

DEFENCE

CHAPTER SIX

**MANAGEMENT REFORMS AND
EFFICIENCIES**

**PROGRESS OF FINANCIAL STATEMENTS
REMEDATION PLANS**

DELIVERING INTERNAL SERVICES

PORTFOLIO EVALUATIONS

PROGRESS OF FINANCIAL STATEMENTS REMEDATION PLANS

Defence continues to progress a range of improvements to its financial management and business systems and processes, although more work is still required. As at 31 January 2006, Defence is working through 95 Australian National Audit Office 2003-04 audit findings, and 47 Australian National Audit Office 2004-05 audit findings, some of which are subject of consultation between Defence and the Australian National Audit Office.

Important initiatives that have been established include:

- implementation of 16 remediation strategies;¹
- establishment of project offices in the Chief Finance Officer Group and the Defence Materiel Organisation to drive audit remediation strategies and to provide independent advice to the Secretary and the Financial Statements Project Board on achievement of remediation outcomes;
- rigorous monitoring of remediation strategies by the Financial Statements Project Board, augmented by a representative from the Department of Finance and Administration and a private sector accounting specialist; and
- development of a financial controls framework that will standardise financial transactional and management processes across the portfolio to improve the integrity of Defence financial data, budgeting and financial statements.

Defence has resolved 32 of the 95 2003-04 audit findings and paperwork has been provided to the ANAO with the aim of closing out a further 29 findings. Enduring improvements will take some years.

The status of Defence's 16 remediation strategies are outlined in Table 6.1.

1. Two strategies have been added since the publishing of the *Portfolio Budget Statements 2005-06* (S12 - Provisions for Contaminated or Potentially Contaminated Land, Buildings and Infrastructure and S13 - Commitments and Accounting for Leases).

Table 6.1 Financial Statements Remediation Strategies

Remediation plan	Activity	Major outcomes
<p>G1: Financial Reporting Framework</p> <p>The Defence financial management system has been subject to many Australian National Audit Office findings over a period of years. The aim of the remediation activity is to provide a robust control regime for the financial management of Defence business. A financial controls framework has been developed which will draw together, in a structured and integrated fashion, all of the control elements necessary to build a best practice financial management environment for Defence. It will encompass the standardisation of financial processes, reporting and data requirements, a financial staff certification strategy and a change management program.</p> <p>Accountable officer: Chief Finance Officer</p>	<p>Develop and embed a comprehensive Defence Financial Controls Framework that includes:</p> <ol style="list-style-type: none"> establishing the elements of the financial controls framework; assigning responsibility to Group Heads to implement the financial controls framework; implementing standardised processes and practices; and establishing business skilling and competency assessment. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> gain Secretary's endorsement of the project plan and start implementation; gained agreement to the work breakdown structure; developed a fully costed project plan; remediated audit finding relating to appropriations management and reporting; and remediated audit finding relating to reporting of outcomes and outputs. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> develop a workforce strategy for finance staff; develop a skilling strategy for finance staff; develop a financial risk management system across Defence; Identify financial controls shortfalls in existing policies, processes and procedures; and remediate remaining financial reporting framework audit findings relating to special accounts, asset held in trust, goods received/invoice received accrual and military superannuation.

Remediation plan	Activity	Major outcomes
<p data-bbox="268 212 725 263">G2: Improving the Australian National Audit Office Annual Audit Process</p> <p data-bbox="268 272 725 397">Having clear agreement with the Australian National Audit Office on timelines, methodologies and expectations of deliverables from both parties is crucial to the finalisation of the annual financial statements.</p> <p data-bbox="268 407 725 454">Accountable officer: First Assistant Secretary Financial Services</p>	<p data-bbox="725 272 1182 370">Establish an accountable officer to manage audit activities between Defence and the Australian National Audit Office. Key tasks include:</p> <ul data-bbox="725 380 1182 565" style="list-style-type: none"> <li data-bbox="725 380 1182 404">• negotiating an engagement plan; <li data-bbox="725 413 1182 485">• agreeing to a consistent approach for terminology, quality and format of responses; and <li data-bbox="725 494 1182 565">• establishing comprehensive procedures for quality assurance and clearing audit findings. 	<p data-bbox="1182 272 1658 292">Achieved in 2004-05:</p> <ol data-bbox="1182 302 1658 518" style="list-style-type: none"> <li data-bbox="1182 302 1658 370">a. achieved agreement between Defence and the Australian National Audit Office on key issues; <li data-bbox="1182 380 1658 420">b. establishment of Financial Remediation Program Offices; and <li data-bbox="1182 430 1658 518">c. regular meetings with Australian National Audit Office staff to improve the relationship between Defence and the Australian National Audit Office. <p data-bbox="1182 541 1658 561">Planned for 2005-06:</p> <ol data-bbox="1182 571 1658 732" style="list-style-type: none"> <li data-bbox="1182 571 1658 611">a. clear remaining Australian National Audit findings from 2003-04 and earlier; <li data-bbox="1182 620 1658 661">b. commence remediation of 2004-05 audit findings; and <li data-bbox="1182 670 1658 732">c. develop further improvements in the relationship between Defence and the Australian National Audit Office.

