

Chapter 1

Annual reports of departments

Department of Defence

1.1 The Defence Annual Report 2009–2010 was tabled in the Senate on 24 November 2010.

1.2 At the recent estimates hearing on 23 February 2011, the Secretary of the Department of Defence explained to the committee the reasons for the lateness of report:

...this was a case of competing demands on the Defence organisation in the lead-up to final drafting, including on the CDF and me. These commitments were influenced by the timing of the election, the lengthy caretaker period and incoming government requirements. All of this meant that we could not meet the usual deadlines for production and tabling, which should have seen the report tabled on 31 October 2010, consistent with appropriate processes. We sought, however, and were granted, again consistent with appropriate processes, an extension of time by the Minister for Defence on 22 and 27 October 2010, respectively. As required by section 34C(6)(a) of the Acts Interpretation Act 1901, both documents were laid before each house of parliament on 27 October 2010.¹

Military justice system

1.3 In August 2009, the High Court of Australia in *Lane v Morrison* unanimously found that the part of the *Defence Force Discipline Act 1982* that created the Australian Military Court was invalid. As an interim measure, legislation was passed by Parliament which reinstated the former system of courts martial and Defence Force magistrates, which continues to hear serious offences.

1.4 On 24 June 2010, the *Military Court of Australia Bill 2010* was introduced into the Parliament. This bill proposed the creation of a Military Court of Australia within the federal courts system to try all serious Service offences. Following the prorogation of the Parliament on 19 July 2010, the bill lapsed. At the time of printing the annual report, the bill had not been introduced.²

HMAS Success inquiry

1.5 On 24 February, 2010, the Chief of the Defence Force, Air Chief Marshal Angus Houston, announced the appointment of the Hon Roger Gyles, AO, QC to conduct a CDF's Commission of Inquiry into a range of matters arising from a number of issues on board *HMAS Success*.

1 *Proof Committee Hansard*, 23 February 2011, p. 7.

2 Department of Defence, Annual Report 2009–2010, p. 9.

1.6 In their 2009–2010 report overview, the Secretary of Defence and the Chief of the Defence Force stated that 'it was extremely disappointing that Defence's inquiry processes up to this point in relation to this matter were found wanting'. They noted that the independent inquiry conducted by Mr Gyles

...has been comprehensive and will identify the areas in which our current procedures may have been deficient. This incident reinforced that there are aspects of the administrative inquiry system that require significant improvement.

...

The first hearing of the Commission of Inquiry was held on 12 March 2010. Due, among other things, to the volume of documents and the requirements to call additional witnesses, the final report and findings are expected to be received by the end of 2010. The focus must be to ensure that procedural fairness and privacy is afforded to all individuals involved, including the complainants and those responding to allegations.³

1.7 The Secretary and CDF concluded their remarks by stating that they continue to work with the Senate References Committee on the matter and have committed to provide the final report to the Senate inquiry when completed. They stated:

It is critically important that inquiry processes followed by Defence are beyond reproach and meet the highest legal standards.⁴

Matters relating to the operations and performance of the department

Defence's financial statements

1.8 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.

1.9 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.

1.10 In their 2009–2010 overview, Secretary and CDF, stated that 'media scrutiny on the legitimacy and appropriateness of certain Defence expenditure has drawn attention to the substance and consequence of some of Defence's past financial decisions.'⁵ Secretary and CDF stated that:

3 Department of Defence, Annual Report 2009–2010, p. 8.

4 Department of Defence, Annual Report 2009–2010, p. 9.

5 Department of Defence, Annual Report 2009–2010, p. 9.

Accordingly, we have renewed our focus on establishing a more disciplined and cost-effective culture to underpin every-day operations and decision-making in the organisation. A cost-conscious culture encourages paying greater attention to the accuracy of financial information, to the clarity of request for tender, and the maintenance and accessibility of comprehensive records for future reference. Defence business is now conducted more effectively and efficiently, and our spending and procurement processes are more robust.

