

Chapter 1

Annual reports of departments

Department of Defence

Timeliness in presenting annual report

1.2 The Defence Annual Report 2004–2005 was presented to the President of the Senate on 11 November 2005 and tabled in the Senate on 30 November 2005.

1.3 The Secretary of Defence, Mr Ric Smith, attributed the late tabling of the report to the delay in finalising the department's opinion on its financial statement. He explained on 2 November 2005 that:

We completed our statements of opinion on them [financial statements] on Friday and could then have proceeded to table the annual report yesterday. But as Senator Hill had been away and I wanted the opportunity to brief him very fully on it and to enable him to question me, which he has done, we have deferred tabling the annual report. It will now be done when it is printed.

1.4 A letter dated 28 October, from Mr Smith to the Minister, was tabled in the Senate on 3 November 2005. Under section 34C(4) of the *Acts Interpretation Act 1901*, Mr Smith sought an extension for the tabling the report on the grounds stated above.

Review of department's performance

1.5 Mr Ric Smith, Secretary of the Department of Defence, and Air Chief Marshal Angus Houston, Chief of the Defence Force, in their joint review of the year, noted that 2004–2005

...saw a continued strong focus on military operations, procurement reform, and financial management remediation. Particular attention was also accorded to military justice, intelligence reform and issues of Australian Defence Force (ADF) recruitment and retention.¹

Significant matters relating to the operations and performance of the department

Defence's financial statements

1.6 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 Department of Defence Annual Report 2004–2005, p. 2.

1.7 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. Over recent years, Defence's financial statements have shown significant deficiencies.

A history of qualified financial statements

1.8 In 2001, the ANAO found that there were significant internal control issues which cast doubt on the accuracy of Defence's financial statements for the year ending June 2001. For the years ending June 2002, 2003 and 2004, the ANAO similarly reported that the Department's financial statements had significant internal control issues and contained qualifications. The Secretary and the Chief Finance Officer of Defence were not able to meet the financial reporting requirements of the Finance Minister's Orders in 2003–04.

1.9 In its review of the 2003–04 Defence annual report, the Committee noted, with regard to the financial statements, that 'Defence and ANAO have accepted that while some of the problems might be quickly solved, others are more deeply entrenched and will take some years to resolve'.²

Financial statements for year ending 2004–05

1.10 For the financial year 2004–05, the Secretary and the Chief Finance Officer of Defence were again not able to meet the financial reporting requirements of the Finance Ministers' Orders. The Secretary and CDF, in their review, stated that 'the Secretary and Acting Chief Finance Officer again concluded this year, as in 2003–04, that they could not attest that the overall statements were true and fairly stated'.³

1.11 In its most recent audit on Defence's financial statements for the year ending June 2005, the ANAO reported that there were moderate or significant issues reported previously not yet resolved, and further, that there were new moderate or significant issues. The ANAO report stated that the Auditor-General's opinion on the financial statements was qualified, explaining:

The audit qualification arose from a series of significant audit issues that were expressed as limitations on the scope of the audit, covering material aspects of Defence assets and personnel entitlements. This qualification was expressed as an inability to form an opinion...⁴

2 Department of Defence Annual Report 2003–2004, p. 20.

3 Department of Defence Annual Report 2004–2005, p. 5.

4 ANAO, Audit Report No. 21 2005–2006, Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2005, pp. 101–102 and 104. (See pages 100–116 for a full assessment of Department of Defence's financial statements.)

The qualified audit opinion is attributable to an internal control environment that requires significant and sustained improvement. Shortcomings are evident in a number of key operational and business support systems and processes, in particular logistics and asset management, finance and personnel. In addition, record keeping practices need considerable improvement.⁵

1.12 In summary, ANAO noted:

The internal controls of the Department of Defence (Defence), designed to provide reasonable assurance regarding the reliability of financial reporting, contains significant deficiencies due to weaknesses pertaining to financial management and systems, inadequacies surrounding accounting records, inventory, asset and employee entitlement recording. The deficiencies have resulted in significant uncertainties, which have been expressed as audit scope limitations, in relation to several material balances, including Inventories, Repairable Items (a component of Specialist Military Equipment), Infrastructure, Plant and Equipment, Intangibles, and Employee Leave Provisions.⁶

1.13 The audit report also found that section 48 of the FMA Act had been contravened as Defence's accounts and records did not properly record and explain Defence's transactions and financial position. ANAO determined that it was:

...unable to express an opinion on whether the 2004–05 financial statements of Defence were prepared in accordance with the Finance Minister's Orders made under the FMA Act, and give a true and fair view, in accordance with applicable Accounting Standards and other mandatory financial reporting requirements in Australia.⁷

1.14 The ANAO Report noted that Defence continues to implement a range of improvements to its financial management and business systems and processes, although more work is still required. Defence is currently working through 95 Australian National Audit Office 2003–04 audit findings, and 53 Australian National Audit Office 2004–05 audit findings.

