

PROGRAM 14: FINANCE AND INSPECTOR-GENERAL

OBJECTIVE

To provide financial resource management, and accounting policies and services and related reporting and accountability requirements to achieve the most cost-effective use of Defence resources; to advance Defence management policies and practices through independent performance evaluation, review, audit and fraud investigation; to promote a Defence-wide understanding and adherence to ethical conduct; and to coordinate the successful continuing implementation of the Commercial Support Program.

DESCRIPTION

The Finance and Inspector-General Program develops policy on, and provides corporate services in, financial resource management, administration and accounting for Defence; and provides independent program evaluation and management audit fraud control and investigation; physical, personnel, computing and project security; ministerial support and parliamentary liaison; and oversight of the Commercial Support Program.

The Program is managed by the First Assistant Secretary Resources and Financial Programs. The Program comprises two Sub-Programs: Resources and Financial Programs; and Inspector-General.

PROGRAM SUMMARY

In 1997-98, the Finance and Inspector-General Program managed successfully its core policy and management responsibilities, including the annual cycle of resource allocation and outlay management within Defence, budgetary and resource liaison with Government, and meeting external and statutory requirements and deadlines.

Significant progress was made in the implementation of the new resource management arrangements, in response to the Government's intended move to accrual-based output management and internal Defence management needs. The Program also worked closely with other Defence Programs following the Defence Reform Program restructure to establish and refine management processes.

The Program undertook extensive audit, evaluation and fraud control activities, and oversaw, under the Commercial Support Program, a comprehensive market-testing program. The Commercial Support Program methodology was refined further through consultation with all stakeholders and is widely regarded as a benchmark, by the outsourcing community in Australia, for competitive tendering and contracting. A Commercial Support Program Consultative Forum was held for both industry and Defence to inform all concerned of the impact of the four-fold increase in the rate of market testing under the Defence Reform Program.

PERFORMANCE MEASURES FOR 1997-98

The Finance & Inspector-General's performance is measured by the extent to which:

- a. corporate financial resource planning and in-year outlay management processes enabled the effective and efficient use of resources;

- b. Defence financial processes and accounting met the needs of Defence managers and statutory, audit and Government requirements;
- c. Defence Budget and external reporting processes and support services met the needs of Ministers, Cabinet and Parliament;
- d. management was improved and resources were used more effectively, efficiently and ethically, as the result of performance evaluation review, audit and fraud curtailment activities;
- e. the Management Audit and Program Evaluation annual work programs were completed with outcomes accepted by Program Managers and recommendations implemented;
- f. continued improvements were achieved in fraud control through the ongoing refinement of the Defence Ethics and Fraud Awareness campaign;
- g. allegations of fraud were dealt with accurately, fairly and expeditiously; and
- h. the current Commercial Support Program schedule was in accordance with Defence Reform Program initiatives, and achieved progress satisfactory to Program Managers.

1997-98 PERFORMANCE AGAINST FORECASTS

Development and implementation of a strategic plan for enhanced Portfolio financial resource management, including the implementation of the financial implications of the recommendations of the Defence Reform Program and the introduction of accrual reporting and accounting

A new resource management framework has been developed to ensure that Defence's future business needs are satisfied while also meeting whole-of-government requirements. A new budget/Five Year Defence Program framework has been endorsed, the first accrual-based Five Year Defence Program for 1999-2003 is being developed and substantial progress has been made in selecting a new financial management information system. A change management strategy, incorporating education and communication, for the resource management framework has been developed and is being implemented.

Oversight of the successful conversion of Defence financial and staffing resources and the forward resource program into the new Program structure, and implementation of Defence Reform Program outcomes within the Finance and Inspector-General Program

Defence has been restructured progressively into a new 14 Program structure. In the context of the 1997-98 Additional Estimates, further significant changes were made to the organisation including the division of functions and resources associated with logistic, administrative and base support between the former Service Programs and new supporting Programs. This process, coordinated by Finance and Inspector-General Program, is complete aside from some minor functional transfers.

Significant progress has been made in implementing specific reform and savings initiatives under the Defence Reform Program. A new monitoring and reporting framework has been developed, which focuses on the major categories of reform and the 149 supporting initiatives. These reports will inform the public presentation and accountability aspects of the Defence Reform Program and provide both quantitative and qualitative performance information.

Responsibilities for Defence Reform Program initiatives and savings targets were converted into the new 14 Program structure. A broad program for reinvestment of savings has been established. Processes and measures to ensure effective coordination and management of the

extensive restructuring, business process re-engineering and systems development taking place under the Defence Reform Program have been refined.

The Program will contribute to Defence Reform Program savings, principally relating to administrative, computing and regional security functions.

Successful management of the budgetary, resource allocation and in-year expenditure processes, and provision of policy advice on Portfolio financial resource issues

All key budgetary, resource management and reporting requirements for the year were met. These requirements were achieved in concert with all Programs and successfully overcame the problems associated with moving to the new 14 Program structure.

