

**Senate Foreign Affairs, Defence and Trade Legislation Committee**

Budget Estimates 2005-06

Answers to questions on notice from **Department of Defence**

**QUESTION 1**

Senator Faulkner

Hansard: p. 30 (30 May 2005)

In what locations did ANAO stocktaking activities reveal a 'less than satisfactory' outcome?

**RESPONSE**

The ANAO reported 'less than satisfactory' outcomes from its stocktaking activity leading up to the end of 2003-04 at the Defence National Storage and Distribution Centre, Moorebank, RAAF Bases Townsville, Amberley and Pearce, the Joint Logistics Unit West and the Directorate of Submarine Management and Sustainment.

**QUESTION 2**

Senator Faulkner

Hansard: p. 53 (30 May 2005)

What sensitive, high value, or specialised military equipment has been identified by Defence as outstanding in the Moorebank stocktake?

**RESPONSE**

No high value or specialist military equipment items are outstanding.

**QUESTION 3**

Senator Faulkner

Proof Hansard: p. 56 (30 May 2005)

Please provide details of any missing ordnance since the response to Senate question on notice No. 171 of 7 March 2005.

**RESPONSE**

On 10 March 2005, a discrepancy was found between the recorded and actual ammunition holdings of 51 Far North Queensland Regiment, Mount Isa. The discrepancy relates to 895 rounds of 5.56mm ball and 25 rounds of 5.56mm ball – link (rifle ammunition). An investigation by the Army Special Investigations Branch is continuing. The initial assessment is that this may be a recording error.

There are no other reports of missing ordnance across Defence since the response to question 171.

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### QUESTION 4

Senator Hogg

Hansard: pp.125 – 126 (30 May 2005)

Which Defence Capability Plan Projects have received first and/or second pass approval in 2004-05?

### RESPONSE

The following projects have received first or second pass approval from 1 July 2004 to June 2005<sup>(1)</sup>.

Serial	Project Number	Project Phase	Project Name	1 <sup>st</sup> Pass / 2 <sup>nd</sup> Pass
1	LAND 121	3A	Overlander – field vehicles and trailers	1 <sup>st</sup>
2	JP 129	2	Airborne surveillance for land operations	1 <sup>st</sup>
3	AIR 5276	8B	AP-3C electronic support measures	1 <sup>st</sup>
4	AIR 5418	1	Follow on stand-off weapon	1 <sup>st</sup>
5	JP 126	2	Joint theatre distribution system	1 <sup>st</sup>
6	LAND 58	3	Weapon locating radar life of type extension	1 <sup>st</sup>
7	SEA 4000	2	Air Warfare Destroyer design activity	1 <sup>st</sup>
8	JP 2077	2B	Improved logistic information systems	1 <sup>st</sup>
9	AIR 5376	2.4	Hornet upgrade – target designation system	2 <sup>nd</sup>
10	SEA 1390	4B	SM-1 missile replacement	2 <sup>nd</sup>
11	AIR 9000	2	Additional trooplift helicopters	2 <sup>nd</sup>
12	AIR 5276	4	AP-3C electronic warfare self protection	2 <sup>nd</sup>
13	AIR 9000	5A	Chinook upgrade – early engine replacement	2 <sup>nd</sup>
14	JP 2060	2B	Deployable health capability	2 <sup>nd</sup>
15	LAND 125	2B	Soldier enhancement version one – acquisition	2 <sup>nd</sup>

#### Note

1. Some sensitive projects are not included in the list.

### QUESTION 5

Senator Hogg

Proof Hansard: p. 126 (30 May 2005)

What are the expected dates for first and second pass approval for Project 2077 Phase 2B?

### RESPONSE

First pass approval for Project JP 2077 Phase 2B was achieved in June 2005. Second pass consideration will be sought in 2006.

### QUESTION 6

Senator Hutchins

Proof Hansard: p.7 (31 May 2005)

What are the separation rates for officers and other ranks, by Service, who leave after their initial period of service?

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### RESPONSE

The following table indicates where separation rates peak across the range of possible initial period of service. (Note: initial period of service varies considerably by both employment category and method of entry and a median figure is used.)

Separation rates are calculated as a percentage of total separations in the respective Service. The data relates to 2003-04.

	Navy	Army	Air Force
Officers	6.8% (at 8 years)	2.7% (at 7 years)	8.2% (at 7 years)
Other ranks	10.8% (at 6 years)	9.9% (at 4 years)	6.1% (at 4 years)

### QUESTION 7

Senator Bishop

Proof Hansard: pp. 14-15 (31 May 2005)

Would the Minister consider providing a copy of the Defence Attitude Survey to the committee?

### RESPONSE

A copy of the survey results is enclosed.

### QUESTION 8

Senator Bishop

Hansard: p. 34 (31 May 2005)

Please provide the quantum of salaries on each of the lines for Table 5.2 – Defence Materiel Organisation in the *Portfolio Budget Statements 2005-06*.

### RESPONSE

The following table provides the additional information sought in relation to permanent force personnel. The arrangement for payment by the Defence Materiel Organisation (DMO) for the military personnel posted to it, which has been agreed between Defence and the DMO, is on the basis of a 'fee' for service. This fee is set for each rank in each Service, and includes components for salary, relevant allowances, superannuation and accrual aspects of leave. Because Table 5.2 (Defence Materiel Organisation) in the *Portfolio Budget Statements 2005-06* presents information by rank group, the range of the fee for the ranks within each rank group has also been provided.

The budgeted price of the fee for service forms part of the suppliers expense in the DMO's Statement of Financial Performance, as stated in the Notes to the Financial Statements on page 291 of the *Portfolio Budget Statements 2005-06*. As the Reserve Force personnel numbers in Table 5.2 are provided on a 'free of charge' basis to the DMO, they are not included in the price to the DMO.

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**Table 1: Personnel Numbers by Service, Rank and Fee**

	Average Funded Strength	Rank Group Fee Range \$'000	Total Fee \$'000
<b>NAVY</b>			
Star ranked officers	6	159 – 202	839
Senior officers	49	125 – 150	6,208
Junior officers	143	70 – 105	13,374
Other ranks	155	57 – 92	12,507
<b>Sub-total: Permanent Navy</b>	<b>353</b>		<b>32,928</b>
Reserve Forces	61		
<b>Sub-total Navy</b>	<b>414</b>		<b>32,928</b>
<b>ARMY</b>			
Star ranked officers	4	169	678
Senior officers	44	128 – 147	5,815
Junior officers	213	72 – 102	20,686
Other ranks	240	63 – 93	20,368
<b>Sub-total: Permanent Army</b>	<b>501</b>		<b>47,547</b>
Reserve Forces	67		
<b>Sub-total Army</b>	<b>568</b>		<b>47,547</b>
<b>AIR FORCE</b>			
Star ranked officers	5	161 – 202	845
Senior officers	71	122 – 149	8,956
Junior officers	403	71 – 101	35,860
Other ranks	351	58 – 93	27,469
<b>Sub-total: Permanent Air Force</b>	<b>830</b>		<b>73,130</b>
Reserve Forces	41		
<b>Sub-total Air Force</b>	<b>871</b>		<b>73,130</b>
<b>Total DMO military workforce</b>	<b>1853</b>		<b>153,605</b>

**QUESTION 9**

Senator Hogg

Proof Hansard: p. 53 (31 May 2005)

Please provide a copy of Defence's energy conservation strategy to the committee. For how long has the strategy operated, how often is it reviewed and who reviews it?

**RESPONSE**

Defence's energy conservation strategy, the *Defence Energy Management Strategy*, is attached. The strategy was promulgated on 25 February 2005.

There is no formal review period specifically stipulated in the strategy but a requirement for the annual review of national policies is being incorporated into the Defence corporate environmental management system.

The Assistant Secretary Environment Heritage and Risk within Defence is the technical authority for environmental matters in Defence. The position is responsible for authorising the promulgation of such strategies and would also initiate and authorise any reviews or updates.

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### QUESTION 10

Senator Hogg

Proof Hansard: p. 53 (31 May 2005)

Did the decision to restrict the use of washing machines and dryers between 0900-1600 at Lavarack Barracks apply equally to the officers quarters as it did to those of the other ranks?

### RESPONSE

Yes.

### QUESTION 11

Senators Bishop/Hogg

Proof Hansard: p. 54 (31 May 2005)

- Please provide an update of the properties disposed of in 2004-05, further to the information provided to Senate question on notice No. 64 of 10 May 2005.
- Please provide details of the properties scheduled for disposal in 2005-06, indicating which of those properties were originally intended to be disposed of in 2004-05.

### RESPONSE

- The following properties have been disposed of in 2004-05:

Description/Location	State	Type of Property	Area (hectares) approx
Housing blocks, Finlay Avenue, Lithgow	NSW	Vacant land	0.2
Former Army Signals Depot, French Street, Werrington (Kingswood)	NSW	Vacant land	22
Houses, Bloomfield Street, Alice Springs	NT	Land and buildings	1
Damascus Barracks, Sugar Mill Rd, Meeandah (part only)	QLD	Land and Buildings	29
Former Defence Science and Technology Organisation land, West Ave, Salisbury	SA	Land and buildings	506
Broodseinde Barracks, Sturt/Russell Streets, Ballarat	VIC	Land and buildings	5
Maygar Barracks, Camp Road, Broadmeadows (part only)	VIC	Land and buildings	25
Former Training Depot, Lonsdale Street, Dandenong	VIC	Land and buildings	0.3
Bandiana, Pearce Street, Bakers Lane/Thomas Mitchell Drive, Silky Oak Avenue, Wodonga	VIC	Vacant land and remnant infrastructure	162
Former Sanananda Barracks, Ipswich Road, Boundary Road, Wacol	QLD	Land and buildings	107

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b) The following properties are currently scheduled for disposal in 2005-06:

Description/Location	State	Type of Property	Area (hectares) approx
Former buffer zone land, Glenora Drive, Fairbairn	ACT	Land and buildings	1,357
Former transmitter station, Barton Highway, Gungahlin	ACT	Land and buildings	52
Former stores depot, Spurway Street, Ermington (Rydalmere) (part only – Stage 3 of 4)	NSW	Vacant land	5 (subject to survey)
Former Reserve depot, Hawthorne Parade, Haberfield	NSW	Vacant land	2
Former Army camp, Campbelltown Road, Ingleburn <sup>(1)(2)</sup>	NSW	Land and buildings	311
Moorebank Avenue, Moorebank ‘Amiens’	NSW	Vacant land	5
Former ammunition depot, Anzac Road, Moorebank ‘West Wattle Grove’ <sup>(1)(2)</sup>	NSW	Land and buildings	55
Former stores depot, Coreen Avenue and Castlereagh Road, Penrith <sup>(1)(2)</sup>	NSW	Vacant land	47
Former training depot, Lot 2 Military Road, Port Kembla	NSW	Vacant land	1
Former airfield, Railway Terrace, Schofields	NSW	Land and buildings	145
Former training depot, The Avenue, Mount Saint Thomas, Wollongong	NSW	Land and buildings	1
Defence establishment Berrimah, Stuart Highway, Darwin (part only)	NT	Land and buildings	5
Former explosives factory and other sites, Raleigh Road, Maribyrnong (Defence Site Maribyrnong) <sup>(1)</sup>	VIC	Land and buildings	130
Aviation Road, Point Cook (part only – lake and coastal strip - RAAF Point Cook)	VIC	Vacant land	98
Great Northern Highway, Bullsbrook	WA	Vacant land	15
Part only former Bushmead Rifle Range, Midland Road, Helana Valley	WA	Vacant land	250

**Notes**

1. These properties had been intended for disposal in 2004-05.
2. Disposal of these properties was rescheduled to 2005-06 in revising the estimate of the Proceeds from the Sale of Land and Buildings included in the *2004-05 Portfolio Additional Estimates Statements* (p. 46).

**QUESTION 12**

Senator Bishop

Proof Hansard: p. 64 (31 May 2005)

In regard to the report of the hazard assessment team on depleted uranium in the Al Muthanna province in Iraq, ‘what information, if any, arising out of the report...has been disseminated to all personnel located in the province? And if it was, could you advise when it was done and provide a summary of the information that was disseminated.’

**RESPONSE**

Prior to their departure, the health assessment team briefed the Commanding Officer of the Al Muthanna Task Group and all available Al Muthanna Task Group personnel. Personnel were briefed that the only theoretical health risk was from inhalation of fine dust particles contaminated with depleted uranium. In addition, all personnel deploying on Operation

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Catalyst are provided with a brief that details the known environmental and occupational threats present within the Middle East Area of Operations and what ADF personnel must do to avoid exposure.

Airborne dust samples were collected by the health assessment team from a representative range of sites in the Al Muthanna province, in varying weather conditions, that were likely to be frequented by ADF personnel. The health assessment team's initial on-site analysis of radiation levels did not suggest the presence of uranium or depleted uranium any higher than that which would naturally occur (ie the normal background range).

**QUESTION 13**

Senator Hutchins

Proof Hansard: p. 69 (31 May 2005)

Please provide the committee with an update on the progress of the amendments to regulation 33.

**RESPONSE**

The 1999 Senate Inquiry into the Military Justice System recommended that ADF members who were likely to be affected by the findings of a Board of Inquiry should have a right to legal representation at the Commonwealth's expense. Although this is available to affected members as a matter of practice, in accordance with existing policy, it is proposed to amend regulation 33 of the Defence (Inquiry) Regulations to give it legal force.

It is expected that the final version of the regulations will be ready by September 2005.

**QUESTION 14**

Senator Hutchins

Proof Hansard: p. 69 (31 May 2005)

Has the Defence investigation technical instruction been completed?

**RESPONSE**

The Defence Investigation Technical Instruction is in its final draft form and is expected to be ready for formal release after September 2005. The Army has carriage of the instruction and will amend the training package for all Defence Service police to reflect the new instruction.

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**QUESTION 15**

Senator Faulkner

Proof Hansard: p. 91 (31 May 2005)

Please provide the committee with a disaggregation of payments made during 2003-04 and 2004-05 under the same head of expenditure (representation at Commonwealth expense) against which payments of Dr McKenzie's legal costs were made.

**RESPONSE**

Dr McKenzie's legal costs were paid on the basis of the Attorney-General's Legal Services Directions (representation at Commonwealth expense). The following table provides the details of other payments made to legal firms under these arrangements during 2003-04 and 2004-05.

Expenditure in cases where the Commonwealth and others are co-defendants is not included as it is not possible to disaggregate the costs between defendants.

<b>Financial year</b>	<b>Member</b>	<b>Amount</b>
2004-05	Army Corporal	\$17,667.10
2004-05	Officer of Cadets	\$22,095.10
2004-05	Army Sergeant	\$8,346.80
2004-05	Ex-Navy Warrant Officer	\$16,657.27

**QUESTION 16**

Senator Hutchins

Proof Hansard: p. 93 (31 May 2005)

In relation to the claim for defective administration by Air Vice-Marshal Criss (Ret'd):

- a) How much has Defence paid for legal advice?
- b) What are the name(s) of the firm of solicitors, barristers, QCs or other legal professionals paid in relation to this matter?

**RESPONSE**

- a) Defence has paid \$151,455.96 for legal advice in relation to the claim for defective administration by Air Vice-Marshal Criss (Ret'd), for the period up to 31 May 2005. In addition, Defence has been advised that it has accrued \$8,250.00 of unbilled legal costs up to 31 May 2005.

This figure does not include the cost of services provided by Mr Bill Blick who prepared a report on the claim, or mediation services provided by the Hon Trevor Morling, QC as neither relate to the provision of legal advice. Nor does the figure include legal assistance provided, or paid for, by Defence to Air Vice-Marshal Criss.

- b) The name(s) of the firm of solicitors, barristers, QCs and other legal professionals in this matter are the firm Phillips Fox, and the Australian Government Solicitor barrister Geoffrey McCarthy.

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Answers to written questions on notice from Department of Defence

**Question W1**

**Senator Evans**

**Defence Financial Management**

- a) The ANAO recently indicated that there were now 27 Category A findings outstanding with Defence (up from 14 in August 2004). What are they? What is their current status?
- b) The ANAO recently indicated that there were now 48 Category B findings still outstanding with Defence (up from 45 in August 2004). What are they? What is their current status?

**RESPONSE**

- a) – b) The attached spreadsheet shows the detail of the 27 Category A and 48 Category B audit findings from the ANAO 2003-04 Closing Audit Report for Defence Financial Statements.