Remediation plan	Activity	Major outcomes
<p>G3: Financial Management and Systems Training – Financial and Business Management</p> <p>A consistent theme in the Australian National Audit Office audit findings is the requirement for enhanced skills in the execution of financial management procedures and adherence to approved procedures in the use of Defence corporate information technology systems. The Australian National Audit Office makes some targeted recommendations with regard to enhanced training to address the lack of knowledge in accounting, financial and business management (ROMAN), transactor knowledge (PMKeyS), and the supply system (Standard Defence Supply System). These are complemented by a number of other observations about failures in the application of policy and procedures.</p> <p>Accountable officers: Chief Finance Officer and Director-General Defence Education and Training Development</p>	<p>Develop, conduct and deliver business capability workshops to improve officers' underpinning knowledge and skills:</p> <ol style="list-style-type: none"> accrual accounting; Diploma of Government (Financial Management); Graduate Certificate in Professional Management (Finance); and financial management for Senior Executive Service and Executive Level 2 officers and ADF equivalents. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> financial management training introduced for members of Defence's Senior Leadership Group; and financial management training developed for Executive Level 2 officers and military equivalents. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> develop stronger links between training and systems access; modularise training delivery; establish Key Performance Indicator and metrics for measuring and analysing training effectiveness; financial management training introduced for Executive Level 2 officers and military equivalents; and implement induction level financial courses.

Remediation plan	Activity	Major outcomes
<p>S1: Stores Record Accuracy</p> <p>Defence 'self-qualified' stock quantities relating to general stores inventory and repairable items in 2003-04, following adverse stocktake results.</p> <p>The Australian National Audit Office noted material weaknesses in the internal controls over stocktaking, failure to accurately record and report physical asset quantities, and inadequate system controls to safeguard the accuracy of data. This resulted in a significant range of uncertainty around general stores inventory and repairable items balances.</p> <p>During the systems audit of the Standard Defence Supply System, the Australian National Audit Office have indicated that the control and compliance mechanisms are not adequate and do not provide assurance about the data in the system.</p> <p>Accountable officer: Commander Joint Logistics</p>	<p>Remediate the general stores inventory and repairable items qualification by:</p> <ol style="list-style-type: none"> conducting 100 per cent stocktakes at Joint Logistics Command warehouses; correcting errors in stores record quantities in the Standard Defence Supply System; and promulgating and ensuring compliance with stocktaking policy to improve stocktaking practices and reporting. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> implemented compliance and assurance audit methodology; and completed 100 per cent stocktake of Defence National Storage and Distribution Centre (Moorebank). <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> complete 100 per cent stocktake of Joint Logistics Unit (Victoria); finalise audit findings (subject to extent of additional work from S10 and S11); and develop plans to address shortcomings with business processes and systems.

Remediation plan	Activity	Major outcomes
<p>S2: General Stores Inventory Pricing and Accounting</p> <p>The 2003-04 Financial Statement had a limitation of scope qualification of approximately \$2,026m with regard to uncertainty around the general stores inventory balance. This uncertainty was reduced to \$1.294 billion in 2004-05 as a result of remediation work.</p> <p>At issue was Defence's inability to produce, in a timely manner, invoice and contract documentation to validate the prices in the Standard Defence Supply System. The concerns of the Australian National Audit Office also included the lack of accounting policy in place to ensure the correct treatment of general stores inventory.</p> <p>Inventory pricing issues will need to be assessed in light of the pending Australian Equivalent to International Financial Reporting Standards. The implementation of an even more onerous reporting requirement places greater long-term uncertainty across inventory pricing issues.</p> <p>Accountable officer: Chief Finance Officer, Defence Materiel Organisation</p>	<p>Remediate the general stores inventory pricing and accounting qualification by:</p> <ol style="list-style-type: none"> developing a statistical model to validate legacy (pre-1997) priced items; implementing an exception reporting regime to provide quality assurance; establishing policies and procedures for inventory pricing controls on the Standard Defence Supply System; and establishing policy to ensure the correct treatment of general stores inventory. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> completed remediation action on six audit issues relating to provision for obsolescence, reconciliation of General Stores Inventory, General Stores inventory accounting policy; statistical sampling of data has been undertaken and identified prices potentially requiring error correction where available although it has also indicated that statistical models may not provide sufficient data allowing identification of suitable surrogates for prices generally. Quantification of excess or insurance stock has been calculated; established an exception reporting regime to provide quality assurance of in-year inventory prices; and promulgated financial accounting general stores inventory policy. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> remediation of the audit issue relating to Limitation of Scope – Inventory pricing carried forward from 1999-00 to continue with respect to potential surrogate price sources, although Defence now judges that the cost and effort to seek original paper documentation may not be justifiable, and certainly not ahead of improved systems and controls; complete the financial requirements specification for the Materiel Logistics Financial Framework for inclusion in a replacement logistics system; and review Australian Equivalent to International Financial Reporting Standards implementation to determine system and data retention impacts for multiple pricing records.

