



FIRST REPORT

FROM

THE JOINT COMMITTEE OF PUBLIC ACCOUNTS

1952/53

ON

SUPPLEMENTARY ESTIMATES 1951/52

Senator Bayne - 11-3-53

THE SENATE

"Mr. President.

On behalf of the Committee, I
bring up the First Report of the Joint
Committee of Public Accounts on
Supplementary Estimates 1951/52."

(after Question Time)

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JOINT COMMITTEE OF PUBLIC ACCOUNTS

(appointed 25th September, 1952)

<i>F. A. Bland, Esquire, M.P.</i>	Chairman
Senator <i>C. B. Byrne</i>	Vice Chairman
Senator <i>S. D. Paltridge</i>	<i>G. Anderson, Esquire, M.P.</i>
Senator the Hon. <i>H.S. Seward</i>	<i>F. Crean, Esquire, M.P.</i>
	<i>F. J. Davis, Esquire, M.P.</i>
	<i>A. S. Hulme, Esquire, M.P.</i>
	<i>H. A. Leslie, Esquire, M.P.</i>
	<i>A. V. Thompson, Esquire, M.P.</i>

JOINT COMMITTEE OF PUBLIC ACCOUNTS

FIRST REPORT 1952/53

PART 1

Introductory

Your Committee was appointed on 25th September, 1952.

Mr. F. A. Bland was elected Chairman and Senator C. B. Byrne, Vice Chairman at its first meeting on 2nd October, presided over by the Rt. Hon. Sir Arthur Faddon, K.C.M.G., who explained the purpose of the Act constituting the Committee and discussed its nature and functions. Only preliminary business such as arranging for accommodation and staff, was transacted by the Committee pending the selection of the Secretary, Mr. N. R. Caffin who took up duty on 12th January, 1953.

Procedure

Your Committee devoted much time discussing procedural problems; it had before it information relating to the manner in which similar Committees work in other parts of the British Empire. As a result of its discussions and investigations your Committee has arranged for the Auditor-General or his representative, and the Secretary to the Treasury or his representative to be present at public sittings to assist the Committee, as required. Arrangements have also been made for a representative of the Public Service Board to attend when so directed by the Committee. The experience of the Committee since it commenced open hearings has amply justified the course it has taken.

The Public Accounts Committee Act 1951 provides that the Committee's reports are to be presented to both Houses of Parliament; it is silent, and perhaps rightly so, as to the action to be taken about criticism or recommendations by the Committee. Here again, the Committee considered the procedure followed elsewhere and decided that :

- (1) the report of the Committee should be tabled by the Chairman and Vice Chairman in the House of Representatives and the Senate respectively and a

motion moved that the report be printed as a Parliamentary Paper,

- (2) the Chairman of the Committee should thereafter forward a copy of the report to the Treasurer for his consideration with a request that he inform the Chairman of the action taken,
- (3) the replies received from the Treasurer should be included in a later report to the Parliament.

In pursuance of the duties imposed on the Committee under Section 8(a) the Committee proposes to go through the accounts of all the Departments one by one; thereafter, however, while performing its statutory functions, the Committee proposes to give special attention to selected accounts of revenue and expenditure which seem to call for examination. In addition, the Committee will include in its programme the other duties prescribed under Section 8 and will report to the Parliament such matters as the procedure for preparing the public accounts, the form of the Estimates, and the provisions of the Audit Act.

PART 2 - Supplementary Estimates 1951/52

The Supplementary Estimates for 1951/52 covering expenditure already incurred totalling £9.3m. are shortly to be presented to the Parliament. The Committee therefore asked the Department of the Treasury to place before it its draft of these Estimates in order that the Committee might report to Parliament matters which it might desire to have before it when considering the draft Estimates.

In the short time available to it the Committee has been mainly concerned with these Supplementary Estimates. Explanations of each item in the draft estimates were examined by a sub-committee of the Joint Committee and out of the hundreds of items a selection illustrating points of general principle and departmental and Treasury procedure was made for more detailed examination by the full Committee.