Responses to a number of these findings have been forwarded to the ANAO for consideration. Audit findings are not 'resolved' until the ANAO formally agrees that they can be closed. This may be through ANAO review of documentation or evidence provided by Defence, or when ANAO does the next financial statements audit.

**Category A and B ANAO Audit Findings – Current 30 June 2005**  
(Source: ANAO 2003-04 Financial Statement Audit)

Cat	Finding
<b>A</b>	<b>Financial Reporting Framework: Financial Reporting Framework</b>
	<p><b>Implication:</b> Defence’s Financial and Reporting Framework is not operating effectively, which leads to:</p> <ul style="list-style-type: none"> <li>▪ Concerns over data quality and the inability to provide adequate data analysis, and hence financial advice of limited quality;</li> <li>▪ Problematic financial processes; and</li> <li>▪ Extensive, inefficient and costly ‘workarounds’.</li> </ul> <p>These limitations compromise management reports and lead to a lack of confidence in their decision-making uses.</p> <p><b>Recommendation:</b> The Defence Executive should continue to assess the control framework and implement the required corrective action to ensure that they are able to rely on the system, management and other information that they are provided in their decision-making processes.</p>
<b>A</b>	<b>Financial Reporting Framework: Preparation of Year End Financial Statements</b>
	<p><b>Implication:</b></p> <ul style="list-style-type: none"> <li>▪ Non compliance with AGAAP and FMOs;</li> <li>▪ Non compliance with Defence internal policies;</li> <li>▪ Delay in the production of financial statements;</li> <li>▪ Time and effort utilised by Defence to rectify the financial statements could have been better directed at other areas; and</li> <li>▪ Lack of an appropriate QA may result in control breakdowns not being identified.</li> </ul> <p><b>Recommendation:</b> It is recommended that management ensure that the Defence financial statements are prepared in accordance with AGAAP and FMOs and undergo an appropriate QA review that is signed off by an authorised CFO delegate prior to delivery to the ANAO. Furthermore, management should ensure that the financial statements are produced on a timely basis to meet Department of Treasury and Finance (DOFA) reporting deadlines.</p>
<b>A</b>	<b>Financial Reporting Framework: Appropriations Management and Reporting</b>
	<p><b>Implication:</b> As the FMOs stipulate disclosures of appropriations are material by nature, the Department has incorrectly disclosed appropriations within the 2003-04 financial statements with a material effect. Furthermore, Defence places itself at risk of exceeding, or may have actually exceeded, its appropriations. Should this occur, the Department would be found to have breached s83 of the Constitution.</p> <p><b>Recommendation:</b> The Department should:</p> <ul style="list-style-type: none"> <li>▪ Identify and fulfil all reporting obligations stipulated within the FMOs, Australian accounting standards and other applicable reporting requirements;</li> <li>▪ Implement effective controls and procedures that ensure appropriations are not exceeded; and</li> <li>▪ Ensure that robust preparation and review processes are undertaken in the compilation and calculation of the Statement of Cash Flows and appropriation disclosures.</li> </ul>
<b>A</b>	<b>Financial Reporting Framework: Special Accounts</b>
	<p>As the Department is the trustee of a number of trusts, which are reported in the special accounts balance, Defence has more than a financial reporting obligation to fulfil. The lack of accountability for transactions relating to special accounts has also placed the Department at risk of breaching its fiduciary duties under trust law. Whilst Defence has obtained a legal opinion stating that the two overdrawn sub-accounts did not constitute a breach of s83 of the <i>Commonwealth of Australia Constitution Act</i>, this occurrence demonstrates that the Department has not maintained proper records as required under s48 of the FMA Act ‘accounts and records’. Defence’s inability to “...identify at all times, through separate ledgers, the amount standing to the credit of each trust account within the special accounts...” is a breach of the Special Instruction Regarding Special Public Money. Section 16 of the FMA Act states that the Finance Minister may issue special instructions regarding the treatment of special public money and that “an official or Minister must not contravene any Special Instruction”. The combination of misclassified SPM and unresolved reconciling differences impacts on the completeness of departmental cash and revenue balances. Inadequate policies on</p>

Cat	Finding
	the administration of SPM compromises the integrity of the SPM reporting process and the statutory financial statements, which can result in a breach of legislative requirements and amendment to the Audit Opinion.
	<p><b>Recommendation:</b> The ANAO recommends that Defence:</p> <ul style="list-style-type: none"> <li>▪ Ensure that bank and CAMM reconciliations for all SPM accounts are completed and reviewed by an independent officer on a monthly basis;</li> <li>▪ Ensure that sub-account reconciliations for all special accounts are completed and reviewed by an independent officer on a monthly basis; and</li> <li>▪ Review the proper placement of the STS Young Endeavour in the departmental SME asset register.</li> <li>▪ Defence should undertake further discussions with the Department of Finance and Administration (Finance) in obtaining guidance/advice on the resolution of matters whilst fulfilling all responsibilities and duties. The ANAO will continue to discuss progress made and status achieved with Defence throughout 2004-05 with a view to determining our position for the signing of the 2004-05 financial statements.</li> </ul>
A	<b>Financial Reporting Framework: Assets Held in Trust</b>
	<p><b>Implication:</b> Without appropriate identification of assets held under trust, Defence are unable to properly manage or discharge their fiduciary duties under trust law or reporting responsibilities. Due to the Department's restricted definition of Assets Held in Trust, Defence has failed to report all 'trusts' or 'assets held in trust'. This has resulted in Defence breaching Policy 3G of the 2003-04 FMOs.</p> <p><b>Recommendation:</b> It is recommended that the Department align its definition of Assets Held in Trust and report all assets in accordance with that found within the FMOs. Defence should also perform previously proposed reviews (2002-03 Financial Statement Closing Report) and undertake a legal review of all Defence agreements, complemented by appropriate assessment of all new agreements entered into.</p>
A	<b>SDSS: Limitation of Scope - General Stores Inventory Quantities</b>
	<p><b>Implication:</b> The business processes and stocktake procedures that are designed to give Defence a high degree of confidence in GSI quantities are deficient. This has resulted in a significant level of discrepancies between SDSS records and physical stock held, and has impacted on management's ability to provide a positive assertion over the existence and completeness of the inventory balance within the 2003-04 financial statements. Additionally, non-availability of items on a timely basis may impact on ADF operational activity. Further, where the SDSS records are consistently inaccurate there may be an increased scope for misappropriation/theft. This is due to an inability by management to accurately predict quantities within warehouses.</p> <p><b>Recommendation:</b> The ANAO recommends that the business processes and controls surrounding the capture, maintenance and reporting of data be reviewed and amended as necessary, to ensure that accurate quantity and location details are entered and maintained on SDSS. The ANAO further recommends that an extensive stocktake program be conducted to verify the existence and completeness of GSI quantity data as reported within SDSS for 30 June 2005 and going forward.</p>
A	<b>SDSS: Limitation of Scope - Inventory Pricing c/f 1999-00</b>
	<p><b>Implication:</b> The issues outlined above indicate that controls over inventory prices within SDSS v4 are inadequate. The allocation of incorrect or notional prices to transactions results in the misstatement of GSI balances, requiring manual intervention at year-end. GSI price variability also impacts the inventory consumption expense reported, and the preparation and interpretation of budget to actual inventory results. These issues have the potential to contribute to a material misstatement in Defence's financial statements and compromise monthly management reports.</p> <p><b>Recommendation:</b> While the ANAO acknowledges the extensive work performed during the PRP, the issues highlighted above raise concerns over the robustness of the approach adopted. The ANAO supports management's identification of high-risk prices on SDSS and to undertake subsequent verification/correction action. It is recommended that further development of this approach be pursued in consultation with the ANAO in 2004-05. It is also recommended that future surrogate price models be subject to extensive management analysis prior to</p>

Cat	Finding
	implementation. Further, it is recommended that all price remediation work be pursued in conjunction with the introduction of robust, valid controls within SDSS to ensure future validated/corrected prices are not subsequently corrupted.
A	<b>SDSS: SDSS v4 Upgrade</b>
	<p><b>Implication:</b></p> <ul style="list-style-type: none"> <li>▪ Incorrect prices within the system will misstate inventory values;</li> <li>▪ Poor business processes may result in corrupt data being entered into the system and misstate the reported inventory/asset values;</li> <li>▪ Untimely processing of returns into the system may result in cut-off and completeness issues;</li> <li>▪ Auditability of SCAs is reduced as Defence are unable to identify the custodians;</li> <li>▪ Inability to identify owners of SCAs may result in fraud/theft going undetected;</li> <li>▪ Manual reconciliation process may result in errors;</li> <li>▪ Long outstanding amounts in the clearing accounts may lead to potential errors;</li> <li>▪ Setting higher thresholds may result in items being expensed;</li> <li>▪ The lack of financial reports will hinder management efforts to process SDSS movements into ROMAN and there are completeness and accuracy issues surrounding the reconciliation processes;</li> <li>▪ The systems limitation on business processes will cause administrative back logs;</li> <li>▪ Flaws in the program logic may lead to incorrect reports from SDSS;</li> <li>▪ If the current infrastructure is unable to support the volume of data flow in/out of the system, potential system crashes may be inevitable;</li> <li>▪ Use of SQLs may lead to data corruption and incorrect data being downloaded; and</li> <li>▪ Delays in training staff may lead to data entry / posting errors within the system.</li> </ul> <p><b>Recommendation:</b> The ANAO recommends that</p> <ul style="list-style-type: none"> <li>▪ SDSS remediation work be completed and the business process failures identified above corrected, well before 30 June 2005 to enable timely ANAO review prior to expressing an audit opinion on the Defence financial statements;</li> <li>▪ Long outstanding items are cleared on a timely basis and the reconciliations prepared on a regular basis;</li> <li>▪ Thresholds are set appropriately to reflect current management reporting requirements;</li> <li>▪ SCA custodians are identified and stocktake responsibilities of the SCAs appropriately allocated; and</li> <li>▪ Management should limit its reliance on SQLs and use fully tested and developed reports.</li> </ul>
A	<b>SDSS: Provision for Obsolescence (PFO) - General Stores Inventory</b>
	<p><b>Implication:</b></p> <ul style="list-style-type: none"> <li>▪ Potential under/overstatement of the PFO balance and under/overstatement of GSI;</li> <li>▪ Potential under/overstatement of expenditure in the Statement of Financial Performance;</li> <li>▪ Lack of accurate and reliable measures of inventory utilisation will impact on the effective management of GSI;</li> <li>▪ Lack of robustness in the business processes (eg: Maritime division returns) may lead to misstatements within the information presented;</li> <li>▪ Non-compliance with Defence Accounting Policies in regards to inclusion of AD/DR items in the PFO balance; and</li> <li>▪ An increased risk of a material misstatement within the inventory balance as a result of a lack of consistency in reliably measuring the PFO.</li> </ul> <p><b>Recommendation:</b></p> <ul style="list-style-type: none"> <li>▪ Strengthen controls surrounding SDSS quantities and prices to accurately calculate the PFO in 2004-05;</li> <li>▪ Ensure that the Price Remediation Project is completed to ensure the accuracy of pricing of quantities;</li> <li>▪ Ensure that AD/DR balances are not included as part of the PFO balance;</li> <li>▪ Ensure that the \$29.8m adjustment relating to FEDLOG/Receipt WAC impact is processed; and</li> <li>▪ Management analysis to support the basis of items, with an extended value below \$2,500, being excluded from the PFO assessment – individual items may not be material but the cumulative impact of this may be material.</li> </ul>

Cat	Finding
A	<p data-bbox="277 248 1027 277"><b>SDSS: SDSS to Roman Reconciliation - General Stores Inventory</b></p> <p data-bbox="277 277 421 306"><b>Implication:</b></p> <ul data-bbox="277 306 1471 562" style="list-style-type: none"> <li>▪ Incorrect postings to the ROMAN GL which may impact on Defence financial reporting;</li> <li>▪ Inaccurate reconciliations due to manual workarounds to replace system reports;</li> <li>▪ Inadequate QA review of the reconciliation process;</li> <li>▪ Under/over statement of consumption/issues expense as items are issued out of SDSS at incorrect prices;</li> <li>▪ Data manipulation using SQLs may result in data corruption;</li> <li>▪ Inconsistency in the use of the SDSS GL and IMRs in the reconciliation;</li> <li>▪ Delays in preparing the 30 June 2004 reconciliations may result in inaccuracies; and</li> <li>▪ Reconciling variances highlights that there are deficiencies in the reconciliation/reporting processes.</li> </ul> <p data-bbox="277 584 491 613"><b>Recommendation:</b></p> <ul data-bbox="277 613 1442 864" style="list-style-type: none"> <li>▪ Prepare reconciliations on a timely basis and ensure they are independently reviewed by an authorised person;</li> <li>▪ Promptly follow up and resolve reconciliation variances;</li> <li>▪ Management should rely on fully developed and tested reports for the reconciliation and only place limited reliance on SQLs;</li> <li>▪ Ensure consistent sources (ie. either the SDSS or IMRs) are used to reconcile the SDSS balances;</li> <li>▪ Upload results of the price remediation exercise into SDSS on a timely basis; and</li> <li>▪ Keep any subsequent adjustments to reconciliations to an absolute minimum.</li> </ul>
A	<p data-bbox="277 864 868 893"><b>SDSS: General Stores Inventory Accounting Policy</b></p> <p data-bbox="277 893 421 922"><b>Implication:</b></p> <ul data-bbox="277 922 1404 1111" style="list-style-type: none"> <li>• Incorrect inventory valuation/treatment;</li> <li>• Potential future non compliance with AEIFRS;</li> <li>• Lack of guidance to operational staff may result in poor operating practices;</li> <li>• Lack of clear policies on AUC roll outs may result in inventory items being incorrectly treated as fixed assets; and</li> <li>• Lack of a robust audit trail.</li> </ul> <p data-bbox="277 1133 491 1162"><b>Recommendation:</b></p> <p data-bbox="277 1162 1458 1335">It is recommended that Defence review the existing inventory policy and amend it to comply with the requirements of the current Australian Accounting Standards and the specific findings detailed above for 2004-05. Going forward, Defence should ensure that the CRC data is captured for all items of inventory held on a timely basis and that Defence systems have adequate fields to record the CRC data for comparisons with historical cost data, to facilitate compliance with AEIFRS requirements.</p>
A	<p data-bbox="277 1335 932 1364"><b>SDSS: Limitation of Scope - Repairable Items Quantities</b></p> <p data-bbox="277 1364 421 1393"><b>Implication:</b></p> <p data-bbox="277 1393 1449 1704">SDSS is used to manage RI quantities for operational purposes. The number and types of RIs should be held at levels that reflect operational requirements. Where SDSS is inaccurate, this RI support function can be compromised. This may lead to sub-optimal decisions in relation to the purchase, disposal and supply of RI assets. The business processes and stocktake procedures that are designed to give Defence a high degree of confidence in SDSS RI quantities are deficient. This has resulted in a significant level of discrepancies between the SDSS records and physical stock held, and has impacted on management's ability to provide a positive assertion over the existence and completeness of the RI balance within the 2003-04 financial statements. Where the RI records are consistently inaccurate there is increased scope for fraudulent activity. This is because the actual quantities on hand cannot be predicted with certainty and theft would not be identified. Further, non-availability of items on a timely basis may impact on ADF operational activity.</p> <p data-bbox="277 1727 491 1756"><b>Recommendation:</b></p> <p data-bbox="277 1756 1449 1843">It is recommended that improved business processes and controls surrounding the capture, maintenance and reporting of data be implemented to ensure that accurate quantity, ownership and location details are entered and maintained on SDSS.</p> <p data-bbox="277 1843 1465 1917">The ANAO further recommends that an extensive stocktake program be conducted to verify the existence and completeness of RI quantity data as reported within SDSS for 30 June 2005 and going forward.</p>