Remediation plan	Activity	Major outcomes
<p>S3: Supply Customer Accounts</p> <p>A supply customer account is a location indicator within the Standard Defence Supply System used to track and manage assets and accountable inventory moving through the supply chain, predominantly outside a warehouse structure.</p> <p>The 2003-04 financial statements had a limitation of scope qualification with regard to the uncertainty around the repairable items balance, of which supply customer accounts are a subset of \$2.857 billion which was reduced to \$2.722 billion in 2004-05. The Australian National Audit Office concerns rested with the controls and management of supply customer accounts, including repairable items, and adherence to stocktake procedures.</p> <p>Accountable officer: Chief Joint Logistics</p>	<p>Remediate the supply customer account element of the repairable item quantities qualification by:</p> <ul style="list-style-type: none"> a. allocating all supply customer accounts an accountable owner; b. ensuring all supply customer account balances on the Standard Defence Supply System are correct; and c. improving business processes and controls for supply customer accounts. <p>Note: These include improvements to data creation, maintenance and reporting to ensure accurate quantity, ownership and location details are entered and maintained for all supply customer accounts on the Standard Defence Supply System.</p>	<p>Achieved in 2004-05:</p> <ul style="list-style-type: none"> a. accountable owners identified for all supply customer accounts; b. stocktaking completed for 89 per cent of supply customer accounts and corresponding balances corrected on Standard Defence Supply System. Defence continues its stocktaking program; c. revised the repair vendor supply customer accounts arrangements to improve management and control between repair vendors and system program offices; and provided enhanced reporting to assist the responsible managers fulfill their obligations and improve the quality of supply customer account data. d. <p>Planned for 2005-06:</p> <ul style="list-style-type: none"> a. complete stocktake of remaining supply customer accounts and correct balances recorded on the Standard Defence Supply System; and b. improve business processes regarding management and use of supply customer accounts, incorporate these processes into the Defence Supply Chain Manual and transition the new controls into standard corporate governance activities of all Groups.

Remediation plan	Activity	Major outcomes
<p>S4: Explosive Ordnance</p> <p>The 2003-04 financial statements had a limitation of scope qualification of \$845m relating to uncertainty around Explosive Ordnance pricing, which was reduced in 2004-05 to \$309m. At issue was Defence's inability to produce, in a timely manner, invoice and contract documentation to validate the Explosive Ordnance inventory prices recorded in the Explosive Ordnance procurement management system, Computer System Armaments (COMSARM). However for 2004-05, \$147m of the \$309m qualification is under negotiation with the Australian National Audit Office as documentation was available.</p> <p>The remainder of the qualification predominantly relates to direct purchase items and items acquired as part of asset under construction contracts between 1982-2000.</p> <p>Accountable Officer: Head Electronic and Weapon Systems Division, Defence Materiel Organisation</p>	<p>Remediate the Explosive Ordnance inventory pricing qualification by:</p> <ol style="list-style-type: none"> sourcing (where possible) original documentation to substantiate Explosive Ordnance inventory prices; developing tools to substantiate Explosive Ordnance inventory values when appropriate supporting documentation cannot be located to support prices; and improving and integrating Explosive Ordnance inventory accounting and systems management processes. These changes are designed to confirm the accuracy of asset values and enable adherence to financial management standards. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> partly addressed seven audit issues related to the \$845m price qualification; and improved integration of Explosive Ordnance asset and accounting inventory processing and reconciliation procedures. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> continue remediation of the remainder of the \$309m Explosive Ordnance inventory pricing qualification; continue the improvement in Explosive Ordnance inventory processing and reconciliation policies and procedures; implement financial reconfiguration policies to improve the pricing accuracy of complex inventory assets; and continue the program of enhancing computer systems to automate accurate pricing of Explosive Ordnance assets.