1.15 Important initiatives that have been established include:

- implementation of 16 remediation strategies;

5 ANAO, Audit Report No. 21 2005–2006, Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2005, p. 104.

6 Department of Defence Annual Report 2004–2005: ANAO, Independent Audit Report to the Minister for Defence, Summary, after p. 346.

7 Department of Defence Annual Report 2004–2005: ANAO, Independent Audit Report to the Minister for Defence, Comparative Information, after p. 346.

- establishment of program offices in the Chief Finance Officer Group and the Defence Materiel Organisation to drive audit remediation strategies and to provide independent advice to the Secretary and the Financial Statements Project Board on achievement of remediation outcomes;
- rigorous monitoring of remediation strategies by the Financial Statements Project Board, augmented by a representative from the Department of Finance and Administration and a private sector accounting specialist; and
- development of a financial controls framework that will standardise financial transactional and management processes across the portfolio to improve the integrity of Defence financial data, budgeting and financial statements.⁸

1.16 The review by the Secretary and CDF emphasised that they considered that the results in terms of cash management, receivables, revenues from government, and specialist military equipment exclusive of repairable items were fairly stated. They also considered that the value of the land and building was fairly stated:

While the overall result remains disappointing, it does reflect improvement on the 2003–04 statements. The total value of the uncertainty has been reduced, and the qualification on land and building values removed. As well, 53 of last year's 95 audit findings were submitted to the Australian National Audit Office (ANAO) for clearance during the period.

We continued to drive to improve and reform our management of assets and liabilities. In June 2005, as part of this drive, we launched the Defence Financial Controls Framework project. This project, under the Chief Finance Officer's leadership, aims to establish a best practice financial controls framework in Defence that results in high quality, repeatable, outcomes that are acceptable by external auditors.⁹

1.17 Defence reported that it resolved some audit findings in 2004–05, but enduring improvements may take some years.¹⁰ The report under review states that the Defence Financial Controls Framework Project is set to a five year time frame. This reflects 'the fundamental nature of the changes to be put in place':

The adoption of a comprehensive financial framework for Defence will require significant cultural and behavioural change for all staff working in the financial domain and for Defence people more widely. Such

8 Department of Defence Annual Report 2004–2005, p. 41.

9 Department of Defence Annual Report 2004–2005, p. 5.

10 Two strategies have been added since the publishing of the Portfolio Budget Statements 2005–06 (S12—Provisions for Contaminated or Potentially Contaminated Land, Buildings and Infrastructure and S13—Commitments and Accounting for Leases).

fundamental change in an organisation as large as Defence will take at least five years to achieve.¹¹

1.18 The Committee appreciates that the Department needs time to redress the problems identified in its financial management and business systems and processes as well as the need for 'significant cultural and behavioural change' for staff working in these areas. Even so, the Committee expects to see marked improvement recorded in next year's annual report. It urges Defence not to relax its endeavours to address the problems identified by ANAO.

1.19 On the positive side, the Committee was pleased to note the section on the progress of the financial statements remediation plans. It provides the reader with an excellent overview of the plans without requiring any technical expertise. Each remediation plan is briefly but clearly described. It also details the activity required to achieve an outcome, the major outcomes achieved during the year, and those planned for the coming year.¹²

Summary

1.20 This annual report presents the activities of the Department in a clear, concise manner, which helps the reader to locate any issue or subject of interest with a minimum of effort.

1.21 The Committee finds Defence's 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.

Department of Foreign Affairs

1.22 The Department of Foreign Affairs and Trade Annual Report 2004–2005 was presented to the President on 28 October 2005 and tabled in the Senate on 7 November 2005.

1.23 In the Secretary's review, Mr Michael L'Estrange, stated that 'in an increasingly challenging and inter-connected global environment, the Department worked to protect and promote the interests of Australia and Australians internationally during 2004–2005':

A flexible workforce and close coordination with other Australian Government departments and agencies underpinned the department's contributions to strong whole of government outcomes across foreign and trade policy and consular issues.

11 Department of Defence Annual Report 2004–2005, p. 40.

12 Department of Defence Annual Report 2004–2005, p. 41. Details on Defence's financial management reform can be found at pages 40–55.

...

