

The Auditor-General
Audit Report No.32 2000–2001
Performance Audit

Defence Cooperation Program

Department of Defence

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Canberra ACT
6 April 2001

Dear Madam President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Defence in accordance with the authority contained in the *Auditor-General Act 1997*. I present this report of this audit, and the accompanying brochure, to the Parliament. The report is titled *Defence Cooperation Program*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—
<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. J. Barrett'.

P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

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Abbreviations

ADF	Australian Defence Force
ADO	Australian Defence Organisation
ANAO	Australian National Audit Office
ASEAN	Association of South East Asian Nations
ASP 97	Australia's Strategic Policy 1997
AusAID	Australian Agency for International Development
DC	Defence Cooperation
DCAMIS	Defence Cooperation Asset Management Information System
DCAMS	Defence Cooperation Activities Management System
DEFMIS	Defence Financial Management Information System
DFAT	Department of Foreign Affairs and Trade
DIEP	Defence International Engagement Plan
Interfet	International Intervention Force East Timor
IP	International Policy
MAP	New Zealand's Mutual Assistance Program
MTT	Mobile Training Teams
PBS	Portfolio Budget Statements
PICs	Pacific Island Countries
PNG	Papua New Guinea
PPBP	Pacific Patrol Boat Project
ROMAN	Resource and Output Management and Accounting Network

Summary and Recommendations

Background

1. Australia interacts with and provides assistance to security forces in South East Asia and the South Pacific through the Defence Cooperation (DC) Program. The primary aim of the program is to support Australia's defence relationships. Activities conducted through the program include training, study visits, personnel exchanges and combined exercises with elements of the various regional armed forces. The Pacific Patrol Boat Project is part of the program.

2. The program has been under way for many years and is managed by the International Policy Division of the Department of Defence. The cost in 2000–01 is expected to be \$60 million. The main geographical components are expected to be as follows:

- Papua New Guinea—\$18.8 million;
- South Pacific Region—\$13.7 million;
- South East Asia and Indochina—\$23.8 million; and
- other regional activities—\$3.6 million.

3. The DC Program was reviewed by the Senate Standing Committee on Foreign Affairs and Defence in 1984, the Auditor-General in 1986 and Defence's Inspector-General in 1995.

4. In the current audit, the ANAO's objectives were to:

- consider how Defence assesses performance in meeting DC objectives;
- review Defence's development of DC objectives; and
- identify areas for improvement in managing DC resources.

Conclusion

5. The DC Program is valued highly by participating countries. Stakeholders see it as making a positive contribution to the overall work of Australia's overseas missions and in helping to advance Australia's interests. But Defence has not assessed the benefits systematically, having regard to the costs of the program. More data are needed on program costs and benefits to assist in adequately assessing program cost-effectiveness.

6. In the absence of a specific statement of Government policy on the program, Defence should develop program objectives that would assist in selecting, ranking and managing individual DC activities and in overall program management and evaluation. Broad Government goals and policy directions on aspects of DC activities are not specific enough for use as program objectives to provide adequate management guidance.

7. Recent developments in Australia's geographic region reinforce the need for DC activities to be planned with regard to the interests and activities of other contributors in bilateral and multilateral relationships and for regular, formal exchanges of information at the national level.

8. Several improvements could be made to the management of DC finances and activities. Financial data could not be exchanged adequately between Defence and its overseas posts and with the Department of Foreign Affairs and Trade. DC systems and practices were not effective in preventing, nor in detecting misallocations and overspending on individual DC activities. Management of individual DC activities should have more regard to better practice relating to approving, monitoring and assessing projects.

Key Findings

Defence Cooperation Objectives, Outputs and Reporting (Chapter 2)

9. The ANAO identified a number of broad Government policy goals relevant to DC activities but these were not specific enough to constitute program objectives. Defence referred in particular to two 'core goals' for regional defence relationships as the objectives for DC. These related to Australia's access and influence. Defence stated that, in assessing the merits of DC activities, the contribution made to the two goals was a major determinant. However, for most DC activities, it was difficult to identify benefits or clear causal links relating to the contribution made to the two goals, from the available documentation.

