Defence's Implementation of Audit Recommendations

Department of Defence
Defence Materiel Organisation

Canberra ACT
27 February 2013

Dear Mr President
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Defence and the Defence Materiel Organisation with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament. The report is titled *Defence's Implementation of Audit Recommendations.*

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—http://www.anao.gov.au.

Yours sincerely

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
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Summary

Introduction

1. Performance audits conducted by the Australian National Audit Office (ANAO)—often referred to as 'external' audits—involve the independent and objective assessment of the administration of Australian Government agency programs, policies, projects or activities. Audits initiated by agencies using resources under their control—known as 'internal' audits—fulfil a complementary role, providing assurance to agency management on the effectiveness of the internal control environment and identifying opportunities for performance improvement.[1]

2. Whether part of an external or internal program of review, audits contribute to better public administration by identifying opportunities for improved agency management and administration, and may include recommendations. Audit recommendations highlight actions arising from an audit report that are expected to improve agency performance when implemented, and generally address risks to an agency's delivery of its outcomes.

3. A key focus of audit activity is the consideration of the efficiency and effectiveness of agency administration, and consistency with legislative and policy settings—providing an independent assessment of the 'proper use' of public resources anticipated by the Australian Government's financial management framework.[2] ANAO performance audits and an agency's internal audits can assist agency Chief Executives to deliver on government program objectives and fulfil their 'special responsibilities' under the financial

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[1] The principles relating to audits and the implementation of audit recommendations discussed in this report are generally applicable to all Australian Government entities. In this audit, the term 'agency' is generally used, because both the Department of Defence and the Defence Materiel Organisation are Australian Government agencies subject to the requirements of the *Financial Management and Accountability Act 1997* (FMA Act).

[2] Section 44 of the FMA Act defines 'proper use' as 'efficient, effective, economical and ethical use that is not inconsistent with the policies of the Commonwealth'.

management framework, to manage agency affairs in a way that promotes the proper use of public resources.[3]

4.   A further 'special responsibility' of Chief Executives under the financial framework is the requirement to establish and maintain an audit committee. Audit committees have an important role in the internal governance framework of agencies subject to the *Financial Management and Accountability Act 1997* (FMA Act)[4], and the *Financial Management and Accountability Regulations 1997* (FMA Regulations) specify a range of functions for such committees, several of which relate specifically to internal and external audit.[5] Accordingly, while audit committees do not undertake management responsibilities and are not a substitute for management controls and accountabilities, they have an important role in assisting the Chief Executive to ensure that the agency derives the anticipated benefits from internal audit activity and responds appropriately to the findings and recommendations of external audits.

5.   The appropriate and timely implementation of recommendations that are agreed by an agency is an important part of realising the full benefits of an audit. A better practice approach to the implementation and oversight of audit recommendations exhibits: a clear process and timelines; the clear allocation of roles and responsibilities at each stage in the process; and appropriate regard by agency leaders and managers to the key principles for effective implementation. The key elements of a better practice approach are outlined in Table S1.

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[3]   Part 7 of the FMA Act sets out the 'special responsibilities' of agency Chief Executives, which include a requirement under section 44 to 'manage the affairs of the Agency in a way that promotes proper use of the Commonwealth resources for which the Chief Executive is responsible'.

[4]   Section 46 of the FMA Act requires an agency Chief Executive to establish and maintain an audit committee with functions that include: helping the agency to comply with obligations under the Act, the Regulations and Finance Minister's Orders; and providing a forum for communication between the Chief Executive, the senior managers of the agency, the internal auditors of the agency and the Auditor-General.

      The Directors of a Commonwealth authority must also establish and maintain an audit committee, in accordance with the *Commonwealth Authorities and Companies Act 1997* and the *Commonwealth Authorities and Companies Regulations 1997*.

[5]   The functions of audit committees are set out in FMA Regulation 22C. They include: advising the Chief Executive about the audit plans of the agency; coordinating work programs relating to internal and external audits; reviewing the adequacy of the agency's response to audit reports; and reviewing the content of audit reports with a view to advising the Chief Executive on good practice, significant matters of concern and opportunities for improvement.

Table S1

Elements of better practice in implementing audit recommendations

Process considerations	Roles and responsibilities[A]
A clear process for: • Assigning responsibility • Monitoring progress against timelines • Reporting • Follow-up and escalation • Closure	A clear allocation of roles and responsibilities at each stage in the process between the: • Senior responsible officer • Group/line area leadership • Internal audit unit • Audit Committee • Chief Executive
Key principles for effective implementation[B]	
• Identification of challenges • Governance • Risk management • Planning	• Stakeholder management • Resourcing • Communication • Monitoring and review

Notes: (A) The roles and responsibilities of stakeholders may vary depending on the stage in the implementation process.

(B) The key principles are drawn from the Australian National Audit Office and the Department of the Prime Minister and Cabinet Better Practice Guide—*Implementation of Programme and Policy Initiatives: Making implementation matter*, October 2006, Canberra.

6. A better practice approach recognises that the general principles applying to the implementation of program and policy initiatives—such as planning, stakeholder management, monitoring and review—have direct relevance to the implementation of audit recommendations.[6] More specifically, an effective agency system for implementing audit recommendations will exhibit:

• A clear process for assigning responsibility for implementing a recommendation to the appropriate line area within an agency, including identifying a responsible senior official, and establishing an agreed timeframe within which action should be completed (agreed between the actioning area and internal audit area, with input from the audit committee if considered appropriate). The responsible official

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6 The 2006 Better Practice Guide, *Implementation of Programme and Policy Initiatives,* emphasises the importance of leadership and effective support in the implementation process, and contains a number of checklists to assist agency Chief Executives, which have more general applicability for implementation activities.

should provide regular updates to an agency's internal audit function on progress in implementing the recommendation.

- An active role for internal audit in maintaining an appropriate process for monitoring the status of implementing agreed audit recommendations, and reporting this status to the agency's audit committee. Where internal audit is not satisfied with progress in implementing a recommendation, the matter should be escalated to senior line management, and if not effectively resolved, reported to the audit committee.

    - Internal audit may also have a role in reviewing the actions taken by the agency in response to a recommendation, commensurate with the level of risk posed to the agency by the issue the recommendation addresses.

- An audit committee that, on behalf of the agency's Chief Executive, monitors management's implementation of audit recommendations. The committee should also keep the agency Chief Executive informed on progress in implementing recommendations that are difficult to implement or are overdue.[7]

7. The Department of Defence has a well established internal audit function (Audit and Fraud Control Division) that is led by the Chief Audit Executive. Among other responsibilities, the division conducts internal audits and monitors the implementation of audit recommendations from both ANAO performance audits and internal audits. The division operates a dedicated information system, the Audit Recommendations Management System (ARMS), which provides a repository to track progress and record action taken in response to audit recommendations.

8. The department's audit committee—the Defence Audit and Risk Committee (DARC)—has multiple responsibilities, amongst which are monitoring the implementation of audit recommendations and advising the Secretary of Defence and Chief of the Defence Force (CDF) on significant issues identified in audits.

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[7]   For further information on better practice for internal audit and audit committees, see the following ANAO Better Practice Guides: *Public Sector Internal Audit: An Investment in Assurance and Business Improvement*, September 2012; and *Public Sector Audit Committees: Independent assurance and advice for Chief Executives and Boards*, August 2011.

9.   The Defence Materiel Organisation (DMO) also has an audit committee (a financial framework requirement, because DMO is an FMA Act agency)[8] and an internal audit function. While there are some parallel processes across the department and DMO, the department's audit function has final authority for closing DMO-related recommendations arising in ANAO and departmental audit reports. DMO is responsible for monitoring and closing recommendations in DMO internal audits.[9]

10.   The implementation of specific audit recommendations is the day-to-day responsibility of Defence (the department and DMO) management[10], and is undertaken by the responsible Defence line areas (known as Defence Groups).

11.   Consistent with its scale, complexity and financial materiality[11], the Defence organisation has been the subject of almost 200 internal (163) and external (33) audits, including ANAO financial statement audits, that made at least one recommendation in the last five financial years. Since July 2010, 968 recommendations from such audits have been managed by Defence.[12] Of these, 71 recommendations resulted from ANAO performance audits.

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8   DMO is listed as a prescribed agency under the FMA Act. For an agency to be prescribed for the purposes of the FMA Act, the basic premise is that it is legally or administratively independent at a level that justifies financial autonomy.

9   DMO conducts its own small program of internal audits, separate to the larger program of audits conducted by the department's audit area (Audit and Fraud Control Division), which audits across the Defence organisation, including DMO.

10   The Defence portfolio consists of a number of component organisations that together are responsible for supporting the defence of Australia and its national interests. The three most significant bodies are: the Department of Defence, the Australian Defence Force (the ADF) and the Defence Materiel Organisation. In practice, these three bodies have to work together closely and are broadly regarded as one organisation simply known as Defence or the Australian Defence Organisation. The Defence portfolio also contains the Department of Veterans' Affairs and associated bodies. However, the Department of Veterans' Affairs is administered separately to Defence and is not included in the terms 'Defence' or 'Defence organisation' or in the scope of this audit.

11   The Defence organisation manages over $30 billion in funding and employs over 102 000 civilian and ADF personnel. Its business and assets are geographically dispersed and supported by complex logistic and administrative support systems, and the organisation undertakes substantial procurement activity.

12   Recommendations that require action from different Groups are divided into multiple individual recommendations on ARMS, and are managed as separate recommendations. Hence, the actual number of unique recommendations would be less than 968.

Audit objective, criteria and scope

12.   The objective of the audit was to assess the effectiveness of Defence's monitoring of the implementation of ANAO and internal audit recommendations. This involved an examination of Defence's system and procedures for monitoring and reporting on the implementation of audit recommendations, including the roles of Defence's internal audit function, the Defence audit committee and the use of the ARMS database. The audit also examined a sample of ANAO and internal audit recommendations—reported as being complete by Defence—to assess the extent to which these recommendations had been implemented by Defence.

13.   To conclude against the audit objective, the audit examined whether:

- Defence's procedures and system for monitoring the implementation of audit recommendations provided adequate visibility and assurance on the status of audit recommendations to the Department of Defence's internal audit function and the Defence Audit and Risk Committee.

- Defence's procedures and system for monitoring the implementation of audit recommendations facilitated the adequate implementation of recommendations in a timely manner.

Overall conclusion

14.   External performance audits conducted by the ANAO, and internal audits initiated by Defence, contribute to the improvement of management and administrative practices so that better outcomes may be achieved. Audits of Defence's administration commonly address risks to the successful delivery of Defence outcomes and identify opportunities for improvement, generally through the use of recommendations. In combination, external and internal audit activity represents a significant investment of public resources, the benefit of which is only fully realised through the careful review of audit conclusions, and the timely implementation of agreed audit recommendations.

15.   In the Australian Government context, where responsibility for addressing audit conclusions and recommendations resides at the agency level, implementation relies on organisational leadership supported by timely management action and an effective system of oversight within each agency.

16.   Defence's system for implementing audit recommendations exhibits many positive elements, such as having a clear process for assigning responsibility, and systematic monitoring and reporting on progress by

Defence internal audit. There is also a generally clear allocation of roles and responsibilities within Defence. However, there are weaknesses in Defence's system with respect to following-up on slow implementation, escalating to senior management where there are continuing difficulties, and achieving closure on the implementation of recommendations within specified timeframes.

17. At a process level, Defence's system and procedures for monitoring and reporting on implementation provide adequate visibility and assurance on the status of audit recommendations to the department's and DMO's internal audit functions, and alert the departmental and DMO audit committees on overdue audit recommendations. However, regardless of the source of a recommendation (either ANAO or internal audit), or the priority assigned to its implementation by Defence, the timeliness of implementation is a significant problem. The average time taken by Defence to complete recommendations examined by the ANAO was approximately 400 days, which was on average 175 days later than the original estimated completion date agreed between the Defence Group responsible for implementing the recommendation and Defence internal audit. Additionally, approximately half of the 28 ANAO recommendations examined in this audit (all of which were reported as implemented by Defence) were assessed as not being adequately implemented. These outcomes indicate that monitoring and reporting are a necessary but not sufficient condition for achieving the timely and adequate implementation of audit recommendations.

18. Once agreed, audit recommendations become a management responsibility, and an effective system to implement recommendations will feature collective ownership within the agency and an action orientation which promotes timely and adequate management activity. In this respect the implementation of audit recommendations is similar to an agency's successful delivery of its other business, relying heavily on agency leadership and the active support of those charged with implementation (agency management) and its oversight (internal audit and the audit committees).

19. The monitoring of audit recommendations has not been one of the Defence Audit and Risk Committee's (DARC's) stated priorities, although it is a requirement under its charter. Further, the DARC has not provided an

annual report to the Secretary and CDF, which is also a requirement under its charter, and advice on audit recommendations has not formed part of the written reports the DARC provides to the Secretary and CDF after committee meetings.[13] While acknowledging the competing demands on the DARC flowing from the scale and complexity of the Defence organisation, this approach has provided very little time for the consideration of audit conclusions and recommendations.

20.   There is scope for the DARC to review the reports it receives on the status of overdue audit recommendations, to provide a stronger focus on the department's performance in implementing recommendations, and as a basis for alerting the Secretary and CDF of organisational risks that may arise from the failure to implement recommendations. A targeted approach would enable the Secretary and CDF to focus on key risks for Defence.

21.   Further, there are no consequences for responsible officers and Defence Groups for not implementing recommendations in a timely manner. For instance, in July 2012 the DARC wrote to six Group Heads seeking an update on recommendations overdue by more than 150 days. The DARC received no response to three of these six letters, and the DARC did not follow up this matter. While the DARC has the option to invite Group Heads responsible for overdue audit recommendations to attend a DARC meeting to provide further information, that is not the DARC's practice. To provide additional support to Defence leadership, the DARC should prepare an annual written report to the Secretary and the CDF on its operation and activities, as provided for in its charter. This report should include information on the overall effectiveness of Defence Groups in implementing audit recommendations, and Defence's monitoring and reporting arrangements.

22.   By not implementing agreed audit recommendations in a timely manner, Defence is foregoing opportunities to enhance its performance. This does not reflect well on those managers who have the responsibility to act on the agreed recommendations and deliver stronger outcomes for Defence. The DARC also has an important charter responsibility in encouraging a stronger focus on this aspect of the department's administration. To improve Defence's management and implementation of audit recommendations, the ANAO has

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[13]   Defence informed ANAO in February 2013 that written reports on each DARC meeting are provided when the Chair is unable to provide the Secretary and CDF with a verbal update.

made two recommendations aimed at reinforcing management responsibilities and accountabilities for the implementation of audit recommendations.

23. As a consequence of this audit, Defence informed ANAO in February 2013 that:

> Defence has initiated action to elevate the importance of the timely implementation of audit recommendations and to hold responsible officers to account for not implementing recommendations in a timely manner. Commencing 18 February 2013, the Chief Audit Executive will be providing to the Defence Committee on a regular basis, details of all overdue audit recommendations (both ANAO and Defence Internal Audit recommendations) as well as data on all outstanding recommendations.[14]

Key findings by Chapter

Governance Arrangements (Chapter 2)

24. Defence management is responsible for the implementation of recommendations to which Defence has agreed, including determining the appropriate actions to be undertaken to adequately implement the recommendations. To support management, and oversight overall progress, Defence has introduced clear governance arrangements for managing audit recommendations. These arrangements are based on: monitoring and reporting by the departmental internal audit function with support from the Defence Group responsible for implementation; an electronic database (the Audit Recommendations Management System—ARMS) that tracks progress and records action taken in response to audit recommendations; and reporting to and consideration by Defence's audit committee.[15]

25. Individual Defence Groups are required to manage the implementation of recommendations for which they have been assigned responsibility, with the timeframe for completion agreed between the Group and Defence internal audit. A senior officer within a Group is clearly assigned responsibility for implementing a recommendation, reflecting better practice.

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[14] For the full actions taken by Defence in response to Recommendation No.1, see paragraph 2.91.

[15] As discussed earlier, DMO has its own internal audit area that reports to its own audit committee—the Materiel Audit and Risk Committee (MARC).

26. In 2010, an ANAO report examined the implementation of 15 ANAO performance audit recommendations and identified that, although all these recommendations were marked as complete in ARMS by the responsible Defence Groups, only four had been fully implemented by Defence.[16] In response to this audit, Defence informed the ANAO that in order to address this issue, Defence Groups would no longer have authority for closing ANAO recommendations on ARMS, and that Defence Audit Branch (part of Audit and Fraud Control Division) would take responsibility for closing ANAO recommendations based on evidence provided by the Group. However, this revised procedure was not promulgated and implemented by Defence until January 2012.

Defence internal audit undertakes quality assurance reviews of implemented recommendations

27. Effective monitoring and review involves assessing the quality of action taken to implement a recommendation. Audit Branch undertakes quality assurance reviews of all ANAO performance audit recommendations, all high priority internal audit recommendations, and five per cent of other internal audit recommendations marked as complete in ARMS. However, quality-assuring the implementation of ANAO performance audit recommendations has resource implications for internal audit, and involves judgement in assessing the implementation status. Internal audit's role provides additional assurance to the Chief Audit Executive and the DARC that recommendations have been implemented as intended and claimed by the relevant Defence Group.

28. In reviewing the implementation of ANAO performance audit recommendations, a number were identified by the ANAO as not being implemented adequately although some of these recommendations had been assessed as implemented by the quality assurance review process. For these recommendations, implementation was considered by the ANAO to have been only partially complete, or was considered insufficient (either the action taken did not address the recommendation, or there is no evidence that action was undertaken).

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[16] ANAO Audit Report No.24 2009–10 *Procurement of Explosive Ordnance for the Australian Defence Force*.

The Audit Recommendations Management System has some limitations

29.   An effective information management system can underpin efforts to systematically monitor and report on progress in implementing recommendations. ARMS is a database that assists Audit Branch to track Defence's progress in implementing recommendations, and provides the basis for reporting statistical data to the DARC. Although recently updated in July 2012, the longer-term future of ARMS in its current form remains unclear. Vendor support for the version of the application software underpinning ARMS ceased in April 2010, and proposals to replace audit management systems have not been successful because of funding constraints and the priority assigned to it by the Defence Chief Information Officer Group (CIOG).

30.   During audit fieldwork, the ANAO analysed the ARMS database and interviewed users from Defence Groups about their experience in using ARMS. Defence Groups indicated that the useability of ARMS had improved with recent updates, but noted limitations with the user interface and reporting function. The ANAO found that the comments field on recommendations was updated infrequently, which often reflected that slow progress was being made in implementing a recommendation. There was also inconsistent attachment of supporting documents on closed recommendations, such as sign-off documentation from authorised officers.

There is scope for the DARC to have more involvement in following up overdue audit recommendations.

31.   The DARC is provided with aggregate statistics on all open ANAO and internal audit recommendations, as well as detailed statistical data on Defence's progress in implementing audit recommendations that are overdue by more than 60 days. The DARC has responsibilities and priorities beyond the consideration of audit matters, reflecting the scale and complexity of the Defence organisation. Currently, very limited time has been allocated for consideration by the DARC of audit recommendations. The status of recommendations, particularly those that are proving difficult or which have been slow to implement, is not a part of the DARC's written reports to the Secretary and CDF (these reports advise the Secretary and CDF on DARC business, and are provided when the Chair of the DARC is unable to verbally update the Secretary and CDF following a DARC meeting). Further, the DARC

does not provide an annual report to the Secretary and CDF, notwithstanding that it is a requirement under its charter.[17]

32. In July 2012, the DARC wrote to six Group Heads seeking an update on recommendations overdue by more than 150 days. The DARC received no response to three of these six letters, and the DARC did not follow up this matter. These letters did not lead to an increased focus from the DARC on overdue recommendations. The DARC also has the option of following up overdue recommendations with Groups by inviting responsible Group Heads with overdue recommendations to meet with the Committee, although this approach has never been employed.

33. A prominent role in monitoring and following up recommendations by an agency audit committee indicates the importance the Chief Executive places on the implementation of recommendations. To achieve the full benefit of audit recommendations, the ANAO has recommended that Defence reinforce managers' responsibilities for implementing agreed recommendations; and the DARC bring to the attention of the Secretary and CDF, on an exception basis, any recommendations of particular concern that have not been implemented.

Implementation of Audit Recommendations (Chapter 3)

34. There were 143 audits listed in the ARMS database as at 26 July 2012, covering ANAO audits (both financial statement and performance), Defence internal audits, and DMO internal audits. The July 2012 version of the database contains recommendations which are currently open, or were completed after 1 July 2010. These 143 audits include a total of 968 individually managed recommendations. Of these audits, 70 (49 per cent) are marked as having all their recommendations completed. As at 26 July 2012, there were 299 active recommendations of which 166 (56 per cent) were overdue.

