Chapter 1

Annual reports of departments

Department of Defence

1.1 The Department of Defence Annual Report 2010–11 was tabled in the House of Representatives on 31 October 2011 and in the Senate on 1 November 2011.

Matters relating to the operations and performance of the department

Defence's financial statements

1.2 The committee is required to note any significant matters relating to the operations and performance of the bodies presenting their annual reports. The committee draws attention to the department's financial statements.

1.3 It is mandatory under section 57 of the *Financial Management and Accountability Act 1997* for the annual report to include a copy of the audited financial statements and the Auditor-General's report thereon.

ANAO audit

1.4 The ANAO report for the Department of Defence stated:

> During the final phase of the 2010–11 audit, Defence partially resolved one significant and two moderate audit issues that had been previously identified. The significant audit issue related to MILIS [Military Integrated Logistics Information System] change management; and the two moderate issues related to delays in the rollout of AUC [Assets Under Construction] to General and SME [Specialist Military Equipment] asset classes. In addition, one moderate audit issue relating to the management of EO [Explosive Ordinance] disposal and destruction was resolved. No new moderate issues were identified during the 2010–11 final audit.
>
> At the conclusion of the 2010–11 audit, two significant and twelve moderate audit issues remained outstanding. The majority of these audit issues relate to Defence's inventory and asset management, including supporting IT systems.
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> An unqualified auditor's report was issued on 16 September 2011.[1]

1.5 The areas where significant or moderate risks remain outstanding in 2010–11 were:

- Inventory and assets management

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1 *ANAO Audit Report No.17 2011–12: Audit of the financial statements of Australian Government Entities for the period ended 30 June 2011*, pp 107–108.

- Management of Specialist Military Assets
- Financial Reporting Framework—Assurance over DMO services
- Defence's financial management information system: ROMAN [Resource and Output Management and Accounting Network]
- Human resource management
- IT general controls environment[2]

Financial reporting framework

1.6 The committee's review of the previous 2009–10 Annual Report referred to seeking evidence of progress on the outstanding matter of management and oversight of service bureau arrangements between Defence and the Defence Materiel Organisation (DMO).

1.7 ANAO noted in its Audit Report No.17 2011–12 that one moderate audit issue had remained outstanding at the completion of the previous 2009–10 audit.

> Defence has advised that, in conjunction with DMO, work is continuing on strengthening and documenting the assurance activities between the two agencies. Defence expects this work to be completed in May 2012.[3]

Strategic Reform Program

1.8 The committee has previously noted the significance of the roll-out of the Strategic Reform Program (SRP). In 2010–11, the SRP moved well into its implementation phase with the achievement of a cost reduction target of $1,016 million for the year.[4] The Secretary and Chief of the Defence Force (CDF) stated in their overview that:

> Over 2010–11, Defence generated Strategic Reform Program savings in excess of one billion dollars and commissioned a review into shared services that will create further opportunities for efficiency. This will fundamentally change the way Defence delivers services and will achieve further savings that can be returned to Government.[5]

1.9 Areas identified in the report where cost reductions were achieved included:

- upgrading and consolidating Defence's ageing Information and Communications Technology (ICT) infrastructure

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2 *Australian National Audit Office, ANAO Audit Report No.17 2011–12: Audit of the financial statements of Australian Government Entities for the period ended 30 June 2011*, pp 109–114.

3 *Australian National Audit Office, ANAO Audit Report No.17 2011–12: Audit of the financial statements of Australian Government Entities for the period ended 30 June 2011*, p. 113.

4 *Defence Annual Report 2010–2011, volume 1 Department of Defence*, p. 7.

5 *Defence Annual Report 2010–2011, volume 1 Department of Defence*, p. 3.

