

Chapter 1

Annual reports of departments

Department of Defence

1.1 The Defence Annual Report 2005–2006 was tabled in the House of Representatives on 31 October 2006 and tabled in the Senate on 7 November 2006.

Military justice system

1.2 The committee draws particular attention to the chapter in Defence's annual report devoted to the military justice system. It includes information such as the Defence Attitude Survey which provided helpful information for the committee during its public hearing into reforms to Australia's military justice system. The material contained in this section enabled the committee to ask Defence officers specific and informed questions about matters such as the redress of grievance process and the Defence Force Discipline Act.

1.3 The committee also notes the inclusion of graphs showing trends over recent years, for example, on complaints of unacceptable behaviour. Again, these greatly assisted the committee in obtaining information that allows it to fulfil its monitoring role of the progress of reforms to the military justice system.

1.4 Indeed, during the committee's public hearing on reforms to Australia's military justice system, the chair of the committee noted the inclusion of the section on Australia's military justice system in the annual report. He said:

I thought it was a substantial improvement and helped us to understand some of the statistics and what is going on.¹

1.5 The committee supports Defence's approach to publishing the results of such material and encourages Defence to continue this type of open reporting.

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.

1.7 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

1 Committee Hansard, 26 February 2007, p. 11.

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

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 Defence reported that it resolved some audit findings in 2004–05, but enduring improvements may take some years.⁴ The 2004–2005 report stated that the Defence Financial Controls Framework Project was set to a five year time frame which reflected 'the fundamental nature of the changes to be put in place'.⁵

1.12 The committee, in its report on annual reports no 1 of 2006, stated:

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

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

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

4 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).

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

Defence not to relax its endeavours to address the problems identified by ANAO.⁶

Financial statements for year ending 2005–2006

1.13 By way of update, Mr Nick Warner, in his capacity as the newly appointed secretary of the Defence organisation, made an opening statement to the committee at Additional Estimates in February 2007. In his address, Mr Warner touched on the audit of the 2005–2006 financial statements. He explained that:

Defence was successful in addressing previous audit qualifications relating to civilian and military leave, explosive ordnance, land and building valuations and addressing infrastructure, plant and equipment and intangibles. This result is all the more pleasing as it was achieved while Defence was meeting the challenges of implementing new accounting standards and a demerger of the DMO.

There is still considerable work to be done in relation to inventory and repairable items management, and it will take some time for us to fully address and remediate all of the issues in all of these areas. I certainly do not underestimate the scale of the challenge that remains, but I do know that we in Defence are doing everything possible to improve our financial management and the quality and accuracy of our financial statements.⁷

1.14 In their joint review of the year, Mr Warner, and Air Chief Marshal Angus Houston, Chief of the Defence Force, noted that they were pleased to be able to sign this year's financial statements on an 'except for' basis:

After two years of being unable to form an opinion, it is pleasing to see the significant effort and focus on financial management delivering a tangible result. Improving Defence's financial management has been a high priority for the organisation and we have made significant progress this year.

The 2005–2006 financial year represented a complex and extremely challenging year for Defence. Not only has there been extensive remediation work but the additional activity of the DMO demerger, and the introduction of the Australian equivalents to International Financial Reporting Standards (AIFRS) has seen Defence experience the most complex financial year in its history.⁸

1.15 The Secretary went on to explain that, with regard to Defence's accounts, the remediation work has delivered significant improvements in four key areas. He

6 Senate Standing Committee on Foreign Affairs, Defence and Trade, Report on Annual Reports No 1 of 2006, p. 9.

7 *Estimates Committee Hansard*, 15 February 2007, pp. 4–5.

8 Department of Defence Annual Report 2005–2006, p. 6.

reported that improvements had been made in the reporting of military and civilian leave liabilities, the valuation and reporting of explosive ordnance, the introduction of a more rigorous asset capitalisation approach and, the completion of asset valuation work in information and communication technology.⁹

1.16 In closing, the Secretary said:

With the achievement to date and a comprehensive plan for continuing remediation, I am confident that Defence's financial statements will see full rectification in the near future.¹⁰

1.17 The section in the report entitled 'financial management transformation' noted that financial remediation in Defence has matured over 2005–2006 and is now guided by three interrelated activities: financial controls framework, position papers and remediation plans.¹¹