The ANAO's sample testing highlighted problems with timeliness, and some issues with the extent of implementation

35. Defence's system exhibits many key elements of better practice, such as a clear allocation of roles and responsibilities amongst stakeholders. However, this has not led to the implementation of recommendations in a timely manner.

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[17] Defence informed ANAO in February 2013 that:

> Defence considers that such a report is likely to become a summation of the advice progressively provided to the SEC and CDF.

For audits in 2007–08 and 2009–10, the average time taken to implement a recommendation was 275 days. This included an average delay of 88 days compared to Defence's original estimated timeframe for completion. Only 34 per cent of recommendations in these two financial years were completed within the specified timeframe. On average, all recommendations that are currently outstanding are 400 days old. Of these, those that have exceeded their estimated completion date (that is, are overdue) are on average over 500 days old.[18]

36. For the sample of 52 Defence internal audits that were marked as having all recommendations completed on ARMS, authorisation to close these recommendations—from a nominated senior responsible officer within a Defence Group—was not always attached. For 19 of these audits authorisation was attached for all recommendations; for 15 of these audits authorisation was attached for some recommendations; and for 18 audits no authorisation was attached for any recommendation.

37. The ANAO also examined 48 Defence internal audit recommendations from 12 of the 52 audits in the sample. Approximately 80 per cent of the 48 recommendations were adequately implemented, based on evidence available in ARMS. However, the 12 audits reviewed by the ANAO are not representative of all the Defence internal audits with closed recommendations in ARMS. Approximately one-third of the total audits did not contain sufficient evidence to allow the ANAO to form a conclusion on the implementation of any of their recommendations. Further, only eight of these 48 recommendations were completed within Defence's estimated completion timeframe, with the average time taken to implement a recommendation being 429 days.

38. For ANAO performance audits, the ANAO examined all recommendations that were marked as completed in ARMS from July 2009 to July 2012—a total of 28 recommendations from nine audit reports. Sixteen of the recommendations reviewed were assessed by the ANAO as being adequately implemented; six were assessed as being partially implemented; and six were assessed as either not being implemented sufficiently or not

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[18] Outstanding recommendations include those that may have previously had an extension to their estimated completion date. Overdue recommendations include those that may have previously had an extension and then exceeded this revised timeframe. Estimated completion dates are usually set for between six and 12 months after the completion of the relevant audit.

having any evidence implementation available.[19] Timeliness was also a problem for the implementation of ANAO recommendations: the average time taken to implement these recommendations was 354 days, with only 10 per cent completed within Defence's nominated timeframe.

Delays in implementation mean the full benefits of recommendations are not being realised

39. Interviews with various Defence personnel, supported by the ANAO's examination of the ARMS database, highlighted a wide range of potential causes for the late or non-implementation of recommendations. These causes highlighted insufficient regard to many of the key principles for effective implementation outlined in Table S1, particularly planning, risk management and resourcing. Prominent causes identified were: the priorities and workloads of the staff responsible for implementation; recommendations being 'overtaken by events' or considered not possible to implement (for example when an internal audit recommendation relates to funding); frequent turnover of personnel; and a lack of meaningful consequences for those responsible when a recommendation is not implemented.

40. The DARC is required to provide an annual report to the Secretary and CDF on its operation and activities, including information on audit reports and recommendations. However, it has not been the DARC's practice to provide such a report. The DARC should provide additional support to Defence leadership, through an annual report to the Secretary and the CDF, including advice on the overall effectiveness of Defence's system for implementing audit recommendations. Providing high level visibility of Defence's effectiveness in implementing recommendations would further reinforce management responsibilities and accountabilities for implementation.

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[19] The ANAO categorised the implementation of recommendations into three groups. **Adequate**—the action taken met the intent of the recommendation, and sufficient evidence was provided to demonstrate the action taken. **Partial**—where the action taken was less extensive than expected by the ANAO (the action either fell short of the intent of the recommendation, or only addressed some of the intended issues), or where Defence may have established a process or procedure to address an issue, however the specific action noted in the recommendation has not been done (this could also be categorised as 'pre-emptive closure'). **Insufficient/no evidence**—either where there is no indication from evidence or comments that action has been undertaken, or the action taken does not address a recommendation at all.

41. Audit activity represents a significant investment of public resources, and the appropriate and timely implementation of agreed recommendations is an important part of realising the full benefits of an audit. Approximately 95 per cent of all ANAO performance audit recommendations are agreed in full by audited entities, following a process of formal consideration. It is expected that entities will only agree to recommendations where they accept the practical benefit of taking the corrective action contained in a recommendation, and that once agreed to, the recommendations will be implemented in a timely manner with sufficient management vigour and executive oversight.

Agency response

Defence acknowledges the findings contained in the audit report on *Defence's Implementation of Audit Recommendations*, and agrees to the two Recommendations. Defence appreciates the value of the audit process and continually seeks opportunities for improvement.

Defence understands that the timely implementation of audit recommendations is important for realising the full benefits of an audit and for enhancing performance. Defence welcomes the Recommendations made by the ANAO which are aimed at reinforcing management responsibilities and accountabilities for the implementation of audit recommendations, and has already commenced progress to further ensure that the importance of the timely implementation of audit recommendations is better understood across the Department.

The Chief Audit Executive will work with the Group Heads and Service Chiefs to provide to the Defence Committee, on a regular basis, advice on the status of audit recommendations. Defence considers this additional level of reporting is an effective method of reinforcing managers' responsibilities for implementing agreed audit recommendations and for bringing to the attention of the Secretary and Chief of the Defence Force, recommendations of particular concern.

Recommendations

Recommendation No.1 **Paragraph 2.90**	The ANAO recommends that, to achieve the full benefit of audit recommendations:

(a)   Defence reinforce managers' responsibilities for implementing agreed recommendations; and

(b)   the Defence Audit and Risk Committee bring to the attention of the Secretary and Chief of the Defence Force, on an exception basis, any recommendations of particular concern that have not been implemented.

Defence's response: *Agreed.*

Recommendation No.2

Paragraph 3.41

The ANAO recommends that the Defence Audit and Risk Committee, in accordance with its charter, provide an annual written report to the Secretary and Chief of the Defence Force on the operation and activities of the Committee. The report should include advice on the overall effectiveness of: Defence Groups' implementation of audit recommendations; and Defence's monitoring and reporting arrangements.

Defence's response: *Agreed.*

Audit Findings

1.   Introduction

This Chapter sets out the role of audits and audit recommendations, briefly outlines Defence's framework for managing audit recommendations, then outlines the rationale for this audit and the audit approach.

Overview of the audit

1.1   This audit examines Defence's system and procedures for monitoring the implementation of recommendations arising from Australian National Audit Office (ANAO) performance audits—often referred to as 'external' audits—and Defence internal audits. For the purpose of this audit, 'Defence' refers to the Department of Defence, the Australian Defence Force (ADF), and the Defence Materiel Organisation (DMO).[20] Defence's system and procedures involve an internal audit function within the department, an electronic database that records progress in implementing recommendations, and an audit and risk committee[21] that considers audits and audit recommendations, among other things. Defence's system and procedures provide support to, and oversight of, those directly responsible for the implementation of audit recommendations—the Defence Groups.

1.2   This Chapter sets out the overarching legislative framework and role for audit and audit recommendations, and provides detail on Defence's framework for managing audits and audit recommendations.

The role of audits and audit recommendations

1.3   The *Financial Management and Accountability Act 1997* (FMA Act) sets out the Australian Government's financial framework for the management of public resources, including public money and property, by 112 agencies.[22] Under Part 7 of the FMA Act, agency Chief Executives have 'special responsibilities' to manage agency affairs in a way that promotes the 'proper

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[20]   The Defence portfolio consists of a number of component organisations that together are responsible for supporting the defence of Australia and its national interests. The three most significant of these are: the Department of Defence, the ADF and the DMO. In practice, these three bodies work together closely and are broadly regarded as one organisation known as Defence (or the Australian Defence Organisation).

[21]   As a prescribed agency, DMO has its own audit and risk committee. See the section commencing at paragraph 1.12.

[22]   As at 5 September 2012.

use' of public resources, which is defined as efficient, effective, economical and ethical use that is not inconsistent with the policies of the Commonwealth.

1.4 The ANAO, agency audit committees and the internal audit functions of agencies play important roles in improving the management and administration of agencies. ANAO performance audits involve the independent and objective assessment of the administration of Australian Government agency programs, policies, projects or activities. Audits initiated by agencies with resources under their control—known as 'internal' audits— fulfil a complementary role, providing assurance to agency management on the effectiveness of the internal control environment and identifying opportunities for performance improvement.[23] Audit committees have an important role in assisting Chief Executives in complying with FMA Act obligations and providing a forum for communication between the agency, internal audit and the ANAO.[24]

1.5 Audit recommendations, whether from internal audits or ANAO performance audits, highlight actions arising from an audit report that, when implemented by the agency, are expected to improve agency performance. Recommendations also generally address risks to an agency's successful delivery of its outcomes. Audit reports may also encourage the agency to address opportunities for improvement even though the issue does not warrant a recommendation.

1.6 The specificity of recommendations may vary, depending on the issues identified in an audit. Specific recommendations propose particular action for the agency to undertake, while broad recommendations generally provide greater flexibility in addressing the issue for improvement. Defence internal audit recommendations are commonly specific, while ANAO performance audit recommendations may have a broader focus.

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[23] ANAO Better Practice Guide—*Public Sector Internal Audit*: *An investment in assurance and business improvement*, September 2012, Canberra, p. i.

[24] *Financial Management and Accountability Act 1997*, section 46.

Audit committees

1.7　　The FMA Act requires each agency Chief Executive to maintain an audit committee, to assist in meeting legislative requirements and for communication between senior management and auditors (both internal and the Auditor-General).[25] Audit committees have an important role in the governance framework of agencies by providing an independent source of assurance and advice to Chief Executives. A distinguishing feature of an audit committee within an entity's governance framework is its independence and objectivity, as audit committees do not undertake management responsibilities and are not a substitute for entity management controls and accountabilities.[26]

1.8　　The membership and responsibilities of an audit committee are established by the Chief Executive, in accordance with provisions in the *Financial Management and Accountability Regulations 1997* (FMA Regulations). The FMA Regulations also specify a range of functions of an audit committee, several of which specifically relate to internal and external audit reports and the agency's response to these. The shaded box below shows an extract of the

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[25] Section 46, FMA Act. Regulation 22C of the FMA Regulations provides that audit committees have a range of additional functions, which include reviewing the operational effectiveness of the agency's risk management framework. Directors of a Commonwealth authority must also establish and maintain an audit committee, in accordance with the *Commonwealth Authorities and Companies Act 1997* and the *Commonwealth Authorities and Companies Regulations 1997*.

[26] ANAO Better Practice Guide—*Public Sector Audit Committees: Independent assurance and advice for Chief Executives and Boards*, August 2011, Canberra, foreword.

relevant section of the FMA Regulations.[27] The FMA Regulations were updated in July 2011 to further elaborate the role of audit committees in FMA Act Agencies.

Extract from *Financial Management and Accountability Regulations 1997*, Regulation 22C

Functions of audit committee

(4) In addition to subsection 46 (1) of the Act, the functions of an audit committee include the following, unless the Chief Executive decides, in writing, that the committee is not to have a particular function...

(h) reviewing the adequacy of the Agency's response to reports of internal and external audits;

(i) reviewing the content of reports of internal and external audits, for the purpose of identifying material that is relevant to the Agency, and advising the Chief Executive about good practices;

(j) advising the Chief Executive about action to be taken on significant matters of concern, or significant opportunities for improvement, that are mentioned in reports of internal and external audits;

1.9 Accordingly, while audit committees do not undertake management responsibilities and are not a substitute for management controls and accountabilities, they have an important role in assisting the Chief Executive to ensure that the agency derives the anticipated benefits from the agency's internal audit activity, and responds appropriately to the findings and recommendations of external audits.

Better practice in implementing audit recommendations

1.10 The appropriate and timely implementation of recommendations that are agreed by an agency is an important part of realising the full benefits of an audit. A better practice approach to the implementation and oversight of audit recommendations exhibits: a clear process and timelines; the clear allocation of roles and responsibilities at each stage in the process; and appropriate regard by agency leaders and managers to the key principles for effective implementation. The key elements of a better practice approach are outlined in Table 1.1.

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[27] For a full list of audit committee responsibilities, see Regulation 22C(4) of the *FMA Regulations 1997*. For a further discussion of these responsibilities, see ANAO Better Practice Guide—*Public Sector Audit Committees: Independent assurance and advice for Chief Executives and Boards*, August 2011, Canberra, pp. 6–14.

Table 1.1

Elements of better practice in implementing audit recommendations

Process considerations	Roles and responsibilities[(A)]
A clear process for: • Assigning responsibility • Monitoring progress against timelines • Reporting • Follow-up and escalation • Closure	A clear allocation of roles and responsibilities at each stage in the process between the: • Senior responsible officer • Group/line area leadership • Internal audit unit • Audit Committee • Chief Executive
Key principles for effective implementation[(B)]	
• Identification of challenges • Governance • Risk management • Planning	• Stakeholder management • Resourcing • Communication • Monitoring and review

Notes: (A) The roles and responsibilities of stakeholders may vary depending on the stage in the implementation process. For instance, the internal audit unit will have roles and responsibilities across the whole process.

(B) The key principles are drawn from the Australian National Audit Office and the Department of the Prime Minister and Cabinet Better Practice Guide—*Implementation of Programme and Policy Initiatives: Making implementation matter*, October 2006, Canberra.

1.11 A better practice approach recognises that the general principles applying to the implementation of program and policy initiatives—such as planning, stakeholder management, monitoring and review—have direct relevance to the implementation of audit recommendations.[28] More specifically, an effective agency system for implementing audit recommendations will exhibit:

• A clear process for assigning responsibility for implementing a recommendation to the appropriate line area within an agency, including identifying a responsible senior official, and establishing an agreed timeframe within which action should be completed (agreed between the actioning area and internal audit area, with input from the

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[28] The 2006 Better Practice Guide, *Implementation of Programme and Policy Initiatives,* emphasises the importance of leadership and effective support in the implementation process, and contains a number of checklists to assist agency Chief Executives, which have more general applicability for implementation activities.

audit committee if considered appropriate). The responsible official should provide regular updates to an agency's internal audit function on progress in implementing the recommendation.

- An active role for internal audit in maintaining an appropriate process for monitoring the status of implementing agreed audit recommendations, and reporting this status to the agency's audit committee. Where internal audit is not satisfied with progress in implementing a recommendation, the matter should be escalated to senior line management, and if not effectively resolved, reported to the audit committee.

    - Internal audit may also have a role in reviewing the actions taken by the agency in response to a recommendation, commensurate with the level of risk posed to the agency by the issue the recommendation addresses.

- An audit committee that, on behalf of the agency's Chief Executive, monitors management's implementation of audit recommendations. The committee should also keep the agency Chief Executive informed on progress in implementing recommendations that are difficult to implement or are overdue.[29]

Defence's framework for managing audits and audit recommendations

1.12 The Department of Defence's audit committee, known as the Defence Audit and Risk Committee (DARC), was established by the Secretary of the Department and the Chief of the Defence Force (CDF), as required by section 46 of the FMA Act. The DARC meets several times throughout the year and is tasked with providing independent advice to the Secretary and the CDF on Defence governance, including audit, assurance, financial management and risk management issues.

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[29] For further information on better practice for internal audit and audit committees, see the following ANAO Better Practice Guides: *Public Sector Internal Audit: An Investment in Assurance and Business Improvement*, September 2012; and *Public Sector Audit Committees: Independent assurance and advice for Chief Executives and Boards*, August 2011.

1.13 The DMO also has an audit committee, the Materiel Audit and Risk Committee (the MARC). This is because the DMO is a prescribed agency[30] under the FMA Regulations and is obliged to comply in its own right with the FMA Act and Regulations. The MARC is tasked with providing independent assurance to the Chief Executive Officer (CEO) of DMO on the DMO's financial statements, the effectiveness of risk management controls, business performance, and audit matters.

1.14 The Department of Defence and DMO have also established dedicated internal audit areas tasked with providing support to their respective audit committees, undertaking internal audits in accordance with an approved plan, coordinating the agency's engagement with the ANAO on performance audits, and monitoring and reporting on the progress in implementing audit recommendations. This does, to an extent, create parallel processes across both agencies, although the department's audit area (Audit and Fraud Control Division) has final authority for monitoring and reporting on DMO-related recommendations arising from ANAO and departmental audit reports (not DMO's own internal audits).[31] A dedicated information system, the Audit Recommendations Management System (ARMS), provides a repository to track progress and record action taken in response to audit recommendations. An illustration of Defence's framework for managing audit recommendations is at Figure 1.1. Chapter 2 examines the administrative framework in more detail.

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[30] Prescribed agencies are defined in section 5 of the FMA Act as meaning 'a body, organisation or group of persons prescribed by the regulations for the purposes of this definition'. For an agency to be prescribed for the purposes of the FMA Act, the basic premise is that an entity should be legally or administratively independent at a level that justifies financial autonomy. Schedule 1 to the FMA Regulations lists all prescribed agencies.

[31] DMO conducts its own small program of internal DMO audits, separate to the larger program of audits conducted by the Department of Defence's audit area, which audits across the Defence organisation, including DMO.

Figure 1.1

The framework for managing audits and audit recommendations in Defence

Commonwealth legislative framework

- FMA Act – framework for managing public resources
- Sec 44 – Head of agency resp. for proper use of resources
- Sec 46 – Agency must have audit committee
- FMA Reg 22(4) – audit committee to review internal and external audits
- Auditor-General Act: provides authority for ANAO to conduct performance audits of all FMA Act agencies
- JCPAA periodically reviews ANAO Defence audits as part of ongoing review role

Defence's legislative framework

- Defence Act 1903 Sec 9A – Secretary & CDF jointly administer Defence force
- DMO a prescribed agency under FMA Regs – Schedule 1

Defence's administrative framework

- DARC advises Sec Def and CDF
- MARC advises CEO DMO
- Audit Branch (within the Audit & Fraud Control Division) manages day-to-day audit business
- Assurance & Audit Management Directorate (within the Governance & Assurance Branch) manages day-to-day audit business
- Defence Groups manage the implementation of audit recommendations
- Both use the ARMS database

Source: ANAO analysis.

Previous ANAO and parliamentary examination of Defence's performance in implementing audit recommendations

1.15   Previous ANAO audit reports and reviews by the Joint Committee of Public Accounts and Audit (JCPAA) have identified a number of issues with the closure of Defence audit recommendations. In 2000 and 2001, reports by the ANAO and JCPAA expressed concern about Defence's follow-up of internal and external audit recommendations.[32]

1.16   In 1998, Defence established the ARMS database to monitor the implementation of recommendations from ANAO, JCPAA, and internal audit reports. However, a 2002 ANAO audit found that Defence was not using ARMS to monitor all recommendations.[33] In response to this finding, the JCPAA requested that Defence's internal audit area review a sample of high priority recommendations from both JCPAA and ANAO reports to ensure that recommendations marked as 'complete' on ARMS had been implemented. Defence's review revealed instances where Defence staff were 'marking things "complete" simply because the due date was coming up, not because they had actually completed them'. The review also revealed cases where recommendations involving several areas of Defence were being partially implemented. In these cases, one area would mark the recommendation as complete on ARMS when it had completed its own responsibilities.[34]

2010 ANAO audit identifies closure of certain recommendations without action

1.17   In March 2010, the ANAO released Audit Report No.24 2009–10 *Procurement of Explosive Ordnance for the Australian Defence Force*. As a part of this audit, the ANAO assessed Defence's implementation of the 15 recommendations from the previous ANAO audit on explosive ordnance, released in 2006.[35] The status of all 15 recommendations from the 2006 audit

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32   Joint Committee of Public Accounts and Audit, *Review of Auditor-General's Reports 2000–01: Second & Third Quarters*, Report 385, August 2001, pp. 28, 38.

33   ANAO Audit Report No.3 2002–03 *Facilities Management at HMAS* Cerberus, p. 36.

34   Joint Committee of Public Accounts and Audit, *Review of Auditor-General's Reports 2002–03: First, Second & Third Quarters,* Report 396, September 2003, p. 21.

