
The Parliament of the Commonwealth of Australia

Report 443

**Review of Auditor-General's Reports Nos. 23 and 25 (2012-13)
and 32 (2012-13) to 9 (2013-14)**

Joint Committee of Public Accounts and Audit

June 2014
Canberra

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Foreword

The Joint Committee of Public Accounts and Audit (JCPAA), as prescribed by its Act, examines all reports of the Auditor-General, and reports the results of the Committee's deliberations to the Parliament. On Wednesday, 11 December 2013, the Committee resolved to review the following audit reports in detail:

- Audit Report No.25 (2012–13) Defence's Implementation of Audit Recommendations;
- Audit Report No.53 (2012–13) Agencies' Implementation of Performance Audit Recommendations; and
- Audit Report No. 6 (2013–14) on Capability Development Reform.

This report details the findings of the Committee's examination of these three performance audits selected for detailed scrutiny after having been presented to Parliament by the Auditor-General. In selecting these reports, the Committee considered the issues raised, the significance of the audit findings, the arguments advanced by the audited agencies and the level of potential public interest in each report.

Audit Report No.25 (2012–13) assessed the effectiveness of the systems employed by the Department of Defence (Defence) to monitor the implementation of both internal and external audit recommendations.

The purpose of internal and external auditing is to identify weaknesses and better enable an organisation to address risk. The benefits of this work are undermined if agencies do not institutionalise robust monitoring, implementation, reporting and oversight mechanisms.

The Committee was encouraged that the systems and processes at Defence are being strengthened to ensure a higher level of formality, with clearer documentation and appropriate levels of senior executive engagement and responsibility for outcomes. The Committee also acknowledges the ongoing work to address culture issues and to instil greater understanding of democratic accountability.

Nonetheless, the Committee was concerned that the Audit Recommendations Management System (ARMS) database in use at Defence is approaching the end of its useful life, and that Defence should give greater priority to investigating an alternative system. The Committee is pleased that a stronger role for the internal auditors is being established, and sees this as essential to promoting greater understanding across all levels of the department.

Audit Report No.53 (2012–13) assessed the effectiveness of agencies' arrangements for monitoring and implementing ANAO performance audit recommendations. The audit included an assessment of the ability of agencies to respond to recommendations from ANAO reports that have general application to the Commonwealth public service. The agencies selected for audit were: Department of Education, Employment and Workplace Relations (DEEWR); Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA); Department of Infrastructure and Transport (DIT); and Department of Finance and Deregulation (DoFD). The Committee was principally concerned with governance arrangements; which, in turn, impact on the timeliness and completeness of the implementation of audit recommendations.

The Committee was pleased that ANAO's overall finding in this audit is that each of the selected agencies has a system in place to capture, monitor and oversight implementation of audit recommendations. It is disappointing, however, that the internal systems of three of the four agencies were not completely in alignment with better practice. The Committee commended DEEWR for the professionalism and diligence it has shown in establishing and maintaining a better practice model. The DEEWR system exhibits the features of a better practice model and all Commonwealth agencies are encouraged to review their own systems in light of both DEEWR's example and the ANAO's findings.

Audit Report No. 6 (2013–14) examined the effectiveness of Defence's implementation of reform to its capability development since the introduction of the two-pass process for government approval of capability projects and government's acceptance of the reforms recommended by the Mortimer Review.¹

This type of ANAO performance audit is one of the new categories of 'follow up audits', which are aimed at assessing the degree to which agencies have implemented recommendations and embedded institutional change. In this case, the audit took a wider and deeper view of the issue looking at reform of capability development through the prism of multiple external and internal reviews that have occurred over the past decade. The overall aim was to promote the sustained

1 *'Going to the Next level': Defence Procurement and Sustainment Review*, <<http://www.defence.gov.au/publications/mortimerreview.pdf>> and <http://www.defence.gov.au/publications/MortimerRefs_Factsheet.pdf> accessed 21 May 2014.

structural and cultural change needed to support improvements in the entire life cycle of capability development (requirement, acquisition and sustainment).

The reform of capability development has been a concern for successive governments and, in the Committee's view, the ANAO audit has provided a valuable contribution to the reform process. The Committee supports the selective use of follow up audits, and the value of the audit in this context which took a wider and deeper view of the extent to which reform had been achieved.

The Committee was, however, very concerned that the audit report found significant delays in keeping government advised on the progress and/or difficulties in projects. This evidence and previous practice is unacceptable and not consistent with good public administration. The Committee made recommendations to the Department of Defence to:

- improve the staffing model of CDG;
- include whole-of-life costing in initial project approval at the project requirement phase of the capability development process; and
- institute a gate review before a project is entered onto the Defence Capability Plan.