Cat	Finding
A	<b>COMSARM: Limitation of Scope-Explosive Ordnance Pricing c/f 2001-02</b>
	<p><b>Implication:</b> The inability to obtain appropriate supporting documentation and the weaknesses surrounding key business processes has resulted in a level of uncertainty relating to EO pricing that was unable to be concluded at 30 June 2004. EO price variability also impacts the expense reported for inventory consumption as well as the preparation and interpretation of budget to actual inventory results. These issues have the potential to contribute to a material misstatement in Defence's financial statements and compromise monthly management reports.</p> <p><b>Recommendation:</b> It is recommended that Defence continue to refine current business processes surrounding the valuation for EO Inventory, including the appropriate review of information on COMSARM and the maintenance of documentation to support the transactions and balances for EO Inventory.</p>
A	<b>PPS: Limitations of Scope: Military Employee Provisions</b>
	<p><b>Implication:</b> Pending completion of remediation to the ANAO's satisfaction, a limitation of scope has been placed over the military employee leave balance, at 30 June 2004. As a result of the lack of leave audits on cessation, there is a significant risk that members are being over or underpaid on cessation.</p> <p><b>Recommendation:</b> It is acknowledged that the Department has developed a remediation plan for military leave provisions. It is understood that these plans will implement and/or strengthen system and processing controls in relation to military provisions, including undertaking a cyclical QA of military leave balances.</p>
A	<b>PPS: Civilian Leave Provisions c/f 2002-03</b>
	<p><b>Implication:</b></p> <ul style="list-style-type: none"> <li>▪ Individual members' leave balances may be misstated, and therefore decisions they make based on the information available may be incorrect;</li> <li>▪ Defence's liability for civilian leave provisions and the related expense may be misstated; and</li> <li>▪ Defence may be under or overpaying the balance of leave entitlements on cessation of employment.</li> </ul> <p><b>Recommendation:</b> Management has taken action since certain issues were noted at interim, for instance by issuing advice to supervisors regarding their responsibilities in relation to the management of leave, and amending leave forms in order to clearly specify the supervisors' responsibility to forward the completed forms for processing. It is also understood that the future implementation of Employee Self Service (ESS) and workflow should reduce the number of unrecorded leave absences. It is acknowledged that the Department has developed a remediation plan for civilian leave provisions, which will implement and/or strengthen system and processing controls in relation to civilian provisions, including undertaking a cyclical quality assurance of leave balances.</p>
A	<b>PPS: Limitations of Scope: Executive Remuneration</b>
	<p><b>Implication:</b> Pending completion of remediation to the ANAO's satisfaction, a limitation of scope has been placed over the Executive Remuneration note at 30 June 2004 as a result of audit findings relating to leave provisions.</p> <p><b>Recommendation:</b> It is acknowledged that the Department has developed a remediation plan for executive remuneration. It is understood that these plans will:</p> <ul style="list-style-type: none"> <li>▪ Amend procedures and systems for the compilation of the executive remuneration note going forward; and</li> <li>▪ Compile executive remuneration information on a more timely basis, with a goal of reporting on a monthly basis.</li> </ul>

Cat	Finding
A	<b>Land and Building and I, P and E</b>
	<p><b>Implication:</b> Should an inadequate control environment exist for the management of assets, and in particular revaluation of assets, the risk of material misstatement of non-current assets is heightened. This affects both the accuracy and appropriateness of disclosures within external and management reporting and undermines the validity of asset management decisions. Due to the issues observed above, the ANAO was unable to validate the written-down value of \$1.394 billion of Land and Buildings and Infrastructure, Plant and Equipment assets.</p> <p><b>Recommendation:</b> The Department should ensure that clear agreement and understanding of service deliverables, outcomes and reporting are obtained prior to finalisation of the revaluation engagement. Appropriate project management would reduce the risk of mismatched expectations and misinterpretation of results. Consideration should be given to policies and practices that would strengthen management review processes. The Department may also wish to include further provisions within DRB 48 requiring appropriate practices and reviews including the performance of management analysis regarding the application of revaluation thresholds; assessments of the volatility of the fair value of assets within the Department's portfolio and inclusion of all applicable assets within revaluation processes.</p>
A	<b>PMKeyS: Civilian Payroll Processing</b>
	<p><b>Implication:</b> There is a risk that unauthorised changes are made to personnel or payroll details. This may lead to unauthorised payments to Civilians. In particular, payment amounts of \$2,000 or less may not necessarily be detected.</p> <p><b>Recommendation:</b> The ANAO understands that the full implementation of the PMKeyS ESS (Employee Self-Service) and workflow is currently being investigated by Defence. ESS and workflow would help ensure only authorised transactions are processed by the employee whose details are being updated. In the ESS and workflow environment, employees would enter the details or transaction themselves and it would workflow to the appropriate authoriser for actioning. However the full implementation of ESS and workflow may take a significant amount time. In the interim, the ANAO recommends the following:</p> <ul style="list-style-type: none"> <li>▪ An approved list of Defence employees who can approve changes to various components of payroll details should be developed. This would enable the CPAC staff or relevant personnel to confirm the validity of the authorisation for updates through an e-mail. Alternatively, procedures may be implemented whereby completed payroll forms are directly e-mailed to the CPAC centres by authorised personnel;</li> <li>▪ Each Defence Group continues to monitor payroll expenses. This may include each Director monitoring the details of payroll expenses that are above 'normal' salary (for example overtime hours, higher duties payments and allowances) and acknowledging these actuals to the resource and budget manager for each branch / regional centre within each Defence group; and</li> <li>▪ To ensure unauthorised transactions have not impacted Defence materially, Defence management may also like to implement quality assurance or audit checks of 'monetary' transactions entered in PMKeyS. For example, reports of overtime hours by person, higher duties payments, allowance payments, changes to employee pay rates etc. may be developed. These lists would then be utilised to obtain a sample of whereby these transactions would be checked for appropriate authorisation.</li> </ul>
A	<b>ROMAN: Purchase Order/Invoice Processing and Associated Delegations</b>
	<p><b>Implication:</b> Purchase orders or invoices forwarded to CSIG Processing Centres by any individual could potentially be processed and paid. Delegates can raise purchase orders or invoices for any amount, which are then processed into ROMAN and paid. Further, persons who are not delegated with authority by the Defence Chief Executive Officer may post purchase orders or invoices raised for any amount. This places Defence management at risk of not effectively controlling expenditure and increased levels of fraud or misappropriation.</p>

Cat	Finding
	<p><b>Recommendation:</b> The ANAO understands that Defence is in the process of:</p> <ul style="list-style-type: none"> <li>▪ Obtaining signoff on the acceptance of the Practical Procurement and Prompt Payment (P4) manual by all Defence Groups to ensure that consistent procedures in the procurement to pay process by CSIG accounts payable processing staff occurs across all Defence Groups;</li> <li>▪ Investigating the adoption of on-line delegation approvals, within the ROMAN workflow system controls so that Delegates approve purchase requisitions and purchase orders directly in ROMAN, as part of the ROMAN Upgrade Scoping Study; and</li> <li>▪ Investigating changing the financial delegation limits to include a dollar limit for each Delegate and implementing this within ROMAN as part of the ROMAN Upgrade Scoping Study.</li> </ul>
A	<p><b>Cash Management c/f 2001-02</b></p>
	<p><b>Implication:</b> <i>Outposted Bank Accounts</i> - Maintenance of additional subsidiary records outside of the general ledger and subsequent transfer of information to update the general ledger increases the potential for error. The performance of an independent reconciliation of 'Cash at Bank' and 'Cash on Hand' to the General Ledger is a fundamental management control. This control ensures the reported cash figure is accurately reflected within the general ledger and financial statements. Bank reconciliations not only serve as a control for internal management, but also as an accountability measure to ensure that cash is being managed in accordance with departmental purposes and objectives. Delayed or non-performance of reconciliations may result in undetected errors or reconciling items and therefore, heightening the risk of overdrawing bank accounts. Failure to comply with Chief Executive Instructions (CEIs), which require timely reconciliation of bank accounts, may amount to a breach of the <i>Financial Management and Accountability Act 1997</i>. The accounting treatment adopted by Defence to transfer money between accounts, including the closing of bank accounts, has the potential to misstate the financial statements.</p> <p><i>Stale Cheques and Outstanding Items</i> - Where stale and unrepresented cheques are not managed and actioned on a frequent and ongoing basis, there is a risk that balances within cheque accounts will continue to accumulate in value; reported cash is understated and that effective and efficient use of public money will not be achieved.</p> <p><i>Unsubstantiated Prepayment</i> - Lack of supporting evidence for transactions may reduce the ability of the Department to defend claims for goods or services and be an indicator of possible misappropriation of public monies. Further, the ANAO is unable to determine the veracity of the transaction and whether effective and efficient use of public monies has occurred.</p> <p><i>Duplicate Payments</i> - Inadequate preventative and detective controls relating to duplicate payments may result in inefficient use of public monies.</p> <p><i>Foreign Currency Translation and Resulting Gains and Losses</i> - The use of incorrect foreign exchange rates will misstate the value of Cash at Bank, Cash on Hand and Net Foreign Exchange Currency Gains (Losses). Similarly, the inappropriate recognition of foreign currency gains and losses for bank accounts other than the FMS account will misstate both Net Foreign Exchange Currency Gains (Losses) and Miscellaneous Revenue. Further, inadequate QA processes will result in these misstatements remaining undetected. As Defence has a 'No Win/No Loss' budget supplementation agreement for foreign exchange rate movements, failing to properly calculate and record the foreign exchange may result in an incorrect budget supplementation being received by Defence.</p> <p><b>Recommendation:</b> The ANAO recommends that Defence implement the following initiatives: <i>Outposted Bank Accounts:</i> Complete the roll-out of separate general ledger accounts for each outpost bank account; Establish appropriate alternative procedures and accounting entries for those accounts where access to the general ledger is not available to the responsible officers; Reconcile all bank accounts in a timely manner (at least monthly); and Ensure appropriate management controls exist to prevent the occurrence of overdrawn bank accounts. <i>Stale Cheques and Outstanding Items:</i> The Department should establish, document and adhere to formal procedures relating to the management of stale and unrepresented cheques. <i>Unsubstantiated Prepayment:</i> The Department should appropriately retain and file documentation supporting past transactions, particularly where these are required by legislation, significant in value, strategic in nature or may be needed as supporting evidence for claims to products or services previously paid for. <i>Duplicate Payments:</i> Manual payment processes should only be used in extreme circumstances, uploaded into the ledger in a timely manner, and be supported by appropriate controls that ensure duplicate payments</p>

Cat	Finding
	<p>do not occur. The Department may also consider the use of exception reporting to identify possible occurrences of duplicate payments.</p> <p><b>Foreign Currency Translation and Resulting Gains and Losses</b> - Responsible officers should be afforded appropriate training to develop an understanding of information contained within the system; and Appropriate review processes should be established and undertaken.</p>
A	<p><b>Revenue and Receivables: Accounts Receivable c/f 1999-00</b></p>
	<p><b>Implication:</b> The lack of sound accounts receivable management practices increases the risk of revenues and receivables being misstated and that debt will not be recovered, therefore requiring the write-off of debtors. A lack of proper segregation of duties and inadequate review procedures further increase the risk of misstatement and fraud.</p> <p><b>Recommendation:</b> The ANAO strongly recommends that attention continue to be applied to the management of accounts receivable. In particular, ensuring appropriate segregation of duties exists and the performance of on-going analysis of all aged debts in determining the validity of reported values. Defence should enforce timely recovery of debts from employees and write off debts that have proven to be uncollectible on an ongoing basis.</p>
A	<p><b>ROMAN: Security Administration: User Access Administration</b></p>
	<p><b>Implication:</b> Inappropriate access to ROMAN Accounts Payable, General Ledger and Fixed Assets modules may lead to unauthorised transactions being processed. Without a process in place for the validation of the line managers and supervisor's authority and regular reviews of the appropriateness of user access, unauthorised access may be granted and may not be detected. Where significant data and training issues exist within an entity and there is a need for continuous correction to processed financial information the ANAO continues to believe a 'significant' business risk exists and does not believe this is mitigated due to adherence to segregation of duties requirements alone.</p> <p><b>Recommendation:</b> While the ANAO understands that a complete review of user access profiles and their appropriateness will be performed with the implementation of 'SAP R/3 v4.7 Enterprise', the proposed separation of the Defence Materiel Organisation (DMO) will also require additional user security measures to be implemented and increases the importance of regular review of security administration and user access. The ANAO recommends that:</p> <ul style="list-style-type: none"> <li>▪ Defence implement a review between all Defence groups involving review of the roles, responsibilities and relationships between the groups over the ROMAN system which should then be formally documented and signed-off by each of the groups;</li> <li>▪ Subsequently, the security administration procedures should be improved, including identifying the delegates who are responsible for authorising access. The ROMAN Customer Support team would then only provide update access to ROMAN when user access request forms are authorised by appropriate delegates;</li> <li>▪ Defence investigates the practicality of using the PMKeyS tree to validate the appropriateness of a users access to ROMAN on a regular basis, even if on a random basis of selection of users as a procedure should also be implemented to enable the ROMAN owners to self-assess and review ROMAN users access; and</li> <li>▪ Procedures be formally developed and implemented, ensuring the ROMAN Systems Support Team (previously ROMAN Customer Support Team) notify the ROMAN User Support Team of changes to user profiles in production or development. The ROMAN User Support Team should be responsible for ensuring the documentation of profiles is regularly maintained.</li> </ul>
A	<p><b>Asset Management: Impairment of Assets - SME (including AUC)</b></p>
	<p><b>Implication:</b></p> <ul style="list-style-type: none"> <li>▪ Impairment affecting the capability of key Defence military assets is not assessed;</li> <li>▪ Potential overstatement in the reported balance of SME at 30 June 2004;</li> <li>▪ Lack of clear policy may lead to incorrect management practices;</li> <li>▪ Potential overstatement in the reported balance of AUC at 30 June 2004;</li> <li>▪ Potential overstatement of SME asset values transferred to Defence effective 1 July 2005 on prescription of DMO; and</li> <li>▪ Overstatement of depreciation charge in the Statement of Financial Performance.</li> </ul>

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	<p><b>Recommendation:</b></p> <ul style="list-style-type: none"> <li>▪ Draft a policy on assessing impairment as a matter of urgency (policy to include assessment methodology, indicators of impairment, sources from where to obtain net selling prices, key definitions, assessment of recoverable amounts, treatment of impairment write downs, treatment of impairment write down reversals in subsequent periods);</li> <li>▪ Assess SME assets for indicators of impairment and if there are any indicators, consider reviewing the recoverable value of these assets for impairment and write down as appropriate if the recoverable value is higher than the net selling price or written down current cost;</li> <li>▪ Review the systems in place and ensure that systems are capable of capturing cost, net selling price and depreciated replacement cost 2006 comparatives under AEIFRS requirements);</li> <li>▪ Disclose the impairment losses / write downs (if any) in the financial statements in accordance with FMOs, Clause 3D.10.</li> </ul>
A	<p><b>Asset Management: SME Useful Lives c/f 2002/03</b></p>
	<p><b>Implication:</b></p> <p>As stated above, current evidence is indicative that the ULs assigned to the assets discussed above do not accurately reflect the consumption of future economic benefits as per AAS 4 section 5.1. In addition, processes relied upon by Defence management in relation to annual UL assessments are not sufficiently robust to ensure inappropriate ULs are recognised and altered as required under AAS 4 section 6.1. These process breakdowns led to significant misstatement of annual depreciation expense within the 2003-04 financial statements, requiring several manual journals to be processed (including a significant level of asset write-offs within the 2003-04 accounts). The inability to provide adequate documentation to support the allocation of a UL within ROMAN that is different to that assessed by the DCC is indicative of a breakdown in controls surrounding this process. The setting of useful lives is fundamental to the budgeting and asset management processes of Defence. An incorrect UL in ROMAN may result in misstatement of the depreciation expense and the WDV of SME within the financial statements.</p> <p><b>Recommendation:</b></p> <ul style="list-style-type: none"> <li>▪ Defence should conduct a thorough review of initial and annual asset UL review processes, to ensure these processes are robust and result in the assignment of ULs that reflect the pattern of economic benefit consumption;</li> <li>▪ Defence should strengthen and/or implement processes to ensure SME useful lives are supported by DCC decisions where applicable, and action be taken to resolve any differences between DCC and ROMAN rates; and</li> <li>▪ All determinations of useful lives that differ to the DCC decision be appropriately documented and approved, and be available for audit review.</li> </ul>
A	<p><b>Asset Management: Componentisation</b></p>
	<p><b>Implication:</b></p> <ul style="list-style-type: none"> <li>▪ Defence supplied a management analysis following ANAO requests, and the ANAO review of this analysis found it to be inadequate to support the change in ULs. Significant alterations have been made to SME asset ULs, and these alterations were not highlighted or rectified by management review or the Defence quality assurance (QA) process. This breakdown led to a significant misstatement of the Defence financial statements prior to the processing of audit adjustments;</li> <li>▪ In relation to F/A-18 Hornet Components 3, 4 and 5, a potential misstatement of depreciation expense totalling \$59.3 million remains within the ANAO summary of audit differences pending adjustment; and</li> <li>▪ Defence estimates (ie depreciation) for monthly reporting/budget estimates may be inaccurate.</li> </ul> <p><b>Recommendation:</b></p> <ul style="list-style-type: none"> <li>▪ Review of the controls surrounding ULs allocated to componentised assets (including management analysis and approval of all changes to asset ULs processed);</li> <li>▪ Introduction of a robust annual review and QA process to ensure such errors are rectified prior to year-end; and</li> <li>▪ Detailed analysis of the appropriateness of ULs allocated to F/A 18 Hornet Components 3, 4 &amp; 5 be conducted during 2004-05, and any further adjustments to depreciation expense necessary be processed.</li> </ul>