35   ANAO Audit Report No.40 2005–06 *Procurement of Explosive Ordnance for the Australian Defence Force (Army)*.

had been recorded as completed in the ARMS database. However, the 2010 audit identified that only four of the 15 recommendations had been fully implemented by Defence. The remaining nine recommendations were partially implemented, had limited progress in being implemented, or were not implemented.[36]

The findings of the audit led Defence to revise its procedures

1.18   During the course of that audit, in response to this finding, Defence informed the ANAO in November 2009 that it had revised the procedures for monitoring the implementation of, and authorising closure of, ANAO recommendations, effective immediately:

- Defence's internal audit division must now be consulted before any ANAO recommendations are marked as completed on ARMS.

- Every closed ANAO recommendation will be subject to follow-up review by internal audit to ensure that the actions required to close a recommendation have been completed to the Chief Audit Executive's (CAE's) satisfaction. These reviews will be performed twice a year.[37]

1.19   The DMO also revised its procedures in November 2009 for closing ANAO audit recommendations. This included the development of an implementation management plan for all recommendations, new reporting on recommendations for the CEO and division heads, and a process for closing recommendations that required the approval of the DMO CAE and an annual quality review of closed recommendations.[38]

But the revised procedures were not fully implemented until 2012

1.20   The Defence CAE advised the DARC in November 2009 that he would:

> be tightening the processes for the management of ANAO performance audit recommendations, in particular that he would review progress on a regular basis and only after Audit Division staff were satisfied that implementation of a recommendation was complete would the recommendation be closed.

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[36]   For a summary of the status of the recommendations, see ANAO Audit Report No.24 2009–10 *Procurement of Explosive Ordnance for the Australian Defence Force*, p. 25.

[37]   ANAO Audit Report No.24 2009–10 *Procurement of Explosive Ordnance for the Australian Defence Force*, p. 88.

[38]   ibid., pp. 88-89.

1.21   In the event, the revised procedures were not promulgated and fully implemented until January 2012. While ANAO recommendations were consistently subject to follow-up review after they were reported by the Group as complete, Audit Branch and the Chief Audit Executive were not required to approve the closure of ANAO recommendations until January 2012. In addition, DMO's proposal for after-the-fact quality review of a sample of closed recommendations was not implemented. DMO now plans to undertake such a review annually, commencing in 2012–13.

1.22   Chapter 2 examines Defence's processes for monitoring and closing audit recommendations.

Recent Parliamentary interest

1.23   In August 2012, the Senate Foreign Affairs, Defence and Trade References Committee released its final report on its inquiry into *Procurement procedures for Defence capital projects*.[39] During hearings for this inquiry, Senators questioned the ANAO on how the implementation of audit recommendations is followed up. In August 2011, Senator Bishop asked ANAO representatives:

> Over the years [*the ANAO has*] probably made hundreds of recommendations to Defence or to various arms of Defence ... Have you ever gone back and done a compliance study of the degree to which recommendations are made, implemented and maintained?

1.24   The responsibility for the follow up and implementation of ANAO recommendations, as well as recommendations made by internal audit, rests with agency management, supported by an agency's audit committee. However, the ANAO does from time to time follow up on an agency's implementation of particular recommendations, generally in the course of a fresh audit in an area previously audited. ANAO advised the committee of such an example: ANAO Audit Report No.24 2009–10 *Procurement of Explosive Ordnance for the Australian Defence Force* (discussed from paragraph 1.17). The committee indicated that it would be interested in the ANAO conducting future audits examining the implementation of ANAO recommendations.[40]

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[39]   Senate Foreign Affairs, Defence and Trade References Committee, *Procurement procedures for Defence capital projects*, August 2012.

[40]   Senate Committee on Foreign Affairs, Defence and Trade References Committee, *Procurement procedures for Defence capital projects*, Official Committee Hansard, 11 August 2011, p. 35.

1.25 The issue was raised again by Senator Humphries at a subsequent hearing in June 2012. The ANAO informed the committee that it was planning to undertake an audit to examine the implementation of selected recommendations and, more broadly, Defence's system for monitoring the implementation of internal and external audit recommendations.[41]

Other ANAO activity

1.26 Concurrent with this audit, the ANAO is also conducting an audit examining the implementation of ANAO audit recommendations across four other agencies[42], which is scheduled to be released later in 2013. In September 2012, the ANAO published an updated Better Practice Guide on *Public Sector Internal Audit*, which contains pertinent material on the management of audit recommendations.

Audit objective, criteria and scope

1.27 The objective of the audit was to assess the effectiveness of Defence's monitoring of the implementation of ANAO and internal audit recommendations. This involved an examination of Defence's system and procedures for monitoring and reporting on the implementation of audit recommendations, including the roles of Defence's internal audit function, the Defence audit committee and the use of the ARMS database. The audit also examined a sample of ANAO and internal audit recommendations—reported as being complete by Defence—to assess the extent to which these recommendations had been implemented by Defence.

1.28 To conclude against the audit objective, the audit examined whether:

- Defence's procedures and system for monitoring the implementation of audit recommendations provided adequate visibility and assurance on the status of audit recommendations to the Department of Defence's internal audit function and the Defence Audit and Risk Committee.

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[41] Senate Committee on Foreign Affairs, Defence and Trade References Committee, *Procurement procedures for Defence capital projects*, Official Committee Hansard, 12 June 2012, p. 11-12.

[42] The agencies are: the Department of Education, Employment and Workplace Relations; the Department of Families, Housing, Community Services and Indigenous Affairs; the Department of Finance and Deregulation; and the Department of Infrastructure and Transport. The audit does not examine internal audit recommendations from these agencies.

- Defence's procedures and system for monitoring the implementation of audit recommendations facilitated the adequate implementation of recommendations in a timely manner.

1.29 The audit methodology broadly included:

- Analysis of Defence's system and procedures for monitoring and managing the implementation of audit recommendations, including procedural documents and the ARMS database.

- Examination of Defence documentation providing evidence of the implementation of audit recommendations. The audit focused on the documentation for the sample of audit recommendations tested.

- Interviews with Defence staff involved in monitoring audit recommendations. This included staff in the audit areas of the Department of Defence and the DMO, the chairs of the Defence and DMO audit committees, and a selection of relevant officers within the Defence Groups responsible for the management and monitoring of recommendations.

1.30 This audit focuses on recommendations for Defence made in ANAO performance audits and internal performance/compliance audits. Recommendations made in the course of ANAO's annual audits of Defence's and DMO's financial statements were not reviewed. Financial statement audit recommendations are followed up as part of the yearly financial audit cycle, with the issues and findings that form the basis for recommendations separately reported.[43]

1.31 The audit was conducted in accordance with the ANAO Auditing Standards at a cost of $198 000.

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[43] See for example: ANAO Audit Report No.17 2011–12 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2011*; ANAO Audit Report No.51 2011–12 *Interim Phase of the Audits of the Financial Statements of Major General Government Sector Agencies for the year ending 30 June 2012*.

Report structure

1.32 The structure of the report is outlined below:

- Chapter 2 examines the governance arrangements in place to monitor the implementation of audit recommendations. These arrangements include the Department of Defence and DMO audit branches and audit committees, Defence Groups, and the ARMS database.

- Chapter 3 reports on the results of ANAO's analysis of Defence's performance in implementing both ANAO audit recommendations and those of Defence and DMO internal audits.

2. Governance Arrangements

This Chapter examines the governance arrangements in place to monitor the implementation of audit recommendations. These arrangements include the Department of Defence and DMO audit branches and audit committees, Defence Groups, and the ARMS database.

Introduction

2.1   Governance refers broadly to the processes by which organisations are directed, controlled and held to account.[44] Defence's governance arrangements for managing audit recommendations are based on: monitoring and reporting by internal audit based on information from the Defence Group responsible for implementing the recommendation, an electronic database (the Audit Recommendations Management System—ARMS) that tracks progress and records action taken in response to audit recommendations, and reporting to and consideration by the audit committee.

2.2   The governance arrangements are largely supported by the department's internal audit function. It is the practice of Defence to respond as a single entity to ANAO performance audit reports and recommendations, even though the DMO is a prescribed agency and therefore has its own audit committee and management responsibilities, including for the implementation of audit recommendations. This approach recognises that both ANAO and internal audit findings and recommendations will often involve the Defence organisation as a whole.

Defence internal audit: Audit and Fraud Control Division

2.3   The Department's Audit and Fraud Control Division sits within the Office of the Secretary and Chief of the Defence Force Group, and is headed by the Chief Audit Executive (CAE) of Defence. Audit Branch is part of this Division, and is headed by the Assistant Secretary, Audit. The principal role of Audit Branch is to provide Defence executive management and the DARC with assurance on Defence's risks management and controls. To fulfil this role,

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[44]   ANAO Better Practice Guide—*Public Sector Governance: Framework, Processes and Practices*, July 2003, Canberra, p. 6.

Audit Branch conducts internal audits, and prepares reports for management at the conclusion of each audit. These reports include recommendations to address control weaknesses and identify opportunities for improvement. Audit Branch also includes an audit summary when reporting the results of internal audit activity, which is intended to assist Defence management and the audit committee. The summaries highlight the CAE's audit opinion, findings and recommendations, and are included in briefing papers provided to the DARC.

2.4 A Management Action Plan is developed at the conclusion of each audit that identifies:

- the area of Defence that has responsibility for implementing recommendations;

- the action to be undertaken to implement recommendations; and

- the estimated completion date.

2.5 Figure 2.1 illustrates the number of audits undertaken by Defence's Audit Branch over the last five financial years.

Figure 2.1

Number of audits undertaken by Defence's Audit Branch over the last five financial years
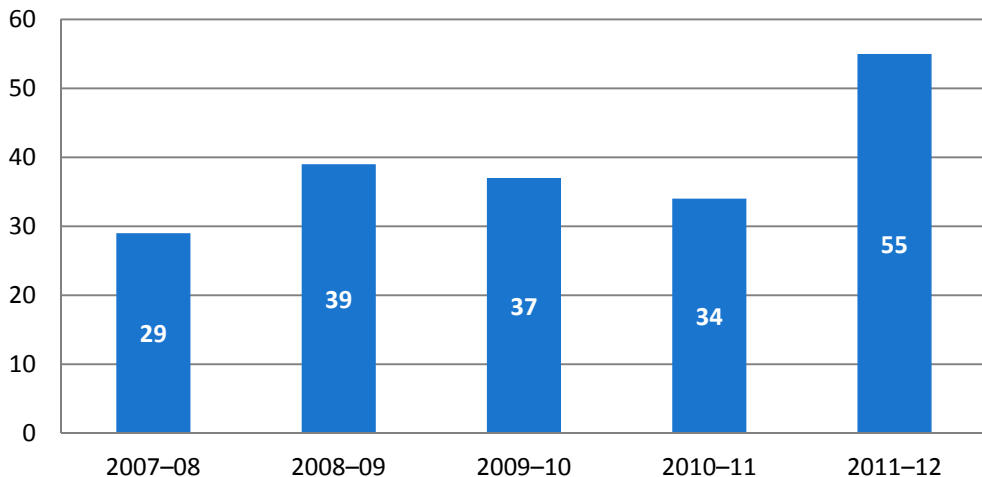
Source: Analysis of ARMS V3 data.

2.6   Audit Branch is also responsible for liaising with the ANAO during the conduct of ANAO performance audits, and coordinates the different areas of Defence that provide written responses to ANAO findings and recommendations. Once recommendations are agreed to by Defence, Audit Branch will manage the development of Management Action Plans for ANAO recommendations. The ANAO does not contribute to the development of the plan.

2.7   Audit Branch is responsible for monitoring Defence's progress in implementing agreed recommendations and reporting progress to the DARC. In this role, Audit Branch is assisted by the Operations Directorate within the Audit and Fraud Control Division. The Operations Directorate supports Audit Branch's audit planning process, develops and maintains audit policy and procedures, and manages ARMS, which is used as the basis for reporting on audit data, including audit recommendations. The Operations Directorate also coordinates the Division's interaction with the DARC.

2.8   In practice, the Operations Directorate and Audit Branch work closely together, and form the foundation of Defence's system for monitoring the implementation of audit recommendations. The ANAO interviewed personnel from three of Defence's 14 Groups responsible for monitoring and implementing audit recommendations within their Group[45] about their perspectives of how the process was currently working. Generally, they indicated that they were satisfied with the support provided by Audit Branch staff and Audit Branch's procedural documents.

Categorising audit recommendations

2.9   Defence categorises ANAO audit and internal audit recommendations according to their degree of risk and materiality. The categorisation of recommendations is determined between Defence Audit Branch and the responsible Group for ANAO performance audits, and by Audit Branch for internal audits.

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[45]   The three Groups interviewed for the audit (the DMO, Vice Chief of the Defence Force Group, and the Defence Support Group) were responsible for implementing the majority of ANAO audit recommendations since 2009.

     For the purposes of monitoring audit recommendations in Defence, DMO is treated as a Defence Group.

2.10 For all ANAO audits (performance and financial), Defence uses the ANAO financial statements' rating structure, which is a three tiered rating structure based on the significance and likelihood of a risk eventuating: category 'A' poses significant business or financial risk, category 'B' moderate risk, and category 'C' recommendations are procedural or minor administrative failings.

2.11 Internal audit recommendations are categorised using a two-tiered rating structure: 'level 1' are recommendations on matters that pose high risk and which identify significant deficiencies, and 'level 2' recommendations relate to moderate risk and deficiencies. The difference between the ANAO and internal categorisation is that the internal structure does not have a minor/procedural category, otherwise category A is comparable to level 1, and category B to level 2.

2.12 Table 2.1 shows the categorisation of all ANAO performance audit and Defence internal audit recommendations in the most recent database, covering the period July 2010 to June 2012, as well as older recommendations that were still open as at July 2010 (these were transferred from the previous version of ARMS—see paragraph 2.44). The table shows that ANAO performance audit recommendations are commonly categorised as moderate, while internal audit recommendations are more evenly spread between the high and medium categories.

Table 2.1

Categorisation of audit recommendations in ARMS

Categorisation	Number
ANAO performance audit recommendations	
Category A (significant)	7
Category B (moderate)	79
Category C (minor)	2
Internal audit recommendations	
Level 1 (high)	256
Level 2 (medium)	356

Source: ANAO analysis of ARMS V3 data.

2.13   The categorisation of audit recommendations has implications for how overdue recommendations are reported to the DARC (discussed in paragraph 2.66), and which internal audit recommendations are subject to quality assurance review (see paragraph 2.25).

Recent changes give Audit Branch responsibility for closing ANAO recommendations

2.14   Recommendations are allocated to a Defence Group for implementation. Traditionally, Defence Groups marked recommendations in ARMS as complete when they considered the recommendation implemented. From January 2012, Audit Branch has taken responsibility for closing ANAO recommendations, based on evidence provided by the Group (in the form of a closure pack—a summary of the work carried out by the Group to implement the recommendation, which should be supported by sufficient evidence and signed off by a senior executive).

2.15   A control limitation within ARMS means that Groups can close ANAO recommendations in ARMS. Audit Branch monitors for any such closure through an automated email from ARMS that notifies them when a recommendation has been closed by a Group. Since the introduction of the new procedures, one instance was identified where, due to a technical problem, the automated email was not generated after a Group had closed three ANAO recommendations without authorisation. As a result, this was not identified by Audit Branch until the ANAO sought additional evidence during this audit to support the closure of the recommendations. Audit Branch subsequently re-opened these recommendations—from ANAO Audit Report No.45 2009–10 *Contracting for Defence Force Recruiting Services* (released June 2010)—and reminded the relevant personnel that Groups must submit a Minute to the Assistant Secretary Audit, accompanied by sufficient evidence, to seek closure of ANAO performance audit recommendations (this is discussed further in paragraph 2.50).

Audit Branch's approval required for extensions to estimated completion dates

2.16   Estimated completion dates (ECDs) for both ANAO performance audit and internal audit recommendations are set as part of the development of the Management Action Plan for an audit. The ECD is set by Audit Branch, in discussion with the Group responsible for implementing the recommendation.

The ECD is usually set for between six and 12 months after the completion of the relevant audit.

2.17   Groups may seek an extension to the ECD by submitting a request to Audit Branch, although this is not mandatory. The Assistant Secretary, Audit will consider the request and advise the Group whether the request has been approved or rejected.

2.18   The ANAO found that Groups do not always apply for extensions to the due date for recommendations which are overdue. Some Groups may receive approval for an extension to a recommendation's ECD; however, the recommendation may still not be implemented in accordance with the revised due date. In one instance a Group sought an extension to the ECDs for three recommendations from an ANAO performance audit. The extension was not approved by Audit Branch; however the recommendations were not marked as complete until 18 months after the original ECD. The issue of timeliness in relation to the implementation of audit recommendations is discussed in further detail in Chapter 3.

DMO internal audit: Governance and Assurance Branch

2.19   DMO became a prescribed agency under the FMA Act in July 2005. As a result, DMO has its own CAE and internal audit section, and audit committee.[46] DMO has a parallel process for monitoring the implementation of audit recommendations relevant to it, but it uses the Defence ARMS database for managing audit recommendations.

2.20   The DMO Governance and Assurance Branch is headed by the Director-General of Governance and Assurance, who is also the CAE of DMO. The Branch manages the DMO internal audits, coordinates DMO's engagement with the ANAO on performance audits, and with the Department of Defence for internal audits that have DMO implications, and supports the agency's audit committee—the Materiel Audit and Risk Committee (MARC). Audit management responsibilities are undertaken by the Assurance and Audit Management Directorate within the Branch.

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[46]   Section 46 of the FMA Act requires the Chief Executive of a prescribed agency to establish and maintain an audit committee.

2.21 The DMO CAE's authority for monitoring implementation of, and closing, audit recommendations depends on the source of a recommendation:

- The DMO CAE has responsibility for monitoring and closing all DMO related recommendations contained in internal audits (both the Department of Defence's and DMO's internal audits).

- For DMO-related recommendations arising from ANAO performance audits, Defence's Audit Branch authorises closure of recommendations, while DMO's Assurance and Audit Management Directorate monitors progress during implementation.

2.22 The Assurance and Audit Management Directorate monitors the implementation of audit recommendations in a similar manner to Defence's Audit Branch. The Directorate and the relevant DMO line area develop Management Action Plans that identify the agreed high-level actions to implement a recommendation, those responsible for its implementation, and an estimated completion date. A subset to the Management Action Plan is then developed, which provides a more detailed summary of the planned activities and key dates.

2.23 The Assurance and Audit Management Directorate will assist the relevant area of DMO, when required, in producing an appropriate closure pack, and will review the evidence prior to closing the recommendation on ARMS (for internal audits) or providing the evidence to the Defence CAE for sign off (for external ANAO performance audits).

Quality assurance reviews of implemented recommendations

2.24 Audit Branch undertakes quality assurance reviews (QA reviews) of implemented recommendations (that is, recommendations marked as complete on ARMS) with the aim of providing assurance to the Defence audit committee, Secretary and CDF that recommendations have been implemented by Defence management as intended.

2.25 In 2010, Audit Branch updated its procedures regarding QA reviews of audit recommendations. An April 2010 minute from the CAE advised Group Audit Coordinators that:

> Currently, Audit Branch conducts quarterly reviews of all Level 1 and 5% of Level 2 Audit Branch recommendations listed as 'Complete' on ARMS during the preceding quarter. Commencing 1 August 2010, Audit Branch will no

longer be reviewing Level 2 Audit Branch recommendations but will be conducting reviews of all ANAO assurance/performance recommendations (Category A and Category B). The results of these reviews will be included in my report to the DARC for their May and November meetings.

2.26 In October 2011, Audit Branch reintroduced the five per cent quality assurance of level 2 recommendations. With the introduction of the new Audit Branch procedures in January 2012, Audit Branch intends that all ANAO recommendations are to be subject to QA review prior to the CAE approving closure.

Process for QA reviews

2.27 Prior to commencing a QA review of completed recommendations, Audit Branch notifies affected Groups in writing. Audit Branch in the first instance will review the documentation on ARMS supporting the closure of each recommendation. In the absence of sufficient evidence on ARMS to support recommendation closure, Audit Branch then seeks evidence from the responsible Group to support the recommendation's closure.

2.28 Following the completion of the review, Audit Branch provides a minute to the Group notifying it of the results. As part of the new procedures for managing audit recommendations, the internal auditor undertaking the QA review is required to upload all documents relating to the review on ARMS. If Audit Branch concludes that the recommendation has not been satisfactorily implemented, it will reopen the recommendation on ARMS and assign a new completion date. CAE will only authorise closure for an ANAO recommendation on ARMS if the QA review is satisfactory.

Outcomes of the QA reviews

2.29 Since July 2009, Audit Branch has conducted QA reviews of more than 200 recommendations. Through this process, it identified eight recommendations for which there was insufficient evidence to support closure, and so subsequently reopened the recommendations on ARMS. All eight of the reopened recommendations were made in Defence internal audits. There have been no instances since July 2009 where a QA review has identified the need to reopen a closed ANAO performance audit recommendation.

