prevailed for some five years. A body which is subject to audit by the Auditor-General has a duty to conform to the accounting standards expected by him.

Parliament House, Hobart.  
24 August 1978.

R. MATHER, Chairman.