- conversion of military and contract positions into Australian Public Service (APS) positions
- improved demand management of travel, training, professional services and garrison support
- streamlining the maintenance of military equipment
- making contract improvements across a range of support and sustainment services
- changes in the way that financial risk is managed.[6]

1.10 The committee notes that the Minister for Defence announced in May 2011 that the government would implement a second phase of further SRP-related savings that would include reducing the growth of Defence's APS workforce, further shared services reforms, and project management accountability reforms.[7]

Operations

1.11 The Secretary and CDF's overview stated that the 2010–11 financial year represented 'one of the most intense and sustained operational periods in recent history'.[8] Defence conducted 17 operations in 2010–11 ranging from combat deployments overseas to border protection and disaster relief within Australia and the surrounding region.[9]

1.12 The Defence Annual Report outlined Defence's recent activities under Operation SLIPPER, the Australian Defence Force's (ADF) contribution to the North Atlantic Treaty Organisation-led International Security Assistance Force in Afghanistan. Operation SLIPPER represented the most significant operation for the ADF with around 1550 personnel based within Afghanistan and another 800 deployed across the broader Middle East Area of Operations.[10] In 2010–11, the ADF continued mentoring the Afghan National Army's 4th Brigade of the 205th (Hero) Corps to enable it to take on responsibility for security in Uruzgan Province.[11] According to the Annual Report, the key components of the ADF's contribution included the troops in the Mentoring Task Force and Special Operations Task Group; Air Force C-130, P-3 and C-17 Globemaster III aircraft; and logistics, communication and movements personnel within the Middle East.[12]

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6 *Defence Annual Report 2010–2011, volume 1 Department of Defence*, p. 7.

7 Department of Defence, Minister for Defence Materiel, *Media Release*, 'Strategic Reform Program', 6 May 2011.

8 *Defence Annual Report 2010–2011, volume 1 Department of Defence*, p. 2.

9 *Defence Annual Report 2010–2011, volume 1 Department of Defence*, p. 4.

10 *Defence Annual Report 2010–2011, volume 1 Department of Defence*, p. 65.

11 *Defence Annual Report 2010–2011, volume 1 Department of Defence*, p. 65.

12 *Defence Annual Report 2010–2011, volume 1 Department of Defence*, p. 65.

1.13 The report acknowledged the deaths of 11 Australian soldiers on operations in Afghanistan in 2010–11.[13]

1.14 Other overseas operations in 2010–11 included deployments of ADF soldiers to Iraq, Darfur, East Timor, Solomon Islands, Sudan, Israel/Lebanon, Egypt, Japan and New Zealand. Domestic operations included disaster relief efforts in Queensland and Victoria.

Reviews and consultants

1.15 The Secretary and CDF's overview noted the number of reviews into various aspects of Defence conducted recently:

> Defence has undertaken a large number of reviews into business, financial and processes over the last year to improve outcomes. The Black Review into accountability will challenge institutional performance and accountability as well as the management of skills and specialisation. Defence is determined to rise to this challenge. We are currently considering the recommendations of several reviews into the Defence culture that were announced by the Minister for Defence in April 2011. Action plans will be developed to adjust aspects of our culture where necessary.[14]

1.16 In 2010–11, Defence and DMO spent a total of $59.8 million on consultancies and $35.4 million on external legal expenses.[15]

Summary

1.17 The committee finds Defence's 2010–2011 Annual Report to be both an informative and a well-produced account of the department's activities over the past year and that it meets all the requirements for departmental annual reports. The committee, notes, however, that the activities detailed in the annual report are subject to inquiry by the Senate Foreign Affairs, Defence and Trade References Committee in relation to its inquiry into Procurement procedures for Defence capital projects. Whilst this committee finds the annual report to be 'apparently satisfactory' in complying with the relevant requirements for the preparation of annual reports, it takes note of the fact that the references committee is considering the efficacy of the activities themselves.

Department of Foreign Affairs and Trade

1.18 The Department of Foreign Affairs and Trade (DFAT) Annual Report 2010–2011 was tabled in the Senate on 31 October 2011.[16]

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13 *Defence Annual Report 2010–2011, volume 1 Department of Defence*, p. 65.

14 *Defence Annual Report 2010–2011, volume 1 Department of Defence*, p. 3.

15 *Defence Annual Report 2010–2011, volume 1 Department of Defence*, pp 341–344.