2.30 In the course of the audit the ANAO, through testing of the implementation of ANAO performance audit recommendations, identified problems with the implementation of some ANAO audit recommendations that have undergone a QA review, and have been found by Audit Branch to

have been satisfactorily implemented. For these recommendations, implementation was considered by the ANAO to have been only partially complete, or was considered insufficient (either the action taken did not address the recommendation, or there is no evidence that action was undertaken). Chapter 3 discusses the results of ANAO's testing of the implementation of audit recommendations).

2.31 Quality-assuring the implementation of ANAO performance audit recommendations has resource implications for internal audit, and involves judgement in assessing the implementation status. ANAO performance audit recommendations may have a broad focus, providing greater flexibility in addressing the issue for improvement, and these broader recommendations may not be as straightforward for internal audit to assess (as opposed to specific recommendations).

2.32 It is the Defence Groups that have the primary responsibility for both determining what action is adequate to implement these recommendations and undertaking that action. Internal audit's role provides additional assurance to the Chief Audit Executive and the DARC that recommendations have been implemented as intended and claimed by the relevant Defence Group.

Role of the Defence Groups

2.33 While the internal audit functions within Defence and DMO monitor progress, the individual Defence Groups are required to implement audit recommendations, as implementation is ultimately a management responsibility. To assist the Groups in this role, and provide a conduit between them and Audit Branch, each Group has a Group Audit Coordinator (GAC) and an ARMS Contact Officer (ACO).[47] In addition:

- A 'responsible officer' is assigned responsibility for the Group's implementation of the recommendation. These are generally senior executives or senior military officers. There are some recommendations, however, where the responsible officer is the GAC.[48]

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[47] GACs and ACOs also have other corporate roles and responsibilities.

[48] GACs may also be a Group's financial officer, and therefore have responsibility for financial recommendations.

- An 'action officer' progresses the recommendation and is the primary point of contact for Audit Branch. An action officer is generally less senior than the responsible officer.

2.34 As part of the audit fieldwork, the ANAO interviewed a selection of GACs and ACOs in order to assess their part in monitoring the implementation of recommendations. The results of these interviews are discussed further in Chapter 3 (particularly Table 3.8). The table shows that these causes often related to insufficient regard being paid to many of the key principles for effective implementation identified in Table 1.1, particularly planning, risk management and resourcing.

2.35 Figure 2.2 illustrates the key areas involved in managing the implementation of audit recommendations in Defence.

Figure 2.2

Key areas involved in managing the implementation of audit recommendations in Defence
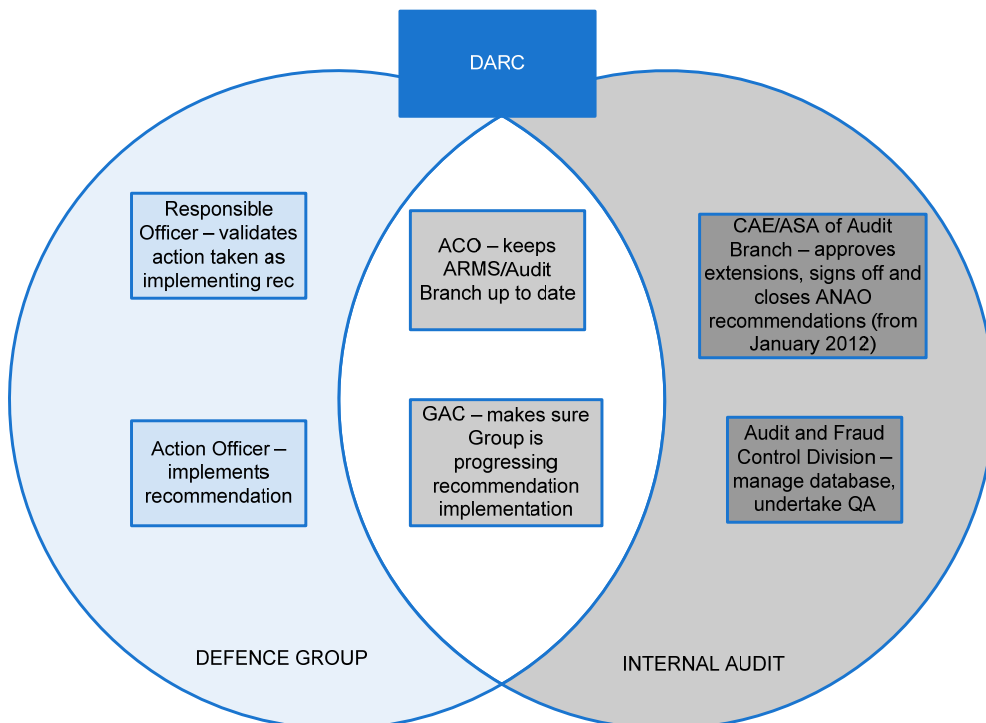
Source: ANAO analysis of Defence information. See next page for Acronym explanation.

Note: This Figure does not reflect the arrangements for managing DMO internal audit recommendations.

Acronym explanation:

> DARC—Defence Audit and Risk Committee;
>
> ACO—ARMS Contact Officer
>
> GAC—Group Audit Coordinator
>
> CAE—Chief Audit Executive
>
> ASA—Assistant Secretary, Audit
>
> QA—Quality Assurance

Group Audit Coordinators (GACs)

2.36 The role of the GAC is to monitor and coordinate all audit activity within their Group or Service, including nominating points of contact for audits, and distributing and providing comments on draft audit reports. The GAC is also responsible for providing details on progress and expected completion dates for audit recommendations to Audit Branch. The GAC is typically Audit Branch's first point of contact for obtaining information from a Group on overdue recommendations, primarily prior to every DARC meeting.

2.37 All GACs meet on a quarterly basis with the CAE. These meetings provide an opportunity to discuss issues relating to audit activity. The GACs interviewed as part of the audit noted that the monitoring and coordination of audit recommendations is one of a range of issues discussed, and while GACs are reminded of specific overdue recommendations for their Group at these meetings, the reasons for delays are not discussed. Each Defence Group manages recommendations that relate to their group, and different Groups may take different approaches to managing the implementation of recommendations.

2.38 The GACs interviewed by the ANAO advised that their Group Heads are provided with regular status reports on audit recommendations. For the Vice Chief of the Defence Force (VCDF) and Defence Support and Reform Group Executive, these are monthly financial status and corporate performance reports that include discussion of audit recommendations. The reports contain information on overdue audit recommendations and recommendations with an estimated completion date within the next three months. The Defence Support and Reform Group reports also include information on non-overdue recommendations and the Group's overall performance. Reporting to the CEO of DMO—provided quarterly as part of a larger report—was provided until February 2010. These reports were more abbreviated than those provided to VCDF and Defence Support and Reform Group, providing aggregate statistics on all recommendations and a brief

comment on the number of overdue recommendations. DMO informed ANAO that they are developing a new progress report on overdue DMO recommendations to provide to the CEO of DMO and other senior DMO managers, and expect to provide the first such report early in 2013.

2.39 The executive reporting by the VCDF Group and Defence Support and Reform Group adequately informs Group Heads on the status of, and progress in, implementing audit recommendations.

ARMS Contact Officers (ACOs)

2.40 ACOs provide a link between Audit Branch and the Group or Service staff responsible for implementing recommendations. The ACO reports on the progress in implementing audit recommendations within their Group or Service. When a recommendation is recorded in ARMS by Audit Branch, the ACO updates the recommendation record to include the actions to be taken to implement the recommendation, as well as details such as the action officer responsible for implementing the recommendation.

2.41 ACOs are responsible for ensuring that active recommendations are updated on ARMS at least monthly, including detailed comments regarding progress on recommendation implementation. However, in practice the comments field in ARMS is usually updated less frequently, and the quality of the comments varies considerably (see paragraph 2.50).

The Audit Recommendations Management System (ARMS)

2.42 An effective information management system can underpin efforts to systematically monitor and report on progress in implementing recommendations. Defence manages ARMS, a database located on the Defence Restricted Network (DRN), for this purpose. ARMS assists Audit Branch to track Defence's progress in implementing recommendations, and provides the basis for reporting statistical data to the DARC. It contains information on all the recommendations made in ANAO and internal audits.

2.43 As noted in Chapter 1, although report recommendations from Parliamentary inquiries were originally intended to be recorded and monitored in ARMS, the database does not include such recommendations or recommendations from other external Defence reviews. There is no single system for monitoring the implementation of these recommendations.

2.44 ARMS was originally created in 1998 and archived versions cover audit recommendations dating back to November 1998. The current version (V3) was created in July 2012, and includes recommendations made since July 2010, as well as older recommendations that had not been implemented as at that date.[49]

While recently updated, ARMS remains based on outdated software

2.45 Although updated in July 2012, the longer term future of the ARMS database in its current form remains unclear. Vendor support for the version of the application software underpinning ARMS ceased in April 2010, and Defence has not decided whether to utilise the software in the longer term.

2.46 The Defence Chief Information Officer Group (CIOG) manages the Defence Approved Software list, which is the authoritative list of all applications and software than can be used on Defence networks. The list includes various applications utilising the software used for ARMS, which has been categorised by CIOG as either 'review', 'retire' or 'move'. In particular, ARMS is recommended for review, as the list states that it has 'no business case', while the recommendation for the software underpinning ARMS is 'retire'.

A replacement for ARMS is being pursued through another project

2.47 Defence informed the ANAO that there have been proposals over time to move away from the existing software platform for managing recommendations. However, proposals to replace the audit management systems have not been successful because of funding constraints and the priority assigned to it by CIOG.

2.48 In July 2011, the DARC was informed that the Defence Occupational Health and Safety Branch was seeking to replace its management information system, and that this system could potentially also be used for the Audit and Fraud Control Division's audit requirements. In the meantime, a smaller scale update of the ARMS database was pursued, which led to the development of ARMS V3 in July 2012.

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[49] As part of audit fieldwork, the ANAO analysed V3 (created July 2012) and V2 of the ARMS database. V2 is an archive of recommendations completed between May 2001 and June 2010.

2.49   As at September 2012, the now Workplace Health and Safety Branch was continuing to develop the new software to replace its management information system. Full functionality of this system is expected to be delivered in 2014, but Audit Branch has not committed to using the system until it is clear the system can meet Audit Branch's requirements.

ANAO observations of, and Defence users' experience with, ARMS

2.50   In accessing ARMS during the course of the audit, the ANAO made a number of observations. Users in DMO, Defence Support Group and Vice Chief of the Defence Force Group were also interviewed about their experience in using ARMS. The following dot points present the key observations and experiences.

- **Useability of ARMS could be better, but has improved with a recent system update**. While most users were comfortable using ARMS and considered it adequate, some found that it was not user-friendly and the interface 'clunky'. All users agreed, however, that the enhancements to the database provided as part of the V3 update, despite being relatively minor, improved its useability. The ANAO audit team—which primarily used V3—considered that ARMS was relatively straightforward to use.

- **Reports generated from ARMS are useful, but are limited to statistics.** Some users found that reports from ARMS were not easy to run or sufficient for the required reporting purposes. ARMS produces two automatically generated reports: one on all open recommendations and the other on all overdue recommendations. While these reports provide a useful quantitative snapshot of open and overdue recommendations, tailoring reports to a particular Defence Group, or producing a report that includes the comments field (which should explain any delay in implementation), requires manual manipulation.

- **Comments are updated by Groups infrequently and do not show evidence of Group monitoring**. The comments recorded in ARMS for most of the recommendations in the ANAO's sample had not been updated regularly by Defence Groups. The comments field was generally used to highlight when tangible progress had been made rather than to demonstrate that the Defence Group was actively monitoring progress. The revised Audit Branch procedures

promulgated in January 2012 require, at a minimum, that Groups update the comments on a monthly basis.

- **Supporting documents were inconsistently attached**. There was a lack of consistency in uploading evidence of action taken to implement recommendations, and closure sign-off for recommendations. ANAO examined the ARMS records relating to internal audits included in V3 of ARMS where all of the audit recommendations had been marked as complete. For most of these recommendations, evidence of implementation had not been attached. For those where documentation was attached, it was usually a minute explaining what had been done, rather than evidence of the implementation. For the ANAO audits there was more variety regarding the documentation uploaded into ARMS: for some audit recommendations complete closure packs were attached, while for others no documentation had been attached. Audit Branch sought to address this issue in the revised procedures it issued in January 2012, which require Groups to attach closure documentation on ARMS.

- **Technical disruptions may interfere with database usage**. ACOs and GACs interviewed by the ANAO noted that ARMS had occasional technical issues that have caused access problems. Related to this, as mentioned in paragraph 2.15, three recommendations from an ANAO performance audit were closed by a Group in 2012 without seeking approval for closure from the Assistant Secretary, Audit. This was not identified by the Operations Directorate until the ANAO requested additional information on these particular recommendations during audit fieldwork. This unauthorised closure was caused by a disruption to the server through which the Operations Directorate access the database at the time the Group closed the recommendations. Such disruptions occur periodically within Defence.

The Defence Audit and Risk Committee (DARC)

2.51   An effective agency system for implementing audit recommendations will be supported by an audit committee that, on behalf of the agency's Chief Executive, monitors management's implementation of audit recommendations, prioritising for action recommendations that are difficult to implement or are overdue.

2.52   The Defence Audit and Risk Committee (DARC) was established by the Secretary and CDF,[50] as required by section 46 of the FMA Act. The DARC meets approximately six times a year, with some meetings dedicated to specific business, such as a yearly planning session, consideration and sign-off of the department's financial statements and Strategic Reform Program sign-off. In line with the ANAO Better Practice Guide *Public Sector Audit Committees*, the DARC has a number of members external to Defence, including the Chair.[51]

The DARC Charter

2.53   The DARC Charter sets out 'the Committee's objectives, authority, composition and tenure, roles and responsibilities, reporting and administrative arrangements'. The Charter makes clear that the DARC does not have management responsibility:

> The DARC has no executive powers, except those expressly provided by the Finance Minister's Orders or delegated to it by the Secretary and CDF.

> The DARC is directly responsible and accountable to the Secretary and CDF for the exercise of its responsibilities. In carrying out its responsibilities, the DARC must at all times recognise that responsibility for management of Defence rests with the Secretary and CDF.

2.54   The DARC's roles and responsibilities under the Charter in relation to internal audit and external audit are outlined in Figure 2.3. The DARC's

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[50]   Section 9A of the *Defence Act 1903* requires that the Secretary and the CDF shall jointly administer Defence, except for matters falling within the command of the Defence Force by the Chief of the Defence Force or the command of an arm of the Defence Force by the service chief of that arm of the Defence Force; or any other matter specified by the Minister.

[51]   The current Chair has had extensive experience in the private sector and, at the request of the Minister, has worked on several Defence issues, such as the Review *Reform of Amphibious and Afloat Support Ship Repair and Management Practices*, its subsequent implementation committee, and is part of the Ministerial advisory group for the 2013 White Paper development.

specific responsibilities in relation to the monitoring of audit recommendations are bolded.

Figure 2.3

The roles and responsibilities of the Defence Audit and Risk Committee in relation to internal and external audit

Internal audit responsibilities	*External audit responsibilities*
• Reviewing internal audit coverage and annual work plan • Advising the Secretary on the adequacy of internal audit resources • Reviewing the coordination of audit work programs • **Advising the Secretary and CDF on significant issues identified through audits** • **Monitoring the implementation of recommendations** • Reviewing the internal audit charter • Reviewing the performance of internal audit • Advising the Secretary on the appointment of a Chief Audit Executive	• Reviewing the financial statements and performance audit coverage provided by the ANAO • Reviewing ANAO reports • **Monitoring the implementation of recommendations** • **Advising the Secretary and CDF on action to be taken on significant issues raised in external audit reports**

Note: Emphasis added.

Source: Defence Audit and Risk Committee Charter.

2.55 In order to meet these responsibilities, the Charter provides the DARC with authority to collect information, request audits and review, and 'request the attendance of any employee at committee meetings'.

2.56 An audit committee should advise the agency Chief Executive on progress in implementing recommendations, particularly those that are difficult to implement or are overdue.

2.57 The Chair of the DARC informed ANAO that he meets with the Secretary and CDF on a regular basis to discuss the committee's meetings and activities. Defence further informed ANAO that written reports are only provided when the Chair of the DARC is unable to verbally update the Secretary/CDF following a DARC meeting. Since 2011, the Chair has provided several written reports to the Secretary and CDF on audit committee matters.

These briefs provide advice on various matters, such as the Certificate of Compliance[52], Defence's Financial Statements, Defence's Strategic Reform Program[53], the DARC's strategic priorities for the coming year, and the outcomes of particular meetings. Since 2011, only one of the reports has specifically mentioned audit recommendations, and it was in the context of this ANAO audit. The brief for the Secretary and the CDF on the outcomes of the 17 July 2012 meeting noted that:

> The Committee had a useful discussion around audit recommendations and it was highlighted that senior leaders need to be held more accountable for not progressing audit recommendations in a timely manner.[54]

2.58 The DARC's charter formally requires the DARC to provide an annual report to the Secretary and CDF on its operation and activities,[55] including:

> a summary of Defence's progress in addressing the findings and recommendations made in internal, external and applicable Parliamentary Committee reports.

2.59 Notwithstanding the requirement in the charter, a written annual report is not provided to the Secretary and CDF. The DMO audit committee does provide such a report (see paragraph 2.80). The potential benefits of providing an annual report, including information on the timeliness of Defence Groups in implementing audit recommendations, is discussed at paragraph 3.39.[56]

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[52] The Chief Executives of all agencies under the FMA Act are required to provide a completed Certificate to their portfolio Minister each year as a means of identifying and disclosing instances of non-compliance with the financial management framework.

[53] The Strategic Reform Program (SRP), announced in 2009, is planning to deliver $20 billion in savings across the Defence portfolio over 10 years, with retention of agreed capability and no reduction in either safety or sustainability.

[54] Brief for the Secretary/CDF: Defence Audit and Risk Committee (DARC) – Outcomes of 17 July 2012 Meeting, 2 August 2012, p. 3.

[55] The 2011 ANAO Better Practice Guide *Public Sector Audit Committees* (p. 29) also states that:

> For formal accountability purposes it is also expected that the committee would, at least once a year, report to the Chief Executive/Board on its operation and activities during the year.

[56] Defence informed ANAO in February 2013 that:

> Defence considers that such a report is likely to become a summation of the advice progressively provided to the SEC and CDF.

Review of other ANAO performance audits and better practice guides

2.60 A function of an audit committee under the FMA Regulations is to review internal and external audits to identify material relevant to an agency and to advise the Chief Executive about good practices. The ANAO Better Practice Guide *Public Sector Audit Committees* (p. 13) states that an audit committee should review all external audit reports and provide advice to the Chief Executive on action to be taken on significant issues raised in relevant external audit reports or better practice guides. In line with the FMA Regulations and the ANAO Better Practice Guide, one responsibility of the DARC under its Charter is to:

> Review ANAO reports, including implications to Defence of audit recommendations and guidance arising from cross-portfolio audits and better practice guides...

2.61 The committee is briefed by CAE on cross-portfolio audits where Defence has contributed. However, the DARC does not actively consider cross-agency performance audits and better practice guides that Defence has not been directly involved in, although ANAO representatives provide a progress report on all cross-agency performance audits and better practice guides. There would be benefit in the DARC, based on advice and support from the department's internal audit area, reviewing such audits and guides to identify any findings and recommendations of potential relevance to Defence, and then notifying the relevant business areas of these findings and recommendations.[57]

2.62 In response to this suggestion, Defence informed ANAO in November 2012 that:

> In light of the very limited time the DARC currently affords to audit matters more generally, the effort required to implement this suggestion is likely to be an inefficient, and possibly in-effective, use of resources.