Remediation plan	Activity	Major outcomes
<p>S5: Military Leave Records</p> <p>The 2002-03 financial statements had a limitation of scope for military leave provisions because insufficient supporting documentation was available for leave records and, where documentation was available, unacceptable error rates existed in the recording of leave transactions. These shortcomings were mainly attributed to inadequate controls and processes within the military personnel systems and the inability to locate source documentation.</p> <p>The prior year limitation had resulted in a wide-ranging military leave remediation program but Defence did not expect to resolve the problems before 2004-05. Defence 'self-qualified' \$1.228b of the military leave provision in 2003-04 and reduced the qualification to \$453m in 2004-05.</p> <p>Accountable officer: Head Defence Personnel Executive</p>	<p>Remediate the military leave provisions qualification by:</p> <ol style="list-style-type: none"> implementing a risk stratification and sampling methodology to quantify the risk to Defence accounts; providing an accurate representation of the military leave liability by ensuring the integrity of military leave data captured and recorded in PMKeyS; and applying quality assurance to business processes, record keeping strategies, reporting structures, relevant policy foundations, training initiatives and a controls framework. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> remediated military long service leave; and completed a sample of military annual leave. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> Complete military annual leave sampling; and Review leave processing controls including cessation audits.
<p>S6: Civilian Leave Records</p> <p>In 2003-04, the Australian National Audit Office noted problems with civilian leave and payroll processing. The systems issues identified in the management of military leave provisions also affect civilian leave balances. Defence 'self-qualified' \$443m of the civilian leave balance in 2004-05.</p> <p>Accountable officer: First Assistant Secretary Personnel, Defence Personnel Executive</p>	<p>Remediate the civilian leave provisions qualification by:</p> <ol style="list-style-type: none"> implementing a risk stratification and sampling methodology to quantify the risk to Defence accounts; providing an accurate representation of the civilian leave liability by ensuring the integrity of civilian leave data captured and recorded in PMKeyS; and applying quality assurance to business processes, record keeping strategies, reporting structures, relevant policy foundations, training initiatives and a controls framework. 	<p>Achieved in 2004-05:</p> <p>Undertook the pilot phase of leave stratification.</p> <p>Planned for 2005-06:</p> <p>Complete further sampling and verification of leave balances.</p>

Remediation plan	Activity	Major outcomes
<p>S7: Executive Remuneration</p> <p>The Executive Remuneration Note (containing information pertaining to civilian and military leave provisions) is 'material-by-nature', as required by the Finance Minister's Orders, and could not be reliably certified because of the limitation of scope within the Australian National Audit Office 2002-03 and 2003-04 audit reports regarding military leave provisions.</p> <p>A separate limitation of scope was applied to the Executive Remuneration Note in respect of any accrual effects arising from the military leave balances. During the 2004-05 period, Defence focused on improving the accuracy of leave records for the Senior Executive Service and military equivalents by reviewing source documentation. However, due to the qualifications in military and civilian leave balances the Executive Remuneration Note was qualified again in 2004-05.</p> <p>Accountable officer: First Assistant Secretary Personnel, Defence Personnel Executive</p>	<p>Remediate the Executive Remuneration Note qualification by:</p> <ol style="list-style-type: none"> a. completing the 2004-05 Senior Executive Service and military equivalents leave audit; and b. implementing a new system for reporting Executive Remuneration that includes applying quality assurance to business processes, record keeping strategies, reporting structures, relevant policy foundations and training initiatives, and a controls framework. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> a. the Executive Remuneration Note remained qualified as uncertainty remained on the opening balance of both military and civilian leave provisions; and b. implemented revised Executive Remuneration Note management system. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> a. review and verify leave balances for Senior Executive Service and military equivalents; and b. finalise audit finding.