1.11 They concluded on this topic by stating that continued improvements in this area are a fundamental factor in the success of the Strategic Reform Program (SRP).⁶

ANAO audit

1.12 The Australian National Audit Office (ANAO) performed financial statement audits on all agencies for the period 2009–2010. The audit report for the Department of Defence states:

The results of the 2009–2010 financial statements audit reflect Defence's ongoing focus on improving its financial management and reporting, and the remediation of issues. As a consequence, the number of significant and moderate audit issues continues to trend downwards.

An unqualified audit report was issued on 14 September 2010.

During the final phase of the 2009–2010 audit, the ANAO confirmed that Defence had resolved six moderate audit issues previously identified. At the conclusion of the 2009–2010 audit, one significant and 17 moderate audit issues remained outstanding. The majority of these audit issues relate to Defence's inventory and asset management.⁷

1.13 The areas where significant or moderate risks remain outstanding, are:

- Financial Management Framework (see below)
- Logistics Management General Stores Inventory and Specialist Military Equipment
- Asset Management (general and SME)
- Financial Management Information System
- Purchase to Pay systems and processes

6 Department of Defence, Annual Report 2009–2010, p. 9.

7 Australian National Audit Office, *Audit of the financial statements of Australian Government Entities for the period ended 30 June 2010*, Audit Report no 22, 2010–2011, p. 99.

- Human Resource Management, and
- Information Technology Governance.⁸

Financial management framework

1.14 In its last report on Defence's Annual Report 2009–2010, the committee expressed an interest in seeing progress on the outstanding matter of management and oversight of service bureau arrangements between Defence and the Defence Materiel Organisation (DMO).

1.15 ANAO noted in its Audit Report no 22, 2010–2011, that the business and operational model between Defence and the DMO includes arrangements that involve DMO managing and processing financial transactions and business processes, on behalf of Defence.

These arrangements require Defence to have in place structured monitoring and oversight activities to provide assurance that controls over purchasing, logistics, and the acquisition of specialised military equipment are effective. Weaknesses in these controls increase the risk of inaccurate balances being reported in Defence's financial statements.

The ANAO continues to identify and report weaknesses in the internal control of each agency that is not addressed with the bureau of service arrangements or other formal arrangements. At the completion of the 2008–2009 audit, the issue in relation to the management and oversight of service bureau arrangement between DMO and Defence remained outstanding.

1.16 ANAO reported that Defence is undertaking a review of the financial management framework which is expected to be finalised in 2010–2011.⁹

Strategic Reform Program

1.17 The committee noted in its 2010 report, that Defence stated that the roll out of the Strategic Reform Program, 2008–2009 was 'the start of significant, deep and holistic reform in every part of Defence'¹⁰. The Secretary and CDF stated in their 2009-2010 overview:

After support to operations the Strategic Reform Program (SRP) was Defence's highest priority activity in 2009–2010. Throughout 2009–2010

8 Australian National Audit Office, *Audit of the financial statements of Australian Government Entities for the period ended 30 June 2010*, Audit Report no 22, 2010–2011, pp. 99–103.

9 Australian National Audit Office, *Audit of the financial statements of Australian Government Entities for the period ended 30 June 2010*, Audit Report no 22, 2010–2011, p. 99. See also in the same report, DMO—Areas of audit focus (relating to service bureau arrangements), paragraphs 5.223 to 5.225, p. 108.

10 Department of Defence, Annual Report 2008–2009, p. 3.

Defence has been building a solid foundation to ensure that the SRP reforms are sensibly targeted, achievable and can be sustained into the future. The SRP is a decade-long 'campaign of reform' which will enable Defence to position itself to fund and operate *Force 2030*. This deliberate and managed approach to reform draws on lesson learned from previous organisation-wide reform efforts designed to deliver substantial cost reductions for reinvestment.¹¹

1.18 The committee notes that the SRP was agreed by the Government as part of the 2009 Defence White paper. During the period July 2009 to February 2010, detailed plans were developed for the implementation of the SRP.

These plans detailed over 300 separate reform initiatives which will be managed across 15 individual 'reform streams'. This detailed planning work culminated in the development of a SRP portfolio-wide Implementation Plan which was considered by Government in March 2010. The Government endorsed the Plan and implementation of the SRP began in earnest soon thereafter.¹²

1.19 The Secretary and CDF stated that to ensure reform is sustainable and genuine, Defence has built a strong governance and assurance regime around the SRP.