10. A Senate committee report on DC in 1984 noted the absence of detailed and well defined program objectives for DC. This long-standing deficiency has resulted in a lack of comprehensive information that would help management to adequately assess the cost-effectiveness of the resources allocated to these activities. It is also reflected in difficulties in establishing clear criteria to assess the relative merits of various proposals for DC funding and to evaluate DC activities for performance reviews.

11. DC activities should be planned in a 'whole-of-nation' context that has regard to the totality of Australia's regional activities at a national level. Guidelines would help ensure that DC activities are planned and managed, having regard to Australia's broad security interest and the activities of other Australian agencies operating in the region. DC activities should desirably have clear objectives to assess their success and achievements.

12. Available data indicate that the cost of administering the DC program is a significant proportion of overall DC resources. Full costing would continuously bring to management's attention the cost of administering DC in relation to the total amount spent on the DC program. In its public reporting on DC, Defence could also provide more information about DC performance targets against which assessments could be made.

Value and Forms of Defence Cooperation (Chapter 3)

13. In discussions with the ANAO, participating countries indicated that they value DC highly. Evidence indicates that DC makes a positive contribution to the overall work of Australia's overseas missions and helps advance Australia's interests. But there is a need, and indeed scope, for the collection of informative and, where available, of quantifiable data to help make a systematic assessment of DC cost-effectiveness from an Australian perspective.

14. In the last 10 years, DC has moved from a situation where the preponderance of resources was applied to Papua New Guinea (PNG) and the South Pacific to a wider program encompassing a significant number of Asian countries. Over time, the focus of DC has moved from the provision of materiel and infrastructure to education, training, and personnel exchanges and dialogue and information exchanges at various levels. Defence's discussions with participating countries are likely to lead to further changes in the form of DC activities and consequent enhancements in the value of the program.

Management of Defence Cooperation (Chapter 4)

15. There was no consolidated plan to bring together current and planned DC activities and their projected costs over a longer time-frame, as one of the basic links between Defence's strategic guidance and DC program management and forward financial planning.

16. The systems, procedures and practices used to administer DC were not effective in preventing and detecting misallocations and budget overspends in program administration nor in the execution of projects. Financial data could not be exchanged adequately with other Defence and Department of Foreign Affairs and Trade systems with which interaction was required.

17. There is scope for improvement in the management of individual projects and other DC activities. There were many instances where internal good practice guidelines regarding documentation of details in approving, implementing and concluding projects were not followed. Data on projects to enable management analysis and review was lacking, as was information on the basis for selecting projects or evidence of consideration of the cost-effectiveness of alternatives. Projects also lacked effective monitoring systems and procedures. In many cases, performance standards and project objectives and milestones were not specified, which is not conducive to sound management, nor accountability for project outputs and outcomes.

18. There were a number of other areas, relating to staff turnover, assets management, records and travel, where arrangements could also be improved.

Response to the audit report

19. The ANAO made seven recommendations to improve the administration of DC activities and enhance the accountability for the public funds spent on them. Defence agreed to all recommendations, one with qualifications.

Recommendations

Set out below are the ANAO's recommendations, together with Report paragraph references and an indication of Defence's response. Defence's detailed comments are included in the body of the Report.

Recommendation No.1
Para. 2.31 The ANAO recommends that Defence develop Defence Cooperation (DC) objectives to allow the better targeting of decisions relating to the selection and prioritisation of DC activities and their subsequent evaluation.

Defence response: Agreed, with qualifications.

Recommendation No.2
Para. 2.43 The ANAO recommends that Defence assess the total costs of DC administration in relation to total DC funding to inform decisions about the cost-effectiveness of DC outputs, noting that the extent to which this should be done will be informed by questions of materiality and judgments regarding the value that it provides to the management of the DC Program.

