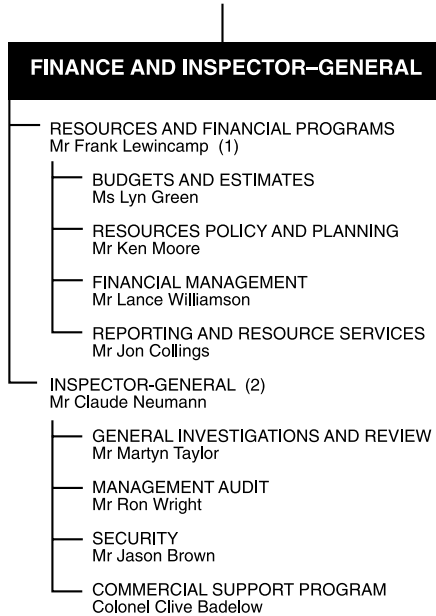


FINANCE AND INSPECTOR-GENERAL

DEPUTY SECRETARY — CORPORATE
Mr R. Tonkin



Notes:

- 1 FAS Resources and Financial Programs is responsible to Deputy Secretary Corporate.
- 2 Inspector-General is responsible to Deputy Secretary Corporate for the management of the Inspector-General's Division and is directly responsible to the Secretary and the Chief of the Defence Force on fraud, ethics and performance evaluation matters.

Effective at 30 June 1999

GROUP 14: FINANCE AND INSPECTOR-GENERAL

OBJECTIVES

The objectives of the Group are:

- a. to provide resource management, financial and accounting policies and services to achieve the proper and most cost-effective use of Defence resources;
- b. to develop a resource planning and budgeting program which accords with Government strategic and resource policies and priorities and which maximises Defence outputs;
- c. to develop Portfolio performance evaluation and reporting so that they are more informative, accurate, comprehensive and strategic in focus;
- d. to provide effective, timely and responsive support to Ministers, Cabinet and Parliament;
- e. to oversee the implementation of the Commercial Support Program;
- f. to improve the skills of Defence staff in the areas of ethics, performance improvement and market testing, security practices and the conduct of evaluations; and
- g. to assess, manage and thwart security threats to the Defence organisation.

DESCRIPTION

The Finance and Inspector-General Group develops policy on, and provides corporate services in, financial resource management, administration and accounting for Defence; 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 Group comprises two areas; Resources and Financial Programs and the Inspector-General.

PERFORMANCE OUTCOMES FOR 1998-99

Corporate financial resource planning and in-year outlay management processes to enable effective and efficient use of resources

The Resources and Financial Programs sub-Group successfully managed its budgetary and accounting responsibilities. The budget was fully achieved against identified capability/output priorities including the adjustment of resource allocations to meet increased preparedness costs associated with bringing an Army brigade to 28 days notice to move. Considerable effort was made to refine the Department's management framework, positioning Defence to manage effectively on an accrual and outcome/output basis from 1 July 1999. Roles for Output and Group Managers were determined, with clear responsibilities assigned for the achievement of output performance, the management of Defence resources and the delivery of internal support services. Further work was undertaken to refine Defence's budget planning and management processes, as well as its output and Group budget structures, to ensure full alignment with the new management framework.

Defence financial processes and accounting meet the needs of Defence managers and statutory, audit and government requirements

Significant progress was made to ensure that Defence's financial processes and systems met Defence management needs and external requirements in the new resource management environment. A major milestone was the completion on schedule of Defence's first accrual/output budget, with the Department being commended for the timeliness of its 1999-2000 budget submission and the quality of budget information provided. Preliminary work also began on developing the 2000-01 budget.

Various initiatives were progressed to refine Defence's accounting policies and systems. A major internal review was conducted of accounting policy, with a particular focus on asset revaluation. In line with the government's requirement to introduce an output-based accrual budget, accounting and reporting framework, Defence reassessed its financial management systems capability. As a consequence, Defence undertook a major evaluation and selection process in the year to choose a new financial management system capable of providing the full range of accrual functionality. In November 1998, it was announced that Defence would implement the SAP R/3 financial software suite under the Resource and Output Management Accounting Network project. The project objective is to implement the software solution in conjunction with a re-engineering of business processes. The first phase of the project focused on the implementation of treasury, banking and budgetary functionality. It commenced on 1 July 1999 following completion of high-level integrated design in early 1999.

Defence also undertook a cost management study to improve decision making by achieving better visibility of its costs. As a result of the initial study, Defence is pursuing an appropriate costing solution, with implementation planned to commence in 2000.