Cat	Finding
A	<b>SDSS: First-founds and Write-offs</b>
	<p><b>Implication:</b></p> <ul style="list-style-type: none"> <li>▪ Netting of balances is not prudent business practice as two large balances may be offset to arrive at a immaterial net figure which does not reflect the actual result;</li> <li>▪ Non compliance with AASB 1018;</li> <li>▪ Significant fluctuations in operating results between periods and years which may impact on the budgetary process;</li> <li>▪ Lack of an audit trail to ensure an efficient ANAO audit;</li> <li>▪ Unavailability of detailed listings or other documentation to substantiate balances raises some serious concerns about the validity of the balances; and • Non-compliance with Defence policies.</li> </ul> <p><b>Recommendation:</b> It is recommended that:</p> <ul style="list-style-type: none"> <li>▪ Robust business processes are implemented to strengthen warehouse management, system controls and other business processes to ensure that write offs/first founds are kept to an acceptable level;</li> <li>▪ Price corrections are recorded on a gross basis;</li> <li>▪ Provide a clear audit trail to verify GSI and SME first founds and write offs;</li> <li>▪ Positive stocktake adjustments (ie. additions) should be adjusted against first founds and not be offset against write offs; and</li> <li>▪ Management provide a robust audit trail to enable timely ANAO review.</li> </ul>
A	<b>Commitments and Accounting for Leases c/f 2002/03</b>
	<p><b>Implication:</b> The Department has breached both the 2003-04 FMOs and DRB 48 whilst misinforming users of the financial statements. Furthermore, current capabilities appear inadequate to support appropriate reporting of commitments and the management of resources.</p> <p><b>Recommendation:</b> The ANAO recommends that the Department:</p> <ul style="list-style-type: none"> <li>▪ Align its recognition criteria for commitments with the FMOs;</li> <li>▪ Review current system capabilities and implement enhancements where necessary;</li> <li>▪ Complete, review, maintain and utilise the lease register; and</li> <li>▪ Establish appropriate filing, contact information and/or management processes to enable timely collation of requested documentation.</li> </ul>
B	<b>Financial Reporting Framework: Goods Received/Invoice Received Accrual</b>
	<p><b>Implication:</b> This balance represents amounts under paid by Defence to suppliers, and demonstrates a lack of monitoring and reconciliation of balance sheet accounts in general.</p> <p><b>Recommendation:</b> As management decided that it would be too time consuming to clear the individual amounts for financial statements purposes, a provision has been created and an undertaking has been made to correct the problem once the financial statements have been issued. ANAO recommends that Defence place a high priority on addressing this issue for the 2004-05 audit.</p>
B	<b>Financial Reporting Framework: Military Superannuation</b>
	<p><b>Implication:</b> If the provisions are reported to the nearest \$100 million future financial statements may be misstated. Without an agreement between Defence and ComSuper Defence is not in a position to enforce the provision of information and deadlines for financial reporting. Without the recording of a receivable from the MSBS for benefit payments made, funded from equity injection appropriations, on behalf of the MSBS the financial statements will not accurately reflect that MSBS is required to reimburse the commonwealth.</p> <p><b>Recommendation:</b> The ANAO recommends that Defence:</p> <ul style="list-style-type: none"> <li>▪ Instruct the AGA to provide provision estimates, for financial statements, that do not require rounding;</li> <li>▪ Develop and implement an agreement with ComSuper to enable financial reporting to be completed to Defence's satisfaction in the required timeframes; and</li> <li>▪ Determine the amount of, and record, a receivable balance in respect of funds paid out on behalf of the MSBS for which the MSBS has not yet reimbursed the Commonwealth.</li> </ul>

Cat	Finding
<b>B</b>	<b>Financial Reporting Framework: Reporting of Outcomes and Outputs</b>
	<p><b>Implication:</b> Undetected errors within attribution rules will result in incorrect attribution of revenue and/or expenses and inaccurate disclosures within the financial statements.</p> <p><b>Recommendation:</b> The Department should ensure that robust review processes are undertaken in the compilation and uploading/updating of rule attributions.</p>
<b>B</b>	<b>Financial Reporting Framework: Stocktake Information Presented to the Audit Committee</b>
	<p><b>Implication:</b> Significant disparities between results reported to management and the actual results from subsequent stocktakes conducted is indicative of a breakdown of management controls over the reporting process and the extent of stocktake issues not being adequately reported and therefore required corrective action may not occur or be delayed.</p> <p><b>Recommendation:</b> The ANAO recommends that a review by Commander Joint Logistics of DAC reporting be completed to ensure an accurate representation of results is reported. It is also recommended that Defence consult members of the DAC to ascertain their requirements of stocktake reporting going forward, and incorporate these within future reports.</p>
<b>B</b>	<b>SDSS: SDSS Discrepancy Accounts - c/f 2000/01</b>
	<p><b>Implication:</b> The ANAO acknowledges the action taken by Defence to rectify these identified stock quantity discrepancies. The significant period of time taken to resolve discrepancies indicates a breakdown in the management processes applied to investigate and resolve the discrepancies in a timely manner. The inclusion of these items as SOH will potentially overstate the GSI and RI balances within the financial statements. In addition, the inability to categorise identified stocktake surpluses within SDSS reduces management visibility of outstanding stock discrepancies. Further, stocktakes are reported as complete, however it would appear that residual AD/DR issues are not being addressed appropriately prior to completion of the stocktakes.</p> <p><b>Recommendation:</b> The ANAO recommends that Defence conduct a review of existing processes for the investigation of AD and DR discrepancies, in order to facilitate the timely resolution of such items and ascertain the appropriateness of including these items as part of SDSS SOH. Defence should conduct an analysis and assessment of the impact of these items on the financial statements going forward. Additionally, Defence should implement functionality within SDSS to ensure identified stocktake surpluses are appropriately reflected within the system.</p>
<b>B</b>	<b>Financial Reporting Framework: DMO Clearing Accounts</b>
	<p><b>Implication:</b></p> <ul style="list-style-type: none"> <li>▪ Business process failure as there are inadequate controls in place to clear these accounts in a timely manner;</li> <li>▪ Potential over / understatement of asset balances due to untimely clearing of amounts;</li> <li>▪ Individuals may be encouraged to post any errors / adjustments against these accounts as these accounts are not reviewed on an ongoing basis; and</li> <li>▪ The amounts in these accounts may be immaterial, however, unless a thorough review is undertaken Defence would not be able to ascertain whether the amount is immaterial as a result of high value gross offsets.</li> </ul> <p><b>Recommendation:</b> The ANAO recommends that Defence implement a regular review of these clearing accounts to determine whether the amounts require reclassification or write-off and ensure that the accounts are cleared at year-end. For amounts that are determined to require reclassification, a process should be implemented to ensure that they are correctly valued for inventory (ie. at the lower of cost or net realisable value).</p>

Cat	Finding
<b>B</b>	<b>SDSS: Classification Corrections</b>
	<p><b>Implication:</b></p> <ul style="list-style-type: none"> <li>▪ The lack of appropriate system controls over entering and changing of classifications increases the risk of misstatement of GSI and RI balances;</li> <li>▪ Corrections to misclassified items result in significant adjustments to year-end balances and contribute to on-going volatility of the Defence financial statements; and</li> <li>▪ Continuing existence of high levels of reclassifications in 2003-04 is indicative that the processes introduced within SDSS v4 have not fully addressed the reclassification issue.</li> </ul> <p><b>Recommendation:</b></p> <ul style="list-style-type: none"> <li>▪ A review be conducted over the processes and controls in place for initial and on-going classification of stock held on SDSS;</li> <li>▪ Changes initiated to ensure the minimisation of the financial statement impact from reclassifications going forward; and</li> <li>▪ Appropriate training be provided to staff responsible for classifying items as either inventory or fixed assets.</li> </ul>
<b>B</b>	<b>SDSS: DMO Asset Purchase Accounts</b>
	<p><b>Implication:</b></p> <ul style="list-style-type: none"> <li>▪ Expenses are overstated and assets are understated;</li> <li>▪ Misstatement between SME assets and inventory; and</li> <li>▪ No clear audit trail relating to management decisions to capitalise/expense.</li> </ul> <p><b>Recommendation:</b></p> <p>It is recommended that Defence review current practice, ensuring that appropriate supporting documentation is maintained to support the recorded balance and that items are capitalised when they meet the capitalisation requirements.</p>
<b>B</b>	<b>COMSARM: Capability Payments</b>
	<p><b>Implication:</b></p> <p>The reversal and re-posting of the capability payment in 2003-04 resulted in an expense understatement of \$15.7 million. Furthermore, EO inventory transactions processed in 2003-04 (including consumption expense) are misstated.</p> <p><b>Recommendation:</b></p> <p>It is recommended that adjustments for the capability payment are only made for additional write-downs. Furthermore, it is recommended that adjustments are made on COMSARM for the capability payment against each NIIN.</p>
<b>B</b>	<b>COMSARM: Business Continuity Management</b>
	<p><b>Implication</b></p> <p>In the absence of formal attention to BCM/DRP, there is potential that assessment of the risks and impact of a continuity/disaster situation may be non-existent or false and in the event of a situation arising, any treatments may be revealed to be ineffective. This exposes Defence to possible interruption to business critical activities, and thus failure to meet service delivery obligations.</p> <p><b>Recommendation</b></p> <p>The ANAO recommends that formal BCM and DRP be established for COMSARM within the requirements of the overall organisational business continuity framework.</p>
<b>B</b>	<b>COMSARM: General Controls and Management Activities</b>
	<p><b>Implication</b></p> <ul style="list-style-type: none"> <li>▪ The above processes are reliant on manual processing, which are highly susceptible to processing errors, rely on a number of COMSARM, ROMAN, and Fujitsu staff members and limit the ability to ensure the completeness of data between the two systems for the purchase-to-pay cycle and inventory movements; and</li> <li>▪ Defence may have to place sole reliance on Fujitsu to provide complete testing, which is in addition to their development activities and may result in a conflict of interest.</li> </ul>

Cat	Finding
	<p><b>Recommendation:</b> Defence reviews the current management plans for COMSARM and implement procedures to minimise the risk of reliance on an outsourced provider and continue to manage the implementation of electronic interfaces within the major systems areas.</p>
<b>B</b>	<b>COMSARM: Server Management</b>
	<p><b>Implication:</b> Current COMSARM server management may result in an increased security risk to both the COMSARM system and the DSN and the lack of appropriate controls over the user administration and management of servers on the DSN may result in:</p> <ul style="list-style-type: none"> <li>▪ Unauthorised users may be able to obtain access to system resources within COMSARM and or the DSN; and</li> <li>▪ Unauthorised data / programs being modified, thus compromising the integrity of COMSARM or other systems.</li> </ul> <p><b>Recommendation:</b> The ANAO recommends that:</p> <ul style="list-style-type: none"> <li>▪ The CST current hosting and management arrangements for COMSARM server management and Unix, Windows NT are reallocated to dedicated server and access management team/s; and</li> <li>▪ The CST retains user management for COMSARM users.</li> </ul>
<b>B</b>	<b>COMSARM: Change Management</b>
	<p><b>Implication:</b> Weaknesses in the change control configuration may allow changes to be made directly to the COMSARM production system without appropriate testing being performed and without prior testing in a Test environment, represent a risk to the integrity of the system and data. Such configuration allows the bypass of standard change control policies and procedures, and allows unauthorised changes to be made to the system and data.</p> <p>Programmer access in the Production environment bypasses standard change control practices. Improper allocation and monitoring of privileged access and changes in the Production environment increases the risk of unauthorised and/or inappropriate access. Any inappropriate manipulation to programs and data could impact upon the data integrity of the system.</p> <p><b>Recommendation:</b></p> <ul style="list-style-type: none"> <li>▪ The ANAO recommends that Defence ensure that no changes are made directly to the COMSARM production system. Instead, all changes need to be made in a Development environment, and only moved into Production after appropriate testing and signoff by the business users;</li> <li>▪ It is recommended that programmers should not be given more than ‘read’ only access to the production system. Changes should be made in Development and transported to Test and Production via formal change control procedures; and</li> <li>▪ The testing and migration of changes should be performed by independent areas, therefore the business support area is responsible for performing testing and a IT system support section be responsible for implementing the change into the test / production environments.</li> </ul>
<b>B</b>	<b>COMSARM: Explosive Ordnance Quantities</b>
	<p><b>Implication:</b></p> <ul style="list-style-type: none"> <li>▪ Discrepancies may carry a reputational risk for Defence due to the nature of EO inventory;</li> <li>▪ Incorrect stock locations in COMSARM can compromise the accuracy of recorded stock on hand balances, create inefficient warehouse management practices and reduce the ability to service customers in an efficient and effective manner. Given the unique nature of EO, discrepancies in stock locations on COMSARM also increases the risk that inappropriate items may be stored in a warehouse, against Occupational Health and Safety and insurance requirements;</li> <li>▪ Where the COMSARM record is inaccurate ie. the quantity of stock on COMSARM differs from that which is physically located in the warehouse, the EO support function is compromised. This may lead to sub-optimal decisions in relation to the purchase, issue and disposal of assets;</li> <li>▪ The non-compliance with sections of Defence policy may lead to reduced reliance on Defence stock as recorded in COMSARM; and</li> <li>▪ The integrity of the inventory record is reduced when breakdowns surrounding the recording, investigation and resolution of agreed quantity errors occur.</li> </ul>

Cat	Finding
	<p><b>Recommendation:</b> It is noted that overall, the EO quantities were satisfactory for 2003-04, however, further improvements and strengthening of current procedures are recommended to ensure the integrity and accuracy of EO quantities.</p>
<b>B</b>	<b>COMSARM: Explosive Ordnance Processing and Reconciliations</b>
	<p><b>Implication:</b></p> <ul style="list-style-type: none"> <li>▪ The failure to reconcile the EO Prepayment balance to the general ledger may result in undetected errors flowing through to the financial statements. Further, the allocation between "current" and "non-current" is a requirement of AAS 36 Statement of Financial Position and the FMOs;</li> <li>▪ The failure to record adjustments to individual stock codes within COMSARM may result in misstatement of the 2004-05 transactions;</li> <li>▪ The netting of transactions may result in non-compliance with AASB 1018 Statement of Financial Performance.</li> </ul> <p><b>Recommendation:</b> The ANAO recommends that Defence:</p> <ul style="list-style-type: none"> <li>▪ Perform reconciliations for the General Ledger EO Prepayment balance to supporting schedules and documentation;</li> <li>▪ Allocate the EO Prepayment balance between "current" and "non-current";</li> <li>▪ Ensure that the 30 June 2004 EO Inventory balance per the Defence General Ledger reconciles to COMSARM;</li> <li>▪ Implement robust policies and practices on the treatment of items when they are reconfigured; and</li> <li>▪ Ensure appropriate treatment and recording of inventory adjustments in the Statement of Financial Performance.</li> </ul>
<b>B</b>	<b>PPS: Civilian Leave Plans in PMKeyS</b>
	<p><b>Implication:</b> Failing to update PMKEYS for employees who have commenced or ceased service may lead to an over or understatement of the leave liabilities recorded. Moreover, the misstatement will affect the integrity of information for internal and external reporting purposes.</p> <p><b>Recommendation:</b> It is recommended that:</p> <ul style="list-style-type: none"> <li>▪ A leave plan be commenced for all employees who have been identified by DPE as not accruing leave; and</li> <li>▪ All PMKEYS records relating to terminated employees, as identified by DPE, are amended to reflect this status.</li> </ul>
<b>B</b>	<b>PPS-ADFPAY: Monitoring of Payroll Transactions in ADFPAY</b>
	<p><b>Implication:</b> There is an increased risk that unauthorised or incorrect transactions in ADFPAY input by MPAC Payroll Supervisors and DEFPAC personnel are not detected and followed up if and as required.</p> <p><b>Recommendation:</b> ANAO recommends that Defence develops and enforces monitoring procedures over:</p> <ul style="list-style-type: none"> <li>▪ ADFPAY transactions by MPAC Payroll Supervisors; and</li> <li>▪ ADFPAY transactions by DEFPAC.</li> </ul> <p>Additionally, Defence should evaluate the need for supervisory staff within both MPAC and DEFPAC to have transaction input access in ADFPAY. Segregation between the transaction input and supervisory functions will reduce the risk of unauthorised transactions in ADFPAY going undetected.</p>
<b>B</b>	<b>ROMAN: Accounts Payable: Payment of Invoices</b>
	<p><b>Implication:</b></p> <ul style="list-style-type: none"> <li>▪ Reduction in the accuracy of cash and liquidity forecasting, as commitments for direct invoices do not exist in ROMAN until the invoice is entered;</li> <li>▪ Under accruals lead to a possible understatement of Defence liabilities on the Statement of Financial Position; and</li> </ul> <p><b>Late payment of invoices may result in discounts lost.</b></p>

