

Chapter 2

Background

Introduction

2.1 This chapter briefly describes the size and scale of the resource management task placed on the Department of Defence to facilitate its primary task to defend the nation and its national interests.¹ It then outlines the responsibilities and duties of the Department, as a non-corporate Commonwealth entity, to ensure the proper use of relevant monies as established legislatively by the Public Governance Act (PGPA) and its policy counterpart, the Commonwealth resource management framework under the public management reform agenda introduced by the Australian Government in 2013. Continuing the devolution of responsibilities established by the *Financial Management Accountabilities Act 1997*, these instruments and guidance establish the resources management framework against which the ANAO conducted the performance audit of Defence's management of credit and other transaction cards.²

Size and scale of Defence's resource management task

2.2 Defence holds a unique role among Commonwealth entities that perform the Australian Government's directions. As the 2016 Defence White Paper describes:

Our most basic Strategic Defence Interest is a secure, resilient Australia. The first strategic Defence Objective is to deter, deny and defeat any attempt by a hostile country or non-state actor to attach, threaten or coerce Australia. The government is providing Defence with the capacity and resources it needs to be able to independently and decisively respond to military threats, including incursions into Australia's air, sea and northern approaches...The Government will ensure Australia maintains a regionally superior ADF with the highest levels of military capacity and scientific and technological sophistication...³

2.3 By any measure, Defence is Australia's largest non-corporate Commonwealth entity to facilitate the performance of its unique role. Defence has an operating budget for the 2016-17 financial year projected at \$32.337 billion and an estimated workforce strength comprising 77,649 personnel.⁴ Whilst historically, the size and scale of resources available to Defence has been uncertain and variable, this is set to change over the next decade. The current government has made a firm commitment to build Defence's capacity. The 2016 Defence White Paper projects an overall budget growth to two per cent of Australia's Gross Domestic Product by 2020-21, representing a projected investment of \$195 billion in Australia's defence capacity over 10 years. By

1 Department of Defence, Mission, <http://www.defence.gov.au/AboutUs.asp>, accessed 27 April 2017.

2 ANAO Report, 2016

3 Department of Defence, *2016 Defence White Paper*, 2016, pp.17-18.

4 The Department of Defence submission to the inquiry noted actual expenditure in 2015-16 of \$31,523 billion. The Defence Portfolio Budget Statement 2016-17 advises that the workforce strength consists of an estimated 59,209 in the ADF which is due to grow to 62,400, and a civilian workforce of approximately 18,440.

2020, Defence will emerge as one of the largest and best-resourced of all the non-corporate Commonwealth entities.

2.4 The substantive portion of the Defence budget is dedicated to investment in defence capability, the weapons systems and platforms, military facilities and bases, information and communications technology, and workforce to assist Defence achieve its purpose.⁵ Credit and other transaction cards, the focus of the ANAO performance audit, are to be used for comparatively minor operational expenses, such as official travel, including allowances for travel-related meals, accommodation and other incidentals; official purchases of goods and services under the threshold of \$10,000; taxi fares and car hire; and fuel for work-related vehicles. Together, these expenses constitute a significant pool of resources. According to the ANAO performance audit, credit and other card transactions accounted for expenditure ranging between \$499,635,337 in 2012-2013 and \$548,474,723 in 2014-15.⁶

Proper use of relevant monies

2.5 The ANAO performance audit examined the period 2012-2015, which included the Department of Defence's transition from the *Financial Management and Accountability Act 1997* (FMAA) to the PGPA. The PGPA took effect from 1 July 2014 and transition arrangements from the FMAA to the PGPA applied until June 2015.

2.6 Previously governed under the ambit of the FMAA, the proper use of relevant monies is now encompassed by the PGPA which, as the legal cornerstone of the public management reform agenda, sets out the requirements for the governance, reporting and accountability of Commonwealth entities (and companies) and for their use and management of public resources. The PGPA consolidates the devolution of responsibilities and duties for resource management begun, in Defence, in the 1990s, with the implementation of the recommendations of the 1996 Defence Efficiency Review through the consequent Defence Reform Program (DRP).⁷ The DRP fundamentally restructured Defence by fully embracing a 'shared service' model to improve, amongst other aspects, the efficiency of support and administrative functions. At the time, a review of the program advised that the long-term financial impact of the change was 'difficult to discern'.⁸

2.7 The PGPA sets enhanced standards against which the proper use of relevant monies is to be measured. Defence, as a non-corporate Commonwealth entity, is subject to the PGPA and its policy counterpart, the Commonwealth resource management framework, which provides guidance on how the Commonwealth public

5 Department of Defence, *2016 Defence White Paper*, 2016, p. 31.

6 ANAO Report, 2016, p. 13.

7 Australian National Audit Office, *Defence Reform Program Management and Outcomes, Department of Defence*, Report No. 16, 2001-2001, Performance Audit, 2001

8 Mark Thomson, ASPI, *Defence Reform: The Australian Experience*, presentation to the Atlantic Council Workshop on Comparative Defence Reform, 21 June 2013, Ottawa, Canada.

sector uses, manages and reports on public resources with the advent of the public management reform agenda.⁹

2.8 The PGPA outlines the fundamental requirements for all Commonwealth entities to ensure the proper use and management of public resources, described as the efficient, effective, economical and ethical use or management of public resources.¹⁰ Commonwealth entities, and the officials therein, must use or manage public resources in a way that is not inconsistent with the policies of the Australian government.¹¹