ANAO audit findings

1.18 On 26 October 2006, the Auditor-General issued a qualified opinion on Defence's financial statements. The opinion stated that Defence's financial statements were true and fair with the exception of Inventories-General and Repairable items.¹²

1.19 The ANAO's results of the Audits of Financial Statements supported the views of the Secretary. They found that the financial year 2005–06 has seen improvement in Defence's internal control environment and of its focus and ability to successfully address prior year issues. It concluded:

Defence is now better placed going forward but there is still much to be done to improve the integrity of the internal control environment and systems in Defence. Given the number of outstanding issues to be resolved, Defence will need to continue to have a sustained focus on both ongoing remediation and the control processes in place over previously remediated items.¹³

Summary

1.20 The committee was pleased to note the department's progress outlined in the section entitled 'financial management transformation'. The section provides the

9 Department of Defence Annual Report 2005–2006, p. 6.

10 Department of Defence Annual Report 2005–2006, p. 6.

11 Department of Defence Annual Report 2005–2006, p. 64.

12 Australian National Audit Office, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2006*, p. 99.

13 Australian National Audit Office, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2006*, p. 109.

reader with an excellent overview of the plans without requiring any technical expertise. Each sub-heading is briefly but clearly described. It details the objectives of each plan, the progress made to date, and Defence's plans for the future.¹⁴

1.21 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. 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 2005–2006 was presented to the President on 25 October 2006 and tabled in the Senate on 6 November 2006.

1.23 In the Secretary's review, Mr Michael L'Estrange, stated that 'in the face of a challenging international environment, the Department of Foreign Affairs and Trade continued to advance Australia's international interests in 2005–2006:

We worked effectively to strengthen Australia's place in the region and beyond, in a climate characterised by terrorists attacks affecting Australians overseas, the threat of proliferation of weapons of mass destruction, civil unrest in our neighbourhood and doubts about the future of global trade talks.¹⁵

1.24 The Secretary stated that strong and flexible corporate governance underpinned the department's ability to carry out effectively the tasks that government set for it:

—[tasks] such as delivering counter-terrorism capacity-building projects in the region, negotiating a bilateral FTA or providing consular assistance to Australians caught in overseas crises. The department's flexible work structures, supported by centralised staffing arrangements, continued to allow us to respond promptly to changing priorities in a demanding international environment.

...

Our well-honed crisis management procedures, including the rapid establishment of 24-hour crisis and call centres in Canberra, ensured effective responses to overseas emergencies. We implemented a restructure of the department's divisions to align our resources more closely with

14 Department of Defence Annual Report 2005–2006, pp. 64–67.

15 Department of Foreign Affairs and Trade Annual Report 2005–2006, p. 3.

government priorities and sharpen our focus on key policy, advocacy and service delivery functions.¹⁶

1.25 The committee notes that the department improved its ability to maintain fast and transparent communications across its network of offices in Australia and overseas. The Secretary explained that:

The ability to transmit reliable and secure communications is critical to the department's capacity to meet its objectives. A review of our communication systems showed that our electronic messages were being transmitted faster and more consistently than ever before.¹⁷

1.26 The committee also notes the valuable work being done by the department to provide high-quality consular services. The Secretary's report explained that with more Australians than ever travelling and living overseas, it was a major priority for the department:

In 2005–2006, we provided significant consular assistance to 17,505 Australians. Through our network of overseas offices and the consular sharing arrangement with Canada, the Government can now provide direct consular services to Australians across an extensive global network.¹⁸

1.27 Other consular service activities conducted during the year, included:

- The revised format and presentation of consular travel advisories, making them clear and simpler to use, which covered 152 destinations. During 2005–2006, 499 travel advisory updates were issued. The reach and exposure of the department's *smartraveller* website continued to grow with a 48 per cent increase in use compared to the previous year.
- Consular response mechanisms, which again proved to be sound by responding to major overseas emergencies, including terrorist attacks, civil unrest and natural disasters.
- The provision of high-quality passport services to Australians. The department rolled out the microchip-enabled ePassport in October 2005, incorporating the use of facial recognition technology.

1.28 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,

16 Department of Foreign Affairs and Trade Annual Report 2005–2006, p. 7.

17 Department of Foreign Affairs and Trade Annual Report 2005–2006, pp. 7–8

18 Department of Foreign Affairs and Trade Annual Report 2005–2006, p. 7.

while volume 2 reports on the Australian Agency for International Development (AusAID).