Targets met included management of the 1998-2002 Five Year Defence Program and the 1998-99 Budget process; the successful coordination of the 1996-97 Annual Report, incorporating the 1996-97 Financial Statements, the 1997-98 Additional Estimates and Portfolio Additional Estimates Statements, the 1998-99 Budget and Portfolio Budget Statements, and consideration of all documents by the Senate Legislation Committee.

Meet the financial training needs of Defence Programs, and manage successfully the design and delivery of financial training, including in relation to both the revised responsibilities and accountabilities arising from the Financial Management and Accountability Act package of legislation and accrual accounting and budgeting

Financial management training courses were modified to incorporate the measures and responsibilities arising from the passing of the Financial Management and Accountability Act. The Commonwealth's future move to accrual accounting and budgeting gave rise to the development and delivery of a series of awareness and education seminars across the Defence organisation to explain the impact of accruals and the broader resource management reforms being introduced.

Significant progress was made in the development of a new suite of training courses designed to be aligned to the new financial management functional competencies.

Successful management and production of the 1996-97 Defence Financial Statements, and implementation of a strategy for the successful preparation and delivery of the 1997-98 Defence Financial Statements

The 1996-97 Defence Financial Statements were forwarded in October 1997 to the Australian National Audit Office and received an unqualified audit certificate.

The lessons learned from the 1996-97 process were incorporated into a strategy for managing the 1997-98 process and a risk management plan, both of which were endorsed by the Defence Audit and Program Evaluation Committee. The preparation of the 1997-98 Statements involved close and extensive consultation with all Programs and the Australian National Audit Office (ANAO). The 1997-98 Financial Statements received an unqualified audit certificate.

Successful completion, in conjunction with the Department of Finance and Defence Programs, of the Defence Performance Information Review and the implementation of its recommendations

There has been solid progress, in conjunction with Defence Headquarters, in developing an integrated output-focused planning, budgeting, reporting and evaluation framework. Following

completion of the Performance Information Review in July 1997, biannual performance reports by Programs to the Defence Executive and a revised Portfolio Evaluation Strategy have been put in place. A Portfolio Schedule of Evaluations is also in place for FY1998-99. The Program coordinated the development of the first Defence Service Charter and its associated monitoring and reporting arrangements.

Continued provision of timely and responsive support to Ministers, Cabinet and Parliament

Feedback from ministerial staff indicates a high level of satisfaction with the timeliness and responsiveness of ministerial liaison arrangements. During the year, over 4,800 Ministerial representations were responded to and over 100 responses to parliamentary questions on notice were completed. The Department prepared 19 submissions for Cabinet consideration.

Undertake selective audits and program evaluations

Seventy-two audit tasks were completed or substantially completed during the financial year. These included:

- two national audits;
- ten capital investment reviews, with several identifying the need to improve project management performance;
- five major information technology audits;
- eight financial management audits;
- fifteen regional audits; and
- thirty-two audits completed at the request of base/unit commanders.

Management Audit Branch was itself audited by the ANAO and internationally benchmarked by the Institute of Internal Auditors, sponsored by the ANAO, through the Global Audit Information Network study. It was judged by both reviews to be performing well.

Training under the Defence Ethics and Fraud Awareness Campaign continued to be delivered throughout the Department. A total of 121 workshops were delivered, with 6,177 civilian and ADF personnel attending; an increase of 1000 attendees over the previous year. A seventh ethics video was produced which focused on personal crises contributing to unethical behaviour. These initiatives assist in developing a greater awareness of resource management ethics in Defence and how to deal with ethical dilemmas.

Sixty-six investigations into alleged fraud began, with 55 finalised and a total of \$364,081 recovered. Allegations ranged across areas of: procurement (22); allowances/salaries (24); control of assets (7); Australian Government Credit Card (3); and various others (10). The third Defence Fraud Control Plan was completed in line with a Government requirement for agencies to review such plans on a biannual basis.

Continued oversight of currently scheduled major Commercial Support Program activities and the commencement of market testing additional areas identified in the Defence Reform Program

In response to the accelerated market-testing schedule, an increased volume of comprehensive training has been provided to staff engaged in all stages of the Commercial Support Program process. The Commercial Support Program Manual has been refined and the Commonwealth's

Performance Improvement Cycle, which expands the range of available efficiency techniques, has been promoted widely.