Defence Budget and external reporting processes and support services meet the needs of Ministers, Cabinet and Parliament

Statutory reporting requirements were achieved in a timely manner, with the Budget documents receiving recognition for their accuracy and content. Support arrangements to Ministers, Cabinet and Parliament continue to be timely and effective.

Management is improved and resources are used more effectively and efficiently as the result of performance evaluation and reporting

During the year, a medium-term audit strategy was developed by the Management Audit Branch of the Inspector-General sub-Group in consultation with the Australian National Audit Office. The strategy has been accepted by the Defence Audit and Program Evaluation Committee. The objective of the strategy is to focus on risk and materiality and to ensure that higher risk areas within the portfolio are systematically reviewed over a three-year period. The strategy was developed as a result of a recommendation in the audit office's Report No. 46 - Internal Audit (Financial Control and Administration Audit) tabled on 28 May 1998.

Management Audit Branch also introduced a new audit recommendations management system to record recommendations and monitor their implementation. This system records Management Audit Branch as well as Australian National Audit Office recommendations and will enhance corporate governance through improved reporting to the Defence Audit and Program Evaluation Committee.

In accordance with the Defence portfolio evaluation strategy, three evaluation topics from the 1998-99 Portfolio Schedule of Evaluations were assigned by the then Defence Management Committee to the Inspector-General for completion. A brief summary of outcomes is as follows while further details are shown in Part 1 under the heading Portfolio Schedule of Evaluations for 1998-99.

- An evaluation of the Defence Community Organisation was conducted and a report has been forwarded to the Chief of the Defence Force and the Secretary for endorsement prior to public release, which is anticipated early in 1999-2000. The report highlights deficiencies in needs and resource usage data that require priority analysis, definition and resolution.

- The evaluation into minor capital equipment procurement was terminated after a preliminary survey and the submission of an interim report. The potential for rationalisation and integration identified has been incorporated into the ongoing business re-engineering processes of Support Command Australia.
- The evaluation into the Defence Legal Reserve Panel was devoted to the conduct of an organisational review of the Defence Legal Office in Canberra, with significant recommendations directed at improvements in efficiency and effectiveness.
- A survey of customer/provider arrangements, post-Defence Reform Program, was conducted as a preliminary to ongoing reviews of this aspect of Defence activities in the 1999-2000 portfolio schedule of evaluations. The report of the survey has better informed senior management on the regime of customer/provider arrangements and the issues warranting further analysis. In particular, an evaluation assessment will examine the need for a more detailed and in-depth description within a representative sample of Defence capability outputs.

The coverage and usefulness of Group training and education initiatives within the Defence organisation increases

A concerted effort was made to raise Defence personnel awareness of changes being brought about by the introduction of accrual and outcome/output-based management through the delivery of awareness seminars attended by some 1,900 staff. These seminars were held across Australia including in Canberra, Bandiana, Glenbrook, Adelaide, Williamtown, Sydney, Wollongong, Melbourne, East Sale, Oakey, Cairns, Brisbane, Perth, Darwin and Katherine to afford the largest possible number of staff the opportunity to attend.

Considerable attention was also paid to the design and development of new financial training and education packages to meet the needs of Groups while training continued to be provided in respect of the financial management system being phased out. All training was aimed at ensuring a high financial management performance was maintained. Financial training was provided to some 4,500 military and civilian staff during the year.

Ethics workshops were provided by the Inspector-General sub-Group for approximately 6,000 Defence employees. Feedback from workshop participants and organisers was positive. These workshops and the statement Defence and Industry: An Ethical Relationship have informed managers and employees of their ethical and fraud prevention responsibilities as required by the Financial Management and Accountability Act 1997. Similarly, the completion of a major piece of research on values within Defence represented an ethical health-check of Defence and positively answered the question “are we ethical managers in Defence?”.

The extent to which Defence security policies and practices manage the assessed threats to the Defence organisation

The Defence Security Branch has continued to raise the profile of security within the organisation through the provision of policy development, strategic advice, education and training and investigative services. The Branch has provided threat assessments to a variety of clients, undertaken complex security investigations and provided specialised technical support to portfolio clients.

Negotiations have been finalised on international treaty agreements with several to be signed in 1999-2000. Re-evaluation and modification of Defence security policy has continued to ensure that security practices are aligned to changing aspects in the strategic environment. The importance of all aspects pertaining to personnel security is reflected in the integration of positive and negative vetting functions into the Directorate of Personnel Security.

PERFORMANCE AGAINST FORECAST FOR 1998-99

- *Successfully manage the budgetary, resource allocation, in year management and accounting processes, including refinement of the processes to meet strategic management needs and to focus on accrual-based output management*

Achieved as Forecast For outcome details, see *Performance Outcomes for 1998-99* above.