2.63 While a matter for Defence, this response does not engender confidence that Defence is openly seeking to improve its performance by drawing on the experience of other agencies. There are various options available to agencies to

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[57] For example, between January and July 2012 two Better Practice Guides were published by the ANAO that have relevance for Defence: *Developing and Managing Contracts* (published February 2012) and *Public Sector Environmental Management* (published April 2012).

provide streamlined advice to business areas of audit findings and recommendations in other agencies which may be relevant to Defence.[58]

The role of the DARC in monitoring overdue recommendations

2.64   The ANAO Better Practice Guide *Public Sector Audit Committees* provides the following comment on audit committee management and monitoring of audit recommendations:

> One way the committee can effectively monitor management's implementation of audit recommendations is to have a standing agenda item requiring a listing of outstanding recommendations to be tabled at scheduled meetings. To assist the committee to assess management's performance in implementing audit recommendations, internal audit should maintain an appropriate process for monitoring and reporting on the status of agreed internal or external audit recommendations or agreed recommendations from parliamentary committees or other review bodies. Outstanding recommendations should be prioritised for action by the Audit Committee.[59]

2.65   The ANAO Better Practice Guide *Public Sector Internal Audit* notes that an agency's internal audit function can support the role of an audit committee to monitor the implementation of audit recommendations:

> A rigorous process to follow-up audit report recommendations and reporting to the Audit Committee [*by internal audit*] can send a strong signal that the timely implementation of recommendations is important. This can also assist the Audit Committee in its role of reviewing the adequacy of the entity's response to internal and external audit reports and, more broadly, contribute to improving aspects of an entity's administration.[60]

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[58]   Defence further informed ANAO in February 2013 that:

> Defence acknowledges the merit in the suggestion that the DARC also consider cross-agency performance audits and better practice guides that Defence has not been directly involved in. Defence notes that the ANAO representatives (a Financial Statements audit representative and a Performance audit representative) who attend all DARC meetings, provide progress reports to the DARC on all cross-agency performance audits and better practice guides. Taking a strategic risk-based approach, the DARC advises the Secretary and CDF as appropriate, of any relevant findings and recommendations resulting from these audits or guides, noting that the focus largely remains on the number of large and highly complex audits being undertaken by the ANAO specifically in the Defence domain.

[59]   ANAO Better Practice Guide—*Public Sector Audit Committees: Independent assurance and advice for Chief Executives and Boards*, August 2011, Canberra, p. 32.

[60]   ANAO Better Practice Guide—*Public Sector Internal Audit*: *An investment in assurance and business improvement*, September 2012, Canberra, p. 42.

2.66 Audit Branch provides the DARC with aggregate statistics on all open ANAO and internal audit recommendations as well as detailed data on the status of all recommendations overdue by more than 60 days.[61] The data is primarily quantitative, although for some meetings—where Groups have provided the information—Audit Branch will provide additional qualitative data, such as comments from Groups, on the reasons for overdue recommendations.

2.67 The DARC has multiple responsibilities and priorities. The DARC spends very little time considering audit matters generally, and this time is more commonly taken with the management of the internal audit program rather than overdue recommendations.

2.68 A review of the DARC minutes since July 2009 indicates that timeliness in implementation of audit recommendations has been raised as a concern by the committee three times. Committee members have at these times expressed concern over the number of overdue recommendations, and on occasion have requested that Audit Branch follow up on the reasons for overdue audit recommendations.

2.69 The ANAO Better Practice Guide *Public Sector Audit Committees* (p. 32) advises that audit committees can arrange for: 'officers responsible for implementing significant audit recommendations to attend committee meetings to enable the committee to obtain direct feedback on progress in implementing the recommendations'. The Better Practice Guide (p. 31) also states that:

> The Audit Committee should be alert to opportunities for senior management representatives to attend meetings, to facilitate further discussion on action to implement audit recommendations, or to explain why any recommendation has not been addressed appropriately or in a timely way.

2.70 The DARC has the option to invite Group Heads responsible for overdue audit recommendations to attend a meeting in order to seek further information on why the recommendations are overdue. However, Group Heads have never been invited to the DARC to provide such information, even when there have been recommendations that are years overdue.

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[61] One month prior to a DARC meeting, Audit Branch notifies Groups of the need to update progress and the expected completion date of their overdue recommendations.

2.71   In 2001, a JCPAA report touched on the issue of late implementation of recommendations in Defence. The report cited Defence's advice that the Defence audit committee 'will call upon Defence staff to explain why the implementation of the recommendations is overdue so there is a follow-up mechanism'.[62] Some 11 years later, overdue recommendations remain a persistent problem. While the DARC still has the ability to call upon Group Heads and responsible officers to explain why recommendations are overdue, this has not occurred in recent years as the committee has turned its focus on other areas of risk to Defence.

Recent action in response to long overdue recommendations

2.72   The ANAO Better Practice Guide *Public Sector Internal Audit* notes on page 43 that:

> If internal audit is not satisfied with progress [*in the implementation of recommendations*], the matter should be escalated to senior management so management fully understands the risks involved. This would normally be through the Audit Committee.

2.73   Recently, the DARC resolved to take action to follow up recommendations overdue by more than 150 days. In June 2012, the Chief Operating Officer (a member of the DARC) wrote to the following Group Heads who were responsible for recommendations overdue by more than 150 days:

- the DMO;

- Capability Development Group;

- the Defence Science and Technology Organisation;

- Army;

- the Defence People Group; and

- the Vice Chief of the Defence Force Group.

2.74   In total, there were 22 ANAO and 39 internal recommendations overdue by at least 150 days. The original estimated completion date for some of the overdue recommendations dated back to December 2006.

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[62]   Joint Committee on Public Accounts and Audit, *Report 385: Review of Auditor-General's Reports 2000–2001*, August 2001, p. 38.

2.75 The Associate Secretary Chief Operating Officer's minute stated that:

Advice provided by the CAE at the last DARC meeting of 15 May, revealed that a growing number of audit recommendations [*made by the*] ANAO failed to be implemented by the agreed Completion Date. A significant proportion of audit recommendations reported at this meeting were over 150 days overdue. However, no commentary was provided to justify the lengthy delay to progress their implementation.

Long delays in the implementation of audit recommendations, particularly those made by the ANAO, can have significant reputational consequences for Defence. The ANAO proposes to commence an audit on Defence's Implementation of ANAO Recommendations as part of their 2012/13 Audit Work Program, which will examine Defence's and the Defence Materiel Organisation's systems for monitoring the implementation of ANAO recommendations and assess our progress in implementing a selection of recent ANAO recommendations. As a number of the recommendations currently overdue are ANAO recommendations, it is a timely reminder of the need to ensure these are sufficiently implemented, as soon as practicable.

2.76 Groups were asked to provide clear detailed advice as to the reasons for each recommendation remaining overdue. Groups were also asked to provide detailed Management Action Plans for each of these recommendations, clearly describing what actions will be taken to ensure these recommendations are completed as soon as possible. Consolidated responses were to be provided to the CAE by 6 July 2012, and the results from these responses would be discussed at the July 2012 meeting of the DARC.

2.77 The CAE reported on the results at the July 2012 meeting of the DARC, and noted that: 'as at 5 July 2012, only three responses were returned'. These responses were from the DMO, Army and Capability Development Group. The CAE noted at that DARC meeting that: 'senior leaders need to be held more accountable for not progressing audit recommendations in a timely manner'.

2.78 There was no follow-up action taken in respect of the three Groups that had not responded as requested.

Materiel Audit and Risk Committee (MARC): DMO's audit committee

2.79 The Materiel Audit and Risk Committee (MARC) is the DMO counterpart to the DARC, and was established in July 2005. Figure 2.4 outlines the MARC's roles and responsibilities in relation to internal audit and external

audit as set out in its Charter. The MARC's specific responsibilities in relation to monitoring of audit recommendations are bolded.

Figure 2.4

The roles and responsibilities of the Materiel Audit and Risk Committee in relation to internal and external audit

Internal audit responsibilities	*External audit responsibilities*
• Review the internal audit coverage and annual work plan • Advise the CEO on the adequacy of the internal audit resources • Review the coordination of audit program • **Review all audit reports involving matters of concern to DMO senior management** • **Monitor management's implementation of internal audit recommendations** • Review the internal audit charter • Review the performance of internal audit • Provide advice to the CEO on the appointment of the internal auditor	• Review the financial statements and performance audit coverage • **Review all external plans and reports provided by the ANAO that have implications for the DMO, including audit recommendations and guidance arising from cross-port folio audits and better practice guides** • **Monitor management's implementation of audit recommendations** • Provide advice to the CEO on action to be taken on matters or concern raised in a report of the internal auditors or in a report of the Auditor-General concerning the DMO

Note: Emphasis added.

Source: Materiel Audit and Risk Committee Charter.

Role of the MARC in monitoring the implementation of audit recommendations

2.80   DMO's Assurance and Audit Management Directorate supports the MARC by providing statistics and information on audit recommendations for its meetings, which usually include comments on the status of overdue recommendations. The Chair also provides an annual written report to the CEO on MARC business. These annual reports include comment on internal and external audit, including the implementation of audit recommendations and details on any improvements made by the DMO's internal audit section to procedures to facilitate the implementation of recommendations in DMO. The reports also note recommendations from key audits and reviews undertaken throughout the year. These written reports to the CEO, combined with the

quarterly reports to the CEO of DMO mentioned in paragraph 2.38, provide a high level of visibility on the implementation of audit recommendations to DMO's senior executive. The Chair also meets with the CEO periodically to discuss MARC business and any serious issues with audit recommendations.

2.81 The MARC briefing papers and deliberations focus primarily on DMO overdue audit recommendations, similar to the DARC's focus. Generally, internal and external audit activity is regularly considered by the MARC.

2.82 A review of the minutes for MARC meetings held over the last two years indicates that timeliness in implementing audit recommendations is an ongoing concern for the MARC, with committee members often expressing concern over the number of overdue recommendations, and identifying particular overdue audit recommendations that were of greater concern. Senior DMO officers have also attended the MARC to provide updates and discuss the implications of various reviews (such as the Mortimer Review) and some audits (primarily internal DMO audits). However, DMO Division Heads responsible for overdue audit recommendations have not been specifically asked to appear at the committee to provide information on why the recommendations are overdue. The Chair of the MARC commented to the ANAO that the suggestion that a DMO Division Head attend a committee meeting was usually sufficient for the relevant area to take action in implementing a recommendation.

2.83 On one occasion, the committee concluded that the response of the area in the DMO responsible for implementing a number of audit recommendations in an internal DMO audit was unacceptable. At that point those recommendations were overdue by a year. The MARC then referred the matter to the CEO of DMO.

Relationship between the audit committees

2.84 The Chair of the MARC has recently been given observer status on the DARC, and Defence informed the ANAO that the intention of this move was to encourage a closer relationship between the two committees. The MARC also includes consideration of the immediately preceding DARC meeting minutes as a standing item on its meeting agenda.

Conclusion

2.85 At a process level, Defence's procedures and system for monitoring the implementation of audit recommendations provide adequate visibility and assurance on the status of audit recommendations to the department's and DMO's internal audit branches, and on overdue audit recommendations to the audit committees.

2.86 Ultimately, it is the responsibility of Defence management to manage the implementation of recommendations to which it has agreed, including determining the appropriate implementation strategy. However, it is not evident that there are any consequences for not implementing recommendations within the agreed timeframe. There is scope to strengthen the attention of Defence senior management in supporting the implementation of recommendations.

2.87 Both the DARC and the MARC are provided, by Defence and DMO's internal audit areas, data on progress in implementing audit recommendations. The information provided to the audit committees could be expanded to include further qualitative data, particularly regular reporting on the reasons for overdue recommendations—something that is only provided to the committees sporadically (DMO has recently expanded its reporting to include such comments for the MARC). However, the provision of further information to the committees relies on the relevant Groups providing regular updates on progress through ARMS, which does not usually occur, reflecting the often slow progress being made in implementing recommendations.

2.88 The audit committees provide their respective agency Chief Executives with information on committee business, although the extent to which this includes the implementation of audit recommendations is not fully documented. At a Group level, Group Heads are provided with corporate reporting that includes summary information on overdue recommendations. While the DARC is briefed on overdue audit recommendations as part of its regular business, advice on audit recommendations does not form part of the written reports the DARC provides to the Secretary and CDF after committee meetings (these reports are provided when the Chair is unable to brief the Secretary and CDF verbally). The DARC also does not provide an annual report to the Secretary and CDF, although this is a requirement under its charter.

2.89 The scale and complexity of the Defence portfolio influences the responsibilities and priorities of the DARC. The result is that limited time has

been allocated for consideration by the DARC of audit recommendations. One of the DARC's responsibilities under its charter is monitoring management's implementation of audit recommendations from both internal Defence audits and ANAO audits. There is also scope for the Defence and DMO audit committees, in particular the DARC, to provide a stronger focus on the department's performance in implementing recommendations, and organisational risks arising from the failure to implement recommendations.

Recommendation No.1

2.90 The ANAO recommends that, to achieve the full benefit of audit recommendations:

(a) Defence reinforce managers' responsibilities for implementing agreed recommendations; and

(b) the Defence Audit and Risk Committee bring to the attention of the Secretary and Chief of the Defence Force, on an exception basis, any recommendations of particular concern that have not been implemented.

Defence's response:

2.91 *Agreed. Defence has commenced action to elevate the importance of timely implementation of audit recommendations. Commencing 18 February 2013, the Chief Audit Executive will be providing, to the Defence Committee on a monthly basis, details of all overdue audit recommendations as well as data on all outstanding recommendations. The Chief Audit Executive will write to all Group Heads and Service Chiefs prior to each applicable Defence Committee meeting, identifying the recommendations both open (not yet completed but not overdue) and those overdue within their Group or Service, seeking detailed explanation from each Responsible Officer as to the reasons for the recommendations remaining overdue. This advice will form the basis of the report to the Defence Committee, which is chaired by the Secretary, and attended by CDF, each Group Head and Service Chief, and will supplement advice provided to the Defence Audit and Risk Committee. Defence considers this additional level of reporting is an effective method of reinforcing manager's responsibilities for implementing agreed audit recommendations.*

3. Implementation of Audit Recommendations

This Chapter reports on the results of ANAO's analysis of Defence's performance in implementing recommendations arising from both ANAO performance audits and Defence internal audits.

Introduction

3.1   Chapter 2 examined the governance arrangements for managing the implementation of audit recommendations in Defence. This Chapter analyses Defence's performance in implementing recommendations, primarily using data extracted from the ARMS database. The ANAO analysed V3 (created 26 July 2012) and V2 (the archived version) of the ARMS database. V3 contains recommendations which are currently open or have been completed on or after 1 July 2010.

The status of audit recommendations in ARMS

3.2   Over the last five financial years, Defence has been the subject of almost 200 audits that made at least one recommendation: 163 internal and 33 ANAO audits, which includes ANAO financial statement audits.[63] The current version (V3) of the ARMS database contains a total of 143 external and internal audits. These 143 audits include a total of 968 individual recommendations[64], and 70 of these audits (49 per cent) are marked as having all their recommendations implemented. Of the 968 recommendations, 71 resulted from ANAO performance audits.

3.3   As at 26 July 2012, incomplete recommendations have on average been open for over a year, while overdue recommendations (based on estimated completion dates set by Defence) have been active for almost one and a half

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[63]   Audits without recommendations are not reported in ARMS, although few audits do not contain recommendations. Recommendations are made in the course of the ANAO's annual audits of Defence's and DMO's financial statements, and these recommendations are included in ARMS even though they do not appear in the ANAO's published report.

[64]   Recommendations that require action from different Groups are divided into multiple individual recommendations on ARMS, and are managed as separate recommendations. Hence, the actual number of unique recommendations would be less than 968.

years on average. These overdue recommendations include those that may have previously had an extension to their estimated completion date (and then exceeded this revised timeframe). Over half of the incomplete recommendations are overdue. This situation is summarised in Table 3.1.

Table 3.1

Statistics from current ARMS database

Statistic	Result
Total audits and recommendations	
Total number of audits (ANAO, Defence & DMO)	143
Total number of recommendations	968
Total number of audits with all recommendations complete	70 (49%)
Incomplete/active recommendations	
Total number of incomplete recommendations	299 (31%)
Average time elapsed since recommendation was made	400 days
Incomplete/active recommendations that are overdue	
Total number of incomplete recommendations that are overdue	166 (56%)
Average time elapsed since overdue recommendation was made	507 days

Source: ANAO analysis of ARMS V3 database as at 26 July 2012.

3.4   The ANAO selected as a sample all recommendations in the 2007–08 and 2009–10 financial years for further analysis. The sample was selected on the basis that sufficient time has elapsed for all recommendations to be completed,[65] noting that the due dates were decided by Defence when developing the implementation plan. For these two financial years, there were 91 audits with a total of 685 recommendations.

3.5   Table 3.2 provides a further breakdown of the audits and recommendations in these periods. It shows that Defence has recorded as complete 85 per cent of all recommendations from the periods examined. However, the majority were not completed within the nominated timeframe,

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[65]   For internal Defence audits, the financial year refers to the date the audit was started; therefore the audit may not be completed until the following financial year. However, there was one internal Defence audit in the 2009–10 period that was not completed until December 2011, hence Defence had only approximately six months to implement the recommendations from this audit before the ANAO examined the database. For ANAO audits, the financial year refers to the year the report was tabled in Parliament.

and almost half of those recommendations that received an extension were then not completed in accordance with the revised schedule.

Table 3.2

Statistics on audits and recommendations from 2007–08 and 2009–10

Statistic	2007–08	2009–10	Combined
Total audits and recommendations			
Total audits	36	55	91
Total recommendations	267	418	685
Recommendations marked as complete			
Completed recommendations	266 (99%)	350 (84%)	616 (90%)
Completed recommendations – average time taken	254 days	291 days	275 days
Completed recommendations – average delay in completion compared to original estimated completion date	70 days	101 days	88 days
Recommendations completed within the original timeframe (no extensions required)	77 (29%)	157 (38%)	234 (34%)
Requests for extensions			
Number of recommendations where Audit Branch approved a time extension for implementation	33 (12%)	129 (31%)	162 (24%)
Average extension of time approved	321 days	252 days	267 days
Number of recommendations that received an extension but did not complete implementation within the revised timeframe	17 (52%)	59 (46%)	76 (47%)

Source: ANAO analysis of ARMS database (V2 and V3) as at 26 July 2012.

Analysis of closed internal audit recommendations

3.6   There were 52 Audit Branch audits in V3 of the database which had all their recommendations marked as complete in ARMS[66], with all of these audits completed between 2008 and 2010. Of the 52 audits, 19 contained evidence from the responsible officer (a senior executive or senior military officer within

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[66]   Audits undertaken by Audit Branch may relate to DMO and have DMO-specific audit recommendations. However, the 52 audits do not include DMO internal audits, which are currently conducted by a third party engaged by DMO. In ARMS V3, there are 12 DMO internal audits, of which four had all their recommendations completed. DMO internal audits are catalogued separately to Audit Branch audits in ARMS.

the relevant Defence Group) authorising the closure of all recommendations from the audit; 15 audits contained authorisation to close some of its recommendations; and the remainder (18) did not contain authorisation to close any of an audit's recommendations.

3.7   As discussed in Chapter 2, it is the responsibility of the relevant Group to manage the implementation of internal audit recommendations, including determining when appropriate action has been undertaken to sufficiently implement the recommendation so as to warrant closure of the recommendation in ARMS. Groups do not need to seek approval from Audit Branch in order to close an internal audit recommendation.[67]

Authorisation of closure and evidence of implementation not always supplied in ARMS

3.8   Notwithstanding that many internal audit recommendations were closed in ARMS without authorisation from the responsible officer, which would generally be supplied in the form of a minute approving closure, the ANAO found that the comments left in ARMS by ACOs usually made clear that action had been taken to close a recommendation. However, Groups often did not attach any actual evidence of implementation (for example, a copy or reference to a new procedural document, or examples of particular action taken).[68] Where any additional documentation was included in ARMS, it was commonly a minute from the responsible officer outlining action taken.

3.9   The records in ARMS for approximately one-third of the 52 internal audits which had all their recommendations marked as complete did not contain sufficient evidence on which to form a conclusion as to whether the closure of the recommendations had been authorised and supported by adequate evidence. Accordingly, reviewing the closure of those recommendations that did not contain sufficiently detailed evidence would have involved engagement with the responsible Groups to obtain evidence that is not held by Audit Branch.

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[67]   Recommendations that Chief Information Officer Group (CIOG) are responsible for implementing are an exception to this approach. In the past, CIOG often closed recommendations before they were properly implemented. Currently, all CIOG recommendations are to be approved by Audit Branch prior to being closed. Additionally, relevant CIOG stakeholders meet regularly with Audit Branch to review progress made in implementing CIOG recommendations.

[68]   Some closure minutes clearly referenced supporting evidence as attachments to the minute, but the attachments were often not in ARMS.

3.10   The ANAO examined a sample of 12 audits in detail. These 12 audits contained 48 recommendations, which were a mix of low (17), medium (16), and high (15) priority recommendations. Appendix 2 contains a list of all the internal audit recommendations included in the sample. The 12 audits chosen for more detailed analysis were selected on the basis that there was generally enough closure documentation and information included in ARMS to underpin an assessment of whether the audit's recommendations had been implemented sufficiently and on time. As a result, the 12 audits reviewed by the ANAO are not representative of the 52 audits with closed recommendations.