16 Tabled in the chamber having been presented out of session on 25 October 2011.

Review by Departmental Secretary

1.19 The Secretary of the Department, Mr Dennis Richardson AO, included a helpful summary of the significant issues and developments during the year; an overview of the department's performance and financial results; and the outlook for the following year. In regards to the 'international year in review', Mr Richardson stated:

> The department worked over the last year in a global and regional environment that is being reshaped by changing economic and strategic relativities...Continuing fragilities in the global economy and the need for a coordinated international response was also an important context for the department's work.[17]

International economy, trade and investment

1.20 The Secretary stated that the department managed an active schedule of Free Trade Agreement negotiations:

> ...including with Australia's top three individual country export destinations: China, Japan and Republic of Korea. Since March 2010, the department has led seven rounds of Trans-Pacific Partnership (TPP) negotiations, seeking agreement on new approaches to regulating trade in goods, services and investment in the Asia-Pacific region.[18]

Regional and international issues

1.21 The Secretary stated:

> We advanced Australia's non-proliferation and disarmament agenda by establishing, with Japan, the Non-Proliferation and Disarmament Initiative (NPDI)—a cross-regional ministerial-level grouping to promote and support implementation of the outcomes of the May 2010 Nuclear Non-Proliferation Treaty (NPT) Review Conference. We engaged partners, including the US, Japan, UK, France, NATO and the EU in traditional security and non-traditional areas such as cyber and counter-terrorism.[19]

Corporate governance and management

1.22 The committee notes that the department established a position of Chief Information Officer, and initiated an Information Communications Technology reform program.

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17 *Department of Foreign Affairs and Trade, Annual Report 2010–2011*, p. 3.

18 *Department of Foreign Affairs and Trade, Annual Report 2010–2011*, p. 6.

19 *Department of Foreign Affairs and Trade, Annual Report 2010–2011*, p. 7.

Departmental Overview

1.23 The departmental overview included the mandatory annual report requirements—the roles and functions of the department; the organisations structure; and the outcome and program structure.

Report on Performance

1.24 The Requirements for Annual Reports[20] require that the annual report must include a review of how the department has performed during the year in relation to the deliverables and Key Performance Indicators (KPIs) of the department's programs and their effectiveness in achieving the planned outcomes. The annual report meets this requirement.

Management and Accountability

Corporate Governance

1.25 The annual report contained a statement of the structures and processes that the department had in place during the year to implement the principles and objectives of corporate governance.

External Security

1.26 The annual report provided information on the significant developments in external scrutiny of the department and the department's response.

1.27 In 2010–11, the Auditor-General tabled in Parliament, three reports by the ANAO relating to the department's operations: Report No. 22 Audits of the Financial Statements of Australian Government Entities for the period ended 30 June 2010; Report No. 35 Management of the Overseas Leased Estate; and Report No. 54 The Interim Phase of the Audit of Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2011.

Management of Human Resources

1.28 The report included an assessment of the department's effectiveness in managing and developing its staff to achieve its objectives.

Assets Management

1.29 The department also provided an assessment of the effectiveness of assets management.

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20 Requirements for Annual Reports for Departments, Executive Agencies and FMA Act Bodies. Approved by the Joint Committee of Public Accounts and Audit under sections 63(2) and 70(2) of the *Public Service Act 1999*.

Consultants

1.30 The annual report included a summary statement detailing expenditure on new consultancy contracts; and expenditure on ongoing consultancy contracts.

Grant programs

1.31 The annual report produced a list of the grant programs administered or managed by the department in 2010–11.

Financial Statements

1.32 *Section 57 of the Financial Management and Accountability Act* requires a copy of the audited financial statements and the Auditor-General's report to be included in each department's annual report. The ANAO statement by the Chief Executive and Chief Financial Officer said:

> In our opinion, the attached financial statements for the year ended 30 June 2011 are based on properly maintained financial records and 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*, as amended.

Summary

1.33 The committee finds that the DFAT Annual Report adequately complies with all reporting requirements for a department.