Remediation plan	Activity	Major outcomes
<p>S8: Property Valuations</p> <p>The Australian National Audit Office issued a 'limitation of scope' for land, buildings and infrastructure and other plant and equipment as significant flaws were identified in associated project management, reporting practices and management review functions. The requirements to be met by the Australian Valuation Office were not fully and adequately documented and Defence was considered to have misinterpreted the results of revaluations and incorrectly applied depreciation. A particular consequence has been the misapplication of remaining useful life data provided by the independent valuer. This affected both the valuation adopted by Defence and the reported depreciation expense.</p> <p>For 2004-05 uncertainty existed in relation to the measurement of certain assets with a reported book value of \$103m, reduced from \$1.228 billion in 2003-04</p> <p>Accountable officer: Deputy Secretary Corporate Services</p>	<p>Remediate the land, buildings and infrastructure and other plant and equipment qualification by:</p> <ol style="list-style-type: none"> revising the Australian Valuation Office engagement letter to clarify valuation policy, procedures and outcomes; contracting the Australian Valuation Office to revalue all land, buildings and infrastructure and other plant and equipment assets to fair value in accordance with policy guidance; undertaking quality assurance on Australian Valuation Office site reports to ensure completeness; entering revaluation data into the financial system (ROMAN) and completing revised depreciation calculations; engaging a valuation contractor for the next three year cycle, i.e. 2005-06 to 2007-08; and fully documenting the revaluation process in Corporate Services Asset Management and Accounting Manual. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> completed all land, buildings and infrastructure valuations by 30 June 2005; completed other plant and equipment valuations, except for Chief Information Officer by 30 June 2005; undertook quality assurance of valuation data and loaded the data into the financial system (ROMAN); released request for tender for the next three year cycle ie 2005-06 to 2007-08; and documented the revaluation process in the Asset Management and Accounting Manual. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> complete the depreciation calculations; complete other plant and equipment valuations for Chief Information Officer and undertake quality assurance of valuation data and load the data into the financial system (ROMAN); and finalise tender evaluation and engage valuation contractor for the next three year cycle ie 2005-06 to 2007-08.

Remediation plan	Activity	Major outcomes
<p>S9: Preventing the Escalation of Category A and B Findings</p> <p>The 2003-04 Financial Statement Closing Audit Report identified 95 findings that required resolution. The 57 audit findings not allocated to a General or Specific Remediation Plan were grouped under Remediation Plan S9 to ensure each finding is remediated. Any audit findings that are not resolved could escalate from Categories B and C to the most serious category, Category A. Defence has recognised the clear need to improve the outcome, focus and management of the implementation of solutions to Australian National Audit Office findings.</p> <p>The audit findings from 2004-05 Financial Statement Audit Report are under consideration by Defence and the position on the findings is being determined.</p> <p>Accountable officer: First Assistant Secretary Financial Services</p>	<p>Prevent the escalation of Category A and B findings by:</p> <ol style="list-style-type: none"> a. assigning responsibility across Defence for remediation of each of the 57 audit findings not already allocated to a remediation plan; b. establishing a project-based management system for tracking and managing resolution of these Australian National Audit Office audit findings; c. undertaking progressive and final quality assurance of the remediation outcomes; and d. reporting to the Financial Statements Project Board and Defence Audit Committee on detailed progress. 	<p>Achieved in 2004-05: 37 audit findings completed and forwarded to Australian National Audit Office for clearance.</p> <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> a. finalise remediation of the remaining 2003-04 audit findings; and b. implement strategy for remediating 2004-05 audit findings.

Remediation plan	Activity	Major outcomes
<p>S10: Stock Holding Controls</p> <p>Items first found are items of either asset or inventory that do not have a corresponding Defence register record on any Defence register. Where a check of stock holdings shows that the Defence register record varies from the physical quantity, an investigation into the discrepancy will be required and the outcome may be an adjustment to the Defence Register record, and/or a corresponding financial adjustment.</p> <p>While it is accepted that the normal stock adjustment process will require a certain level of adjustment activity, current levels of adjustment are considered too high and indicate poor adherence to currently approved business processes.</p> <p>Accountable officer: Chief Operating Officer, Defence Materiel Organisation</p>	<p>Improve stock holding controls by:</p> <ol style="list-style-type: none"> a. preventing or reducing the instance of items first found and write-offs; and b. accounting for and monitoring those instances first found and write-offs considered legitimate or expected. <p>Note: The remediation activities will focus on preventing errant transactions on the Standard Defence Supply System through improvements in policy, procedure and system process, and the introduction of investigative reporting to measure compliance.</p>	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> a. developed and implemented a suite of reports in the Standard Defence Supply System in relation to: <ul style="list-style-type: none"> – repair vendors – tracking of repairable items – items in transit – receipting discrepancies; and b. enhanced Standard Defence Supply System controls, by restricting the ability to change item classifications between inventory and asset, to improve adherence to the accounting guidelines. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> a. modify the Standard Defence Supply System to increase the rigour applied to tracking of repairable items and receipting discrepancies to improve data accuracy; b. revise and promulgate supply chain policy relating to lost or damaged items and item tracking; and c. enhance compliance and audit capability, to ensure that all users are complying with the Standard Defence Supply System business processes.