3.11   Table 3.3 below shows a breakdown of the types of evidence of implementation to support closure for the 48 sample recommendations.

Table 3.3

Evidence of implementation

Statistic	Number of recommendations
Supporting evidence and closure minute attached	12
Closure minute only attached	24
Sufficient comments only	9
No evidence, minute or sufficient comments	3

Source: ANAO analysis of ARMS V3.

Note: Some of the supporting evidence, while not directly attached to a minute, was clearly linked to a source on the Defence intranet.

3.12   As the quality of the evidence provided by the Groups in ARMS as the basis of closure varied, there would be merit in Audit Branch communicating to GACs, ACOs, responsible officers and action officers their expectations for 'sufficient evidence' to be provided at the time an audit recommendation is closed or submitted for closure approval. While the type of evidence to support closure may vary across recommendations, sufficient evidence (for both internal and ANAO audit recommendations) should include:

- a clear explanation of the action that was undertaken (from the responsible officer);

- how this addressed the intent of the recommendation (from the responsible officer); and

- copies of, or reference to, any relevant procedural/policy changes or examples of changed procedures 'in action'.

3.13 Defence informed ANAO in February 2013 that Audit Branch's procedures will be updated to reflect this advice.

Where action was taken to implement recommendations, this was usually adequate

3.14 Approximately 80 per cent of the 48 recommendations examined were adequately implemented, based on the evidence available in ARMS. The remaining recommendations were partially implemented, closed by Defence because they were considered to be overtaken by events, or (in three cases) there was insufficient information in ARMS to determine what actions had been taken.

Two examples of implementation with differing levels of evidence

Example where minute provided and evidence linked to Defence intranet

Audit: *Infrastructure Management for Resource Efficiency*

Recommendation 2 was for Defence Support Group to develop and issue Defence-wide guidance promoting the advantages and ongoing efficiencies attainable through the implementation of resource efficiency initiatives.

A closure minute signed by the responsible Assistant Secretary was attached, which detailed the specific action taken. It also contained supporting evidence in the form of links to the Defence intranet where the required guidance is published.

Example where comments explain implementation approach but minute and supporting evidence not provided

Audit: *The Effectiveness of Fraud Debt Recovery and Accuracy of Fraud Data in Defence*

Recommendation 1c was for the Inspector General to create a whole-of-Defence fraud related debt recovery and reporting function.

The closure minutes attached for this audit do not cover any part of Recommendation 1. However, the comments included in ARMS for Recommendation 1c stated that the following action was being taken: recruitment and training of required staff; drafting of a formal agreement with the ADF Investigative Service (ADFIS); and the launch of new unit within ADFIS under the terms of a signed MOU to meet the requirement of the recommendation.

Implementation of internal audit recommendations was slow

3.15 Only eight of the 48 internal audit recommendations examined by the ANAO were completed by their nominated estimated completion date. Only 16 of the 40 other recommendations received time extensions. These extensions provided, on average, almost 11 months extra to complete implementation. Despite this, over two-thirds of the 40 recommendations were not completed within their extended timeframe. For the sample recommendations, the ANAO was unable to identify any instances where extensions were requested but not approved based on the evidence in ARMS.

Table 3.4

Statistics on the sample of 48 recommendations from 12 internal audits

Statistic	Result
All 48 recommendations	
Average time assigned for the estimated completion date	271 days
Average time taken to complete implementation (which may include extensions)	429 days
Average delay in completion compared to original estimated completion date	180 days
Recommendations completed within the original timeframe (no extensions required)	5 (10%)
Recommendations not completed within the original timeframe (but no extensions approved)	27 (57%)
Recommendations with extensions approved	
Number of recommendations where Audit Branch approved a time extension for implementation	16 (33%)
Where extensions provided, the average additional time given by the extension	327 days
Number of recommendations that received an extension but did not complete implementation within the revised timeframe	11 (69%)

Source: ANAO analysis of ARMS database (V2 and V3).

3.16   When discussing the importance of efficient and effective internal audit processes, the 2012 ANAO Better Practice Guide *Public Sector Internal Audit* (p. 42) notes that:

> The benefits of an internal audit report are reduced, and risks remain, if recommendations are not implemented within the agreed timeframe.

3.17   Similarly, a recent external review of the DARC also raised concerns with the timeliness of the implementation of internal audit recommendations, noting that 'these delays have the potential to negatively impact the effectiveness of the DARC in this area if it is to continue or increase'.[69]

Analysis of closed ANAO recommendations

3.18   Because of the number of ANAO performance audit recommendations in the sample period (July 2009 to July 2012) that had not been completed by

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[69]   Ernst & Young, *External Review of the Defence Audit and Risk Committee*, 22 August 2012, p. 9.

Defence (see Table 3.5), the ANAO examined all recommendations made in the sample period that were marked as complete in ARMS: 28 ANAO audit recommendations from nine ANAO audit reports.[70] The sample did not include recommendations that were marked in ARMS as partially complete.[71]

3.19 The majority of the recommendations in the sample were closed prior to the actual introduction of the revised procedures for authorising closure of ANAO recommendations. As discussed in paragraphs 1.18 to 1.21, Defence informed ANAO in November 2009 that it had revised the procedures for monitoring the implementation of, and authorising closure of, ANAO recommendations, effective immediately. However, the revised procedures were not fully implemented until January 2012, as Audit Branch and the Chief Audit Executive were not required to approve the closure of ANAO recommendations until then.

3.20 In order to assess whether the 28 recommendations had been adequately implemented, the ANAO examined the evidence available in ARMS. This included comments recorded by staff from Groups responsible for the implementation of the recommendation, closure minutes, and supporting evidence such as updated procedural documents or examples of corrected behaviour. Where information was not available on ARMS, or the information did not provide sufficient assurance to the ANAO that the intent of the recommendation had been met, the ANAO requested additional information and explanation from the responsible Group.

3.21 Appendix 1 contains a list of the ANAO recommendations included in the sample, including an assessment of their implementation. Table 3.5 summarises the status of the ANAO audits examined, showing that approximately one-third of recommendations remained incomplete on the ARMS database as at July 2012. Appendix 3 contains a list of the ANAO recommendations from audits in the sample period that are incomplete.

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[70] There were another three recommendations that were marked as closed; however, these were reopened by Audit Branch in August 2012 after ANAO inquiries revealed they had been closed by the Group without authorisation from CAE (see paragraph 2.15).

[71] For example, Recommendation No.3 of ANAO Audit Report No.57 2010–11 *Acceptance into Service of Navy Capability* has three parts, two of which had been marked as complete in ARMS. Part b of the recommendation was still open on the ARMS database, therefore the overall recommendation was incomplete and not included in the sample.

- The two recommendations from the audit *Oversight and Management of Defence's Information and Communication Technology* (tabled in December 2011) had yet to be entered into ARMS as at November 2012 as a Management Action Plan has yet to be agreed. When queried about this considerable delay, Defence informed ANAO that:

  the expected date of completion [*of the recommendations*] was linked to the ICT Reform Program and the Shared Services Implementation which meant that closure was not expected until 2014–15. Staff leave and changes within CIOG has also delayed this process.

Table 3.5

Status of ANAO performance audit recommendations in ARMS, July 2009–July 2012

Audit	Number of recommendations	Number complete	Number incomplete
The Australian Defence Force's Mechanisms for Learning from Operational Activities • (Audit Report No.1 2011–12, tabled July 2011)	5	5	0
Acceptance into Service of Navy Capability • (Audit Report No.57 2010–11, tabled June 2011)	8	1	7
Maintenance of the Defence Estate • (Audit Report No.41 2010–11, tabled May 2011)	2	0	2
Management of the Explosive Ordnance Services Contract • (Audit Report No.40 2010–11, tabled May 2011)	4	3	0[A]
Management of Explosive Ordnance Held by the Air Force, Army and Navy • (Audit Report No.37 2010–11, tabled April 2011)	5	4	1
Defence's Management of Health Services to Australian Defence Force Personnel in Australia • (Audit Report No.49 2009–10, tabled June 2010)	6	4	2

Audit	Number of recommendations	Number complete	Number incomplete
Contracting for Defence Force Recruiting Services • (Audit Report No.45 2009–10, tabled June 2010)	6	1	5[(B)]
Army Individual Readiness Notice • (Audit Report No.43 2009–10, tabled June 2010)	3	3	0
Lightweight Torpedo Replacement Project • (Audit Report No.37 2009–10, tabled May 2010)	3	0	3
Procurement of Explosive Ordnance for the Australian Defence Force • (Audit Report No.24 2009–10, tabled March 2010)	2	2	0
Garrison Support Services • (Audit Report No.11 2009–10, tabled November 2009)	5	5	0
Total	**49**[(A)]	**28**	**20**[(A)]

Source: ANAO analysis of ARMS database.

Notes: (A)   One of the recommendations from audit report No.40 2010–11 *Management of the Explosive Ordnance Services Contract* was disagreed by Defence and no action was taken, although it is entered into ARMS as complete.[72] This accounts for the discrepancy in the table between the total number of recommendations, and the number complete and incomplete.

(B)   Three of these four recommendations in this audit were marked as complete but subsequently reopened (see paragraph 2.15). These were not included in ANAO's analysis.

Some action had been taken for over three-quarters of the sample ANAO recommendations, however almost half had not been implemented adequately

3.22   The ANAO examined the information available in Defence's system (ARMS and any additional information held by Audit Branch), as well as seeking additional evidence and explanation from Defence Groups where required, for the 28 recommendations marked as complete. The results of this

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72   Recommendation No.4 from this audit was: 'The ANAO recommends that, to ensure that value for money is being obtained, as part of its planned Contract reviews, Defence seek to include a firm end date for the EO Services Contract, which will allow the market to be re-tested'. Defence disagreed with this recommendation, stating that: 'Defence considers that prescribing a fixed end date for the EO Services Contract is not necessary to demonstrate value for money'.

examination are summarised in Figure 3.1 below. An explanation of the descriptions used in the Figure follows in Table 3.6.

Figure 3.1

ANAO's assessment of a sample of ANAO performance audit recommendations marked as complete on ARMS
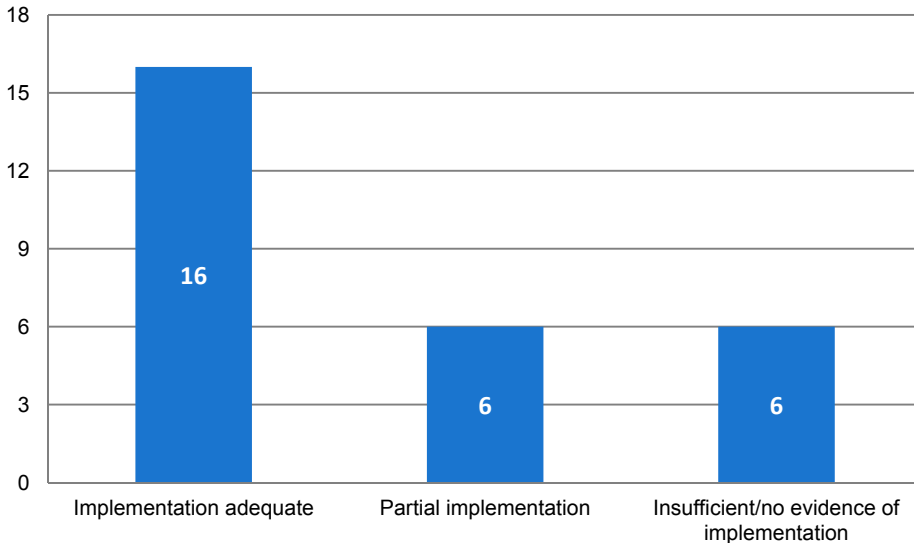
Source: ANAO analysis.

Note: Two of the six recommendations that were assessed as being insufficiently implemented or having no evidence of implementation were recommendations that were 'agreed with qualification' by Defence. These were: recommendation No.5 from audit report No.45 2009–10 *Contracting for Defence Force Recruiting Services*; and recommendation No.4 from audit report No.49 2009–10 *Defence's Management of Health Services to Australian Defence Force Personnel in Australia*. See Appendix 1 for detail of these recommendations.

Table 3.6

Categorisation of recommendations

Category	Explanation
Implementation adequate	The action taken met the intent of the recommendation, and sufficient evidence was provided to demonstrate action taken.
Partial implementation	This category encompasses two types of partial implementation: • Action taken was less extensive than recommended by ANAO: action either fell short of the intent of the recommendation, or only addressed some of the intended issues. • Defence may have established a process or procedure to address an issue, however the specific action noted in the recommendation has not been done. This could also be categorised as 'pre-emptive closure'.
Insufficient/no evidence of implementation	Either there is no indication from evidence or comments that action has been undertaken, or the action taken does not address recommendation at all.

Source: ANAO.

3.23   The boxes below summarise an example of each category (there are two examples of partial implementation).

Example of adequate implementation

ANAO Audit Report No.40 2010–11 *Management of the Explosive Ordnance Services Contract*, **Recommendation No.3:**

> *The ANAO recommends that, to verify that the Cost and Price Model is fit-for-purpose, delivering accurate results, and sustainable over the long-term, Defence commission a review of the operation of the Cost and Price Model, including the parameters in the Model.*

There was a good level of assurance provided by Defence that the recommendation was complete. There was a closure minute that clearly stated the issues identified by the audit that led to the recommendation. A review was undertaken of the Model and subsequent changes were made as a result of the review, which improved the Model in the manner recommended by the ANAO. The closure minute provided clear linkages as to how Defence's actions addressed the intent of the recommendation, and supporting documents provided evidence of Defence action.

Example of partial implementation

ANAO Audit Report No.43 2009–10 *Army Individual Readiness Notice***, Recommendation No.2:**

> *The ANAO recommends that Defence review the requirements of the AIRN components (such as dental examinations for Reservists and approach for determining the frequency of health assessments for members) to confirm that maintaining compliance with the requirements as currently specified in the AIRN Instruction represent a cost effective contribution to maintaining individual readiness.*

The audit identified several specific matters relating to the effectiveness of AIRN requirements, and highlighted two prominent ones as examples in the recommendation. The evidence and closure minute provided by Army only specifically mentioned one of the issues raised by the ANAO. However, additional changes were made that were not mentioned in the closure minute, which were either addressed as part of the first recommendation from the audit, or noted in an earlier update brief to Audit Branch. However, Army's response did not address all the key points made by the ANAO, nor was there a review of all AIRN components raised in the lead up to the recommendation. Overall, the ANAO considers this recommendation partially implemented because there is only evidence of some of the AIRN requirements being reviewed.

Example of partial implementation

ANAO Audit Report No.57 2010–11 *Acceptance into Service of Navy Capability***, Recommendation No.7:**

> *The ANAO recommends, in order to reduce the risks to Navy associated with requirements setting and the interpretation of international maritime codes and conventions, Navy and the DMO seek an early agreement on the arrangements for the Navy Flag Authority.*

The evidence and minute provided demonstrated that Navy had taken action to establish a Naval Flag Administrator, as well as developing a related manual, and highlighting the planned amendment of lower level agreements. However, the primary intent of the recommendation was that two draft Navy Instructions, referred to in the text of the audit report just prior to the recommendation, would be signed as clear evidence of the agreement. The Instructions would provide the policy framework and authority under which the Manual and amendments to Agreements will be enacted. An administrative arrangement had been established, but not agreement on the draft Instructions.

Example of insufficient/no evidence of implementation

ANAO Audit Report No.1 2011–12 *The Australian Defence Force's Mechanisms for Learning from Operational Activities*, **Recommendation No.3:**

> *ANAO recommends that Defence develop a consistent approach to applying the operational evaluation doctrine to significant operations and exercises.*

The recommendation was marked as complete in the ARMS database the same day the audit was tabled. There was no evidence included in ARMS to support closure of the recommendation. There was only a single sentence stating that operational evaluations of exercises and operations are conducted in accordance with doctrine. This was in contrast to the finding of the audit, which is the reason why the recommendation was made. The audit found that Defence does not have a consistent, systematic approach to operational evaluation, as operational evaluation efforts had suffered from a fragmented approach across the ADF, limited resourcing, and limited coverage of operations. When asked to comment on the ANAO's finding that this recommendation had not been implemented, Defence informed the ANAO that the operational evaluation doctrine was considered inadequate and was the subject of review.

Timeliness of implementation varied, overall poor.

3.24   Table 3.7 below provides an overview of the timeframes for implementation of the sample of ANAO recommendations examined for this audit.[73] The table shows that only three recommendations (10 per cent) were completed in accordance with the implementation plan timeline, and the average time taken to implement all the recommendations was 354 days. For the 28 recommendations that were completed after their originally estimated completion date, only eight received extensions. These extensions provided on average approximately eight-and-a-half months extra to complete implementation. Despite this, seven of the eight recommendations that received an extension were not completed within their extended timeframe.

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[73]   As noted in footnote 64, recommendations that require action from different Groups are divided into multiple individual recommendations on ARMS, and are managed as separate recommendations. In this case, three of the 28 recommendations were split into two parts, each managed separately. This includes one recommendation that was assigned to two different Groups, but also two recommendations which had two parts that were managed separately by the same Group.

Table 3.7

Statistics on sample of 31 recommendations from nine audits

Statistic	Result
All 31 recommendations	
Average time assigned for the estimated completion date	186 days
Average time taken to complete implementation (which may include extensions)	354 days
Average delay in completion compared to original estimated completion date	167 days
Recommendations completed within the original timeframe (no extensions required)	3 (10%)
Recommendations not completed within the original timeframe (but no extensions approved)	20 (64%)
Recommendations with extensions approved	
Number of recommendations where Audit Branch approved a time extension for implementation	8 (26%)
Where extensions provided, the average additional time given by the extension	256 days
Number of recommendations that received an extension but did not complete implementation within the revised timeframe	7 (88%)

Source: ANAO analysis of ARMS database (V2 and V3).

3.25 Four of the recommendations were closed on the date the recommendation was entered into ARMS, which has skewed the average time for implementation. Removing these four recommendations gives an average time taken of 402 days, rather than the 354 days. Based on the ANAO's analysis, the ANAO has concerns with the adequacy of implementation for most of the recommendations closed early (this is discussed in more detail in paragraph 2.30).

Reasons for late implementation of recommendations

3.26 While Defence's system for implementing audit recommendations exhibits many elements of better practice, such as having a clear allocation of roles and responsibilities amongst stakeholders, this has not led to the implementation of recommendations in a timely manner. The ANAO Better Practice Guide *Public Sector Internal Audit* (p. 42) states the following in relation to timeframes for implementing audit recommendations:

> As a general rule, recommendations designed to address the highest category of risk exposure would be acted on immediately and implemented within one to three months; medium risk exposures would be implemented within three

to six months and low level risk exposures within six to 12 months. Where recommendations involve a long lead time to address fully, for example where changes to policy, purchases of new equipment or services are involved, better practice suggests the action plan and timeframe is broken up into stages.

3.27 Delays in implementation have consequences, similar to recommendations not being adequately implemented, as recommendations are expected to improve agency performance and address risks to an agency's successful delivery of its business.

3.28 As mentioned in paragraph 2.16, Defence usually sets estimated completion dates for completing a recommendation of between six and 12 months after completion of the relevant audit. Defence Audit Branch and Group representatives interviewed for this audit noted that timeframes for implementation can impact on the usefulness of audit recommendations—recommendations that take longer than 12 months to implement are more likely to be overtaken by events, and are unlikely to have the business improvement impact intended.

3.29 As discussed in paragraph 2.8, the ANAO conducted a series of interviews with stakeholders from Defence audit areas, the chairs of the DARC and MARC, and Group Audit Coordinators and ARMS Contact Officers in three Defence Groups. In light of ANAO testing, which indicated that late implementation of recommendations is a common and widespread problem, the ANAO asked the stakeholders interviewed for their views on the possible causes of late implementation. From these discussions, supported by the ANAO's examination of ARMS, the ANAO identified a range of possible causes for late implementation or non-implementation of recommendations in Defence. These are set out in Table 3.8. The table shows that these causes often related to insufficient regard being paid to many of the key principles for effective implementation identified in Table 1.1, particularly planning, risk management and resourcing.