Selection of Items

Items in the Supplementary Estimates fall into different classes and these are illustrated by the selection which your Committee made, some of which are outlined hereunder.

There are, for example,

- (1) those items which are so large as to affect the Budget picture materially,
- (2) those which represent activities unforeseen at the time the original estimates were prepared,
- (3) those that are supplementary to existing votes, and
- (4) those which are not large enough to be included in the Additional Estimates.

Patents Office - Division 54B Item 4 - Printing of Specifications and Publications - £94,191.

Printing of specifications and other publications has been heavily in arrears and in 1951/52 prospects in the printing trade encouraged the belief that these arrears could be overtaken. New commitments amounting to £168,000 were incurred in that year by the Patents Office although the necessary funds' approvals for the full amount had not been obtained either by the Appropriation Acts or from the Treasurer.

In the opinion of the Committee, no commitment of Commonwealth funds should be made until the authority of Parliament has been obtained or that of the Treasurer for payment from the Treasurer's Advance Account.

Department of Trade and Customs - Division 73 - Import Licensing Administration Costs - £100,914

Full scale import licensing was imposed from 8th March, 1952. The cost of administration for the balance of the financial year amounted to £100,914 out of the total supplementary vote for this Division of £168,079. No provision for the Additional administrative

costs was made in the Additional Estimates presented to the Parliament on 20th May, 1952, because the view taken was that an accurate forecast of the additional costs could not then be made. The actual expenditure was much higher than anticipated.

The amount of £100,914 is the additional cost of carrying out a new policy which could not have been provided for in the original Estimates for 1951/52. If expenditure of this character is unpredictable there is then all the more reason why it should be placed before the Parliament for its approval at the earliest moment possible. That purpose would have been achieved by including even a token amount in the Additional Estimates.

C.S.I.R.O. Division 97.B Item 2 - Printing of Journal and Bulletins
£16,132

The original vote for 1951/52 was £33,000 and a programme of new commitments of the same amount was contemplated. As the full programme of new commitments was proceeded with, costs rose and the output of work from printers accelerated beyond what was anticipated with the result that the carry over of commitments to 1952/53 was less than expected.

Treasury approval was not obtained to all the commitments before the liabilities were incurred, as it was expected that, as in previous years, a substantial number of accounts would not be rendered until 1952/53. It was therefore necessary to seek additional funds from Treasury during the year in anticipation of Supplementary Estimates. These were granted on the understanding that equivalent savings were made in other votes of the organisation. Such savings were made.

C.S.I.R.O. Division 97.D Item 2 - Research Studentships - £3,673

In February, 1952, the Executive of C.S.I.R.O. decided that some of the studentships given each year, and until then taken out overseas, should be taken out at Australian universities. This decision increased the cost of the studentships for 1951/52 by reason of the fact that expenses of students at Australian universities

commenced at an earlier date than when the students went overseas. Later in that year, additional allowances and higher costs again increased the cost of the studentships for the year.

In some instances, the additional liabilities were incurred before any approach had been made to Treasury for funds' approval.

Additional funds were subsequently obtained from Treasury in anticipation of Supplementary Estimates. Towards the end of the year, these funds were found to be in excess of requirements and the organisation took advantage of that situation to use part of the surplus to pay accounts in respect of the following year. These accounts had not been included in the case made to Treasury for funds or in the Treasury approval.

These breaches of budget principles could scarcely be due to ignorance, but, in any case they reflect an attitude of mind that is to be deplored.

Department of Navy - Division 111 - General Expenses H.M.A. Ships, Fleet Auxiliaries and Naval Establishments - £693,325

Heavy commitments were outstanding at the beginning of the year and large orders were placed during the year in accordance with the approved Defence Programme. Costs turned out to be much higher than had been anticipated and extra funds amounting to £2,757,000 were obtained in the Additional Estimates. This proved to be insufficient, especially, as large unexpected claims were received from the Department of Defence Production in May and June, 1952.

