

Recommendation 1

The Committee recommends that the Defence Materiel Organisation provide annual updates on the top ten high risk projects of the year using the Maturity Score methodology, noting that commercial-in-confidence imperatives will apply.

Government response: Agreed

The Defence Materiel Organisation will provide annual updates to the Committee.

Recommendation 2

The Committee recommends that they be provided with an update on the progress of the development of options for the optimum fleet mix to meet the ADF's future airlift requirements.

Government response: Agreed

Options for the enhancement of ADF airlift capabilities are still under review. It is expected that First Pass consideration for relevant phases of the relevant projects — AIR 8000 and AIR 9000 — will occur in mid-2007.

Recommendation 3

The Committee recommends that an invitation be extended to Defence sub-committee members to observe and/or participate in a security contingency wargaming activity between Defence and relevant government agencies.

Government response: Agreed

Border Protection Command runs a range of exercises with various state, territory and Commonwealth agencies. These are working group level meetings and are particularly focused on developing basic procedures on which Border Protection Command operates.

The Committee is welcome to consider observing these exercises and associated activities.

Recommendation 4

The Committee recommends that Navy report on the utility and effectiveness of the multi-crewing concept once a full Division of Armidale-class patrol boats (for crew rotation purposes) has been delivered.

Government response: Agreed

The multi-crewing program is currently in its initial stages with the first division of multi-crewed Armidale-class patrol boats commencing in mid-August 2006. As further divisions are put into operation, the Navy will be better placed to provide an interim report on the utility and effectiveness of multi-crewing by mid-2007. Initial anecdotal reports are encouraging.

Recommendation 5

The Committee recommends that Defence advise the course of action taken in relation to establishing the general inventory 'best estimate' and the results of the assessment/review.

Government response: Agreed

This recommendation relates to the valuation of General Stores Inventory in the Financial Statements. The Inventory items include consumable items, items held for allocation to military personnel and/or units (such as rations packs and boots), and minor generic parts (used to repair items). There are approximately 600,000 stock items in this category. In preparing the 2005-06 financial statements, general stores inventory items were valued on a weighted average costs basis. Where the weighted average cost was not available,

Defence endeavoured to use 'best estimates' to value these items. Best estimates were based on expert review of comparable items in international military catalogues.

During 2005-06, Defence carried out significant remediation work to address the issues of uncertain quantities, system limitations within Standard Defence Supply System (SDSS) and other business process issues. As a result, some uncertainty exists around the reported balance of general stores inventory as at 30 June 2006.

The use of external valuers will form part of the approach to address legacy general stores inventory pricing issues in developing 2006-07 financial statements.

Recommendation 6

The Committee recommends that Defence report on the 'highly technical issues' that have been presented to the Australian Accounting Standards Board for consideration.

Government response: Agreed

As part of the 2005-06 Financial Statement process, Defence has raised a number of 'highly technical issues' with the Australian Accounting Standards Board. These include:

- *The concept of an asset for not-for profit entities* – the current framework for the preparation and presentation of financial statements, prescribes that an asset is recognised when it is probable that the future economic benefits will flow to the entity and the asset has cost or value that can be measured reliably. The concept of future economic benefit is relevant for 'profit' entities and not for 'not-for-profit' entities such as the public sector. Defence is seeking the replacement of this concept with a concept of service potential/utility;
- *Inventory valuation* – Defence is seeking an interpretation on the valuation of inventory written down to current replacement cost only when (and to the extent that) there has been a decrease in the service potential of inventory since its acquisition;
- *Assessment of assets for impairment* – Defence is clarifying whether it is appropriate to adopt the concept of 'service or utility-generating units' for determining the level at which assets should be assessed and tested for impairment;
- *Treatment of restoration obligations arising from contamination or damage of assets* – Defence is clarifying that when contamination or damage occurs through the use of an asset as part of Defence's ongoing operating activities, the restoration obligation, if any, is also treated as the cost of those operating activities without being capitalised; and
- *Extension of unlimited useful lives for assets other than land* – Defence is clarifying whether unlimited useful lives could be extended to assets other than land, such as military heritage assets, which are irreplaceable and are managed to ensure that they are maintained indefinitely.

The Australian Accounting Standards Board has acknowledged that these issues warrant further discussion and also stated that any amendments to standards and authoritative interpretations must go through a formal process and, therefore, may take quite some time.

Defence is working with the Department of Finance and Administration and the Australian National Audit Office to

further progress technical issues with the Board, in particular, the application of the inventory accounting standard.

Recommendation 7

The Committee recommends that Defence report on the progress of implementation of the ADF Recruiting Strategic Plan 2005-2010, specifically in relation to the conversion ratio of inquiries, to applications, to enlistments and the review of entry requirements.

Government response: Agreed

Defence supports the need for greater transparency and oversight of ADF retention and recruitment, and will provide in the Defence Annual Report a progress report on the implementation of the ADF Recruiting Strategic Plan 2005-2010. Reporting will also include progress in the implementation of the Retention and Recruitment Implementation Strategy, Defence Force Recruiting (DFR) Plan 2006-07, in-year ADF recruiting achievements and development of the new DFR organisation.

Recommendation 8

The Committee recommends that Defence and the Department of Veterans' Affairs examine, and then report to the Committee, options to better identify affected F-111 de-seal/reseal personnel.

Government response: Not agreed

The Department of Veterans' Affairs is responsible for processing claims for the lump sum benefit, including the determination of eligibility.

Defence continues to provide technical assistance to the Department of Veterans' Affairs in accessing and interpreting Air Force records including individual service and personnel records, medical records, trade progress sheets, records of training and employment, pay records, photographs, and statements to the F-111 De-seal/Re-seal Board of Inquiry.