Table 3.8

Potential causes for late or non-implementation of audit recommendations

Potential cause	Explanation
Priority and workload	Implementing recommendations is just one small part of the workload for most responsible officers, and may be given relatively low priority. Implementation may be crowded-out by more immediate pressures.
Senior executive buy-in	If senior executives cannot see tangible business improvements to be realised from a recommendation, they may not push their staff to get it implemented on time. A lack of interest from senior executives contributes to recommendations being considered a low priority.
Recommendations overtaken by events/superseded	The chance that the recommendation will become obsolete or less important increases for recommendations not implemented promptly.
Turnover of personnel	Churn within Defence caused by the regular posting cycle can contribute to a lack of focus on recommendation implementation. Staff rotating out to another position in the near future may focus on more immediate priorities, and staff rotating in may lack required information, may not be immediately identified as the new responsible officer, or may disagree with the recommendation and decide not to prioritise its implementation.
Shortage of resources within the Defence or DMO audit areas	Resourcing constraints may limit the capacity of the Defence and DMO internal audit areas to appropriately monitor and follow up implementation of recommendations, placing less external pressure on responsible officers.
Some recommendations agreed to but not implementable	Stakeholders interviewed by the ANAO stressed the importance of not agreeing to recommendations that could not be implemented. For example, a recommendation requiring increased resources may have been agreed to in the past and may not now be implementable due to budget constraints.
Difficultly identifying a single responsible officer	Some recommendations may apply to multiple Groups, with no one officer clearly responsible.
Procedural delays when seeking approval to close recommendations	For ANAO recommendations, some stakeholders stated that delays can occur between the actual implementation of the recommendation and receiving approval from Defence internal audit to close the recommendation on ARMS.
Delays in getting policies approved/promulgated	Some recommendations require new policies to be written and promulgated. Depending on the type of policy, the approval process for a new policy can take a significant period of time, delaying the implementation of the recommendation.
Slippages in projects can cause delays in implementing recommendations that require a certain level of progress	A recommendation may apply to a specific phase of a project; implementation can be delayed by project schedule slippage.

Potential cause	Explanation
Implementation timeframe not specified by ANAO	Some interviewees stated that the ANAO should set a timeframe for the implementation of audit recommendations (timeframes are currently agreed between Audit Branch and the responsible Defence Groups. Audit Branch may extend those timeframes).[A]
Lack of consequences for late or non-implementation	The absence of consequences for Defence Groups and responsible officers failing to implement a recommendation further contributes to recommendations not being considered a high priority.

Source: ANAO analysis and interviews with Defence and DMO representatives.

Note: (A) Responsibility for addressing audit conclusions and recommendations resides with the agency.

3.30 'Overtaken by events' was a reason often provided by those interviewed to explain non-implementation. This was particularly the case in relation to internal audit recommendations that were not implemented, which had recommended very specific action to be undertaken that was no longer considered feasible due to business changes, subsequent decisions by senior management or ministers, or budgetary pressures.

Conclusion

3.31 The scale of audit activity in the Defence portfolio is significant:

- There have been almost 200 audits (163 internal and 33 external) across the portfolio over the last five financial years that made at least one recommendation.

- The current version of the ARMS database (covering recommendations open or completed after July 2010), contains almost 1000 recommendations (71 of which resulted from ANAO performance audits), and each is assigned to one of the 14 Defence Groups for implementation.

3.32 At a process level, Defence's system and procedures for monitoring and reporting on implementation provide adequate visibility and assurance on the status of audit recommendations, and exhibit many positive elements of better practice. However, the analysis in this Chapter indicates that monitoring and reporting are a necessary but not sufficient condition for achieving the timely and adequate implementation of audit recommendations.

3.33 Approximately half of the 28 ANAO recommendations examined in this audit (all of which were reported as implemented by Defence) were assessed as not being adequately implemented. Approximately 80 per cent of the 48 internal audit recommendations examined were adequately

implemented, based on evidence available in ARMS. However, the 12 audits that contained these 48 recommendations are not representative of all the Defence internal audits with closed recommendations in ARMS, as approximately one-third of the total audits did not contain sufficient evidence on which to form a conclusion for any of their recommendations. Accordingly, the ANAO was not able to form a judgement on all recommendations based solely on information in ARMS.

3.34   Regardless of the source of a recommendation (either ANAO or internal audit), or the priority assigned to its implementation by Defence, the timeliness of implementation by Defence Groups is a significant problem. Timeliness is an issue that will not be improved with the revised Audit Branch procedures introduced in January 2012, but will require a higher level of engagement with, and accountability from, Defence's management. The ANAO notes that DMO internal audit has increased its focus on monitoring and following-up audit recommendations in recent months, and this has shown positive results in terms of progressing overdue recommendations to a point where they are close to being completed.

3.35   In all the samples examined[74], the majority of recommendations were not completed within the required timeframe (as agreed between Defence's Audit Branch and the Defence Groups). For all incomplete recommendations in the current version of the ARMS database, open recommendations are on average 400 days old, while open recommendations that are overdue are on average over 500 days old.

3.36   Extensions to the estimated completion date for recommendations were approved for approximately one-quarter of recommendations examined, yet approximately half of these recommendations still failed to meet the revised timeframe. There are also many recommendations that exceed their agreed timeframe but do not receive an extension. The extension process provides no additional assurance that responsible Groups will implement recommendations within the revised timeframe. This relates to an important point raised by Defence stakeholders and reflected in Table 3.8: there are no consequences for those responsible when a recommendation is not implemented, or not implemented in a timely manner.

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[74]   All recommendations from audits in 2007–08 and 2009–10, 48 completed recommendations from 12 internal audit reports, and 28 completed recommendations from nine ANAO audit reports.

3.37 Once agreed, audit recommendations become a management responsibility, and an effective system to implement recommendations will feature collective ownership within the agency and an action orientation which promotes timely and adequate management activity. In this respect the implementation of audit recommendations is similar to an agency's successful delivery of its other business, relying heavily on agency leadership and the active support of those charged with implementation (agency management) and its oversight (internal audit and the audit committees).

3.38 A senior responsible officer within a Defence Group is clearly assigned responsibility for implementing a recommendation (documented in a Management Action Plan), reflecting better practice. Further, the senior responsible officer is given appropriate support through a nominated action officer, who is responsible for doing the 'ground work' implementing the recommendation.

3.39 As noted in paragraphs 2.58 and 2.59, the DARC is required to provide an annual report to the Secretary and CDF on its operation and activities, including information on audit reports and recommendations. However, it has not been the DARC's practice to provide such a report. There is scope for the DARC to provide additional support to Defence leadership, through an annual report to the Secretary and the CDF, which should include advice on the overall effectiveness of Defence's system for implementing audit recommendations. Providing high level visibility of Defence's timeliness in implementing recommendations would further reinforce management responsibilities and accountabilities for implementation.

3.40 Audit activity, whether external or internal, represents a significant investment of public resources, and the appropriate and timely implementation of agreed recommendations is an important part of realising the full benefits of an audit. Approximately 95 per cent of all ANAO performance audit recommendations are agreed in full by audited entities, following a process of formal consideration. It is expected that entities will only agree to recommendations where they accept the practical benefit of taking the corrective action contained in a recommendation, and that once agreed to, the recommendations will be implemented in a timely manner.

Recommendation No.2

3.41 The ANAO recommends that the Defence Audit and Risk Committee, in accordance with its charter, provide an annual written report to the Secretary and Chief of the Defence Force on the operation and activities of the Committee. The report should include advice on the overall effectiveness of: Defence Groups' implementation of audit recommendations; and Defence's monitoring and reporting arrangements.

Defence's response:

3.42 *Agreed. Defence welcomes the recommendation, and in accordance with the DARC Charter, the DARC will provide an annual, written report to the Secretary and Chief of the Defence Force on the operation and activities of the Committee. In addition to the continuing regular reports (either verbal or written) provided by the DARC/DARC Chair following each DARC meeting, this additional report will include advice to the Secretary and CDF on the overall effectiveness of Defence's implementation of audit recommendations and Defence's system for monitoring and reporting audit recommendations.*

Ian McPhee

Auditor-General

Canberra ACT

27 February 2013

Appendices

Appendix 1:   List of ANAO audit recommendations analysed

ANAO Audit Report No.11 2009–10 *Garrison Support Services*	ANAO Assessment of Defence's Implementation
Recommendation No.1 The ANAO recommends that Defence reviews its approach to providing debriefings to tenderers for future Base Services contracts with a view to providing: (a) tenderers with an assessment against each of the evaluation criteria, noting the strengths and weaknesses of the tender of the particular organisation; and (b) debriefs within 30 days of a contract being entered into. **Defence response**: *Agreed*.	Implementation adequate
Recommendation No.2 The ANAO recommends that Defence adopts a sound risk based approach to the management of GSS contracts and that the resulting risk assessment be used to assist in determining the appropriate processes for functions such as performance assessment, contract amendments and payment verification, and the level of resources best applied to those functions. **Defence response**: *Agreed*.	Implementation adequate
Recommendation No.3 The ANAO recommends that Defence, in order to support effective GSS, CMS and Base Services related contract management and administration, assesses the benefits of establishing a central information source using an information technology solution (for example, an intranet site) to: (a) improve access for base and regional personnel, including relevant contractor personnel, to up to date training and guidance material; and (b) provide a convenient mechanism for regular, timely communication with these personnel. **Defence response**: *Agreed*.	Implementation adequate

ANAO Audit Report No.11 2009–10 *Garrison Support Services*	ANAO Assessment of Defence's Implementation
Recommendation No.4 The ANAO recommends that Defence reviews the Performance Management Framework and Risk Reward Remuneration Model relating to Garrison Support Services with a view to: (a) remedying inconsistencies in the way the different DSG regions approach performance measurement and the effect of this on both the margin outcome for individual contractors and the cost of GSS to Defence; and (b) better supporting the achievement of value for money as well as quality outcomes, through addressing weaknesses in the current Risk Reward Remuneration Model and its application by Defence in relation to maximum quality targets. **Defence response**: *Agreed*.	Implementation adequate
Recommendation No.5 The ANAO recommends that Defence: (a) in consultation with GSS/Base Services contractors, takes steps to determine appropriate timeframe targets for both the contractor and Defence in relation to their respective responsibilities for contract amendments; (b) promulgates specific guidance on processing GSS contract amendments to relevant staff; and (c) introduces management and reporting mechanisms to promote adherence to this guidance and timeframe targets. **Defence response**: *Agreed*.	Implementation adequate
ANAO Audit Report No.24 2009–10 *Procurement of Explosive Ordnance for the Australian Defence Force*	ANAO Assessment of Defence's Implementation
Recommendation No.1 The ANAO recommends that Defence and the DMO develop processes for consolidating explosive ordnance inventory requirements of all stakeholders, at an appropriate level, to facilitate efforts to optimise explosive ordnance inventory holdings from both a capability and value for money perspective. **Defence and DMO Response**: *Agreed.*	Implementation adequate
Recommendation No.2 The ANAO recommends that Defence undertake a strategic review of domestic manufacturing arrangements to: • evaluate the extent that value for money can be achieved from existing arrangements; and • determine the ongoing viability of investment in domestic manufacturing capabilities. **Defence and DMO Response**: *Agreed.*	Implementation adequate

ANAO Audit Report No.43 2009–10 *Army Individual Readiness Notice*	ANAO Assessment of Defence's Implementation
Recommendation No.1 The ANAO recommends that Defence reviews the Army Individual Readiness Notice (AIRN) Instruction to consider whether the purpose of AIRN as currently set out in the Instruction accurately reflects its role, as a basic individual readiness requirement for Army members which can be readily built upon to prepare individuals and force elements for deployment. **Defence response**: *Agreed*.	Implementation adequate
Recommendation No.2 The ANAO recommends that Defence review the requirements of the AIRN components (such as five yearly dental examinations for Reservists and the approach for determining the frequency of health assessments for members) to confirm that maintaining compliance with the requirements as currently specified in the AIRN Instruction represents a cost effective contribution to maintaining individual readiness. **Defence response**: *Agreed*.	Partial implementation
Recommendation No.3 To improve visibility of the impact of individual readiness on Army preparedness, the ANAO recommends that Army Headquarters improve its monitoring, analysis and oversight of AIRN data and highlight any critical matters to Deputy Chief of Army and Chief of Army. **Defence response**: *Agreed*.	Implementation adequate
ANAO Audit Report No.45 2009–10 *Contracting for Defence Force Recruiting Services*	ANAO Assessment of Defence's Implementation
Recommendation No.5 In view of the benefits from continuity in the role of Director-General, Defence Force Recruiting Branch during critical stages in the ongoing management of Defence Force recruiting contracts, the ANAO recommends that Defence plans its rotation of senior ADF personnel through this position to minimise disruption at critical stages of the contracting cycle. **Defence response**: *Agreed with qualification.*	Insufficient/no evidence
ANAO Audit Report No.49 2009–10 *Defence's Management of Health Services to Australian Defence Force Personnel in Australia*	ANAO Assessment of Defence's Implementation
Recommendation No.1 The ANAO recommends that, in accordance with established Defence policy, JHC review the continued application of all Health Directives every three years. **Defence response**: *Agreed*.	Partial implementation

ANAO Audit Report No.49 2009–10 *Defence's Management of Health Services to Australian Defence Force Personnel in Australia*	ANAO Assessment of Defence's Implementation
Recommendation No.2 The ANAO recommends that JHC: (a) identify effectiveness and efficiency KPIs that adequately reflect its business performance and that can be progressively refined as the current Defence health services reform program is implemented; and (b) provide annual performance reports against relevant KPIs to inform internal management decisions in relation to JHC and to facilitate external scrutiny of JHC's performance, such as through the department's annual report. **Defence response**: *Agreed*.	Partial implementation
Recommendation No.3 The ANAO recommends that JHC: (a) establish mechanisms, in cooperation with each Service, to monitor the currency of credentials of all ADF health professionals working in JHC health facilities; (b) enhance its complaints management database to enable capture of information that will facilitate analysis of the nature, frequency, types and underlying causes of complaints and the effectiveness of complaint resolution arrangements; (c) collect and analyse information on health related incidents, including claims submitted to the Defence Insurance Office, and use this information to identify further opportunities to improve Garrison Health Services; and (d) put in place mechanisms to ensure that there is improved clinical supervision of contracted health professionals working in JHC health facilities. **Defence response**: *Agreed*.	Partial implementation
Recommendation No.4 To provide a better framework for effective management decisions on Defence health service delivery, and to improve financial transparency of Defence's health operations, the ANAO recommends that Defence establish mechanisms to collate and monitor the total cost of Garrison Health Services and other JHC activities. **Defence response**: *Agreed with qualification*.	Insufficient/no evidence

ANAO Audit Report No.37 2010–11 *Management of Explosive Ordnance Held by the Air Force, Army and Navy*	ANAO Assessment of Defence's Implementation
Recommendation No.1 The ANAO recommends that Defence: (a) widen the scope of existing reviews of the management of explosive ordnance at the unit level to include a greater focus on arrangements for the physical control of explosive ordnance at the unit level including conducting a program of stocktakes or spot checks of explosive ordnance holdings at units; and (b) consolidate the results of these reviews to facilitate monitoring of any remediation work identified as required and the analysis of emerging trends and issues at across Service units. **Defence response**: *Agreed*.	Implementation adequate
Recommendation No.2 The ANAO recommends that, to provide an authoritative framework, Defence: (a) finalise its inaugural Defence Instruction (General) for the management of explosive ordnance; and (b) promulgate ADF-wide advice for the management of explosive ordnance at the unit level. **Defence response**: *Agreed*.	Implementation adequate
Recommendation No.4 The ANAO recommends that Defence take steps to remove all the inconsistencies in the definitions and requirements for the management of explosive ordnance security incidents in Defence policy and procedural documents. **Defence response**: *Agreed*.	Implementation adequate
Recommendation No.5 The ANAO recommends that Defence improve its incident reporting and data management of explosive ordnance security incidents. **Defence response**: *Agreed*.	Insufficient/no evidence
ANAO Audit Report No.40 2010–11 *Management of the Explosive Ordnance Services Contract*	ANAO Assessment of Defence's Implementation
Recommendation No.1 The ANAO recommends that, to improve its risk management practices, key risks to Defence from its management of the EO Services Contract are addressed by Joint Logistics Command as part of Defence's risk management arrangements. **Defence response**: *Agreed*.	Implementation adequate

ANAO Audit Report No.40 2010–11 *Management of the Explosive Ordnance Services Contract*	ANAO Assessment of Defence's Implementation
Recommendation No.2 The ANAO recommends that, to meet contractual requirements and reduce the administrative burden on ADF units, Joint Logistics Command work with the Services to develop a forecasting process for prepositioning explosive ordnance to meet ADF needs, particularly items in short supply and high demand. **Defence response**: *Agreed*.	Implementation adequate
Recommendation No.3 The ANAO recommends that, to verify that the Cost and Price Model is fit-for-purpose, delivering accurate results, and sustainable over the long-term, Defence commission a review of the operation of the Cost and Price Model, including the parameters in the Model. **Defence response**: *Agreed*.	Implementation adequate
ANAO Audit Report No.57 2010–11 *Acceptance into Service of Navy Capability*	ANAO Assessment of Defence's Implementation
Recommendation No.7 The ANAO recommends, in order to reduce the risks to Navy associated with requirements setting and the interpretation of international maritime codes and conventions, Navy and the DMO seek an early agreement on the arrangements for the Navy Flag Authority. **Defence response**: *Agreed*.	Partial implementation
ANAO Audit Report No.1 2011–12 *The Australian Defence Force's Mechanisms for Learning from Operational Activities*	ANAO Assessment of Defence's Implementation
Recommendation No.1 ANAO recommends that, to improve their ability to learn from operations and exercises, the Services put in place consistent methods for identifying, analysing, implementing and validating lessons, and ensure that relevant lessons can be effectively shared across Services. **Defence response**: *Agreed*.	Partial implementation
Recommendation No.2 ANAO recommends that, to support an ADF-wide approach to learning from operations and exercises, the ADF establish a clear role and scope for future operational knowledge management repositories, and develop a clear plan for capturing and migrating relevant existing information. **Defence response**: *Agreed*.	Implementation adequate
Recommendation No.3 ANAO recommends that Defence develop a consistent approach to applying the operational evaluation doctrine to significant operations and exercises. **Defence response**: *Agreed*.	Insufficient/no evidence

ANAO Audit Report No.1 2011–12 *The Australian Defence Force's Mechanisms for Learning from Operational Activities*	ANAO Assessment of Defence's Implementation
Recommendation No.4 ANAO recommends that, to better inform key stakeholders on progress of overseas operations, Defence work with relevant agencies to develop a structured approach to measuring whole-of-government performance and progress toward government objectives. **Defence response**: *Agreed*.	Insufficient/no evidence
Recommendation No.5 ANAO recommends that, to improve performance evaluation of operations and exercises, and better inform its performance reporting to Parliament, Defence: (a) apply suitable criteria and a structured approach to evaluating performance; and (b) develop a clear and structured process that includes evaluations of operations to inform relevant performance indicators reported to the Parliament. **Defence response**: *Agreed*.	Insufficient/no evidence

Appendix 2: List of internal audit recommendations analysed

1.   Note that Defence agreed to all these recommendations.

Army Business Assurance (published 9 November 2009)

Recommendation No.2

Audit Division recommends that Brigades implement procedures to ensure procurement activities performed at the units under their command are reviewed by Brigade Headquarters on a regular basis.

Effectiveness of Materiel Acquisition Agreements (published 10 April 2008)

Recommendation No.1

CDG conduct a status accounting review of MAAs that focuses on the post second pass projects. The need for ongoing status accounting of MAAs should be included in the review of the Terms of Reference for PMSGs, including the definition of PMSG MAA review, approval and reporting roles and responsibilities.

Recommendation No.2

The DMO, in consultation with CDG:

(a) develop policy and procedures to assist the DMO Divisions and CDG Desk Officers to meet their mutual responsibilities for conducting annual reviews of MAAs and to implement effective monitoring to ensure that annual MAA reviews are being performed; and

(b) develop a mechanism to signal when annual MAA reviews are due.

Recommendation No.3

The DMO, in consultation with CDG, examine and strengthen the policy and implement associated procedures for managing and monitoring variations and amendments to approved MAAs. In developing improved policy and procedural guidance, consideration should be given to defining:

(a) policy and procedures for MAA amendments and variations, including the roles and responsibilities of Divisional Coordinators and guidance on the scope and level of variations that would lead to a mandated review of the MAA.

(b) The identification of best MAA practices from within the DMO Divisions and CDG.

Recommendation No.4

CDG, during its review of the Terms of Reference (TORs) for PMSGs, include the capacity and requirement for the PMSGs to approve small MAA variations and changes.

Heritage and Cultural Assets (published 28 October 2009)

Recommendation No.1

Audit Division recommends that Navy review options and costs associated with the recording and valuing of the Navy Heritage Collection to ensure that all assets above the capitalisation threshold are recorded on ROMAN and reflected in the Defence Financial Statements.