Cat	Finding
	<p><b>Recommendation:</b> The ANAO recommends that further initiatives be introduced to purchasing groups to ensure a purchase order is raised for all appropriate purchases and that goods receipt be activated where appropriate and that parameters governing the use of direct invoices be established or re-introduced. <i>(See also audit finding 2004 Issue #4.2)</i></p>
<b>B</b>	<b>ROMAN: Accounts Payable: Duplicate Invoices</b>
	<p><b>Implication:</b> Duplicate invoices maybe entered and subsequently paid.</p> <p><b>Recommendation:</b> The ANAO recommends that the role and responsibilities of SPEDOs are communicated to all appropriate staff and that all SPEDOs are provided training on how to generate and review reports, and how to follow up on anomalies including the Centralised Invoice Duplicate report. Additionally, a centralised management review of these processes should be undertaken on a regular basis to ensure policies are appropriately implemented and maintained.</p>
<b>B</b>	<b>ROMAN: Accounts Payable: One Time Vendors</b>
	<p><b>Implication:</b> There exists the potential for misappropriation or fraudulent payments to suppliers.</p> <p><b>Recommendation:</b> The ANAO recommends that Defence review the one time vendor-processing limit of \$2,000 for direct invoices and consider reducing this limit again. In addition, the ANAO recommends renewed diligence in the review of the Invoice Overview Report. <i>(See also audit finding 2004 Issue #4.2)</i>. Additionally, a centralised management review of these processes should be undertaken on a regular basis to ensure policies are appropriately implemented and maintained.</p>
<b>B</b>	<b>PPS-ADFPAY: Transmission of Military Payment Files to RBA</b>
	<p><b>Implication:</b> Unrestricted access to the transmission functionality in ADFPAY increases the risk of unauthorised transmission of payment files to the RBA. Further, access to both modify and transmit payment data may increase the risk that unauthorised changes to transmitted payment files and consequent payment are undetected.</p> <p><b>Recommendation:</b> The Payroll Operations Team and Unisys Support Team should review the access requirements for both the modification of ADFPAY data and transmission of payment files to the RBA. Based on this review, access should be restricted to ensure that it is commensurate with job roles and responsibilities.</p>
<b>B</b>	<b>Revenue and Receivables: Revenue Recognition and Disclosure</b>
	<p><b>Implication:</b></p> <ul style="list-style-type: none"> <li>▪ Revenue is overstated for the 2003-04 financial year. Additionally, revenue for prior financial years have been understated;</li> <li>▪ Sale of Goods and Services Revenue is overstated by approximately \$72,000, and the Department has received monies to which it is not entitled;</li> <li>▪ The lack of appropriate controls over the entering and changing of revenue account classifications, increases the risk of misstatement of revenue and thus the financial statements; and</li> <li>▪ Revenue is overstated by the amount of excise.</li> </ul> <p><b>Recommendation:</b> It is recommended that:</p> <ul style="list-style-type: none"> <li>▪ Revenue from excise rebates, prime contract contributions and fuel sales to foreign governments be recognised in the period in which the revenue was earned;</li> <li>▪ A correcting journal entry be made and the debtor credited with the amount they were overcharged by;</li> <li>▪ Greater care is taken when classifying between accounts, and appropriate training is provided to staff responsible for classifying items. The implementation of controls by way of review is also recommended to identify such errors if and when they occur; and</li> <li>▪ Excise is excluded from the amount of revenue recognised.</li> </ul>

Cat	Finding
<b>B</b>	<b>DCB: UNISYS Security Monitoring</b>
	<p><b>Implication:</b> The absence of regular security monitoring and investigative follow-up of suspicious system activity increases the exposure to fraud or malicious damage. The lack of documented procedures for conducting such monitoring tasks increases the risk of security violations being overlooked.</p> <p><b>Recommendation:</b> Monitoring of sensitive data files is outlined in ‘ADFPAY Unisys File Security’. However in relation to other areas of the Unisys environment, the ANAO recommends that DCB develop and document a risk based approach to Unisys security monitoring, which would include identifying key system files and significant security events that would warrant monitoring.</p>
<b>B</b>	<b>DCB: IT Audit: IBM Mainframe User Access</b>
	<p><b>Implication:</b> User access to data sets on the mainframe environments may not be commensurate with their job function and as the MVSSEC group has access to privileged functionality there is a risk that these privileges may be abused or utilised to perform unauthorised transactions.</p> <p><b>Recommendation:</b> As in 2002-03 the ANAO recommends that DCB, in conjunction with the system owners of the applications that reside on the IBM Mainframe environments, implement procedures to periodically review user access privileges on the IBM Mainframe environments. Further the ANAO recommends that a group or individual should be assigned to the AUDIT and SAUDIT groups within RACF, which should be responsible for monitoring the use of privileged functions utilised by the MVSSEC group, such as the addition and modification of user access, and that the monitoring process should be a risk based approach which may involve sample checking of audit logs to authorised documentation.</p>
<b>B</b>	<b>DCB: Change Control: Testing Procedures</b>
	<p><b>Implication:</b> Testing performed may not address all errors potentially introduced by the change. This could result in errors or corruptions being introduced into the production system.</p> <p><b>Recommendation:</b> Again the ANAO recommends that the DCB tighten its documentation and procedures in relation to testing and implementation. This should include, for each of the systems, an outline of the minimum level of testing and documentation required based on the type or complexity of change being implemented. The procedures for measuring success of the testing carried out should also be documented. Further, the change control committee should ensure that the minimum testing has been carried out and resulted in success prior to approving the migration of the change.</p>
<b>B</b>	<b>DCB: AIX and win2k</b>
	<p><b>Implication:</b> The absence of regular security monitoring and investigative follow-up of suspicious system activity increases the exposure to fraud or malicious damage and the lack of documented procedures for conducting such monitoring tasks increases the risk of security violations being overlooked. The lack of verification procedures over authorisation of user access increases the risk that unauthorised users are granted system access. While there are only a small number of Win2000 OS users and changes are made infrequently, without documentation and formal security policies to support the creation and deletion of user accounts, assurance over the process is difficult to obtain, audit trails may not be complete and the effectiveness of logical access security is reduced.</p> <p><b>Recommendation:</b> The ANAO recommends that:</p> <ul style="list-style-type: none"> <li>▪ The DCB develop and document a risk based approach to AIX and Win2000 security monitoring. This would include identifying key system files and significant security events that would warrant monitoring;</li> <li>▪ A current list of managers who can authorise new AIX account creation is maintained and updated on a regular basis; and</li> <li>▪ Access requests and supporting documentation are retained for an adequate length of time to allow management to monitor and track the additions, amendment and deletion of Win2000 user accounts.</li> </ul>

Cat	Finding
<b>B</b>	<b>PPS-PMKeyS: Security Administration: Access</b>
	A number of issues in relation to PMKeyS security remain from prior years as listed below. However, while progress is acknowledged, it has not been as effective as anticipated and Defence will need to implement a number of procedures before this issue can be closed. The following is an update for each specific issue noted in prior year audits.
<b>B</b>	<b>PPS-PMKeyS: Monitoring Security Administration: Security Administrators</b>
	<p><b>Implication:</b> As the PMKeyS Security Administrators have access to the whole system, there is a risk that unauthorised activities may occur and remain undetected.</p> <p><b>Recommendation:</b> Although audit logs over changes to user ids do not identify which person in the PMKeyS security administration team performed the change Defence should still use these logs to perform appropriate checks over the PMKeyS security administration team (i.e. this will enable checks from the system to paperwork). Further, with the implementation of the next PeopleSoft upgrade, Defence should consider segregating the two functions of creating a PMKeyS user id and allocating operator classes to the PMKeyS user ids.</p>
<b>B</b>	<b>PPS-PMKeyS: Change Control: Migration of PMKeyS Operator Classes</b>
	<p><b>Implication:</b> There is a risk that PMKeyS users have inappropriate access allowing them to perform unauthorised transactions. Additionally, there is also a risk that manually changing each PMKeyS operator classes within the different environment may create inconsistencies.</p> <p><b>Recommendation:</b> Defence should assess the impact of the December 2003 migration of the PMKeyS security tables. Both test and production environments should be aligned to reflect operator class access rights as denoted in past system release notes. We also recommend that a central PMKeyS operator class document, containing the descriptions and definitions of each class, be maintained. We also recommend that PMKeyS security tables be migrated as part of the normal change control process. This may require Defence to review and change the current setup of the different PMKeyS environments (development, test and production).</p>
<b>B</b>	<b>PPS-PMKeyS: Lack of Segregation of Duties</b>
	<p><b>Implication:</b> There is a risk that ‘ghost’ employees can be created and paid. Further, one person having the ability to process off-cycle payments increases the risk of unauthorised payments.</p> <p><b>Recommendation:</b> As a matter of priority, Defence should limit access rights to ensure that individual persons cannot perform the various functions in PMKeyS that should be segregated. Further, the ‘illegal’ combinations report should also be reviewed on a periodic basis (e.g. every month). An analysis should also be performed to identify whether any user has in the past:</p> <ul style="list-style-type: none"> <li>▪ Created a position and hired an applicant to be paid; or</li> <li>▪ Created an off-cycle payment and approved it to be paid.</li> </ul> <p>Although this analysis should occur at least once to cover the above 52 identified users, Defence should consider implementing this control permanently. This would allow Defence to run a report at any point in time to identify any single user who has performed the above transactions. Where an individual has performed these transactions by themselves, the transactions should be reviewed in detail to ensure they were appropriate.</p>
<b>B</b>	<b>Compensation c/f 2002/03</b>
	<p><b>Implication:</b> Where liabilities are misstated or not recorded on the balance sheet future financial statements may be misstated.</p>

Cat	Finding
	<p><b>Recommendation:</b> The ANAO recommends that Defence:</p> <ul style="list-style-type: none"> <li>▪ Record the liability for asbestos related disease on a gross basis;</li> <li>▪ Engage an actuary to quantify the liabilities in respect of the HMAS Voyager &amp; HMAS Melbourne collision and any other known military compensation liabilities not already recorded in the Statement of Financial Position;</li> <li>▪ Assess whether additional resources allocation to the valuation of the Military Compensation Scheme would reduce limitations in the estimates; and</li> <li>▪ Take steps to address limitations in the estimate regarding data, assumptions, approach, valuation and financial estimates.</li> </ul>
<b>B</b>	<b>PPS: Provision for Redundancies</b>
	<p><b>Implication:</b> Liabilities and expenses are misstated where an obligation does not exist or old data is used in calculating the provision.</p> <p><b>Recommendation:</b> It is recommended that management place more emphasis on ensuring that the provision is complete and valued correctly in accordance with AASB 1028 <i>Employee Benefits</i> by:</p> <ul style="list-style-type: none"> <li>▪ Ensuring that there is current supporting documentation to validate the balance;</li> <li>▪ That all employees included in the provision have actually been informed (before balance date) that they will be made redundant; and</li> <li>▪ That a formal plan is in place and has been communicated, identifying the number of employees, the location, job classifications, and when the terminations will occur.</li> </ul>
<b>B</b>	<b>Administered Retention Benefits</b>
	<p><b>Implication:</b> There is a significant risk that incomplete identification of non-collection of receivables will occur where there are deficiencies within formalised processes for the identification, management and collection of retention benefits requiring recovery. The Department may be breaching the appropriations and s83 of the Constitution.</p> <p><b>Recommendation:</b> It is recommended that the Department undertake a review of current policies and procedures regarding the management of administered retention benefits. Appropriate provisioning and maintenance of information is critical to the effective management of payments and recoveries of administered retention benefits. The Department should also ensure that all monies collected are appropriately returned to the Official Public Account.</p>
<b>B</b>	<b>ROMAN: Change Control: ABAP/4 Authorisation Groups and Objects</b>
	<p><b>Implication:</b> Unauthorised or erroneous changes made to programs, tables and settings in the production environment may impact the integrity of the production environment.</p> <p><b>Recommendation:</b> The ANAO recommends that management perform an immediate review of all ABAP/4 programs to ensure appropriate authorisation objects have been assigned and that the values assigned to each authorisation object field (i.e. collectively known as an authorisation) are commensurate with management expectations. The ANAO also recommends that the use of authorisation groups be investigated for integration into standard ABAP/4 programming practices with respect to user access security. At a minimum for those reports and programs that have a transaction code, the use of the S_TCODE authorisation object (i.e. transaction start) be implemented.</p>
<b>B</b>	<b>General Asset Management: Application of Assets Capitalisation Thresholds</b>
	<p><b>Implication:</b> The reported value of assets may be understated, suppliers expense overstated and the net surplus/deficit either understated or overstated respectively.</p> <p><b>Recommendation:</b> The Department should complete frequent and thorough management analysis of the effects of the application of determined asset capitalisation thresholds.</p>

Cat	Finding
<b>B</b>	<b>General Asset Management: Assets Under Construction/Capitalisation of Assets</b>
	<p><b>Implication:</b>  Inadequate asset management policies, procedures, practices and review mechanisms may culminate in:</p> <ul style="list-style-type: none"> <li>▪ Assets being capitalised at incorrect values;</li> <li>▪ Inaccurate reporting of depreciation expenses;</li> <li>▪ Application of other inappropriate accounting treatments; and</li> <li>▪ The inappropriate use or misappropriation of public monies and possible infringement of Reg 9 of the Finance Management and Accountability Regulations 1997 (Reg 9) (requiring satisfaction of the approver, after making such enquiries as are reasonable, that the proposed expenditure is in accordance with the policies of the Commonwealth and will make efficient and effective use of the public money). Furthermore, not only have the provisions within AAS 4 <i>Depreciation</i> been contravened but also DRB 48.</li> </ul> <p><b>Recommendation:</b>  The Department should establish and implement appropriate asset management and review policies, procedures and practices including reconciliations of amounts held within AUC with costs incurred and reported by head contractors. Furthermore, assets should be capitalised at the appropriate interval and in accordance with applicable accounting standards and Departmental policy. It is also recommended that project contact officers sign the Notification of Asset Completion or Enhancement form, to provide evidence that appropriate reviews have been performed and confirm information contained within the document. At the data entry stage, the asset should not be entered into the system until review and approval by the appropriate delegate has been evidenced.</p>
<b>B</b>	<b>General Asset Management: Heritage and Cultural Assets</b>
	<p><b>Implication:</b>  The ANAO was unable to conclude upon the completeness, valuation and existence of the Heritage and Cultural assets balance at 30 June 2004.</p> <p><b>Recommendation:</b>  The ANAO recommends that Defence implement appropriate identification, stocktaking and revaluation procedures and practices in order to provide further assurance over the completeness, valuation and existence of the heritage and cultural balance. The Department will also need to conduct an assessment of the expected use and durability of holdings in determining whether such assets should be depreciated. Appropriate disclosures should also be made by the Department to inform the user of accounting treatments and polices applied.</p>
<b>B</b>	<b>General Asset Management: Depreciation Discrepancy</b>
	<p><b>Implication:</b>  The value of the 'depreciation discrepancy' adjustment in the accounts is overstated. This has the effect of understating the depreciation expense and accumulated depreciation, thereby overstating the written-down value of buildings and infrastructure.</p> <p><b>Recommendation:</b>  The Department should:</p> <ul style="list-style-type: none"> <li>▪ Review underlying assumptions for the calculation of the depreciation discrepancy and the effect of the application of these;</li> <li>▪ Consider the correction of errors created from underlying assumptions; and</li> <li>▪ Consider strengthening the appraisal of assumptions and management review processes.</li> </ul>
<b>B</b>	<b>General Asset Management: Gifting of Assets</b>
	<p><b>Implication:</b>  Given the custodial role undertaken by Government and various Departments it is critical that policies, procedures and practices support the level of accountability that is expected and required. The Department may not have adhered with the FMA Act. Absence of established policies and procedures will affect the understanding by staff of their responsibilities, and therefore their fulfilment of these, and the appropriateness of accounting treatments applied. In 2003-04 the Department has misstated the balances for the gifting of assets and write down of assets.</p>