Remediation plan	Activity	Major outcomes
<p>S11: Standard Defence Supply System Items Not-in-Catalogue</p> <p>Defence is investigating the extent to which items may have been incorrectly accounted for in the Statement of Financial Position. This may occur when an item is purchased via the ROMAN financial system and then not recorded and managed on the Standard Defence Supply System. Such items are managed and tracked locally with no central visibility. It may lead to the incorrect recording and treatment of an item's value.</p> <p>Accountable officer: Chief Operating Officer, Defence Materiel Organisation</p>	<p>Address the potential Not-in-Catalogue issues as they may affect the financial statements by putting in place measures to prevent and remediate Not-In-Catalogue items. The activities include:</p> <ol style="list-style-type: none"> clarifying and simplifying policy directives to better support effective item identification, purchasing and management process. Use the redrafted policies on Item Identification (Codification), ADF Logistics Managers' roles and responsibilities, and procurement routing rules to drive new processes and procedures that will prevent the future incidence of Not-In-Catalogue; developing a 'self remediation' methodology for use by units across Defence to transition Not-In-Catalogue items into the Standard Defence Supply System and the standard financial management regime, including development of a value proposition for the management of legacy items; developing a compliance monitoring and reporting framework to assist with adherence to new policy and process; implementing an ongoing compliance monitoring and reporting regime; and establishing a change management structure to introduce the changes to processes and procedures across Defence, which includes coordination of training, compliance monitoring and communications. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> reviewed and revised policies relating to Item Identification (Codification), Procurement Routing Rules and ADF Logistics Managers roles and responsibilities; and commenced quantification of the magnitude of the Not-In-Catalogue problem across Defence. <p>Planned for 2005-06:</p> <p>Prevention of Not-In-Catalogue:</p> <ol style="list-style-type: none"> modify processes and procedures to support updated policies, including the process for assignment of ADF logistics managers; implement organisational changes (including structural and role related changes) to support the policies; provide training; and develop and implement a compliance monitoring and reporting regime. <p>Remediate existing Not-In-Catalogue:</p> <ol style="list-style-type: none"> complete quantification of Not-In-Catalogue across Defence to enable groups to establish their Not-In-Catalogue remediation priorities; develop and implement a Not-In-Catalogue remediation methodology for use across all sites; and establish a progress reporting regime.

Remediation plan	Activity	Major outcomes
<p>S12: Provisions for Contaminated or Potentially Contaminated Land, Buildings and Infrastructure</p> <p>Defence is required to include a provision for land decontamination in the financial statements. The Australian National Audit Office was unable to verify the adequacy of current procedures nor the accuracy/valuation and completeness of the reported provisions for land decontamination.</p> <p>Implementation of the Remediation Plan is dependant upon the ANAO accepting expert third party recommendations on the methodology proposed to estimate decontamination costs.</p> <p>Accountable officer: Deputy Secretary Corporate Services</p>	<p>Remediate the provision for land decontamination qualification by:</p> <ol style="list-style-type: none"> a. ensuring accounting policies reflect current reporting requirements; b. ensuring that 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 c. obtaining a clear understanding from the Australian Valuation Office regarding matters included in valuation assessments. 	<p>Achieved in 2004-05:</p> <ol style="list-style-type: none"> a. conducted a detailed review of all extant policies to ensure current reporting requirements were met; b. provided clear guidance in the 2004-05 valuation instructions to the Australian Valuation Office; c. implemented the Contamination Priority Sites Investigation Program; and d. pilot review completed for the Australian Capital Territory/Southern New South Wales region. <p>Planned for 2005-06:</p> <ol style="list-style-type: none"> a. assessment of outcomes of Australian Capital Territory/Southern New South Wales pilot study; b. development of final Remediation Plan including implementation timetable, c. assessments of legal and/or constructive obligations across the Contaminated Sites Register; and d. commence site assessments for costings.
<p>S13: Commitments and Accounting for Leases</p> <p>The ANAO were unsatisfied with the methods used by Defence to recognise and record leases and commitments.</p> <p>Accountable officer: Chief Finance Officer</p>	<ol style="list-style-type: none"> a. Remediate the audit finding issued for Commitments and Accounting for Leases carried forward from 2002-03 by defining the criteria for recording commitments; and b. establishing a lease register that identifies cashflows, revenues, expenses, liabilities, receivables and commitments. 	<p>Achieved in 2004-05:</p> <p>All leases have been identified and correctly classified.</p> <p>Planned for 2005-06:</p> <p>Complete a central register of all commitments.</p>

DELIVERING INTERNAL SERVICES

Corporate Services and Infrastructure Group (CSIG) supports the working and living environments of Defence personnel. With representatives at every Defence site around the country, CSIG provides essential services and support to more than 90,000 ADF personnel, Defence civilians and contracted service providers.

Initiatives for 2005-06

The CSIG initiatives are as reported in the *Portfolio Budget Statements 2005-06*, with the following exceptions.