Recommendation No.2

Audit Division recommends Army ensure that the next valuation of Army heritage and cultural assets includes all assets over the capitalisation threshold so that deficiencies found with the 2008/09 AHU Valuation Manual do not affect the completeness of the valuation.

Infrastructure Management for Resource Efficiency (published 28 October 2009)

Recommendation No.1

It is recommended that DSG finalise and refine the strategy, including project timings, which will complete the rollout of sub-metering across the remaining Defence bases.

Recommendation No.2

DSG develop and issue Defence-wide guidance promoting the advantages and ongoing efficiencies attainable through the implementation of resource efficiency initiatives.

Recommendation No.3

It is recommended that DSG establish a minimum regional resource efficiency reporting and monitoring framework which provides clear links between national policy development and regional implementation.

IT Service Helpdesk Contract (published 29 October 2009)

Recommendation No.1

CIOG review current contractual arrangements for the IT Service Desk functions to identify key areas of risk in relation to levels of service, billing arrangements and the payment of penalties.

Recommendation No.2

CIOG incorporate the lessons learned into any new Contract to revise and strengthen contractor/service provider performance measurement and billing arrangements.

Recommendation No.3

CIOG determine what constitutes a Service Request and when a Service Request can be closed.

Recommendation No.4

CIOG ensure details of actions undertaken to resolve each Service Request and incident request must be recorded in the appropriate field.

IT Service Helpdesk Contract (published 29 October 2009)

Recommendation No.5

CIOG analyse Service Requests to ensure they are billable events.

Recommendation No.6

CIOG analyse Service Requests to identify IT and application training/knowledge gaps.

Recommendation No.7

CIOG implement one IT Service Desk that uses the same tool.

Recommendation No.8

CIOG upgrade the Service Desk tool to a supported version before Dec 2009.

Management of Defence Heritage Sites listed under the EPBC Act (published 28 September 2009)

Recommendation No.1

It is recommended that DSG review its strategy for the ongoing maintenance of heritage listed buildings and develop a plan to ensure that legislative requirements under the EPBC Act are being appropriately met. The review should take into consideration current budgetary constraints; options for removing the heritage status of non-unique Defence buildings; and the impact the Defence base rationalisation program will have on the number of heritage listed buildings within the Defence property portfolio.

Recommendation No.2

That DSG review arrangements for the identification of current heritage buildings to ensure that appropriate identification has been provided, particularly for heritage buildings in public access areas.

Recommendation No.3

That DSG review current heritage education strategies for staff, clients and contractors, building on the success of initiatives in place at Jervis Bay and Darwin.

Radiation Safety Management in Defence (published 21 October 2010)

Recommendation No.1

Audit recommends, as a matter of priority, that the Directorate of Radiation Safety and Assurance (DRSA):

(a) Establish clear timeframes to complete the Defence corporate Radiation Safety Management System (RSMS) and to develop the Joint Health Command (JHC) Radiation Safety Management Plan (RSMP) in accordance with AS/NZS4801. The RSMP should formulate policy and objectives which take into account legislative requirements and information about radiation hazards and risks.

(b) Develop a Radiation Safety Management Plan (RSMP) template for use by radiation management stakeholders. The template should include a standard risk assessment which is validated by each stakeholder, incorporating Unit/Command variations as appropriate, to promote consistency in risk identification and management strategies across Defence.

Recommendation No.2

Audit Branch recommends that the Directorate of Radiation Safety and Assurance (DRSA) develop a Business Plan and Risk Register for the implementation and ongoing management of the identified core radiation safety management business model functions Defence Radiation Safety Hazard Management and Defence Radiation Compliance and Assurance.

Recommendation No.3

Audit Branch recommends that the Directorate of Radiation Safety and Assurance (DRSA) update SAFETYMAN to reflect current Defence radiation safety governance arrangements and to ensure that all DRN webpage hyperlinks are active and direct users to accurate, up-to-date information.

Recommendation No.4

Audit Branch recommends that the Defence Radiation Safety and Assurance Committee (DRSAC):

(a) In consultation with the Directorate of Radiation Safety and Assurance (DRSA) review and update its Terms of Reference to identify and correct any deficiencies, and identify any opportunities, in its strategic radiation safety management plans, policies and procedures.

(b) Oversee the Directorate of Radiation Safety and Assurance's (DRSA's) implementation of the Defence Safety Management Plan to provide an effective strategic focus for radiation safety management in Defence. These actions should be reflected in the quarterly DRSAC Minutes.

Review of Commercial Aviation Support to Defence Activities - BAE Systems Australia Ltd - Task 10/058b (published 27 October 2010)

Recommendation No.2

Commander AFTG implement a process to ensure that future contract negotiations in respect of the reduction in fixed costs are completed before commencement of contract extensions.

Recommendation No.3

Commander AFTG reconsider whether the current level of student throughput is sustainable and, if not, renegotiate the minimum rate of effort.

Review of Defence Response to Drill Charge Bag Issue (published 18 December 2009)

Recommendation No.4

DGEO review and amend the EO Incident Report and GI17 Explosive Ordnance Disposal Report and associated incident reporting processes to ensure mandatory referral of inventory related HAZMAT incidents to the responsible ADF equipment manager.

Recommendation No.6

DGMUN take immediate action to ensure all Services and Groups implement the disposal actions and report the closure of the actions required by DEFAUSTAMMOSAFETY 160409ZOCT09 in relation to the 2009 105mm drill charge bag incident.

Recommendation No.7

DSG, in consultation with JLC and DMO, agree and document the funding arrangements for asbestos testing, item disposal and area decontamination as a result of the 13 October 2009 105mm drill charge bag incident and broader Defence charge bag eradication actions.

Review of Joint Control Centre structure and interfaces within HQJOC (published 4 August 2010)

Recommendation No.1

Audit Branch recommends that DGOPS:

- add to the HQJOC Standing Orders, details of the JCC's functions, roles and responsibilities, and other constraints; and
- promulgate within HQJOC, the abovementioned details in the Standing Orders.

Recommendation No.2

Audit Branch recommends that HQJOC, in consultation with the Services posting/career management units:

- develop and implement an internal JCC rotation regime within HQJOC for Watch staff, within their HQJOC posting cycle; and
- articulate appropriately prescriptive duty and recruitment/selection criteria and specific requirements to the single Services posting/career management units.

Review of Joint Control Centre structure and interfaces within HQJOC (published 4 August 2010)

Recommendation No.3

Audit Branch recommends that for HQJOC and the JCC:

- a central area be established to coordinate the rotation and posting of Service personnel within HQJOC, especially as it relates to the JCC (see Recommendation to Finding 2.2.1 "Posting Cycle") and to inform the respective Services posting/career management units of internal posting plots, rotations and issues; and
- HQJOC Coordination Branch Executive, in consultation with the JCC, update the Duty Statements and Position Requirements in PMKeys for the JCC positions and develop a Special Requirements SOP to provide to the respective Services posting/career management units information on the unique considerations and constraints associated with a posting to the JCC.

Recommendation No.4

Audit Branch recommends that HQJOC and the JCC:

- review the adequacy of actual JCC staffing levels and confirm the JCC's actual establishment against each of the following duties: Watch Commander, Watch Supervisor, and Watch Keeper;
- upon confirmation of the JCC's actual establishment, then work with the Services to meet and manage 100% of the establishment;
- implement the Phase 6 Review recommendation to rotate officers between the JCC and other areas of HQJOC – eg one year in the JCC, and one or more years another area(s) of HQJOC (see Recommendation for Finding 2.2.1 'Posting Cycle'); and
- consider the use of a reserves pool to minimise the adverse impact of unplanned shift absences on shift frequency and workloads.

Recommendation No.5

Audit Branch recommends that HQJOC and the JCC review and optimise the shift design and the structure of the JCC, specifically to review the effectiveness of:

- the shift length in hours (eg eight or 12 hour etc), the number of shift teams (four, five or six etc), and the shift team size, to strike an appropriate balance between shift duration and rest periods for average actual staffing levels; and
- the type of watch-keeper functional delineation and the relative size of each function, in order to balance the JCC's operational requirements and the workload distribution between watch-keeper functions.

Recommendation No.6

Audit Branch recommends that HQJOC:

- review the adequacy of the after hours physical facilities and operating support arrangements against user requirements and document the results in a gap analysis;
- implement small, low cost, adjustments to facilities – such as adjusting the sensor lighting and provide a bed in the current converted sleeping room; and
- negotiate with DSG on the cost and funding arrangements to implement any agreed actions to close the afterhours facilities and services gaps.

The Effectiveness of Fraud Debt Recovery and Accuracy of Fraud Data in Defence (published 27 October 2010)

Recommendation No.1

(a) Develop and submit a proposal to obtain the resources to implement the recommended central IG debt recovery cell to the Defence Workforce and Financial Management Committee (WFMC) for its consideration and funding approval.

(b) Negotiate an agreed arrangement between ADFIS and IG for transition to, and delivery of, a central fraud debt recovery and reporting function that is managed by and reports to the IG.

(c) Subject to funding approval and adequate FTE, plan, implement and deliver the whole-of Defence fraud related debt recovery and reporting functions.

Recommendation No.2

Audit Branch recommends that ADFIS implement active controls to mandate a follow-up process by all ADF Investigators to ensure that outcomes of all cases are reflected in DPSMS in a timely manner. This might include making all ADF Investigators aware of the importance of these follow-up and reporting requirements and by promulgating these requirements.

Recommendation No.3

Audit Branch recommends that ADFIS, together with the offender's Unit Commanding Officer, immediately instigate action to pursue recovery of the outstanding debts identified in Section 2.5 of this report.

Recommendation No.4

Audit Branch recommends that ADFIS identify all current open fraud-related cases and where appropriate; liaise with the offender's Unit Commanding Officer to instigate the debt recovery process as per Chapter 9 of the Defence Investigations Standards – Recovery Action.

Note: This would include cases where the debt has been established to a civil standard and is not necessarily dependent upon a successful prosecution.

Recommendation No.5

Audit Branch recommends that ADFIS, in consultation with Inspector General - Fraud Information Systems, develop DPSMS Business Rules or a Manual for the use by all ADF Investigators that mandate fields that are imperative to Defence for reporting responsibilities. Whilst the single ADF DPSMS Business Rules is under development, all ADF investigators as a matter of priority should be made aware of the importance of reporting requirements 002E.

Compliance and Effectiveness of the System of Defence Instructions (SoDI) (published 10 February 2009)

Recommendation No.1

MAB recommends that FASMSPA should rationalise the type of SoDI instructions in consultation with the groups.

Recommendation No.2

MAB recommends that FASMSPA should create common business rules for the creation, review and cancellation of the higher level SoDI instructions.

Recommendation No.3

MAB recommends that FASMSPA should in consultation with the groups remove any unsponsored, duplicated or out of date instructions from the SoDI repository.

Recommendation No.4

MAB recommends that FASMSPA should investigate ways to improve the accessibility via the DRN of the higher level SoDI instructions.

Recommendation No.5

MAB recommends that FASMSPA provide reports on the currency of the higher level, higher risk SoDI instructions.

Appendix 3: List of ANAO performance audit recommendations that are incomplete, July 2009–July 2012

1. ANAO based its analysis on the ARMS database as at July 2012. Two ANAO audits tabled in May and June 2012 were not included in the sample, as sufficient time had not yet elapsed for the recommendations to be addressed. These two audits were: ANAO Audit Report No.34 2011–12 *Upgrade of the M113 Fleet of Armoured Vehicles*; and ANAO Audit Report No.52 2011–12 *Gate Reviews for Defence Capital Acquisition Projects*.

2. The two recommendations from the audit *Oversight and Management of Defence's Information and Communication Technology* (tabled in December 2011) had yet to be entered into ARMS as at July 2012, as a Management Action Plan had yet to be agreed (see paragraph 3.21).

3. Additionally, three of the four recommendations from the audit *Contracting for Defence Force Recruiting Services* (tabled in June 2010) marked as completed in ARMS were reopened after ANAO inquiries, as they had been closed by the relevant Group in 2012 without authorisation from Audit Branch.

ANAO Audit Report No.37 2009–10 *Lightweight Torpedo Replacement Project* (tabled March 2010)
Recommendation No.1 The ANAO recommends that Defence and the DMO review governance arrangements surrounding alliance-style contracts to confirm that reporting arrangements, external to the alliance, provide effective oversight of alliance and project performance. **Defence response**: *Agreed*.
Recommendation No.2 The ANAO recommends that the DMO review its tendering arrangements with a view to ensuring that sufficient objective or independent evidence is obtained to enable verification of any claims that an item being offered is 'off-the-shelf', prior to the selection of the preferred tenderer. **Defence response**: *Agreed*.
Recommendation No.3 The ANAO recommends that Defence and the DMO implement appropriate mechanisms to identify and address programmatic risks associated with projects that are modifying a number of platforms. **Defence response**: *Agreed*.

ANAO Audit Report No.45 2009–10 *Contracting for Defence Force Recruiting Services* (tabled June 2010)
Recommendation No.1
The ANAO recommends that Defence implements necessary improvements in the efficiency of recruitment processes, including candidate processing times from receipt of an application to issuing a Letter of Offer, to the extent such actions deliver cost-effective improvements in overall recruiting outcomes.
Defence and DMO Response: *Agreed.*
Recommendation No.2
The ANAO recommends that, for any future Defence Force Recruiting services contract tenders, Defence undertakes sufficient preparation for the tender process so as to be in a position to provide tenderers with readily accessible, complete and accurate data to allow tenderers to make properly informed tender responses.
Defence and DMO Response: *Agreed.*
Recommendation No.3
The ANAO recommends that Defence includes access provisions in its major Defence Force Recruiting contracts to enable access by the ANAO to prime and subcontractors' records and premises for audit purposes.
Defence and DMO Response: *Agreed.*
Recommendation No4
The ANAO recommends that for any future DFR contract Defence include a formal due diligence period as part of the contract, where such an approach is consistent with the overall contract model, risk framework, and objectives for the contract.
Defence and DMO Response: *Agreed.*
Recommendation No.6
As part of any decision on Defence's future approach to Defence Force Recruiting, the ANAO recommends that Defence reviews the level of in-house capability it requires to effectively undertake the ongoing contract management responsibilities associated with any outsourced option that may be adopted.
Defence and DMO Response: *Agreed.*

ANAO Audit Report No.49 2009–10 *Defence's Management of Health Services to Australian Defence Force Personnel in Australia*
(tabled June 2010)

Recommendation No.5

The ANAO recommends that Defence:

(a) evaluate the current level of health services provided to ADF members under ADF health policies. Where such policies provide for a level of health services that exceeds community standards, Defence should ensure that they are cost effective and justified, including in improving the operational readiness of ADF members; and

(b) consider the merits of adopting a risk-based approach in preference to annual individual readiness medical and dental checks.

Defence response: *Agreed*.

Recommendation No.6

The ANAO recommends that JHC examine the scope to achieve efficiencies through reducing the administrative burden of health personnel by reallocating administrative tasks to administrative support staff, where possible.

Defence response: *Agreed*.

ANAO Audit Report No.37 2010–11 *Management of Explosive Ordnance Held by the Air Force, Army and Navy*
(tabled April 2011)

Recommendation No.3

The ANAO recommends that Defence develop an integrated inventory management system to account for explosive ordnance at the unit level.

Defence response: *Agreed.*

ANAO Audit Report No.41 2010–11 *Maintenance of the Defence Estate*
(tabled May 2011)

Recommendation No.1

To improve planning for estate maintenance, the ANAO recommends that Defence:

(a) bases its estate maintenance planning on technical assessments of the condition of facilities and their usage, as well as continuing to take into account contribution to Defence capability and legislative requirements;

(b) undertakes periodic assessments of the condition of engineering services at bases and ranges and proposes any necessary maintenance or alternative remedial action; and

(c) having regard to up-to-date data on the condition and usage of its buildings and infrastructure, as well as its overall priorities, reassesses the level of funding allocated to maintain the estate in an economic manner.

Defence response: *Agreed*.

ANAO Audit Report No.41 2010–11 *Maintenance of the Defence Estate* (tabled May 2011)

Recommendation No.2

To improve the delivery of maintenance services, the ANAO recommends that the approach to estate maintenance delivery be reviewed to focus on the outputs that Defence requires, and that Defence:

(a) undertakes work to develop an improved contracting model for the delivery of estate maintenance, including Risk Managed Works, for the next round of contracts;

(b) considers building on its initiatives to have prime contractors undertake low cost general estate works themselves, and separating Risk Managed Works between those best undertaken by the prime contractors and those best delivered as mid level capital works; and

(c) develops a change management plan to support the implementation of revised delivery and contracting arrangements.

Defence response: *Agreed*.

ANAO Audit Report No.57 2010–11 *Acceptance into Service of Navy Capability* (tabled June 2011)

Recommendation No.1

The ANAO recommends that in order to improve its systems engineering processes and efficiency, Defence:

(a) compile and promulgate authoritative systems engineering guidance applying to all materiel projects; and

(b) aligns the templates for Capability Definition Documents, Acquisition Project Management Plans and Engineering Management Plans accordingly.

Defence response: *Agreed*.

Recommendation No.2

The ANAO recommends that Defence improves its requirements management processes, by ensuring that:

(a) only approved requirements management systems are used by Defence personnel; and

(b) Defence personnel accessing those systems are adequately trained in their use.

Defence response: *Agreed*.

Recommendation No.3

The ANAO recommends that, in order to improve their efficiency and effectiveness, Defence streamline and integrate its processes for system verification and validation, acceptance into service and regulatory review. This should include ensuring that:

(a) Navy operational test and evaluation teams witness relevant acceptance testing, and in particular validation testing of systems in their intended environment;

(b) DMO provides Navy with access to its requirements management systems, improving Navy's visibility of the status of the naval Materiel Systems under development and acceptance test and evaluation; and

(c) DMO and Navy require Project Engineers, in their capacity as Design Acceptance Representatives, to provide Issues Papers regarding all mission critical and safety critical requirements found to be non-compliant to Head Navy Engineering.

Defence response: *Agreed*.

ANAO Audit Report No.57 2010–11 *Acceptance into Service of Navy Capability* (tabled June 2011)

Recommendation No.4

The ANAO recommends that, in order to reduce technical integrity and logistics risk and to reduce delays in Navy's regulatory reviews, Defence:

(a) reinforces the need to maintain accurate configuration records; and

(b) requires Navy to reject materiel offered for Initial Materiel Release that has been the subject of insufficient Configuration Management.

Defence response: *Agreed*.

Recommendation No.5

The ANAO recommends that DMO ensure that the delegate authorised to approve Systems Acceptance is an executive with seniority commensurate with the importance of the project, who is external to the Systems Program Office, and who is designated in the Project Certification Plan.

Defence response: *Agreed*.

Recommendation No.6

The ANAO recommends that, in order to safeguard the quality of the overall Navy regulatory review process:

(a) Navy adopts streamlined regulatory review processes through improved verification information sharing with acquisition agencies; and

(b) DMO mandates adherence to Navy's regulatory review schedule requirements, as documented as part of future Acquisition Baselines and agreed via the Materiel Acquisition Agreements.

Defence response: *Agreed*.

Recommendation No.8

The ANAO recommends that, in order to ensure the efficient and effective management of both the Capability Manager's Acceptance into Operational Service requirements, and DMO's verification and validation program:

(a) both the Acceptance verification and validation program and the operational test and evaluation program are formally endorsed by CDG, DMO and Navy prior to materiel contract signature;

(b) once endorsed, these requirements and programs are entered into a project's verification Cross Reference Matrix and controlled by the project's Engineering Manager, in the capacity of the Design Acceptance Representative; and

(c) significant changes to requirements and the applicable Verification Cross Reference Matrix are subject to an authorised Configuration Management process.

Defence response: *Agreed*.

ANAO Audit Report No.19 2011–12 *Oversight and Management of Defence's Information and Communication Technology*
(tabled December 2011)

Recommendation No.1

The ANAO recommends that, to address emerging risks in the delivery of ICT support to Defence business, Defence:

(a) clarify the role of CIOG as an ICT service provider and coordinating capability manager of Defence ICT; and

(b) ensure that Defence program managers and SRP streams adopt a full partnership model with CIOG to deliver relevant Defence portfolio initiatives.

Defence response: *Agreed*.

Recommendation No.2

The ANAO recommends that, to improve the portfolio-level view of Defence's enterprise needs and to support the achievement of the challenging goal of managing Defence as a single entity, Defence:

(a) establish an enterprise-wide benefits realisation framework;

(b) ensure it has in place appropriate financial systems to support the effective planning and monitoring of ICT investments; and

(c) develop a consistent, portfolio-wide approach to escalating and treating ICT program and project risks.

Defence response: *Agreed*.

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