Cat	Finding
	<p><b>Recommendation:</b> ANAO recommends that appropriate policies and procedures for the gifting of assets are established and implemented providing guidance to officers regarding appropriate accounting treatments and delegations. It is further recommended that reported transactions should correctly reflect the circumstances and their current status.</p>
<b>B</b>	<b>General Asset Management: Miscellaneous Asset Management Issues</b>
	<p><b>Implication:</b> Inadequate management oversight practices and procedures may result in a multitude of undetected system related (inadequate use of controls and/or errors) or manual processing issues that have the capacity to materially misstate the financial statements and undermine the validity of asset management decisions. Further, provisions within Defence Reference Book 48 relating to reassessment of useful lives may not be adhered to.</p> <p><b>Recommendation:</b> The Department should establish and maintain appropriate levels of management oversight in the management of its asset portfolio. This would include a search for, and remediation of, irregularities within the asset management process. The Department should also ensure effective use of available system controls.</p>
<b>B</b>	<b>General Asset Management: Incomplete Fuel Balance</b>
	<p><b>Implication:</b> There is a risk that the recorded inventory fuel balance does not reflect the true holdings of fuel. Furthermore, there are environmental, safety and security risks to Defence for those fuel tanks not identified and accounted for.</p> <p><b>Recommendation:</b> It is recommended that Defence complete a full review of fuel tanks to ensure that the recorded fuel balance is complete.</p>
<b>B</b>	<b>Delegations for Repairs and Maintenance</b>
	<p><b>Implication:</b> An inability to provide relevant documentation authorising the expenditure of Commonwealth funds indicates a failure to maintain appropriate accounting records and a lack of an appropriate audit trail. Inappropriate authorisation may also be an indicator of the misappropriation of public monies.</p> <p><b>Recommendation:</b> The ANAO recommends that Defence implement policies and procedures to ensure that all expenditure of Commonwealth funds is authorised by delegated officers and such authorisations be appropriately maintained.</p>
<b>B</b>	<b>SME Asset Management (Inc AUC): Roll-out and Write-off Processes</b>
	<p><b>Implication:</b></p> <ul style="list-style-type: none"> <li>▪ • These continuing issues, which were only identified towards the end of the year, result in an overstatement of AUC, understatement of SME, and corresponding understatements of depreciation and/or write-off expense;</li> <li>▪ • The errors relating to AIR5398 resulted in an understatement of AUC and an overstatement of inventory (this was adjusted following ANAO queries); and</li> <li>▪ • The issue indicates a business process weakness at the project management level, as it is at this point that the rollouts and write-offs should be instigated in a timely manner.</li> </ul> <p><b>Recommendation:</b> The ANAO continues to recommend the need for suitably qualified accounting staff at the project level to assist with implementing processes that will improve the timely and accurate recognition of rollouts and write-offs.</p>

Cat	Finding
<b>B</b>	<b>Asset Management: Reconciliation of SME</b>
	<p><b>Implication:</b> The risk of misstatement between the physical assets held and the fixed asset register is increased when a reconciliation is not conducted.</p> <p><b>Recommendation:</b> The ANAO recommends that Defence obtain annual confirmation from the Systems Program Offices of the physical assets held, and reconcile this information to the ROMAN fixed asset register. Furthermore, management should ensure that a central listing of SME assets by location should be maintained and kept current.</p>
<b>B</b>	<b>SME Asset Management (Inc AUC): Processing of Identified Errors in AUC</b>
	<p><b>Implication:</b> Untimely processing of identified errors results in continual overstatement and understatement of associated accounts. This in turn impacts on reliability of monthly reporting for management, including budget estimates.</p> <p><b>Recommendation:</b> Errors identified through implemented QA processes should be processed against individual projects in a timely manner.</p>
<b>B</b>	<b>SME Asset Management (Inc AUC): Accrued Capital Expenditure</b>
	<p><b>Implication:</b> No evidence exists that the impact on the completeness and valuation of the year end accrued WPNI amount and the potential for a misstatement of accruals, was considered prior to changing the procedure to collate the accrued expenditure figure. Defence policy in relation to WPNI is not being followed for year-end reporting purposes. Accruals may be understated, and were at 30 June 2004 as noted above.</p> <p><b>Recommendation:</b> Defence should undertake an analysis in relation to the data extract used to calculate WPNI as opposed to business units compiling the information and conclude as to the reliability in relation to completeness and valuation of WPNI. If management conclude that the finance instruction is appropriate, Defence should adhere to the guideline and report as per its requirements.</p>
<b>B</b>	<b>SME Asset Management (Inc AUC): Foreign Exchange Impact on Qualifying Assets</b>
	<p><b>Implication:</b></p> <ul style="list-style-type: none"> <li>▪ Non compliance with AGAAP and the Finance Minister's Orders;</li> <li>▪ Potential under/overstatement of AUC and Foreign Exchange Gains/Losses; and</li> <li>▪ Lack of review over the whole population may result in errors within this population going undetected.</li> </ul> <p><b>Recommendation:</b> It is recommended that management ensure that any foreign exchange differences arising on qualifying assets are included as part of the qualifying asset in accordance with AGAAP. Furthermore, any management analysis undertaken should extend over the whole population of foreign exchange payments.</p>
<b>B</b>	<b>Land Contamination</b>
	<p><b>Implication:</b> The ANAO has been unable to verify the adequacy of current procedures nor the accuracy/valuation and completeness of the reported provisions for land decontamination.</p> <p><b>Recommendation:</b> Defence should ensure that:</p> <ul style="list-style-type: none"> <li>▪ Accounting policies reflect current reporting requirements;</li> <li>▪ Sufficient and appropriate policies, procedures and practices are formalised and implemented for the identification of contaminated land, valuation of required decontamination and review of procedures undertaken and assessments made; and</li> <li>▪ A clear understanding is obtained from the AVO regarding matters included in valuation assessments.</li> <li>▪ The Department should also consider the qualifications of those currently valuing the provision for land decontamination (as despite our enquiries, the ANAO has been unable to establish the parties used or their qualifications) and whether an independent valuation expert should be used.</li> </ul>

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### QUESTION W2

Senator Carr

#### Efficiency dividends

- a) What financial impact will the increased efficiency dividend have on your Department/Agency this financial year and in the out years?
- b) The increase in the efficiency dividend was announced in last year's election, what plans have you made to meet it?
- c) What will this mean for staff numbers?
- d) Will any specific programs be cut? Please specify which ones and the size of the estimated savings?
- e) Will any core functions be affected by these savings measures?
- f) How will meeting the efficiency dividend affect your graduate recruitment plans?
- g) How will meeting the efficiency dividend affect your ability to retain experienced staff?

### RESPONSE

- a) The Government has decided that an efficiency dividend will be applied to Defence for the first time from 2005-06. The efficiency dividend will result in \$3.4m in 2005-06 and \$75.9m over the forward estimates being returned to the budget. This can be seen in Defence's *Portfolio Budget Statements 2005-06* (p. 35).
- b) The impact for Defence in 2005-06 is \$3.4m, and this can be absorbed through a reduction in administrative expenditure without impacting on Defence capability. Operational and direct capability-linked funding is exempt from the application of the dividend. Defence and the Defence Materiel Organisation will develop a joint plan for achieving efficiencies from 2006-07.
- c) There will be no impact on staff numbers in 2005-06. Any impact in future years will be examined in the context of the 2006-07 Budget.
- d) No specific programs will be cut at this stage. Defence intends to source the efficiency savings from a general reduction in administrative overheads, rather than cutting programs.
- e) No core functions will be affected by these savings measures.
- f) There will be no impact on Defence's graduate recruitment plans.
- g) Meeting the efficiency dividend is not expected to impact on Defence's ability to retain experienced staff. Retention of experienced staff remains a high priority and a number of initiatives are under way or planned to address retention issues.

### QUESTION W3

Senator Evans

#### Contracts

- a) Provide details of all contracts with Link Printing between 1996 and 2005 inclusive including services provided, outcomes of the contract/s, period of contract/s, contract amounts, details of any contract variations and process by which the contract/s were let.

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- b) Provide details of all contracts with Australasian Medical Publishing Company between 1996 and 2005 inclusive including services provided, outcomes of the contract, period of contract, contract amount, details of any contract variations and process by which the contract/s were let.
- c) Provide details of all contracts with Blue Star Print Group between 1996 and 2005 inclusive including services provided, outcomes of the contract/s, period of contract/s, contract amount/s, details of any contract variations and process by which the contract/s were let.

**RESPONSE**

- a–c) The attached spreadsheet contains details of Defence’s business with Link Printing and Australasian Medical Publishing Company for the period 1996-2001. No transactions were completed with Blue Star Print Company during this period. Formal contracts were not used to effect the transactions.

Note: Much of the data contained within the spreadsheet has been sourced from a decommissioned finance system. Some details were not retrievable due to archival action.

Purchaser	Amount (\$)	Vendor	Method	Service / Product
CORPORATE SERVICES AND INFRASTRUCTURE AMBERLEY - LOGISTICS	230.00	Australasian Medical Publishing		Book and/or CD ROM purchases
INFRASTRUCTURE TASMANIA - GARRISON SUPPORT	169.00	Australasian Medical Publishing		Book and/or CD ROM purchases
OFFICE OF THE SURGEON GENERAL ADF	178.00	Australasian Medical Publishing		Book and/or CD ROM purchases
OFFICE OF THE SURGEON GENERAL ADF	22,760.00	Australasian Medical Publishing	Invoice	Printing of the ADF Health Journal - 2 Vols per year
OFFICE OF THE SURGEON GENERAL ADF	22,510.00	Australasian Medical Publishing	Invoice	Printing of the ADF Health Journal - 2 Vols per year
OFFICE OF THE SURGEON GENERAL ADF	178.00	Australasian Medical Publishing		Book and/or CD ROM purchases
HMAS STIRLING MEDICAL SERVICES	1,120.00	Australasian Medical Publishing		Book and/or CD ROM purchases
HEALTH SERVICES ARMY RESERVE - S QLD	169.00	Australasian Medical Publishing		Book and/or CD ROM purchases
	235.00	Australasian Medical Publishing		Book and/or CD ROM purchases
	250.00	Australasian Medical Publishing		Book and/or CD ROM purchases
OFFICE OF THE SURGEON GENERAL ADF	24,761.00	Australasian Medical Publishing	Invoice	Printing of the ADF Health Journal - 2 Vols pa
OFFICE OF THE SURGEON GENERAL ADF	27,753.00	Australasian Medical Publishing	Purchase Order	Printing of the ADF Health Journal - 2 Vols pa
	1,210.00	Australasian Medical Publishing		Book and/or CD ROM purchases
OFFICE OF THE SURGEON GENERAL ADF	29,403.00	Australasian Medical Publishing	Purchase Order	Printing of the ADF Health Journal - 2 Vols pa
OFFICE OF THE SURGEON GENERAL ADF	29,403.00	Australasian Medical Publishing	Purchase Order	Printing of the ADF Health Journal - 2 Vols pa
OFFICE OF THE SURGEON GENERAL ADF	30,668.00	Australasian Medical Publishing	Purchase Order	Printing of the ADF Health Journal - 2 Vols pa
OFFICE OF THE SURGEON GENERAL ADF	30,338.00	Australasian Medical Publishing	Purchase Order	Printing of the ADF Health Journal - 2 Vols pa
	185.00	Australasian Medical Publishing		Book and/or CD ROM purchases
	250.00	Australasian Medical Publishing		Book and/or CD ROM purchases
OFFICE OF THE SURGEON GENERAL ADF	30,767.00	Australasian Medical Publishing	Purchase Order	Printing of the ADF Health Journal - 2 Vols pa
OFFICE OF THE SURGEON GENERAL ADF	30,140.00	Australasian Medical Publishing	Purchase Order	Printing of the ADF Health Journal - 2 Vols pa
OFFICE OF THE SURGEON GENERAL ADF	25,377.00	Australasian Medical Publishing	Invoice	Printing of the ADF Health Journal - 2 Vols pa
HEADQUARTERS AUSTRALIAN THEATRE	568.30	Australasian Medical Publishing		Book and/or CD ROM purchases
NAVY	3,993.00	Link Printing		Book and/or CD ROM purchases
NAVY	4,411.00	Link Printing		Book and/or CD ROM purchases
NAVY	385.00	Link Printing		Book and/or CD ROM purchases
MATERIEL PEOPLE AND PERFORMANCE EXECUTIVE	3,701.50	Link Printing		Record Unable to be Sourced

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**QUESTION W4**

Senator Evans

**Delayed projects**

Can the Department provide a list of each of the capital equipment projects worth \$10m or more that are currently behind schedule (ie the delivery and / or acceptance dates are late than originally planned). For each project specify:

- a) the original delivery date when the project was approved;
- b) the original acceptance into service date;
- c) the current expected delivery date;
- d) the current expected acceptance into service date;
- e) the reason(s) for the delay;
- f) whether the cost of the project has increased over the life of the project and if so, what the increase has been;
- g) the reason(s) for any increase in project cost; and
- h) whether Defence has incurred any other costs because of the delay to the project, and if so, what is the total of these additional costs?

**RESPONSE**

- a) – h) Defence is not able to devote the considerable time and resources required to provide this level of detail across all projects. Detailed information is provided for the top 30 projects, as listed in the *Portfolio Budget Statements 2005-06*, which account for 77 per cent of approved expenditure in 2005-06.

**QUESTION W5**

Senator Evans

**Boeing Williamtown (Newcastle) operations**

- a) What is the nature of the services provided by Boeing Hawker de Havilland at the RAAF Base Williamtown?
- b) What proportion of the RAAF's fighter jet fleet are serviced (upgraded or maintained) by Boeing at this site?
- c) Is the Department aware of industrial action currently being taken by members of the Australian Workers Union employed by Boeing at the RAAF Base Williamtown?
- d) Is Boeing's compliance with its contractual obligations to ensure maintenance schedules for fighter jets at the RAAF Base Williamtown are being satisfied being monitored?
- e) Has Boeing failed to comply with its contractual obligations to ensure maintenance schedules for fighter jets at the RAAF Base Williamtown at any time during 2005?
- f) Are there provisions in Boeing's contract with the RAAF that provide for financial penalties if maintenance schedules are not met?

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- g) Is the Department of Defence concerned that industrial action involving 45 of the 62 Boeing staff at RAAF Base Williamtown could affect Boeing's ability to meet its maintenance schedules for fighter jets at the RAAF Base Williamtown
- h) What would be the consequences of Boeing failing to meet its maintenance schedules for fighter jets at RAAF Base Williamtown? Would this have flow on consequences for
  - i) other operations of the base, ii) other operations of the RAAF, or iii) other operations of the Department of Defence?
- i) Would Boeing failing to meet its maintenance schedules for fighter jets at the RAAF Base Williamtown delay training schedules for pilots or otherwise diminish operational capabilities?
- j) Has the Department Defence or the RAAF investigated any potential impacts of industrial action amongst Boeing employees at RAAF Base Williamtown? If so, please provide the results of these investigations including copies of any reports prepared.