Management of Defence Infrastructure

In November 2005, CSIG obtained third party quality management certification for its Infrastructure Management System to the International Standards Organisation 9001:2000, in accordance with industry best practice.

Environmental and Estate Sustainability

Major environmental and estate sustainability initiatives remain as reported in the *Portfolio Budget Statements 2005-06*, with the following additions/amendments:

- continuing to develop and implement national policy initiatives for improving natural resource management in Defence, including water and waste minimisation, pollution prevention and bushfire management;
- promulgation, in February 2005, of policies on energy management, ecologically sustainable development and the management of feral animals and weeds;
- implementing Defence's contamination management strategy to address its legacy of contaminated sites, including continuing to list sites on the recently established contaminated sites register, conducting contamination investigations, and developing practical remediation methods that can be applied to our contaminated sites across the country;
- Australia and the United States have agreed to work towards world's best practice in sustainable environmental management for combined military activities by signing an historic Statement of Environment and Heritage Principles by the Chief of the Defence Force, Air Chief Marshal Angus Houston and Commander United States Pacific Command, Admiral William J Fallon in November 2005. The signing of the statement demonstrates the commitment to sustainable environmental management in all Australian and United States combined military activities; and
- the draft terms of reference for the strategic environmental assessment of major exercises, under the *Environment Protection and Biodiversity Conservation Act 1999*, were agreed by the Minister for Defence and the Minister for the Environment and Heritage in May 2005 and are currently with the Department of Environment and Heritage for final consideration.

Business Improvement

The Group has continued efforts to implement business improvement initiatives during the course of 2005-06, with a range of projects at various levels of maturity. Notable milestones during 2005-06 include:

- accounts processing reforms being substantially completed, with the introduction of invoice scanning technology and the establishment of centralised processing arrangements at Puckapunyal in Victoria, and Salisbury in South Australia to consolidate accounts processing within Defence;
- the implementation of improved arrangements for ADF hospitality and catering, and records management; and
- further progress in relation to travel reform, with the continued roll-out of a Defence travel card for Defence personnel and the centralisation of support for business-related travel functions in the Townsville Business Centre in mid-2006.

The market testing of information technology support services has progressed to the tender evaluation stage, with the results of the exercise to be known in the second half of 2006. Mail and freight arrangements have also been reviewed, with more streamlined and rationalised contractual arrangements being implemented.

The first steps towards reform of personnel administration have also been taken, with a project team beginning the task of reviewing and rationalising personnel processes to support the centralisation and co-location of military and civilian personnel administration during 2007-08.

Industry Engagement

A large proportion of the products and services for which CSIG is responsible are delivered by industry. CSIG places high importance on managing relationships with industry in an open and transparent way. During 2005-06, major contracts for delivery of almost \$2 billion of products and services are being tendered in various regions for the following:

- garrison support services and comprehensive maintenance services;
- electricity and other utilities;
- information technology support services; and
- property leases.

Variations to the estimated value of contracts listed in Table 6.2 of the *Portfolio Budget Statements 2005-06* are shown in the following table.

Table 6.2: Estimated Expenditure on Products and Services Contracts Managed by Corporate Services and Infrastructure Group

Service	Budget Estimate \$m	Revised Estimate \$m	Variation \$m
Infrastructure investment including training range upgrades ⁽¹⁾⁽²⁾	447	346	-101
Information technology and telecommunication services and products	22	22	-
Garrison support ⁽³⁾	331	342	11
Housing and relocations services ⁽⁴⁾	511	517	6
Facilities operations ⁽⁵⁾	330	455	125
Travel services ⁽⁶⁾	156	168	12
Property services ⁽⁷⁾	114	117	3
Utilities	101	101	-
Total	2,012⁽⁸⁾	2,068	56

Notes

1. The budget estimate was erroneously reported in the *Portfolio Budget Statements 2005-06* as \$436m. The correct figure is \$447m.
2. The variation of -\$101m is explained in Chapter 3 – Capital Investment Program.
3. The variation mainly reflects the increased scope of contracts following the retendering of garrison support in a number of regions.
4. The budget estimate was erroneously reported in the *Portfolio Budget Statements 2005-06* as \$491m. The correct figure is \$511m. The net increase of \$6.0m (from \$511m to \$517m) is primarily a result of a payout of annuities, increases in rent and removals charges as well as reductions in fees and interest costs.
5. The annual baseline for estate upkeep is around \$330m. In 2005-06 additional funds have been allocated to address specific issues such as asbestos remediation, improvements to living in accommodation and other high priority works as described in Table 6.3.
6. The variation is due to the inclusion of hire car costs.
7. The variation is due to a rise in the number and cost of domestic leases.
8. The total budget estimate figure has changed due to erroneously reported figures detailed in footnotes one and four.