- *Oversight the resource aspects of the implementation of the Defence Reform Program, including the tracking of savings and re-allocation*

Achieved as Forecast For a full discussion of Defence Reform Program achievements throughout 1998-99, refer to *Part One* of this report.

- *Continue provision of timely and responsive support to Ministers, Cabinet and Parliament, including meeting statutory reporting requirements*

Achieved as Forecast For outcome details, see *Performance Outcomes for 1998-99* above.

- *Continue development and implementation of an enhanced performance and resource management framework, including responding to the requirements of major resource initiatives and developing and enhancing corporate resource management information systems.*

Achieved as Forecast For outcome details, see *Performance Outcomes for 1998-99* above.

- *Manage the design and delivery of financial training and education to meet the needs of Groups, including in relation to revised resource management responsibilities and accountabilities.*

Achieved as Forecast For outcome details, see *Performance Outcomes for 1998-99* above.

- *Deal with allegations of fraud fairly, professionally and expeditiously;*

Substantially Achieved as Forecast While internal fraud case reviews indicate that allegations have been dealt with fairly and professionally, there has been a 30% increase in open cases over 12 months old. Superficially, this points to a decrease in timeliness, but an examination of these cases indicates that the investigations had been completed in all but one case. The cases where investigations had been completed were waiting for reclassification on the database or completion of an investigation report. The delay in this action occurred because several investigators were involved in a major investigation with the Australian Federal Police throughout the year.

- *Inform ethics promotion and fraud prevention activities and products by research as well as policy development in relevant areas;*

Achieved as Forecast For outcome details, see *Performance Outcomes for 1998-99* above.

- *Undertake successfully a comprehensive program of audits based on risk criteria and client requests;*

Achieved as Forecast One hundred and seven audits were completed or substantially completed during the financial year. Eleven of these have been issued as draft reports and are awaiting final comments from clients. The audits included:

- two national audits;
- nine capital investment reviews;

- eight major information technology audits, providing advice on efficient Introduction of new systems;
- 17 financial management audits;
- 33 regional audits;
- 32 audits completed at the request of base/unit commanders; and
- six tasks in support of general investigations and review.

These audits made 997 recommendations identifying improvement across a range of functions. Management accepted all of these except for 57 recommendations.

- *Manage the Defence market testing program and implementation of the Performance Improvement Cycle to meet agreed targets*

Achieved as Forecast The accelerated pace of market testing has resulted in the completion of 10, mainly garrison support, activities encompassing 1,512 positions. More than 30 further activities are under way. Policy advice has been significantly revised through the issue of the fifth edition of the Commercial Support Program Manual and exposure draft booklets on the methodologies of the performance improvement cycle and the Commercial Support Program. A comprehensive report on Defence's implementation of the performance improvement cycle has been provided to the Department of Finance and Administration.

- *Develop Defence security policies and practices to meet assessed threats, with increasing integration of security activities across the Portfolio*

Achieved as Forecast For outcome details, see *Performance Outcomes for 1998-99* above.

- *Complete the evaluations set out in the Portfolio Schedule of Evaluations, and undertake special reviews or tasks in the context of management improvement initiatives*

Achieved as Forecast For details refer to the Portfolio Schedule of Evaluations in Part One of this document.

RESOURCES

Table 14.1: Defence Function Outlays Summary

Sub-Group	1998-99	1998-99	1998-99	Variation	
	Budget Estimate	Revised Estimate	Actual Outcome	(98-99 Actual less Revised Estimate)	
	\$m	\$m	\$m	\$m	%
14.1 Resources and Financial Programs	-13.8	-13.1	-3.1	10.0	-76.5
14.2 Inspector-General	28.0	28.6	28.5	-0.2	-0.6
Group Total	14.2	15.5	25.4	9.9	63.7

Table 14.2: Staffing Summary

Sub-Group	1998-99	1998-99	1998-99	Variation	
	Budget Estimate	Revised Estimate	Actual Outcome	(98-99 Actual less Revised Estimate)	
	Personnel Numbers			No	%
14.1 Resources and Financial Programs	170	155	138	-17	-11.0
14.2 Inspector-General	215	216	210	-6	-2.8
Group Total	385	371	348	-23	-6.2

Table 14.3: Staffing Profile

<i>Personnel</i>		<i>Sub-Group</i>		<i>Total</i>
		14.1	14.2	
Permanent Force	98-99 Budget	0	26	26
	98-99 Revised	0	26	26
	98-99 Actual	0	26	26
Civilian	98-99 Budget	170	189	359
	98-99 Revised	155	190	345
	98-99 Actual	138	184	322
Total	98-99 Budget	170	215	385
Personnel	98-99 Revised	155	216	371
	98-99 Actual	138	210	348

1998-99 Defence Reform Program Progress

The Finance and Inspector General Group continues to achieve its planned Defence Reform Program savings in accordance with its implementation schedule. Implementation of the Resource and Output Management Accounting Network project, which is on schedule, will provide additional, unforecast gains across the Defence portfolio upon completion.