Department of Veterans' Affairs

1.34 The Department of Veterans' Affairs (DVA) is the primary service delivery agency that develops and implements programs to assist the veteran and defence force communities. It provides administrative support to the Repatriation Commission and the Military Rehabilitation and Compensation Commission. The Repatriation Commission administers the *Veterans' Entitlements Act 1986*, and is responsible for granting pensions, allowances and other benefits, providing treatment and other services. The Military and Rehabilitation and Compensation Commission is responsible for the administration of benefits and arrangements under the *Military Rehabilitation and Compensation Act 2004*.

1.35 DVA's Annual Report 2010–2011 was presented to the Parliament on 31 October 2011.[21] The report also included separate reports of both the Repatriation Commission and the Military Rehabilitation and Compensation Commission. They described how each commission interrelates with DVA, its membership and main activities for the reporting period. The reports do not include performance reporting, which is covered in DVA's report.

21 Tabled in the chamber having been presented out of session on 28 October 2011.

1.36 The May 2011 Budget allocated a modest increase of $147 million to DVA, taking the full amount to $12.3 billion for the financial year. According to the Secretary, Mr Ian Campbell, the funding would enable the department to continue to provide 'a high level of service to members of the veteran community.' He said:

> Although we face the challenge of delivering that high level of service with a lower departmental operating budget, I am confident that changes such as the shared services agreement with the Department of Human Services will allow us to better focus our resources on meeting the needs of the veteran community.[22]

1.37 Some of the notable developments cited in the reports include:

- The establishment of the National Commission on the Commemoration of the Anzac Centenary to consider ways in which Australia could commemorate 100 years of Anzac tradition starting in 2014. After receiving 600 submissions, which assisted its deliberations, the commission submitted a report on 28 March 2011 to the Prime Minister. On the same day the Prime Minister announced the establishment of the Anzac Centenary Advisory Board to provide strategic advice to government on the planning and implementation of Anzac Centenary events and initiatives.
- The release of the Review of Military Compensation Arrangements report in March 2011.
- A major rationalisation of DVA's ICT infrastructure following the signing of a five-year memorandum of understanding for shared services with the Department of Human Services. [23]

1.38 The Secretary noted in his comments regarding the year ahead for DVA that:

> The Rehabilitation and Compensation Business Redesign project will identify how we can improve the delivery of rehabilitation and compensation services into the future. The Budget also allocated $3.4 million to develop a business proposal for a pilot project to revamp current processes, which would vastly improve the service for our clients.
>
> With better business processes combined with advancements in how veterans and defence personnel engage with us, we will make great strides in ensuring the interaction between DVA and the people we serve is state of the art.[24]

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22 *Repatriation Commission, Military Rehabilitation and Compensation Commission, Department of Veterans' Affairs, Annual Reports 2010–2011*, p. 2.

23 *Repatriation Commission, Military Rehabilitation and Compensation Commission, Department of Veterans' Affairs, Annual Reports 2010–2011*, pp 3–5.

24 *Repatriation Commission, Military Rehabilitation and Compensation Commission, Department of Veterans' Affairs, Annual Reports 2010–2011*, p. 7.

1.39 Mr Campbell also indicated that the Anzac Centenary in 2015 would be a key focus for DVA and would 'become more so as we get closer to the date'.[25]

Data-matching program

1.40 The Department of Veterans' Affairs—Data-matching program—Report on progress 2010–2011 was tabled in the Senate on 31 October 2011. This is the twentieth report of the Data Matching Program.

Report on Progress

1.41 The report shows the prosecution statistics; the discrepancy statistics; the departmental expenses for the 2010–11 reporting year; the projected savings statistics; the total savings for the 2010–11 financial year; and cumulative savings from the data matching program.

Summary

1.42 The committee finds that the DVA Annual Report complies adequately with all reporting requirements for a department.

25 *Repatriation Commission, Military Rehabilitation and Compensation Commission, Department of Veterans' Affairs, Annual Reports 2010–2011*, p. 7.