The international security environment continued to pose serious challenges for the department, as demonstrated by the September 2004 terrorist attack against the Australian Embassy in Jakarta. We continued to implement an extensive program to improve physical security standards at Australian missions in order to protect our overseas posts and the people who visit and work in them. The department strengthened Australia's international counter-terrorism engagement through practical cooperative mechanisms, particularly with regional partners.¹³

1.24 The Secretary also stated that the unpredictable international security environment, combined with increasing numbers of Australians travelling overseas, continued to present challenges for the department's consular service:

In 2004–05 we provided consular assistance to over 25,000 Australians overseas—almost double the number from the previous year. We issued over 1.2 million travel documents—16 per cent more than in 2003–04.

...

To promote safe overseas travel, the department continued to take great care in issuing and revising travel advisories, providing Australians with up-to-date information on security conditions in major destinations. ... We improved our online facilities for dealing with consular and passport enquiries, including by making online passport information more accessible ... and... We made significant progress towards introducing an ePassport using biometric facial recognition technology from October 2005.¹⁴

1.25 Once again, for ease of reporting, the report of the Department of Foreign Affairs and Trade (DFAT) has been divided into two volumes. Volume 1, which is examined in this chapter deals with the Department of Foreign Affairs and Trade, while volume 2 reports on the Australian Agency for International Development (AusAID).

1.26 As usual the Department has produced a fine report that presents its activities in a clear, concise manner allowing the reader to locate almost all issues or subjects of interest with a minimum of effort.

1.27 The Committee accepts that the report has been prepared in accordance with the guidelines and finds that DFAT has met the reporting requirements for a departmental report.

13 Department of Foreign Affairs and Trade Annual Report 2004–2005, p. 3.

14 Department of Foreign Affairs and Trade Annual Report 2003–2004, pp. 8–9.

Department of Veterans' Affairs

1.28 The Department of Veterans' Affairs Annual Report 2004–05 was tabled in the Senate on 11 October 2005.

1.29 The annual report for Department of Veterans' Affairs also includes the annual reports of the Repatriation Commission, the Military Rehabilitation and Compensation Commission (MRCC); and, the National Treatment Monitoring Committee (NTMC). The Secretary of the Department is also the President of the Repatriation Commission, and Chair of both the MRCC and the NTMC.¹⁵

1.30 In the President/Chair/Secretary's overview, Mr Mark Sullivan, stated that the period under review marked the beginning of a new era in serving Australia veterans. With the profile of Australia's veterans population rapidly changing, DVA is seeking to adapt its service delivery to meet their needs:

The main change is that we are now caring for veterans, war widows/widowers and serving members across several generations, and their needs are radically different.

...

We are caring for older World War II veterans and war widows/widowers with complex health care needs, as well as members of the Australian Defence Force, only now entering the military and facing a very different occupational environment. The changing demographics of the veterans' community, including their greater geographical spread throughout Australia, means DVA needs to alter the way we do our business.¹⁶

1.31 The committee noted that in order to accommodate the changing needs of the veterans community, DVA is undertaking a review of its service delivery arrangements:

We are looking at how we can operate more efficiently, while continuing to sustain the level of service delivery to which the veterans and defence force communities are accustomed. To this end, the Department has established a working group on service delivery arrangements. The role of this group is to assess the Department's current service delivery arrangements and to develop options and strategies for future arrangements.¹⁷

1.32 As observed in last year's report, following Government's adoption of recommendations arising from the Clarke Committee's review, the Department

15 Department of Veterans' Affairs Annual Report 2004–2005, p. 1. See also p. 10 for all portfolio entities covered by this report and their enabling legislation.

16 Department of Veterans' Affairs Annual Report 2004–2005, p. 1.

17 Department of Veterans' Affairs Annual Report 2004–2005, p. 1.

finalised the implementation of various initiatives from the Review of Veterans' Entitlements. This included the introduction of the Defence Force Income Support Allowance, and the provision of rent assistance in addition to the ceiling rate of income support to some 8,000 war widows/widowers.¹⁸

1.33 Over previous reports on annual reports the Committee has taken an interest in DVA efforts to streamline and improve its information technology infrastructure. The Committee notes a high point in the Department's ongoing investment in IT resources:

During the past year, significant changes to the Department's IT infrastructure have been implemented. DVA has adopted a new Citrix MetaFrame environment. The environment allows for more streamlined processes, and provides the Department with support to maintain high quality services.¹⁹

1.34 The Committee commends the Department on producing a clear, concise and legible list of tables and appendices detailing the Department's financial position, assets and commitments.

1.35 In conclusion, the Committee finds that the Department of Veterans' Affairs has once again submitted a comprehensive and well designed annual report that meets all the reporting requirements for a Commonwealth department.

18 Department of Veterans' Affairs Annual Report 2004–2005, p. 3.

19 Department of Veterans' Affairs Annual Report 2004–2005, p. 3.