Table 14.4: 1998-99 Defence Reform Program Resources Available for Reinvestment

<i>Category</i>	<i>1998-99</i>	<i>1998-99</i>	<i>1998-99</i>	<i>Variation</i>	
	<i>Budget</i>	<i>Revised</i>	<i>Actual</i>	<i>(98-99 Actual less</i>	
	<i>Estimate</i>	<i>Estimate</i>	<i>Outcome</i>	<i>Revised Estimate)</i>	
	\$m	\$m	\$m	\$m	%
Administrative Support	0.6	0.6	0.6	0	0
Fringe Benefits Tax	16.0	0	0	0	0
Total	16.6	0.6	0.6	0	0

Table 14.5: 1998-99 Defence Reform Program Personnel Reductions – APS

<i>Category</i>	<i>1998-99</i>	<i>1998-99</i>	<i>1998-99</i>	<i>Variation</i>	
	<i>Budget</i>	<i>Revised</i>	<i>Actual</i>	<i>(98-99 Actual less</i>	
	<i>Estimate</i>	<i>Estimate</i>	<i>Outcome</i>	<i>Revised Estimate)</i>	
	Personnel Numbers			No	%
Logistics	2	2	2	0	0
Administrative Support	8	2	2	0	0
Total Personnel Reductions	10	4	4	0	0

Table 14.6: 1998-99 Defence Reform Program Reinvestment

<i>Category</i>	<i>1998-99</i>	<i>1998-99</i>	<i>1998-99</i>	<i>Variation</i>	
	<i>Budget</i>	<i>Revised</i>	<i>Actual</i>	<i>(98-99 Actual less</i>	
	<i>Estimate</i>	<i>Estimate</i>	<i>Outcome</i>	<i>Revised Estimate)</i>	
	\$m	\$m	\$m	\$m	%
DRP Transition Costs	0	0	0.3	0.3	-
Total	0	0	0.3	0.3	-

Table 14.7: Reconciliation of Appropriations for Finance and Inspector General Group

Division/Appropriation Item	1998-99	1998-99	1998-99	Variation	
	Budget Estimate	Revised Estimate	Actual Outcome	(98-99 Actual less Revised Estimate)	
	\$m	\$m	\$m	\$m	%
180-01 Running Costs					
Service Personnel	1.9	1.9	1.9	0	0
Civilian Personnel	21.4	21.9	20.1	-1.8	-8.2
Administrative Expenses	22.5	34.9	36.1	1.2	3.4
180-02 Other Services	2.1	2.1	0.9	-1.2	-57.1
181 Equipment & Stores	15.2	0.8	0.8	0	0
183 Defence Production	0	0	0	0	0
Total Defence Function Appropriations (A)	63.0	61.5	59.7	-1.7	-2.8
Total Defence Function Receipts (Offset Within Outlays) (B)	-48.8	-46.0	-34.4	11.6	-25.3
Total Defence Function Outlays (C)=(A+B)	14.2	15.5	25.4	9.9	63.7

Full accrual information for this Group is available in the *1998-1999 Financial Statements* in *Appendix F* to Part One of this document.

Table 14.8: Major Variations between 1998-99 Revised Estimate and 1998-99 Actual Outcome

Appropriation	\$m
180-01 RUNNING COSTS	
Civilian Personnel (-\$1.8m)	
Miscellaneous minor variations	-0.1
Net Group Transfers	-0.3
Decreased civilian salaries and superannuation payments mainly due to unexpected turnover in staff and delays in recruiting	-1.7
Defence Reform Program Reinvestment	
Defence Reform Program Transition Costs	0.3
Administrative Expenses (\$1.2m)	
Reprogramming of costs associated with the implementation of new financial management information system (Project Roman)	1.6
Net Group transfers	0.1
Miscellaneous minor variations	0.1
Reduced requirement for travel and other associated administrative costs	-0.6
180-02 OTHER SERVICES (-\$1.2m)	
Lower than anticipated Compensation and Act of Grace payments	-1.2
DEFENCE PORTFOLIO RECEIPTS (\$11.6m)	
Reduced Foreign Military Sales receipts - lower than anticipated refunds	11.6