

Report 370

▪ **Defence life cycle costing**

▪ **Commonwealth
guarantees, indemnities
and letters of comfort**

Review of Auditor-General's Reports
1997–98
Fourth Quarter

Joint Committee of Public Accounts and Audit
November 1999
Canberra

© Commonwealth of Australia 1999

ISBN [Click **here** and type ISBN Number]

Contents

Foreword	v
Membership of the Committee	vi
Duties of the Committee.....	viii
List of abbreviations	x
List of recommendations	xi
1 Introduction	1
Structure of the Report.....	2
2 Audit Report No. 43	
Life-cycle Costing in the Department of Defence	3
Introduction	3
Life-cycle costing in Defence—policy	4
Committee comments	5
Life-cycle costing in Defence—reality	5
Capability proposal stage.....	6
Acquisition stage.....	7
In-service management stage.....	8
Facilities and administrative acquisitions	8
Constraints on the use of life-cycle costing	9
Quality of data.....	9
Incentives and expertise	10
Other factors determining source selection	11

Cost.....	11
Other Committee comments.....	12
3 Audit Report No. 47	13
Management of Commonwealth Guarantees, Indemnities and Letters of Comfort	13
Introduction.....	13
ANAO findings	15
Additional input from agencies.....	15
Level of Commonwealth exposure.....	16
Management and monitoring of Commonwealth exposure.....	16
Security.....	16
Risk management	17
Review and evaluation.....	18
Committee comments	19
Appendix A Conduct of the Committee's review	21
Selection of audit reports.....	21
The evidence	22
Appendix B Submissions.....	23
Appendix C Transcript of evidence.....	25



Foreword

This report is the review by the Joint Committee of Public Accounts and Audit (JCPAA) of the Auditor-General's reports tabled in the fourth quarter of 1997–98. From these, the Committee selected three reports for further examination.

The Committee reviewed *Audit Report No. 43*, into the application of life cycle costing in the Department of Defence, because of concerns that insufficient emphasis is being placed on this policy. The audit report found that there was scope for Defence to promote the extended use of life cycle costing in order to enhance the cost effectiveness of major financial decisions.

The review focussed on the factors constraining the use of life cycle costing in Defence, and the efforts of Defence to overcome these constraints. By adopting the policy, Defence has acknowledged that life cycle costing is an important mechanism for making efficient use of Commonwealth funds. Therefore it is important that the policy is applied broadly and consistently.

Audit Report No. 47 reviewed the management of Commonwealth guarantees, indemnities and letters of comfort. The audit report found that there had been substantial progress since the previous audit, although there was scope for further improvement. While welcoming the improvement, this report recommends that the ANAO monitor the outcomes of the managed fund policy introduced in July 1998.

Audit Report No. 44, into the Australian Diplomatic Communications Network (ADCNET), reviewed the project management practices adopted by the Department of Foreign Affairs and Trade (DFAT). The audit report found that these practices had been deficient in several key areas. The Committee's review of this report will be published at a later date.

Bob Charles MP
Chairman



Membership of the Committee

Chair Mr R Charles MP

Deputy Chair Mr D Cox MP

Members Mr K Andrews MP

Senator H Coonan

Mr M Brough MP

Senator the Hon J Faulkner

Mr P Georgiou MP

Senator the Hon B Gibson AM

Ms J Gillard MP

Senator J Hogg

Mr A Griffin MP
(until 9 August 1999)

Senator A Murray

Hon A Somlyay MP

Senator J Watson

Mr L Tanner MP
(from 9 August 1999)

Mr S St Clair MP

Ms T Plibersek MP

Membership of the Sectional Committee on Auditor-General's reports

Chair Mr R Charles MP

Deputy Chair Mr D Cox MP

Members Mr M Brough MP Senator the Hon B Gibson AM
Mr P Georgiou MP Senator A Murray
Ms J Gillard MP
Mr A Griffin MP
(until 9 August 1999)
Hon A Somlyay MP
Mr L Tanner MP
(from 11 August 1999)

Committee Secretariat

Secretary Dr Margot Kerley

Research Officer Ms Rose Verspaandonk

Administrative Officer Ms Tiana Gray



Duties of the Committee

The Joint Committee of Public Accounts and Audit is a statutory committee of the Australian Parliament, established by the *Public Accounts and Audit Committee Act 1951*.

Section 8(1) of the Act describes the Committee's duties as being:

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth, including the financial statements given to the Auditor-General under subsections 49(1) and 55(2) of the *Financial Management and Accountability Act 1997*;
- (b) to examine the financial affairs of authorities of the Commonwealth to which this Act applies and of inter-governmental bodies to which this Act applies;
- (c) to examine all reports of the Auditor-General (including reports of the results of performance audits) that are tabled in each House of the Parliament;
- (d) to report to both Houses of the Parliament, with any comment it thinks fit, on any items or matters in those accounts, statements and reports, or any circumstances connected with them, that the Committee thinks should be drawn to the attention of the Parliament;
- (e) to report to both Houses of the Parliament any alteration that the Committee thinks desirable in:
 - (i) the form of the public accounts or in the method of keeping them; or
 - (ii) the mode of receipt, control, issue or payment of public moneys;
- (f) to inquire into any question connected with the public accounts which is referred to the Committee by either House of the Parliament, and to report to that House on that question;

-
- (g) to consider:
 - (i) the operations of the Audit Office;
 - (ii) the resources of the Audit Office, including funding, staff and information technology;
 - (iii) reports of the Independent Auditor on operations of the Audit Office;
 - (h) to report to both Houses of the Parliament on any matter arising out of the Committee's consideration of the matters listed in paragraph (g), or on any other matter relating to the Auditor-General's functions and powers, that the Committee considers should be drawn to the attention of the Parliament;
 - (i) to report to both Houses of the Parliament on the performance of the Audit Office at any time;
 - (j) to consider draft estimates for the Audit Office submitted under section 53 of the *Auditor-General Act 1997*;
 - (k) to consider the level of fees determined by the Auditor-General under subsection 14(1) of the *Auditor-General Act 1997*;
 - (l) to make recommendations to both Houses of Parliament, and to the Minister who administers the *Auditor-General Act 1997*, on draft estimates referred to in paragraph (j);
 - (m) to determine the audit priorities of the Parliament and to advise the Auditor-General of those priorities;
 - (n) to determine the audit priorities of the Parliament for audits of the Audit Office and to advise the Independent Auditor of those priorities; and
 - (o) any other duties given to the Committee by this Act, by any other law or by Joint Standing Orders approved by both Houses of the Parliament.



List of abbreviations

ANAO	Australian National Audit Office
DoFA	Department of Finance and Administration
JCPA	Joint Committee of Public Accounts
JCPAA	Joint Committee of Public Accounts and Audit
LCC	Life cycle costing



List of recommendations

Chapter 3

Audit Report No 47

Management of Commonwealth Guarantees, Indemnities and Letters of Comfort

Recommendation 1

The Committee recommends that the ANAO monitor the outcomes of the managed fund policy.