Maintenance of the Defence Estate

This initiative remains as reported in the *Portfolio Budget Statements 2005-06*, except for the broadening of types of works for 2005-06 to include 'improving the condition of living accommodation for our soldiers, sailors and airmen'. There has also been some variation in the spread of expenditure on different work types as outlined in Table 6.3.

Reporting of the Facilities Operations Program in the table below is significantly different to that which was reported in the *Portfolio Budget Statements 2005-06* (p. 215) as new work types have been introduced to provide increased transparency in the way facilities operations funding is allocated.

Table 6.3: Maintenance of the Defence Estate Incorporating Facilities Operations for 2005-06⁽¹⁾

Facilities Operation Program Work Types	Budget Estimate \$m	Revised Estimate \$m	Variation \$m
Outstanding commitment ⁽²⁾	143.1	66.1	30.6
Comprehensive Maintenance Services fees ⁽²⁾		107.6	
Work planning fees ⁽³⁾	90.6	18.8	-4.8
Joint User Fees / Hire ⁽³⁾		7.8	
Reactive maintenance ⁽³⁾		59.2	
Asbestos remediation ⁽⁴⁾	7.6	37.2	29.6
Maintaining air fields ⁽⁵⁾	46.0	46.5	0.5
Environment and heritage ⁽⁶⁾	20.4	28.4	8.0
Infrastructure works ⁽⁷⁾	22.4	47.1	24.7
Living-in accommodation ⁽⁸⁾	7.0	18.9	11.9
Training areas and facilities ⁽⁹⁾	10.3	12.1	1.8
Working accommodation ⁽¹⁰⁾	51.3	71.2	19.9
Bulk fuel installations ⁽¹¹⁾	2.4	3.2	0.8
Maritime structures ⁽¹¹⁾	5.8	7.3	1.5
TOTAL	406.9	531.5⁽¹²⁾	124.6⁽¹²⁾

Notes

- Formerly titled 'Forecast Facilities Operations Program by Work Type for 2005-06'.
- In the *Portfolio Budget Statements 2005-06*, these items were combined as 'Outstanding Commitment from 2003-04' (which was incorrectly titled and should have read 'Outstanding Commitment from 2004-05'). The variation is due to increased fees payable to comprehensive maintenance contractors for new management responsibilities and an over estimation of the value of work scheduled to be completed in 2004-05. The over estimation is in part due to the high tempo within the construction industry.
- In the *Portfolio Budget Statements 2005-06*, these items were combined as 'Contractual and other existing commitments'. The variation is primarily due to a change in practice for the attribution of some design consultancy costs. Now, if the costs are incurred during the delivery of a project, they are attributed to project costs associated with relevant work types, whereas previously all consultancy costs were attributed to Work Planning Fees. The work types where project costs have increased as a result of this change are infrastructure works, working accommodation, and environment and heritage.
- This variation is due to Defence significantly increasing its activities to more effectively support its commitment to address asbestos remediation issues.
- The variation is due to an increase in the scope of airfield works to further enhance Defence capability.
- Previously reported as 'Environmental'. The variation is due to an increase in funding for environment and heritage priority works.
- The work types 'Capability support' and 'Critical power' as reported in the *Portfolio Budget Statements 2005-06* have now been incorporated into 'Infrastructure Works'. The variation is due to an increase in funding to address priorities for support of Defence capability.
- The *Portfolio Budget Statements 2005-06* included a work type entitled 'Occupational health and safety', \$7.0m of which was directed to living-in accommodation related works. The variation represents additional, targeted funding to enhance the standard of living-in accommodation at key Defence sites.
- The variation is due to the bringing forward of additional training area works to improve Defence capability.
- The *Portfolio Budget Statements 2005-06* included a work type called 'Occupational health and safety', of which \$8.1m was directed to working accommodation. There was also an 'Other' work type that included cadet facilities, counter-terrorism and security, which had a combined budget estimate of \$3.0m. The variation is due to Defence allocating extra funds to enhance working accommodation to support Defence capability priorities.
- In the *Portfolio Budget Statements 2005-06*, these work types were included with 'Other'. There has been an increase of \$0.8m in bulk fuel installation works and an increase of \$1.5m in maritime structures from a reallocation of Defence funds to address priority works.
- Totals may not add due to rounding.

PORTFOLIO EVALUATIONS

Portfolio Evaluations remain as reported in the *Portfolio Budget Statements 2005-06* with the following addition.

Subject to the views of the Defence Audit Committee and the Defence Committee, the portfolio evaluation on the effectiveness of national health support envisaged for calendar year 2006 will be replaced with an evaluation of contracting outside the Defence Materiel Organisation.