At the top of this framework is regular reporting to the Government and the newly-established Defence Strategic Reform Advisory Board (DSRAB), which will scrutinise the implementation of the SRP and provide independent advice to the Government.

...

This structure will provide the 'eyes and ears' on the ground to ensure that the SRP is making sustainable and genuine reform, without impacting negatively on capability or safety.¹³

Summary

1.20 The committee finds Defence's 2009–2010 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.

11 Department of Defence, Annual Report 2009–2010, p. 5.

12 Department of Defence, Annual Report 2009–2010, p. 5.

13 Department of Defence, Annual Report 2009–2010, p. 7.

Department of Foreign Affairs

1.21 The Department of Foreign Affairs and Trade Annual Report 2009–2010 was tabled in the Senate on 27 October 2010.

1.22 The Secretary of the department, Mr Dennis Richardson, stated that 'a fragile global economy and contractions in the gross domestic products of seven of Australia's top 10 trading partners provides a critical context for the Government's foreign and trade policy agenda over the last year':

The changing strategic landscape in East Asia, shaped by the rise of China, was a further important context for our work.

We pushed strongly through the G20, the World Trade Organization (WTO) and bilaterally for a coordinated global response to the economic crisis, to resist protectionist forces and to extend trade liberalisation. We continued to engage within multilateral forums on key issues, including counter-terrorism, non-proliferation, climate change and people smuggling. We engaged with partners on regional economic integration and regional architecture. We strengthened bilateral relations with regional partners and worked to enhance our engagement with Africa, Latin America and the Caribbean.¹⁴

Promoting trade and investment

1.23 The Secretary stated that DFAT 'advanced Australian trade policy priorities through facilitating ministerial participation in key multilateral economic forums, including the G20, the WTO, the APEC forum and the Organisation for Economic Cooperation and Development (OECD)':

To improve market access for Australian exporters, the department continued to work towards concluding the WTO Doha Development Round negotiations. We supported Mr Crean in his efforts, during a gathering of trade ministers in France and at the Cairns Group meeting in Uruguay, to build political will to resume negotiations.

The department coordinated an active schedule of bilateral and regional free trade agreement (FTA) negotiations, including with China, Japan, the Republic of Korea and Malaysia. Australia hosted the first negotiation round of the Trans-Pacific Partnership (a joint FTA with seven of our Asia-Pacific partners)...We finalised a study with India on the feasibility of a bilateral FTA and oversaw the entry into force of the Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area.¹⁵

1.24 The committee notes that the department worked to advance Australia's export competitiveness, which included working with Austrade to assist Australian

14 Department of Foreign Affairs and Trade, Annual Report 2009–2010, p. 3.

15 Department of Foreign Affairs and Trade, Annual Report 2009–2010, p. 6.

businesses access foreign markets and by working with the Export Finance and Insurance Corporation (EFIC) to facilitate access to trade finance for Australian exporters.¹⁶

Enhancing national security

1.25 The secretary recorded the department's continued close cooperation with NATO in Afghanistan, including working with other departments and agencies to provide additional diplomatic personnel to civil-military stabilisation efforts. He noted the work of the department in facilitating the participation of the Minister for Foreign Affairs, as well as that of Australia's Special Envoy for Afghanistan and Pakistan, at international meetings on Afghanistan. Mr Richardson added that:

With the aim of strengthening regional stability, we worked with other agencies to assist Pakistan with its defence, law enforcement and counter-terrorism capabilities and participated in Friends of Democratic Pakistan group.¹⁷

1.26 The department also worked with regional partners in its effort to combat people smuggling:

We coordinated a senior officials' meeting of the Bali Process Ad Hoc Group (aimed at developing regional responses to irregular migration in the Asia-Pacific) and assisted with the organisation of the Bali Process Workshop on Protection, Resettlement and Repatriation.