RESOURCES

Table 14.1: Defence Function Outlays Summary

<i>Sub-Program</i>		<i>1997-98 Budget Estimate</i>	<i>1997-98 Revised Estimate</i>	<i>1997-98 Actual Outcome</i>	<i>Variation (97-98 Actual less Revised Estimate)</i>	
		<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>%</i>
14.1	Resources and Financial Programs	22.5	21.3	21.2	-0.1	-0.4
14.2	Inspector General	28.5	29.0	29.5	0.4	1.4
Program Total		51.0	50.3	50.7	0.3	0.7

Table 14.2: Staffing Summary

<i>Sub-Program</i>		<i>1997-98 Budget Estimate</i>	<i>1997-98 Revised Estimate</i>	<i>1997-98 Actual Outcome</i>	<i>Variation (97-98 Actual less Revised Estimate)</i>	
		<i>Personnel Numbers</i>				<i>%</i>
14.1	Resources and Financial Programs	184	184	150	-34	-18.5
14.2	Inspector-General	224	229	219	-10	-4.4
Program Total		408	413	369	-44	-10.7

Table 14.3: Staffing Profile

<i>Personnel</i>		<i>Sub-Program</i>		
		<i>14.1</i>	<i>14.2</i>	<i>Total</i>
Permanent Force	97-98 Budget	0	28	28
	97-98 Revised	0	28	28
	97-98 Actual	0	27	27
Civilian	97-98 Budget	184	196	380
	97-98 Revised	184	201	385
	97-98 Actual	150	192	342
Total	97-98 Budget	184	224	408
Personnel	97-98 Revised	184	229	413
	97-98 Actual	150	219	369

1997-98 Defence Reform Program Progress

Initial savings were achieved through efficiencies and streamlining associated with a review of work processes in the Defence Force Pay and Accounting Centre in Melbourne, which was

transferred to Defence Personnel Executive in 1997-98. All future savings will be reported against Defence Personnel Executive.

Table 14.4: 1997-98 Defence Reform Program Savings

Category	Personnel Savings		Savings
	ADF	APS	\$m
Personnel Planning		29	0.9
Total Savings		29	0.9

Table 14.5: 1997-98 Defence Reform Program Reinvestment

Category	\$m
Transition costs related principally to redundancies	1.7

Table 14.6: Reconciliation of Appropriations for Finance and Inspector General Program

Division/Appropriation Item		1997-98	1997-98	1997-98	Variation	
		Budget Estimate	Revised Estimate	Actual Outcome	(97-98 Actual less Revised Estimate)	
		\$m	\$m	\$m	\$m	%
180-01	RUNNING COSTS					
	Service Personnel	1.9	1.9	1.9	0.1	2.8
	Civilian Personnel	21.6	22.1	21.5	-0.6	-2.9
	Administrative Expenses	41.4	42.9	42.3	-0.6	-1.4
180-02	OTHER SERVICES	2.0	0.4	1.0	0.6	139.5
181	EQUIPMENT & STORES	1.9	5.4	2.1	-3.3	-61.7
183	DEFENCE PRODUCTION	0.2	0	0.2	0.2	100.0
Total Defence Function Appropriations (A)		69.0	72.7	68.9	-3.8	-5.2
Total Defence Function Receipts (Offset Within Outlays) (B)		-18.1	-22.4	-18.2	4.1	-18.5
Total Defence Function Outlays (C)=(A+B)		51.0	50.3	50.7	0.3	0.7

Note:

Figures may not add due to rounding.

Table 14.7: Major Variations between 1997-98 Revised Estimate and 1997-98 Actual Outcome

<i>Appropriation</i>	<i>\$m</i>
180-01 RUNNING COSTS	
Civilian Personnel (-\$0.6m)	
Provision for Defence Reform Program related redundancies	1.7
Part year effect of Civilian Workplace Bargaining Agreement	0.3
Higher than anticipated Accrual-Based Superannuation and 3% Productivity Benefit liability	0.3
Net Program transfers	0.1
Lower than anticipated expenditure on Civilian Salaries and other miscellaneous variations	-2.1
Defence Reform Program Savings	
Related to Personnel Planning	-0.9
Administrative Expenses (-\$0.6m)	
Net Program transfers primarily associated with Computing Services funding	1.8
Re-allocation of funds from Equipment and Stores for security systems upgrade	1.0
Re-allocation of funds from Equipment and Stores for Accrual Accounting	0.4
Variation in Fringe Benefits Tax liability	0.1
Slippage associated with replacement of financial systems	-0.6
Variation between the notional tax payments provision and the actual Fringe Benefits Tax liability	-2.9
Minor miscellaneous variations	-0.4
180-02 OTHER SERVICES (\$0.6m)	
Net Program transfers primarily associated with compensation and legal expenses	1.7
Lower than anticipated Compensation and Act of Grace payments	-1.1
181 EQUIPMENT AND STORES (-\$3.3m)	
Slippage associated with replacement of financial information systems	-0.2
Re-allocation of funds to Administrative Expenses for accrual accounting	-0.4
Re-allocation of funds to Administrative Expenses for security system upgrade	-1.0
Reduction in scope of assets system upgrade for accrual accounting	-1.5
Minor miscellaneous variations	-0.2

<i>Appropriation</i>	<i>\$m</i>
183 DEFENCE PRODUCTION (\$0.2m)	
Minor miscellaneous variations	0.2
DEFENCE PORTFOLIO RECEIPTS (\$4.1m)	
Reduced Foreign Military Sales receipts due to lower than anticipated refunds from closed cases	4.7
Receipt relating to PNG drought relief	-0.5
Minor miscellaneous variations	-0.02

Note:

Figures may not add due to rounding.