### RESPONSE

- a) Hawker de Havilland does not provide direct services at RAAF Williamtown.
- b) All 71 aircraft in the fleet have passed through Boeing as part of the Hornet Upgrade program. Normally seven aircraft are in work with Boeing at any one time.
- c) Yes.
- d) The Defence Materiel Organisation is closely monitoring Boeing's contractual performance as a matter of course. At this stage, there does not appear to be an immediate risk to Air Force operations or to long-term maintenance performance.
- e) No.
- f) Boeing's contract with the Commonwealth is managed by the Defence Materiel Organisation. There are no financial penalties if production schedules are not achieved.
- g) The Defence Materiel Organisation accepts Boeing's assurances that it will continue to meet its contractual obligations.
- h) Refer to answer at part (g).
- i) Refer to answer at part (g).
- j) The Defence Materiel Organisation has maintained effective communication with Boeing over the status of the current industrial action. Formal investigation is not considered warranted at this stage.

### QUESTION W6

Senator Evans

#### Army Capability

- a) Is it true that Australia operates on a 4 company structure for its Infantry Battalions? Has any consideration been given to moving to a 3 company structure?
- b) It has recently been reported that Army is looking to establish another infantry battalion (potentially) in Adelaide. If this is the case, would it be feasible to move to a 3 company structure so that available troops could be re-directed to the new battalion without having to recruit additional personnel?

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- c) Recently, General Cosgrove was quoted as saying that the ADF's 'dance-card was pretty full'? If that really is the case, how prepared would the Army have been to respond in the event of another crisis in the region?
- d) Is it of concern that 'our dance card is full' when we only have less than 2000 personnel deployed overseas on operations out of a total ADF of over 50,000?
- e) Is it the case that if the Government wants the Army to be able to make large extended deployments outside our immediate neighbourhood then it needs to be increased in size and capability? Is the Army heading in this direction?
- f) How is that demand being reconciled with proposals for significant additional equipment including the Air Warfare Destroyers, two Amphibious Ships and the acquisition of the Joint Strike Fighters?
- g) Is it true that all three proposals cannot be satisfied from our current level of defence spending?
- h) Is any additional funding proposed in the next decade as part of that hardening and networking of the Army? If not, when and how is Army looking to receive funding to enable this to occur?
- i) Isn't that commitment essential the ADF's long term business and defence planning?
- j) Has the Australian Army commenced planning to fit our new tanks with a similar level of protection to the United States TUSK (Tank Urban Survival Kit)? If so, what is the anticipated cost?
- k) When will the new costs for the Australian Abrams tank be reflected by Army in the Defence Capability Plan?
- l) Will the Defence Capability Plan be re-issued, amended or updated to reflect the cost of protecting Australian tank crews? If no upgrade is funded, why not?

### RESPONSE

- a) – l) These questions were addressed during the Foreign Affairs, Defence and Trade estimates hearing on 31 May 2005. See pages 49-51 of the Proof Hansard.

### QUESTION W7

Senator Evans

#### Joint Strike Fighter

- a) What are the maintenance costs for the F-111 this year?
- b) How do they compare with the costs for last year?
- c) What are the forward estimates for maintenance costs?
- d) What steps are being taken to enable the F-111 to continue in service after 2010?
- e) Is it the case that the Pentagon's selected acquisition report estimated that the F-35 joint strike fighter project has blown out from a projected cost of \$92 billion in 2002 to around \$256 billion in 2005?
- f) Has the US Government Accounting Office found some 8 aspects of the program has been behind schedule? What are those aspects (including radar and propulsion systems)?

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- g) Are you aware of reports that the United States Air Force, Navy and Marines may reduce the number of aircraft they will order as a result of the budget pressures from the Iraq operation?
- h) What decisions have been made by Australia to join the next phase of the project?
- i) Can any assurances be given that the next phase will not face a similar cost and time blow out?
- j) What plans does Australia have to buy the aircraft (100 conventional take off and landing versions)?
- k) Is any consideration being given to a short take off and landing version?
- l) When are the first test flights of the aircraft contemplated as going to take place in Australia (August 2006)?
- m) Will the Government insist that crucial systems, information and technology to enable through-life support by Australian industry be provided, and will this be a pre-condition to any purchase?
- n) What are the projections of the cost of each plane at the point of delivery to Australia?
- o) As part of the negotiations has a delivery slot for Australia been identified (reports are that it is 2012)?
- p) Has the RAAF made it known to Lockheed Martin that Australia needs the airplane by 2012?
- q) What will happen if there is a delay in the delivery date of the joint strike fighter?
- r) Can you rule out that there may be a need for an interim fighter aircraft?
- s) The Minister for Defence has expressed interest in pilot-less aircraft to undertake both military missions and assist in civilian task such as maritime patrolling? Has any decision been made in respect to purchasing those aircraft?
- t) Has any study been undertaken as to whether the technology to support those unmanned missions exists in Australia? If so, what was the conclusion of that study or studies? If not what steps will be taken to upgrade that technology?
- u) In reference to comments made by Air Marshal Houston that “the F/A-22 might do important parts of the job better” than the F-35 (as reported in *The Canberra Times* on 19/8/2004 in an article entitled “Air Force looks to replace old fleet”), what strategic and military advantages does the F/A-22 possess over the F-35?
- v) What is the estimated total cost of the F/A-22 per fighter?
- w) Does this cost include training or other user-orientated services?
- x) Has Defence commissioned, requested or undertaken any investigation into the superiority of the F/A-22 over the F-35 in aerial dogfights or other within-sight combat?
- y) Has Defence examined any other aircraft, such as the F-15, currently being purchased by the South Korean Air Force, as a possible alternative to the JSF?
- z) Has Defence commissioned, requested or undertaken any investigation into the style of air-combat that will most likely be incurred within Australia’s region – that is to say, whether such encounters are more likely to be long-ranged or close-ranged? If so, what was the result of any such investigation?
- aa) In reference to the recent decision to purchase \$450 million of missiles for the F-111, is it true that only one of the three missile-types being purchased has actually been successfully tested on an F-111? If so, what are the capabilities of that missile?

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- bb) When will Defence be in a position to know whether the other two missile types are compatible with the F-111?
- cc) Has Defence commissioned, requested or undertaken any investigation into the possibility of Defence leasing fighter jets for use within the RAAF within the next decade?
- i) If so, has any such investigation been made in relation to such leased fighter jets assuming any roles previously filed by F-111 strike aircraft?
  - ii) If so, what aircraft has Defence considered leasing?
  - iii) If so, what is the estimated cost of such a lease?
  - iv) Are there any circumstances in which the RAAF could not deploy any such aircraft?
  - v) If so, what are those circumstances?

**RESPONSE**

- a) \$103m in 2004-05.
- b) \$98.5m in 2003-04.
- c) The forward estimates for maintenance costs of the F-111 based on a planned withdrawal date of 2010 are:
- 2005-06: \$122.9m
  - 2006-07: \$126.2m
  - 2007-08: \$116.8m
- d) Funding was brought forward to address known obsolescence issues and to provide for options to operate the capability beyond 2010, if considered necessary.
- e) The 31 December 2004 US Selected Acquisition Report stated that, in relation to the Joint Strike Fighter, "Program costs increased \$11,783.3 million (4.8 %) from \$US244,834.3 million to \$US256,617.6 million". The increases are made up primarily of adjustments to the inflation rates used to calculate the 'then year' prices used in US Government budgeting and adjustments to the timing of US aircraft procurements, neither of which have a direct effect on Australian cost estimates.
- f) The US Government Accounting Office of 15 March 2005 report identified that only one of the eight technologies critical to the program would have been demonstrated in an operational environment by the 2007 low rate initial production decision. These were areas where the Government Accounting Office believed there were risks associated with technology maturity. In response, the US Air Force said that it believes that the recent JSF replan effort captures the concerns raised by the Government Accounting Office, and reflects an acquisition strategy with the most appropriate balance of technical, cost, and schedule risks to meet program objectives.
- The eight aspects were: integrated flight propulsion control; prognostics and health management; integrated support system; subsystems; integrated core processor; radar; mission systems integration; and manufacturing.
- g) Yes. There have been reports that the US Air Force is considering reducing the number of JSF aircraft it will buy. This potential reduction has been related to the capability of the F-35 exceeding the capability of legacy aircraft and therefore a 'one-for-one' replacement may not be required. The US Navy and US Marine Corps rationalised their fighter aircraft numbers some time ago and the resulting reduced numbers have already been

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factored into planned aircraft costs. There have been no reports of any further proposed reductions.

- h) No decisions have been made. On 16 May 2005, the Minister for Defence announced that the Australian Government had given Defence approval to enter negotiations to join the next phase of the JSF program which covers production, sustainment and follow-on development.
- i) See response part e). A key prerequisite for signing the Production, Sustainment and Follow-on Development Memorandum of Understanding will be a high level of confidence of acquisition, sustainment and upgrade costs of the JSF throughout its life.
- j) At this stage, Australia has only committed to become a partner in the systems development and demonstration phase of the JSF project.
- k) Defence expects that the conventional take-off and landing variant of the JSF will be the most cost effective in meeting Australia's future air combat capability requirements. Defence will maintain awareness of the short take-off and vertical landing variant capability.
- l) The first flight of a JSF aircraft is currently planned for August 2006 in the United States.
- m) The Australian Government has identified that necessary in-country support capabilities, data use and disclosure rights to operate, sustain and develop the JSF as an integral part of the ADF are essential prerequisites for Australia's decision to acquire the JSF. These objectives are being sought through negotiation of the Production, Sustainment and Follow-On Development Memorandum of Understanding.
- n) The average unit recurring flyaway cost of the conventional take-off and landing JSF is currently estimated at approximately US\$45m (US 2002 financial year dollars).
- o) Australia has identified 2012 as the preferred date for initial deliveries. This date has been factored into JSF production plans.
- p) See the response to part o).
- q) The principal contingency option in the event of delay in the JSF acquisition is to extend the life of the F/A-18 Hornet. The Hornet Upgrade Program Phase 3.2 (Structural Refurbishment) has been included in the Defence Capability Plan for this purpose.
- r) Yes.
- s) No decision has been made at this time on purchasing such unmanned aerial vehicles.
- t) Defence supported the deployment of the Global Hawk unmanned aerial vehicle to Australia in 2001. During this deployment, the Global Hawk flew missions in support of Exercise Tandem Thrust (now known as Exercise Talisman Sabre) and these missions provided valuable insight into the technology needed to support these unmanned aircraft. This experience, along with ongoing work by the Defence Science and Technology Organisation and liaison with the US Air Force and US Navy provides the knowledge to make assessments of how unmanned aerial vehicle missions could be conducted in the Australian environment. The unmanned aerial vehicle capability trial over the North West Shelf will add to this knowledge. Ultimately, the choice of a particular type of unmanned aerial vehicle will determine the technology that will be needed and Defence will have the necessary knowledge to make such assessments.
- u) As Air Marshal Houston has pointed out, the F/A-22 will be the world's most capable air-to-air combat aircraft. For Australia, however, the F-35 has been assessed to be the

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most cost effective solution for the full range of air-to-air and air-to-ground combat tasks that Australia requires.

- v) The US Government Accounting Office reported the average unit recurring flyaway cost of an F/A-22 to be approximately US\$145m per aircraft.
- w) No.
- x) Defence has not conducted specific studies comparing the F/A-22 and the F-35 in the within-visual-range combat arena. Defence has, however, conducted and continues to conduct a range of detailed studies and simulator exercises assessing F-35 air-to-air combat capability against expected future threats. The results of these activities to date gives a high level of confidence that the JSF will provide Australia with the qualitative edge it needs for future air combat.
- y) During the early studies for project AIR 6000, ten different aircraft, including F-15E/K/I, were analysed. The stealthy fifth generation F-35 provided clear advantages over the non-stealthy fourth generation F-15E/K/I. The F-35 also offers considerable advantages in terms of affordability for both acquisition and through-life support.
- z) Defence has conducted and commissioned and continues to investigate likely future engagement scenarios. Defence is also involved in an ongoing series of high-fidelity simulation exercises to assess the F-35 against future likely scenarios.
- aa) Defence is not purchasing additional weapons for the F-111. The Project AIR 5418 Follow-On Stand-Off Weapon announcement was for purchase of weapons for AP-3C and F/A-18 aircraft.
- bb) See the response to part aa).
- cc) Defence has not initiated any studies into leasing fighter aircraft.

### QUESTION W8

Senator Evans

#### Chief Information Officer Group

- a) One of the goals of 2005-06 is to introduce a “portfolio-wide information technology workforce skilling and development program” (p. 208 of the Portfolio Budget Statements 2005-06). At what stage is the development of that program?
- b) Have specific shortfalls been identified? If so, what were the shortfalls? How were they identified? What methodologies were used?
- c) Have any strategies been identified as suitable for increasing the skilling of the workforce? Have any costs been identified? If so, what are they? From where will this additional funding be provided?
- d) Reference was also made to “improving measurement and delivery of customer service levels in terms of application availability, responsiveness and reliability”. What are the current levels of customer satisfaction? What are the levels identified for the future? How will this improvement take place?
- e) Reference was also made to “rationalise the number of applications in use in the Defence Information Environment” (p.209 of the Portfolio Budget Statements 2005-06). How many applications are currently in use across Defence across all networks?
- f) How many of them are critical to the delivery of Defence capability?

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- g) To what level does Defence plan to rationalise them down to?
- h) When this happens, will there be any impact upon the day-to-day operations of Defence and the ADF? If so, how will this impact be managed and minimised?

### RESPONSE

- a) The scope of the program is being established and initial planning is under way.
- b) No.
- c) No strategies have been identified at this early stage of the project.
- d) Defence monitors many technical indicators of network performance and is working to improve indicators of application availability, reliability and responsiveness. Customer service-level targets will be developed when those are in place.
- e) Approximately 2,500.
- f) The applications on Defence networks are installed to cater for Defence business and operational requirements; they all contribute to Defence capability. Defence has commenced an initiative to rationalise the applications on Defence networks to ensure there is no duplication of functionality and to lower the total cost of ownership.
- g) The number of applications will be reduced to the minimum practical level in accordance with current best commercial practice.
- h) The initiative is expected to result in an improved, more cost effective, Defence information environment that is better able to support the day-to-day operations of Defence and the ADF. Required functionality will continue to be supported.

### QUESTION W9

Senator Ludwig

#### Legal Service Expenditure

- a) What amount did the Department/agency spend during the financial year 2004-05 on outsourced legal practitioners (including private firms, individuals, the Australian Government Solicitor, and any others)?
- b) What was the budgeted amount for outsourced legal practitioners in 2004-05?
- c) What amount did the Department/agency spend on internal legal services? (Provide an estimate if exact amount is unavailable.)
- d) Does the Department/agency have an in-house legal section? If so, what was the 2004-05 actual cost of this section? What was the budgeted amount for this section in 2004-05? What is the budget amount for this section in 2005-06?
- e) What is the total projected expenditure on legal services for 2005-06 for the Department/Agency?
- f) Which organisations or individuals were contracted to provide legal services to the Department/agency in 2004-05?
- g) In each instance, how much was each organisation or individual paid for these services?
- h) Does the Department/agency use an open tendering or select tendering process (as described in the Commonwealth Procurement Guidelines, p 42) when procuring legal services?
- i) If a select tendering process is used: (i) which method of select tendering is used and (ii) which firms or individuals are currently eligible to tender for legal services?

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- j) If a multi-use list is used: (i) which firms or individuals are currently on that list and (ii) when was the list last opened for applications?
- k) In 2004-05, did the Department/agency obtain any legal services using a direct sourcing procurement process? If so, provide details including the name of the provider, the work involved and the cost?
- l) In 2004-05, did the Department/agency procure any legal services under the thresholds required for 'covered procurements' (within the meaning of 8.6 of the Commonwealth Procurement Guidelines)? If so, provide details including the name of the provider, the work involved and the cost.
- m) In 2004-05, did the Department/agency contract any legal firms to provide services other than legal services (such as consulting, conduct of policy reviews etc)? If so, provide details including the name of the firm, the project involved and the cost of the contract.

### RESPONSE

- a) Defence estimates that it will spend \$29.4m on external legal services in 2004-05.
- b) Defence has a portfolio allocation for legal and compensation expenses from which the funds for external legal services are drawn. This allocation covers settlements, witness expenses and other costs associated with the administration of the *Defence Force Discipline Act 1982*, in addition to payments for external legal practitioners. For 2004-05, the allocation for legal and compensation expenses is \$42.5m. (This does not include external legal costs that are incurred by individual Defence Materiel Organisation projects and form part of overall project cost. This latter element of legal costs is estimated to be about \$12.5m for 2004-05.)
- c) Defence estimates that it will spend \$23m on internal legal services for 2004-05.
- d) Defence has an in-house legal capability – Defence Legal Division – in the Corporate Services and Infrastructure Group. From 1 July 2005, there will be a separate in-house legal capability in the General Counsel Division within the Defence Materiel Organisation.