In the original Estimates, Division 111 shows the expenditure proposed under seven items and the Additional Estimates for the Division are also itemised. The Supplementary Estimates however provide a lump sum for the Division as a whole without any dissection into items.

Department of the Army - Division 130 Item 1 Arms and Equipment - Maintenance - £1,284,807

- Division 131 Arms, Armament, Ammunition - £2,641,034

As in the case of Division 111, there were large commitments outstanding at the beginning of the year and heavy orders were placed in the second half of the financial year in accordance with the approved Defence Programme. Extra funds were obtained in the Additional Estimates as follows :

Division 130 Item 1	£1,000,000
131	£2,000,000

However, accelerated deliveries and increased costs meant that the funds available in the original Estimates and the Additional Estimates were insufficient. The expenditure in the first 9 months and the last 3 months of the year was :-

	<u>Expenditure in first 9 months</u>	<u>Expenditure in last 3 months</u>	<u>Total</u>
Division 130 Item 1	£3,598,394	£2,999,561	£6,597,955
131	3,626,730	6,014,303	9,641,033

The Committee felt that, in view of the large sums involved under Divisions 111, 130 and 131 forewarning of the likely expenditure in the last quarter of the year should have been sought so that Additional Estimates could have been obtained for greater sums than were in fact approved by the Parliament, or else a further Additional Estimate could have been presented to Parliament.

Department of Air - Division 142 - Aircraft, Spare Engines and Initial Range of Spares - £2,697,841

The excess expenditure arose from :

(a) direct overseas orders	£840,220
(b) local production projects	<u>£1,858,621</u>
	<u>£2,697,841</u>

The Department of Air handles the overseas orders itself but local production projects are controlled by the Department of Defence Production. The Department of Air finances that Department

by advances from this vote to the Aircraft Trust Account which is controlled by the Department of Defence Production.

Although the vote is the responsibility of the Department of Air, the evidence tendered to the Committee suggests that little real control is exercised by that Department over the expenditure by the Department of Defence Production.

The Committee also noted :

- (a) the advance to the Trust Account for June 1952 of £2.8m. was £839,000 more than was spent, yet this surplus remained in the Aircraft Trust Account and was not repaid to the vote at 30th June, 1952.
- (b) although the difficulties of forecasting deliveries and estimating future expenditure were elaborated before it the Committee feels that the magnitude of the sums involved warrants a more careful preparation of Budget and Additional Estimates.

The question of the relations between these departments on this matter is now being examined by the Public Service Board. The Committee believes that a more suitable arrangement could be devised and intends to keep the situation under scrutiny.

Prime Minister's Department - Division 179 Item 49 - Boy Scouts' Association - Grant £5,000

A grant to the Boy Scouts' Association of £5,000 was approved in January, 1952. The amount had not been provided in the original Estimates and it was not included in the Additional Estimates because the amount was not considered large enough to warrant that course.

This item has been selected as one representative of a number of similar items in the Supplementary Estimates.

The Committee believes that Parliamentary authority for the expenditure of Commonwealth funds should be sought before the money is spent. In this case, the amount, although small, was known

and consequently should have been included in the Additional Estimates.

Attorney-General's Department - Division 184 Item 8 - Judges' Pensions
Increased Payments - £565

Pensions are provided for judges under the Judges' Pensions Act as a percentage of salary at the date of retirement. Judges' salaries were increased in 1950. Certain judges had retired before 1950 and could not receive pensions as a result of these salary increases. To increase the pensions of these judges beyond the statutory limit ex gratia payments were made based on the salary increases and are included for ratification in the Supplementary Estimates. The item in the Supplementary Estimates does not refer to the Judges' Pensions Act.

While the Committee does not question the legality of using Supplementary Estimates to validate payments in excess of a specific statutory limitation, it doubts whether, constitutionally, the matter should be dealt with in this manner.