2.9 The PGPA, in conjunction with the Commonwealth risk management policy, also prescribes officials' responsibilities and duties for exercising accountabilities, by managing risk through establishing internal controls, including fraud prevention and investigation, and conducting audit processes.¹²

2.10 Commonwealth entities are also required to produce good quality information which can measure, assess and report on the delivery of progress and services for which they are responsible.¹³

ANAO performance audit

2.11 The Auditor General presented the performance audit report on *Defence's Management of Credit and other Transaction Cards* to Parliament on 5 March 2016.¹⁴ ANAO examined the Department of Defence's management of credit and other transaction cards between 2012-2015 to consider whether Defence was effectively managing and controlling the use of Commonwealth credit and other transaction cards for official purposes in accordance with legislative and policy requirements. At the time of the audit, Defence had over 100,000 credit and other transaction cards on issue. These included:

- (a) Defence travel cards—issued by Diners under the whole-of-government (WOG) arrangement managed by the Department of Finance; a companion MasterCard was also available under this arrangement, for those situations where the Diners card was not able to be used;
- (b) Defence purchasing cards—Visa cards issued by the National Australia Bank under direct arrangement with Defence and separate from the WOG arrangements managed by the Department of Finance;¹⁵
- (c) Cabcharge (Fastcards) and e-tickets used for taxi fares and car hire; and

9 See Appendix 4 for an explanation of the key roles and responsibilities established by the PGPA 2013, as advised by the Commonwealth Resource Management Framework.

10 PGPA 2013, s. 15.

11 PGPA 2013, s. 28.

12 Department of Finance, Commonwealth Risk Management Policy, 1 July 2014.

13 PGPA 2013, s.35, s.37, s.38, s.39, s.40 and s.46.

14 ANAO Report, 2016.

15 Department of Finance, Supplementary Response to Questions on Notice, 29 March 2017, Q1.

- (d) Defence fuel cards, managed by SG Fleet, for Defence's military and civilian vehicles, known as the green and white fleets.

2.12 The Department of Finance advises all Commonwealth government entities on the use of credit and other transaction cards which are recommended for low-value purchases of goods and services. Credit cards are used by the Australian Government because they are considered to offer an efficient and timely means to pay for goods and services purchased for official purposes. The reporting arrangements available through card use are intended to offer a basis for managing the risks of misuse and fraud.¹⁶

2.13 The ANAO performance audit assessed Defence's management of credit and other transaction cards against three criteria. It considered whether:

- (a) Defence have effective arrangements to control the issue and return of credit cards;
- (b) controls over individual purchases are sound and operating effectively;
- (c) Defence has a sound framework in place to provide evidence-based assurances that controls over relevant card issue use and return are effective.

2.14 The audit was seeking to ascertain whether Defence had identified the risks associated with the use of credit cards and put in place sufficient precautionary or detective controls to address those risks. The risks fell into two categories to prevent and manage waste (uneconomical use of public resources) or fraud (dishonestly obtaining a benefit or causing a loss, by deception or other means).

2.15 The audit identified that neither preventative nor detective controls were as effective as they could (or should) be across the agency. Further, the report identified that although management information was available to Defence, it did not take advantage of the analytical tools and information available to monitor and ensure accountable use of public monies by its workforce. It neither managed the risks nor reported on performance adequately.¹⁷

2.16 The audit found that Defence:

...does not have a complete and effective set of controls to manage the use of credit and other transaction cards. An active management process and use of IT-based analytical techniques would help Defence develop its control framework and provide better assurance over the use of these cards to purchase goods and services.¹⁸

16 Department of Finance: *Resources Management Guide No 416, Facilitating Supplier Payment Through Payment Card*, November 2016, which outlines Commonwealth policy on payment cards as the preferred method to pay suppliers for eligible payments valued below \$10,000. The policy is intended to facilitate timely payment to suppliers, assist their cash flow and reduce costs to business in supplying to the Commonwealth.

17 ANAO Report 2016, p.15.

18 ANAO Report, 2016, p. 7.

2.17 The ANAO report made recommendations in three key areas to enhance Defence's management and use of credit and other transaction cards:

- (a) To improve management of credit cards, Defence should:
 - (i) Identify risk associated with credit cards and its current control framework;
 - (ii) Implement enterprise-wide control arrangements aligned to key risks;
 - (iii) Implement arrangements to provide assurance that the control arrangements are working as intended.
- (b) To provide assurances that credit card use is consistent with Defence policies, Defence should:
 - (i) undertake periodic analysis of credit card transactions, targeting key areas of risk; and
 - (ii) take corrective action where necessary.
- (c) To help ensure that the new fuel management arrangements are operating satisfactorily, and have addressed the risks identified in this performance audit report and in its 2012 internal audit on fuel card and fuel management, the ANAO recommends that Defence conduct a follow-up review of progress in the 2016-2017 financial year.¹⁹

2.18 Defence acknowledged the audit report's findings and agreed with the three recommendations. The report noted that Defence had advised that it had introduced new governance arrangements alongside a suite of investigative analytics covering all aspects of credit cards. Defence also welcomed the ANAO's acknowledgement of improvements to fuel card management including the formation of the fuel services branch in early 2015. Defence advised it would 'aggressively continue' implementation 'and refinement' of the new fuel card assurance framework across Defence including 'streamline exception reporting...appropriate innovative IT solutions and...additional preventative and detective controls as necessary'.²⁰

19 ANAO Report, 2016, pp. 9-10.

20 ANAO Report 2016, pp. 7-10.