Nonetheless, the Committee recognised that Defence has taken significant steps to implement recommendations made over the past decade by various reviews. It is encouraging that the Capability Development Improvement Program (CDIP) adopted in 2011 is informed by an independent assessment and provides a framework to drive reform and achieve measurable outcomes and the Committee encouraged Defence to maintain the momentum in the process of reform.

I would like to sincerely thank the Committee members and agency representatives who appeared at public hearings for their cooperative approach to the Committee's important task of scrutinising the spending of public money. The Committee recognises the responsiveness of the various Government agencies and departments to its inquiries and remains convinced that closer engagement with the Committee will, over time, lead to sustained improvement to the way government agencies do their business.

Dr Andrew Southcott MP
Chair



Membership of the Committee

Chair Dr Andrew Southcott MP

Deputy Chair Mr Pat Conroy MP

Members Ms Gai Brodtmann MP

Senator Cory Bernardi

Mrs Jane Prentice MP (from 25/02/14)

Senator Alex Gallacher

Mr Craig Laundry MP

Senator the Hon Kate Lundy

Mr Andrew Giles MP (from 18/03/14)

Senator Anne Ruston

Dr Peter Hendy MP (from 18/03/14)

Senator Dean Smith

Mr Michael Sukkar MP

Mr Angus Taylor MP

Mr Tim Watts MP

Ms Lisa Chesters MP (until 18/03/14)

The Hon Tony Smith MP (until 18/03/14)

The Hon Dr Sharman Stone MP
(until 25/02/14)

Committee Secretariat

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	Ms Yvonne Lee



Terms of reference

On Wednesday 11 December 2013, the Joint Committee of Public Accounts and Audit resolved to review the following audit reports in detail: Audit Report No. 53 (2012-13) *Agencies' Implementation of Performance Audit Recommendations*, Audit Report No. 25 (2012-13) *Defence's Implementation of Audit Recommendations*, and Audit Report No. 6 (2013-14) *Capability Development Reform*.



List of abbreviations

ADF	Australian Defence Force
ADFA	Australian Defence Force Academy
AIG	Australian Industry Group - Defence Sector
ANAO	Australian National Audit Office
ARds	Audit Recommendations dnet site
ARMS	Audit Recommendations Management Systems
ASPI	Australian Strategic Policy Institute
ATMOS	Australianised Military Off The Shelf
CDG	Capability Development Group
CDIP	Capability Development Improvement Program
CEO	Chief Executive Officer
DARC	Defence Audit and Risk Committee
DCP	Defence Capability Plan
DEEWR	Department of Education, Employment and Workplace Relations
Defence	Department of Defence
DIT	Department of Infrastructure and Transportation

DMO	Defence Materiel Organisation
DoF	Department of Finance
DoFD	Department of Finance and Deregulation
DSTO	Defence Science and Technology Organisation
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FDA	Force Development and Analysis Division
Finance	Department of Finance
FMA Act	<i>Financial Management and Accountability Act 1997</i>
JCPAA	Joint Committee of Public Accounts and Audit
JPD	Joint Project Directive
JPD	Joint Project Directive
MAA	Material Acquisitions Agreement
NPOC	Net Personnel Operating Costs
NPOC	Net Personnel Operating Costs
OAM	Medal of the Order of Australia
P3M3 assessment	Independent portfolio program and project management maturity assessment
SES	Senior Executive Service



List of recommendations

2 Defence's Implementation of Audit Recommendations

Recommendation 1

The Committee recommends that:

- the Department of Defence investigate options for an improved database system for the monitoring and reporting of internal and external audit recommendations; and
- adequate resources are allocated to an improved database system to ensure a higher level of assurance to senior levels of the department and the Minister.

4 Capability Development Reform

Recommendation 2

The Committee recommends that the Department of Defence consider a staffing model for Capability Development Group that ensures:

- a reduced level of staff turnover;
- that both uniformed and civilian personnel are able to acquire career progression through the acquisition of capability development skills and experience; and
- a suitably qualified civilian head of Capability Development Group is considered for appointment when the role is next available.

Recommendation 3

The Committee recommends that the Department of Defence require 'whole of life' costing be included in initial project approval at the project requirements phase of the capability development process.

Recommendation 4

The Committee recommends that the Department of Defence institute a gate review before a project is entered onto the Defence Capability Plan.

