

GOVERNMENT RESPONSE

TO

**JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS,
DEFENCE AND TRADE**

REVIEW OF THE DEFENCE ANNUAL REPORT 2003-04

RECOMMENDATION 1

The committee recommends that initiatives to increase the number and tenure of military officers posted to the DMO and DIO are closely monitored to ensure that individual officers are not left bearing the cost of these organisational demands through reduced career progression or posting opportunities to command or operational deployments.

Government Response

Agreed in principle. Given the skilling challenges facing the ADF, Defence agrees that it is of paramount importance to retain Service personnel in the ADF and that providing career progression or posting opportunities to command and operational deployments are of importance. The Chief of the Defence Force and each of the Service Chiefs are responsible for career management of service personnel for each Service and they will be able to evaluate and report on the impacts of initiatives to increase the number and tenure of military officers posted to the DMO and the DIO in the future, once these policies have been in operation for two to three years.

RECOMMENDATION 2

The committee recommends that Defence seek to stratify inventory pricing data, drawing a line under old inventory for which pricing data cannot be found in order to prevent the wasteful expenditure of commonwealth funds in seeking records of values that are unlikely to exist.

Government Response:

Agreed in principle. The Department of Defence's financial results are material to the Australian Government's financial accounts. It is vital that in resolving current audit issues, the need for accountability is balanced with a cost effective approach. The potential impact of non remediation of this audit issue could have long-term consequences for the Australian Government Consolidated Financial Statements.

Inventory stratification was conducted for the 2004-05 Defence Financial Statements. The result indicated that, for the majority of the \$2,500m of general stores inventory, original pricing records and data cannot be found.

These results contributed to the Secretary and the Acting Chief Finance Officer concluding that the 2004-05 Defence Financial Statements did not give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*. The Auditor General agreed with this opinion.

The Australian Accounting Standards Board has advised that Defence can make a 'best estimate' of price where original pricing data cannot be found. The cost of this 'best estimate' approach for general stores inventory would be substantial, noting that up to 600,000 line items of inventory would have to be priced. A decision will be made in the next few months on the extent that the 'best estimate' price will be pursued.

A second related initiative is to accelerate the disposal of obsolete stock. Defence holds \$737m of obsolete general stores inventory (out of the \$2,500m total). Efforts are continuing to dispose of this obsolete stock in order to avoid the need either to source original pricing

data or to adopt the 'best estimate' approach for this stock. Disposal action, in accordance with accountable processes, will take a number of years in view of the quantities of stock involved.

It is likely that Defence will need to draw a line under the core legacy pricing problem for general stores inventory and explosives ordnance inventory (total value yet to be calculated). UK and Canadian Ministries of Defence are, or have been, audit qualified in similar areas.

RECOMMENDATION 3

The committee recommends that Defence analyse the Standard Defence Supply System (SDSS) to determine whether it has the capacity to cope with the significant upgrades required to meet best practice, or whether an alternate system is available that better meets the requirements of Defence practitioners and the audit legislation.

Government Response:

Agreed. Defence has analysed the capacity of SDSS to cope with significant upgrades and has assessed it is the best available system to meet Defence's operational and management requirements. Defence will incrementally upgrade SDSS to address issues raised by the Australian National Audit Office, including through the Secretary's Financial Statements Remediation Plans S1, S3, S10, S11 and the IT Controls Remediation Project.

RECOMMENDATION 4

The committee recommends that Defence seek to stratify valuation data for Explosive Ordnance, seeking to identify points from which valuation records can be trusted, and then writing off the value of ordnance which predate current record keeping requirements, in order to prevent the waste of further resources in seeking old valuations that are unlikely to be found.

Government Response:

Agreed in principle. Given the potential impact on the Australian Government Consolidated Financial Statements, it is vital that, in reaching a solution, a balance is achieved between a cost effective approach and the need for accountability.

Inventory stratification was conducted for the 2004-05 Defence Financial Statements. The result indicated that, for the majority of the \$675m of explosives ordnance inventory, original pricing data could not be found.

These results contributed to the Secretary and the Acting Chief Finance Officer concluding that the 2004-05 Defence Financial Statements did not give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*. The Auditor General agreed with this opinion.

The Australian Accounting Standards Board has advised that Defence can make a 'best estimate' of price where original pricing data cannot be found. Under the 'best estimate' approach, Defence expects to resolve about \$160m of 'uncertainty' for explosive ordnance inventory in 2005-06.

It is likely that Defence will need to draw a line under the core legacy pricing problem for general stores inventory and explosives ordnance inventory (total value yet to be calculated). This problem is not unique to Australia as the US Department of Defense and both the UK and Canadian Ministries of Defence are, or have been, audit qualified in similar areas.

RECOMMENDATION 5

The committee recommends that military leave discrepancies be resolved by accepting current leave balances after a 30 day warning period but that a process of appeal be established to ensure any grievances can be processed equitably.

Government Response:

Agreed in principle. Defence is currently reviewing options for accepting current leave balances. This recommendation is among the options being considered. The Auditor-General is being kept informed as to strategies under consideration. Any process implemented will ensure that grievances can be processed equitably.

RECOMMENDATION 6

The committee recommends that Defence continue to invest heavily in training in critical trade areas, including reconsideration of technical trade apprenticeships for school leavers.

Government Response:

Agreed. Continued investment in training for critical trade areas is consistent with current Defence policies and plans. Defence presently has 25 critical workforce categories and improvements to training are an accepted strategy for their recovery.

Defence investment in training is aimed at increasing recruitment to the categories, enhancing trainee selection processes, restructuring courses to increase efficiency and popularity, better aligning courses and qualifications with the national qualification framework, reducing training failure rates, and providing better training infrastructure and materiel. For example, the Army is presently investing in a number of trade courses: the Army Trade Training Scheme, the targeted Trade Transfer Scheme offering apprenticeships to selected Army members resigning from the Service, and the Army Reserve Trade Training Scheme.

Defence has a long and ongoing history of technical trade apprenticeships aligned with the national training system. With the launch by the Federal Government of the 'New Apprenticeship Scheme' in 1997, the awareness of apprenticeships within the Defence Force Recruiting target market has greatly increased. The target market covers all eligible ADF recruit candidates, including school leavers.

The Australian Defence Force requires highly skilled tradespersons to ensure that the operational capability of Defence is maintained at the highest of standards. Trades offered to potential recruits range from diesel mechanic to electrician.

Defence Apprenticeships are now operating under the national vocational educational and training system, using nationally endorsed training packages. The ADF is providing substantive trade training that has the dual benefit of sustaining Defence's operational capability while also providing Australians with nationally recognised trade qualifications and experience.