1.27 The secretary concluded his remarks on the subject by stating that the department 'continued to advance the Government's national security agenda and worked cooperatively with other departments on cyber, maritime and aviation security'.¹⁸

Summary

1.28 The committee finds the Department of Foreign Affairs and Trade'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.

16 Department of Foreign Affairs and Trade, Annual Report 2009–2010, pp. 6–7.

17 Department of Foreign Affairs and Trade, Annual Report 2009–2010, p. 7.

18 Department of Foreign Affairs and Trade, Annual Report 2009–2010, p. 8.

Department of Veterans' Affairs

1.29 The Department of Veterans' Affairs Annual Report 2009–2010 was presented in the Senate on 16 November 2010. A reprinted version of the report was tabled on 23 November 2010.

1.30 The annual report was originally tabled in both Houses of Parliament on 28 October 2010. It was reprinted in November 2010 due to a production error that caused some figure and table captions to be omitted from the original document. There were no changes to the original document content and reprinting was at no extra cost to the Commonwealth.¹⁹

1.31 The annual report for Department of Veterans' Affairs (DVA) 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.²⁰

1.32 In the President/Secretary's overview, Mr Ian Campbell, PSM, stated that 2009–2010 was another busy year for the Repatriation Commission, the Military Rehabilitation and Compensation Commission and the Department of Veterans' Affairs:

The May budget delivered good news for the veteran and defence communities. Our total budget increased for the coming year by more than \$300 million, to a total of \$12 billion. This funding will enable us to continue to provide substantial support to members of the veteran community. We still, however, face the challenge of delivering the same high level of service in an environment of lower operating budgets in the coming years. I am confident that the structural changes we introduced last year will continue to shape the Department as it gradually reduces in size.²¹

1.33 Mr Campbell reported that in 2009–2010, the two commissions and the department 'achieved a number of significant outcomes of benefit to the veteran and defence communities and to the way the department does business'.

1.34 Some of these major achievements included:

- implementing revisited recommendations of the Clarke review;

19 Department of Veterans' Affairs, Annual Report 2009–2010, reprint insert

20 Department of Veterans' Affairs, Annual Report 2009–2010; see pp. 22–24, for the entities covered by this portfolio, a summary of their roles, and, where applicable, their enabling legislation.

21 Department of Veterans' Affairs, Annual Report 2009–2010, p. 11.

- establishing case coordinators to manage clients with complex needs as recommended by the Dunt review;
- successfully implementing secure and sustainable pension reforms arising from the Harmer review, with 320,000 veterans, war widows and widowers benefitting from the changes, and
- enhancing security features of DVA health cards for reissue, including issue to veterans living overseas making it easier for them to access treatment when in Australia.²²

Clarke review

1.35 The committee notes the ongoing work by the department to implement revisited recommendations of the Clark review. Mr Campbell explained:

During the year, 470 submissions were received from the public as part of a 2007 election commitment to revisit the unimplemented recommendations of the 2003 *Clarke Review of Veterans' Entitlements*. In May 2010, the Minister announced the government's response to the revisitation. Of the 45 original recommendations revisited, three have been accepted and already acted upon and a further 22 have been referred for consideration under the current review of military compensation arrangements.

As part of the government's response, the *Veterans' Entitlements Act 1986* (VEA) was amended, through a 2010–2011 Budget initiative, to add a new category of service titled 'British Nuclear Test Defence Service'. Effective from 1 July 2010, defence personnel who participated in the British nuclear test program in Australia will be able to access compensation and health care treatment under the VEA for conditions accepted as related to this service. Widows and dependent children of deceased defence participants will also have access to pensions and health care treatment as a result of this measure²³

1.36 The secretary concluded his remarks by saying that prior to 1 July 2010, Defence British nuclear test participants could only access compensation under the *Safety, Rehabilitation and Compensation Act 1988* and non-liability health care treatment for malignant cancers under the *Australian Participants in the British Nuclear Tests (Treat) Act 2006*.²⁴

1.37 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.

22 Department of Veterans' Affairs, Annual Report 2009–2010, p. 11.

23 Department of Veterans' Affairs, Annual Report 2009–2010, p. 12.

24 Department of Veterans' Affairs, Annual Report 2009–2010, p. 12.