Department of Commerce and Agriculture - Division 188 Item 13 - Dairy
Industry Efficiency Grant - £42,675

A grant to the States of up to £250,000 a year was approved for 5 years from 1st July, 1948. Irrevocable commitments for one year are paid in the succeeding years but at the time the Estimates for 1951/52 were prepared, the commitments to be carried over from 1950/51 were not known. That extra funds would probably be required in 1951/52 became apparent before the Additional Estimates were prepared but no provision was made in them for any extra funds.

The statutory authority for the grant is the annual Appropriation Act.

The Committee feels that on the evidence presented to it a more accurate Budget Estimate might have been made, or an Additional Estimate for this item for 1951/52 presented.

Further, the use of the Appropriation Act to provide statutory authority for expenditure abandons the tradition of obtaining specific statutory authority for continuing services. The

grant is hedged around with conditions not mentioned in the Appropriation Act, and the Committee therefore recommends specific legislation if any extension is made of the grant beyond the present expiry date of 30th June, 1953.

Department of Commerce and Agriculture - Division 188 Item 21 - Australian Apple and Pear Marketing Board - Loss on trading in case and packing materials purchased in 1948/49 - £82,164.

To meet a shortage of packing cases and paper wrapping for the 1948/49 apple and pear crop in Western Australia and Tasmania, the Apple and Pear Marketing Board imported a quantity of packing material. The Commonwealth gave a guarantee for an overdraft of up to £675,000 to enable the Board to finance the operation. Poor crops were experienced and packing materials became available at prices lower than the Board's price so that the cases were not finally disposed of until 1951. As Commonwealth guarantee was renewed each year the loss of £82,164 which was incurred became the Commonwealth's responsibility.

The Committee noted that, although the guarantee given by the Commonwealth and the loss incurred were large, the information possessed by the Department was meagre.

Department of Commerce and Agriculture - Division 188 Item 22 - Honey Shipped to Malaya - Irrecoverable Costs - £3,343

In 1947 a consignment of surplus honey was mistakenly sent to Malaya by the Department to the Crown Agent for the Colonies. The shipping documents were lost and the goods remained on the wharf at Singapore. Subsequently they were sold by the authorities in Singapore but realised insufficient to cover wharfage and storage charges. As the Crown Agent denied any responsibility for the goods, the loss of £3,343 incurred on the transaction had to be paid by the Commonwealth.

The Committee has been assured that in no other transaction of a similar nature handled by the Department has a loss arisen.

International Development and Relief - Division 196 Item 7 -
U.N.R.R.A. - Contribution £177,464

In 1946 the Commonwealth Government entered into a firm price contract, subject to variations in wages and materials, to have constructed 50 locomotives for China as part of the Commonwealth Government contribution to the U.N.R.R.A. scheme. Subsequently, the international situation changed and the Commonwealth Government decided not to supply the locomotives to China. In view of this position and as a result of discussions with Commonwealth and State Railway Authorities it was decided in 1949 to arrange a new contract for the manufacture of 20 locomotives - 10 for the Commonwealth Railways and 10 for the South Australian Government. The agreed sale price to the Commonwealth Railways and South Australian Government was £30,000 per locomotive. The estimated cost of the 20 locomotives in 1949 was £1,283,000 but by June, 1952 £1,316,565 had been expended while the estimated total cost to complete the contract was £1,676,565. The loss to be borne by the Commonwealth after the locomotives and other materials have been sold will thus be substantial.

For 1951/52 it was anticipated that receipts would equal expenditure but in fact the position was :-

Expenditure during the year		£350,983
Receipts - Commonwealth Railways	£60,000	
- South Australian Railways	60,000	
Sale of material	<u>53,519</u>	<u>173,519</u>
Balance		<u>£177,464</u>

The Committee can not agree that the wording of the item as it stands in the draft Supplementary Estimates is sufficient to inform Parliament of the true nature of the transaction. Further, it will be noted that the proceeds from the sale of the locomotives and other material were credited against the expenditure under this vote. This raises a general question of the treatment in the Commonwealth accounts of monies received as a result of Commonwealth expenditure and the Committee proposes to consider the propriety of the method

at a later date.

