

DEFENCE

CHAPTER SIX

**MANAGEMENT REFORMS AND
EFFICIENCIES**

**PROGRESS ON FINANCIAL MANAGEMENT
REFORM**

DELIVERING INTERNAL SERVICES

PORTFOLIO EVALUATIONS

PROGRESS ON FINANCIAL MANAGEMENT REFORM¹

Initiatives are as reported in the *Portfolio Budget Statements 2004-05* except for the following.

Defence continues to progress a range of improvements to its financial management and business systems and processes, as well as the materiel management arrangements within Defence, although more work is still required. The scale of the work is illustrated by the 2003-04 Financial Statement Audit undertaken by the Australian National Audit Office. Defence currently has 97 Australian National Audit Office audit qualifications.

Important initiatives under way include:

- the implementation of more rigorous end of month accounting procedures and a strong focus on improving all key aspects of the production of the 2004-05 financial statements;
- addressing the current Australian National Audit Office audit findings through the progression of 14 remediation strategies. Three strategies address structural issues common across Defence and the remaining 11 address specific audit findings. Project offices have been established in the Chief Finance Officer Group and the Defence Materiel Organisation to drive the remediation process and Ernst and Young has been contracted to assist. The remediation strategies are being rigorously monitored by a reconstituted Financial Statements Project Board, augmented by a representative from the Department of Finance and Administration and an external accounting specialist, which meets monthly and reports quarterly to the Ministers for Defence and Finance and Administration;
- the introduction of a comprehensive financial controls framework to ensure that resources are managed effectively and efficiently in accordance with the *Financial Management and Accountability Act 1997*. This will, among other things, support improvements in the preparation of Defence's financial statements;
- the management of financial and accounting issues associated with the establishment of the Defence Materiel Organisation as a prescribed agency; and
- the implementation of a range of targeted initiatives to improve business skills across Defence.

¹ This section was previously called 'Progress on Budget and Business Process Reform'.

DELIVERING INTERNAL SERVICES

The Corporate Services and Infrastructure Group supports the working and living environments of Defence personnel. With representatives at every Defence site around the country, the Corporate Service and Infrastructure Group provides essential services and support to more than 90,000 personnel.

Initiatives for 2004-05

The Corporate Service and Infrastructure Group initiatives are as reported in the *Portfolio Budget Statements 2004-05*.

Defence Legal

On 26 July 2004, a new division called Defence Legal was established within the Corporate Service and Infrastructure Group. This was in recognition of the growing importance of Defence's legal services and their contribution to, and support of, Defence strategic priorities. Lawyers in the division provide legal advice on a range of matters including:

- operations law;
- development of legislative proposals;
- participation in the development of a range of Defence policies;
- aspects of Defence-sponsored international agreements and arrangements;
- military justice;
- freedom of information and historical records access matters;
- litigation;
- administrative law; and
- the compensation for defective administration scheme, Act of Grace payments, waivers and alternative dispute resolution (since January 2005).

Information Systems

On 3 December 2004, approximately 1,300 Australian Public Service, military and external service providers within the Information Systems Division transferred to the newly restructured Chief Information Officer Group. The regional elements of the division, which deal with information and communication technology support services, remained within the National Operations Division of the Corporate Service and Infrastructure Group.

Industry Engagement

A large proportion of the products and services for which the Corporate Service and Infrastructure Group is responsible are delivered by industry.

Approximately \$2 billion of products and services are estimated to be delivered under contract in 2004-05. These contracts include the delivery of products and services in the areas shown in Table 6.1.

Table 6.1: Estimated Expenditure on Products and Services Contracts

Service	Budget Estimate \$m	Revised Estimate \$m	Variation \$m
Infrastructure investment including training range upgrades	425	407 ⁽¹⁾	-18
Information technology and telecommunication services and products	286	345 ⁽²⁾	59
Garrison support	346	362 ⁽³⁾	16
Housing and relocations services	305	371 ⁽⁴⁾	66
Facilities operations	247	338 ⁽⁵⁾	91
Travel services	152	152	0
Property services	104	109	5
Utilities	95	100	5
Total	1,960	2,184	224

Notes

1. The revised estimate is due to minor slippage in the major capital facilities program.
2. The revised estimate for information technology and telecommunication services includes \$45m provision for information technology capital costs not previously included.
3. Garrison support costs have increased due to modest price increases.
4. The revised estimate for housing and relocations services now includes provision for relocations and removals, Defence Home Loan subsidies to the banking industry, and recognises financing and interest costs to the Defence Housing Authority.
5. Defence allocated an additional \$100m for facility operations in 2004-05.

PORTFOLIO EVALUATIONS

Portfolio evaluations endorsed by the Defence Audit Committee and the Defence Committee for 2004-05 were:

- the Preparation of Officers for Joint Appointments, expected to be finalised in March 2005;
- Defence Civilian Performance Schemes, expected to be finalised in February 2005; and
- implementation of the Customer-Supplier Model, expected to be finalised in March 2005.

Results from portfolio evaluations conducted in 2004-05 will be reported in the *Defence Annual Report 2004-05*.

Portfolio evaluations agreed in principle by the Defence Audit Committee and Defence Committee for calendar year 2005, in order of priority, are:

- Defence Civilian Training;
- the Injury Prevention Program; and
- the Technical Regulatory System.

The foreshadowed topic, *The Effectiveness of Personnel Policy Development and Delivery*, was removed from the 2005 schedule to accommodate Defence Civilian Training.