1.29 The Department has produced a 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.

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

Department of Veterans' Affairs (DVA)

1.31 The Department of Veterans' Affairs Annual Report 2005–2006 was tabled in the Senate on 11 October 2006.

1.32 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.¹⁹

1.33 In the President/ Secretary's overview, Mr Mark Sullivan, stated that the year under review had been a big year for the Veterans' Affairs portfolio:

...beginning with the commemorations to mark the 60th anniversary of the end of World War II and ending with the move by the Department of Veterans' Affairs into a new organisational structure. The move to a new structure represented significant change for DVA, our staff and the way we do business, but one of the great successes of our approach to this change was that it went generally unnoticed by our client groups.

...Importantly, it sets in place the foundation for continued service delivery in recognition of the demographic changes taking place in our client population. There is now a noticeable decline in the number of older veterans and war widows/widowers, many of whom at the same time are becoming more frail and requiring a higher level of care. By contrast, there is a smaller, but increasing number of younger veterans and defence force members who often have more complicated physical, emotional and mental health needs.²⁰

1.34 As flagged in DVA's annual report for 2004–2005, the department undertook a veterans' satisfaction survey. The survey focused on the views of veterans, serving

19 Department of Veterans' Affairs Annual Report 2004–2005; see pp. 8–11 for the portfolio entities covered by this report, their roles, and their enabling legislation.

20 Department of Veterans' Affairs Annual Report 2005–2006, p. 1.

and former Australian Defence Force members under the age of 45. The major concerns raised for DVA centred around lack of knowledge of DVA services, the complicated claims process and general client service issues.

1.35 The Secretary's report explained that:

We have established a task force to examine ways to address these concerns, exploring issues about how we engage currently serving and former younger clients, how we deliver and receive information and, importantly, how we ensure ease of access to benefits and assistance under the three very different pieces of legislation we currently administer.²¹

1.36 The committee notes that during the last year, the department completed its review of service delivery arrangements, implementing a new *oneDVA* structure:

The Department's business areas have been reorganised along functional lines, which will allow us to re-scale operations for different functions as the workload in those areas reduces. An important feature is the removal of national and state boundaries to create national lines of business, with managers and staff located in all states. The goal is to operate as *oneDVA*, a single, cohesive entity able to provide the same quality of service to our clients, no matter what their needs are or where they are located.²²

1.37 Over previous reports on annual reports the committee has taken an interest in DVA's efforts to streamline and improve its information technology infrastructure. The committee notes the department's ongoing commitment to improved service delivery to meet its future business needs, through consolidation and integration of its existing computer systems with new applications.

1.38 The Government's announcement to introduce a new health and social services access card by 2008 is of particular interest to the committee. The Secretary explained that 'DVA will be working in close partnership with other agencies over the next 12 months to plan and develop the veterans specific issues within this initiative':

The Access Card will replace many government-issued cards, including the Medicare card. DVA is working with the Department of Human Services with the aim of maintaining a form of unique identity for veterans' cards. The most important thing to note is that veterans' entitlement to services and benefits will not change with the introduction of the Access Card.²³

21 Department of Veterans' Affairs Annual Report 2005–2006, pp. 3–4.

22 Department of Veterans' Affairs Annual Report 2005–2006, p. 4.

23 Department of Veterans' Affairs Annual Report 2005–2006, p. 4.

ANAO audit findings

1.39 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.

1.40 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. The ANAO's results of the Audits of Financial Statements found four moderate control weaknesses, relating to:

- the treatment of public donations;
- continuing uncleared balances in the payroll clearing account (this matter was addressed during the final phase of the audit);
- the need for further improvements to application access management; and
- the DVA's disaster recovery plan at the interim phase of the audit.

1.41 The audit also noted that during the 2005–06 financial year, DVA obtained legal advice that the services provided for British pensioners and other Dominion veterans were not covered by appropriation provided under Section 199 of the *Veterans' Entitlements Act 1986* as such persons were not veterans for the purposes of the Act. The audit concluded that these payments contravened section 83 of the Constitution and section 48 of the *Financial Management and Accountability Act 1997*. The audit noted:

As DVA has breached section 83 of the Constitution in making payments without valid appropriation support, a modified audit opinion with other statutory matters was issued outlining the background to this breach and the action by DVA to regularise these payments without appropriation support.²⁴

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

24 Australian National Audit Office, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2006*, p. 122.