Department of Commerce and Agriculture - Division 199 Item 1 -
Subsidies - Dairy Products - £1,043,397

During the year there were protracted Commonwealth-State negotiations on prices; in addition a severe drought gave rise to heavy transport and cold storage costs on butter supplies transferred interstate. As a result, the expenditure necessary to bridge the gap between the net return from sales and the guaranteed price to the farmers was greater than the Department anticipated. Since then, stock acquired during 1951/52 have been sold on the Australian market at an increased price and the Department estimates that possibly £750,000 of the outlay in 1951/52 will be recovered.

The statutory authority for payment of the bounty rests on the annual Appropriation Acts.

Department of Commerce and Agriculture - Division 199 Item 4 -
Subsidies - Nitrogenous Fertilizers - £521,183

Under the Government procurement and distribution scheme, nitrogenous fertilizers are obtained from overseas, produced in Commonwealth Government factories and as by products from gas and steel works. A subsidy on sales of not more than £500,000 a year is provided.

The subsidy covers the losses entailed in the purchase and distribution of fertilizers. The total expenditure under this vote for 1951/52 was £1,521,183 (of which £521,183 is sought in the Supplementary Estimates) and the details of this sum are :-

Subsidy on sales of fertilizer 1951/52	£ 342,431
Additional subsidy for 1949/50 and 1950/51 being loss on production of ammonium sulphate at Government factories	183,854
Cost of excess of purchases over sales for year 1951/52	879,696 (a)
Increase in current assets during year 1951/52 (prepayments, cash in transit, debtors (a) recoverable	115,202 (a) <u>£1,521,183</u>

The legislative authority for the scheme is now the annual Appropriation Acts.

In the opinion of the Committee the wording of the item as it stands in the Additional Estimates and Supplementary Estimates does not state adequately the purpose of the expenditure for which approval is sought. The Committee suggests that the method by which procurement and distribution, the subsidies, and the Dairy Products scheme reported above are financed, should be examined.

The Committee also urges that, as in the case of the Dairy Efficiency Grant noted above, the question of specific statutory authority for the schemes should be considered.

General Remarks

The total of the Supplementary Estimates of £9.3m. is 0.9% of the total Budget Expenditure of £1,016.8m. for 1951/52. Notwithstanding that the financial and economic conditions of 1951/52 were very difficult, both the amount of the Supplementary Estimates and the percentage figures are less than in earlier years e.g. :-

	<u>Amount of Supplementary Estimates £m</u>	<u>Supplementary Estimates as a Percentage of Budget Expenditure</u>
1949/50	9.9	1.7%
1950/51	12.5	1.5%

In recent years there has been a growing number of political observers who have been warning us against regarding our Parliamentary procedures as mere ritual. The practice of spending sums, large or small, without prior approval by Parliament undermines its control of the purse, and in so doing tends to destroy its control over Ministers and public servants. Consequently the Committee has been at pains to impress upon officials that the use of Supplementary Estimates should be closely scrutinised in relation to the principle of Parliamentary control of the purse, and that in their attitude to public finance, departments should incline to that system which facilitates rather than limits Parliamentary control.

In accordance with its decision outlined in paragraph 3,¹ this report will be forwarded to the Treasurer for his consideration.

Finally, having in mind its examination of the explanations by the Departments of the Supplementary Estimates, the Committee submits this report upon the Supplementary Estimates for 1951/52 to the Parliament.

A handwritten signature in dark ink, appearing to read 'F. A. Bland', is written over a horizontal line.

(F. A. Bland)
Chairman

Senate Committee Room,
CANBERRA. A.C.T.

5th March, 1953.