The expenditure on Defence internal legal services in 2004-05 is estimated at \$23m. The bulk of this estimate comprises military and civilian salaries and is broadly in line with expenditure plans. Similar levels of expenditure are proposed for 2005-06 for Defence Legal Division with the addition of about \$2m salary allocation for the Defence Materiel Organisation legal capability.

- e) Expenditure on legal services and costs in 2005-06 is estimated to be at \$63m (excluding Defence Materiel Organisation expenditure). This covers internal and external legal services, settlements, witness expenses and other costs associated with the administration of the *Defence Force Discipline Act 1982*. The Defence Materiel Organisation estimates that it will spend \$15m on external legal services in 2005-06.
- f) & g) As at the end of May 2005, organisations or individuals that were paid for legal services by Defence in 2004-05 were:

Australian Government Solicitor	\$13.8m
Blake Dawson Waldron	\$4.6m
Clayton Utz	\$4.8m
Phillips Fox	\$3.7m
Bevan Bowe	\$0.017m
Broadleaf Capital International	\$0.053m

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Christopher Stevenson Barrister	\$0.006m
Corrs Chambers Westgarth	\$0.053m
Dearden Lawyers	\$0.015m
Deloitte Touche Tohmatsu	\$0.340m
Roberts Nehmer McKee	\$0.017m
Sage Legal Services	\$0.056m
Sheekey Williams Solicitors	\$0.016m
Slater & Gordon	\$0.016m
Guides & Elliott Solicitors	\$0.016m
Mallesons Stephen Jaques	\$0.028m
Trisley Kilmurray Lawyers	\$0.020m
Thompson Playford	\$0.011m
Kelly & Co	\$0.012m
Cridlands	\$0.016m
R Kenzie QC	\$0.121m

The total of that list is less than the \$29.4m estimated total for external legal expenditure because it does not include costs such as transcription services, some *Defence Force Discipline Act 1982*-related costs and payments made to non-legal experts for services related to ongoing legal matters (such as pathology tests, engineers reports etc.).

- h) Yes. Since 29 May 1999, a single legal services panel has been in place for the provision of external legal services. Members of the current panel were chosen by Defence in accordance with the Commonwealth Procurement Guidelines using a staged open tendering process (invitation to tender), followed by a select tender process (request for tender) whereby those firms short-listed from the open tender were invited to participate in a select tender.

The current legal services panel consists of four primary panelists (the most preferred tenderers) and three reserve panelists (the next preferred tenderers). The primary panelists are: Australian Government Solicitor, Blake Dawson Waldron, Clayton Utz, and Phillips Fox. The reserve panelists are: Freehills, Mallesons Stephen Jaques, and Minter Ellison.

- i) (i) The select tender is as per Commonwealth procurement guidelines.  
(ii) Defence has invited 25 legal firms to respond to its select request for tender which closed on 24 June 2005.
- j) (i) Defence does not use a multi-user list for provision of legal services but does use a single legal services panel as outlined in the response to part h).  
(ii) See the response to part j) (i).
- k) Yes. The Australian Government Solicitor and the Attorney-General's Department are engaged directly for tied categories of work. This includes:
- constitutional law issues;
  - national security issues;
  - legal advice which Cabinet is to consider or is being relied on in the preparation of Cabinet submissions or memorandums;
  - legal advice on legislation the Government is considering adopting, or draft legislation that is to be introduced to Parliament;
  - international litigation and arbitration;
  - Australia's or another country's obligations under international law;
  - treaty negotiation and implementation; and

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- issues of significance in domestic litigation involving public international law issues.

To date in 2004-05, Defence has paid \$13.8m to the Australian Government Solicitor and the Attorney-General's Department for legal services. This included payment for both 'tied' work and legal services provided under the panel arrangement. It is not possible to distinguish how much of the total spend can be attributed to 'tied' work.

Direct sourcing is also permitted on occasions where it is considered that a law firm that is not a panellist is more qualified and positioned to provide better value for money on a particular matter. There may have been instances when this has occurred but, due to the frequent and varying nature of the tasks undertaken, Defence is unable to provide details of each instance.

- l) During 2004-05, Defence would have used on numerous occasions external legal service providers for work of a value less than the 'covered procurement' threshold of \$80,000. Due to the frequent and varying nature of the tasks undertaken, Defence is unable to provide details of each instance in which this has occurred.
- m) Yes. Defence does contract legal firms to provide services other than legal services; for example, the provision of legal awareness training and contract awareness training. Due to the frequent and varying nature of the tasks undertaken, Defence is unable to provide details of each instance in which this has occurred.

### QUESTION W10

Senator Crossin

#### **Darwin Temporary Processing Centre on Defence land at Berrimah Northern Territory**

- a) Please outline the relationship Defence has with DIMIA and / or the Australian Fisheries Management Authority in the operation of the Darwin Temporary Processing Centre at Berrimah.
- b) What is the time line and the process for the sale of the Defence Establishment Berrimah?
- c) What moves have been made to excise the Darwin Detention Centre to allow the sale of Defence land it is on at Defence Establishment Berrimah?
- d) Who will own or manage the Darwin Detention Centre land once it is excised or the Defence Establishment Berrimah is sold?

### RESPONSE

- a) Defence and the Department of Immigration and Multicultural and Indigenous Affairs (DIMIA) have agreed that the facility at Defence Establishment Berrimah is to be operated and managed by DIMIA.
- b) & c) The Defence Establishment Berrimah property is being subdivided to form two properties: the DIMIA facility site and the Defence site. The DIMIA facility site will be transferred to DIMIA during 2005-06. Defence Establishment Berrimah will continue to be an operating Defence base for the time being.
- d) DIMIA.

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**QUESTION W11**

Senator Nettle

**Depleted Uranium**

- a) What operational guidelines will be issued to Australian forces regarding depleted uranium sites identified by the Australian hazardous materials survey, and will Australian forces be expected to enter and operate in and around such sites?
- b) Does the government support or plan to participate in operations to clean up sites of high levels of depleted uranium contamination in Al-Muthanna province, and if so what personnel and cost will be involved?
- c) Can the government confirm that on 26 March 2003 US General Brooks at CENTCOM Headquarters stated that US forces had used munitions containing depleted uranium in Al-Muthanna province?
- d) Can the government confirm that depleted uranium contamination occurred in Al-Muthanna province, and in and around Al-Samawah in particular, as a consequence of military operations by United States' forces March/April 2003?
- e) Can the Department confirm that members of US Military Police Unit 442 stationed in Al-Samawah in March/April 2003 were exposed to levels of depleted uranium contamination sufficient that four of nine personnel tested on their return to the United States were found to be contaminated with radiation likely caused by dust from depleted uranium shells such that scientific tests clearly identified the four as positive for depleted uranium excretion in urine?
- f) Can the Department confirm whether The Royal Society of England has published data showing that battlefield soldiers who inhale or swallow high levels of depleted uranium can suffer kidney failure within days?
- g) Will the ADF follow the example of the Japanese government and issue to each soldier sent to Al-Muthanna province dosimeters, instruments that measure radiation levels, as a precaution against contamination by depleted uranium residue in the area?
- h) Given the ADF's decision to no longer use depleted uranium, does the government support the use by United States of munitions or equipment containing depleted uranium?
- i) Can you confirm that no depleted uranium is used by any US military forces during exercises in Australia? If not, where and when has it been used in Australia?
- j) Will depleted uranium weapons be used in the Talisman Sabre Exercise 2005?
- k) Can you confirm that US military naval, aircraft or land forces do not carry depleted uranium munitions while in Australia?
- l) Can the government confirm that the United Kingdom has decided to end the use of munitions and equipment containing depleted uranium and is replacing depleted uranium munitions with tungsten-cored shells?

**RESPONSE**

- a) No specific areas to avoid have been identified. All Al-Muthanna Task Group members are directed to stay clear of Gulf War battle-damaged vehicles unless operationally necessary and, if so required, are to minimise stirring up dust. This advice is considered ample, within the Al-Muthanna Task Group, to control exposure.

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- b) No. As previously stated, including in Parliamentary Question on Notice 825 and Senate Question on Notice 1622 (Senator Allison), this is a matter for the Iraqi government in conjunction with coalition partners.
- c) No. See d) below.
- d) The ADF's Hazard Assessment Team has received notification of a comparatively small number of depleted uranium rounds fired by US Army tanks and fighting vehicles in the region of As Samawah (provincial capital of Al Muthanna province) in 2003. No physical evidence of these rounds has been discovered.
- e) There is no evidence that any members of the 442nd Military Police Company were contaminated with radiation or were exposed to elevated levels of uranium in Iraq.
- f) In 2002, the Royal Society made a theoretical estimate of the levels of uranium exposure that might be seen in battle. In the worst-case scenario, the estimated dose could cause renal failure, but the more likely scenario would be unlikely to cause significant renal damage. In comparison, data collected from soldiers who were actually exposed to uranium inhalation inside tanks in Gulf War I shows that the highest level was much less than the Royal Society's estimates.
- g) After consideration of the data available, including dosimetry data from the Hazard Assessment Team, the ADF believes that dosimeters will be of little use.
- h) This is a matter for the United States Government.
- i) Yes.
- j) No.
- k) See answer to part (i).
- l) This is a matter for the Government of the United Kingdom.

### QUESTION W12

Senator Evans

#### ADF personnel numbers

- a) What are the most recent figures on how many permanent members of the Australian Defence Force (ADF) there are? Please provide this information for each of the services, and break down the information by gender.
- b) What were the targets for the total number for each of the services over the past five financial years?
- c) What are the targets for the total number for each of the services over the next five financial years?
- d) With reference to part (f) of Question on Notice W29 from Budget Additional Estimates 2003-04 of 18 February 2004, please provide an update to the tables for each of the services.
- e) With reference to part (g) of Question on Notice W29 from Budget Additional Estimates 2003-04 of 18 February 2004, please provide an update to the tables for each of the services, showing the same information as at 30 June 2003, 31 December 2003, 30 June 2004, 31 December 2004 and (estimated) 30 June 2005.

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**RESPONSE**

- a) – e) Information concerning ADF personnel numbers is contained in the Defence annual report.

**QUESTION W13**

Senator Evans

**Training Policies**

- a) Has Defence undertaken any work with respect to introducing any form of scheme that would encourage people to join the Australian Defence Force in return for the payment of their HECS or other education fees? If so, please provide an update as to the status of this work. If so, has it been costed and what are these anticipated costs over the next 5 years?
- b) Has Defence been involved in any discussion with the Department of Education, Science and Training or any other agencies concerning the skills crisis facing Australia and any steps that Defence could take to alleviate the situation? If so, what was the nature of those discussions and have any policy proposals been submitted to Government?

**RESPONSE**

- a) Defence is investigating the option of paying HECS as a recruiting incentive. Any decision to adopt such a proposal would be for the Government. Defence continues to promote its current undergraduate and graduate schemes and the Army Reserve Traineeship scheme.
- b) No.

**QUESTION W14**

Senator Ludwig

**Languages**

Regarding the employees that your department or agency has identified as having:

- i) fluency
- ii) accredited translator
- iii) accredited interpreter

Of these employees, please indicate what the department is doing in order to make full use of its employees skills in this regard, and please provide a breakdown of this between employees whose accreditation was paid for by the department and those whose were not?

**RESPONSE**

As advised in response to Senator Ludwig's question W40 lodged in February 2005, Defence does not centrally report and record this information and is not able to devote the considerable time and resources that would be required to provide answers to these questions. However, Defence has recently commenced a study of linguist requirements.

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**QUESTION W15**

Senator Carr

**Australian Workplace Agreements**

- a) How many staff are covered by Australian Workplace Agreements (AWAs) in your Agency/Department?
- b) Can you provide a break down of AWAs by gender and by classification?
- c) Can you tell me how many of the staff on AWAs are paid more than the band for their classification under the certified agreement?
- d) Why were these staff not simply promoted to a higher classification?

**RESPONSE**

- a) All Senior Executive Service (SES) employees are employed under Australian Workplace Agreements (AWAs). Defence currently has 134 employees with their conditions of employment set by an AWA. Of those, 19 are for non-SES employees.
- b) The following is a break down of AWA numbers in Defence by classification and gender:

**SES AWAs**

<b>Classification</b>	<b>Males</b>	<b>Females</b>	<b>Total</b>
SES Band 1	49	21	70
SES Band 2	20	4	24
SES Band 3	4	0	4
COD <sup>(1)</sup> 2	12	0	12
COD <sup>(1)</sup> 3	4	0	4
MO <sup>(2)</sup> 6	1	0	1
<b>Total</b>	<b>90</b>	<b>25</b>	<b>115</b>

**Notes**

- 1. COD – Chief of Division (DSTO)
- 2. MO – Medical Officer

**Non-SES AWAs**

<b>Classification</b>	<b>Males</b>	<b>Females</b>	<b>Total</b>
APS 1-6	0	0	0
Executive Level 1	1	0	1
Executive Level 2	15	3	18
<b>Total</b>	<b>16</b>	<b>3</b>	<b>19</b>

- c) Of the SES AWAs, seven provide for a salary above the salary range. Of the 19 non-SES AWAs, 13 provide for a salary above the salary range specified in the *Defence Employees Certified Agreement 2004-2006*.
- d) Classification levels are based on the level of work performed, not remuneration. The employees on AWAs within Defence are performing the duties of their classification level so there is no scope to advance them to a higher classification level through promotion. AWAs are used to provide competitive employment conditions to employees with desired skill sets which the Department is experiencing difficulties in retaining or attracting.

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**QUESTION W16**

Senator Carr

**Performance Pay**

Is performance pay available under your department/agencies certified agreement? If not how many staff in your Department/Agency are eligible for performance based pay? Please provide a breakdown of performance pay awarded for this financial year to date including the following details:

- a) How many staff have received performance pay?
- b) What levels are those staff at?
- c) What gender, a breakdown please?
- d) How much has each staff member received?
- e) When did they receive it?
- f) What was the rationale for the awarding of performance pay in each instance?
- g) Did the Department/Agency head receive performance pay? How much? When? On what grounds?

**RESPONSE**

Performance-related pay is available under the current Defence Employees' Certified Agreement. It takes the form of salary advancement within an employee's pay band of (usually) 3.8 per cent or, for an employee at the top of their pay band, a lump sum payment of the greater of \$500 or one per cent of the employee's rate of pay (adjusted for part-time hours, if applicable).

- a) 16,473 employees received salary advancement or a lump sum payment in November 2004. Since this time, a further 400 employees have received salary advancement or a lump sum payment. These are employees who, for reasons of under-performance or insufficient observable performance, did not receive either form of payment in November 2004 but who have since attained and sustained acceptable performance or rendered sufficient observable (and acceptable) performance.
- b) The table on the following page shows the levels of employees who received salary advancement or a lump sum payment in November 2004.

**Classification of Employees who Received Salary Advancement/Lump Sum Payment:**

<b>Classification</b>	<b>Salary advancement</b>	<b>Lump sum payment</b>
Trainees	11	0
APS 1	173	404
APS 2	735	1,258
APS 3	774	1,175
APS 3-4	180	153
APS 4	797	604
APS 4-5	544	202
APS 5	575	1,701
APS 5-6	8	7

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APS 6	1,745	1,853
Exec 1	569	1,744
Exec 2	503	758
<b>Total</b>	<b>6,614</b>	<b>9,859</b>

- c) Information about performance-related pay outcomes by gender has not to date been collected.
- d) Performance-related pay in the form of salary advancement ranged from \$1 per annum to (approximately) \$9,760 per annum. Lump sum payments ranged from (approximately) \$100 to \$1,380.
- e) Salary advancement and lump sum payments were received by 16,473 employees on payday 18 November 2004. A further 400 employees have received salary advancement or a lump sum payment since that date (part a of this question refers).
- f) In all instances, the rationale for awarding salary advancement or a lump sum payment was acceptable performance, based on an assessment against the deliverables detailed in each employee's individual performance agreement.
- g) The Department of the Prime Minister and Cabinet has responded on Defence's behalf.