Defence response: Agreed.

Recommendation No.3
Para. 2.59 The ANAO recommends that Defence review its public reporting on DC program performance indicators and targets, with a view to disclosing information sufficient to discharge its accountability for public funds spent on DC and enabling an informed assessment of DC program performance.

Defence response: Agreed.

**Recommendation No.4
Para. 3.9** The ANAO recommends that, to help achieve better outcomes in meeting Australian Defence objectives through DC, Defence implement a more systematic approach to the collection of data to assist in assessing the cost-effectiveness of the various DC activities, noting that the extent to which this should be done will be informed by questions of materiality and judgments concerning the value that it provides to the management of the DC Program.

Defence response: Agreed.

**Recommendation No.5
Para. 4.8** The ANAO recommends that Defence develop a longer-term plan for DC activities as one of the links between strategic guidance and DC program management and forward financial planning.

Defence response: Agreed.

**Recommendation No.6
Para. 4.22** The ANAO recommends that Defence put in place effective management systems and procedures for the financial administration of DC in Australia and at its overseas posts.

Defence response: Agreed.

**Recommendation No.7
Para. 4.39** The ANAO recommends that, to help ensure that DC funds are used cost-effectively, Defence issue revised project management requirements for DC projects.

Defence response: Agreed.

Audit Findings and Conclusions

1. Introduction

This Chapter provides background information on the activities undertaken in the Defence Cooperation Program. It also sets out the audit objectives, summarises previous reviews and illustrates the report structure.

Defence Cooperation activities

1.1 Defence¹ undertakes a broad range of international activities that may extend across all Defence functions. These activities include interactions by the Australian Defence Force (ADF) with many countries, and intelligence and scientific exchanges and discussions at various levels carried by out the Australian Defence Organisation (ADO).

1.2 International Policy (IP) Division in Defence Headquarters provides policy advice and direction for Defence's International Engagement Activities, a proportion of which it administers and implements directly. An International Engagement Activity is defined by Defence as

any activity by the ADO which involves interaction with another country, including: exercises, attachments, course attendance, meetings, collaborative projects, transit activities (port and aircraft visits), representation, working level visits and senior officer travel.

1.3 The Defence Cooperation (DC) Program is part of Defence International Engagement. The Program has been under way for many years. Appendix 1 summarises its origins. The Program provides opportunities for interaction with, and defence assistance to, security forces in South East Asia and the South Pacific in support of Australia's defence relationships.

¹ 'Defence' or the 'Australian Defence Organisation' comprises the Department of Defence and the Australian Defence Force (Navy, Army and Air Force).

1.4 There is no agreed definition of DC activities. Defence advised the ANAO that the guidelines for the use of DC funds are flexible and are applied using the professional judgment of IP Division. Defence stated that DC funds are commonly used to:

- *fund the participation of foreign defence personnel in cooperative activities where cost-sharing arrangements have been suspended or in other appropriate circumstances;*
- *fund regional engagement activities that would not or could not be funded or undertaken by the remainder of the ADO; and*
- *bolster Defence's engagement in the South Pacific, a region which for a variety of reasons does not attract Whole-of-Defence interaction as easily as South East Asia.*

1.5 Activities conducted through the program include projects as well as training, study visits, personnel exchanges, strategic and higher management dialogue, conferences, working group meetings and combined exercises with elements of the various regional armed forces. DC projects are activities requiring the acquisition of equipment and other activities that do not have an equipment component but have been classified as projects due to their importance and the need to monitor achievement closely. The largest project is the Pacific Patrol Boat Project, which provided 22 patrol boats to 12 countries and assistance in maritime surveillance.

1.6 The cost of the program in 1999–2000 was \$55.1 million. Table 1 sets out the main geographical components. The estimated cost in 2000–01 is \$60 million. The components for 2000–01 are not yet firm. (Table 4 in Chapter 3 provides estimates.)

Table 1
DC cost attributions 1999–2000

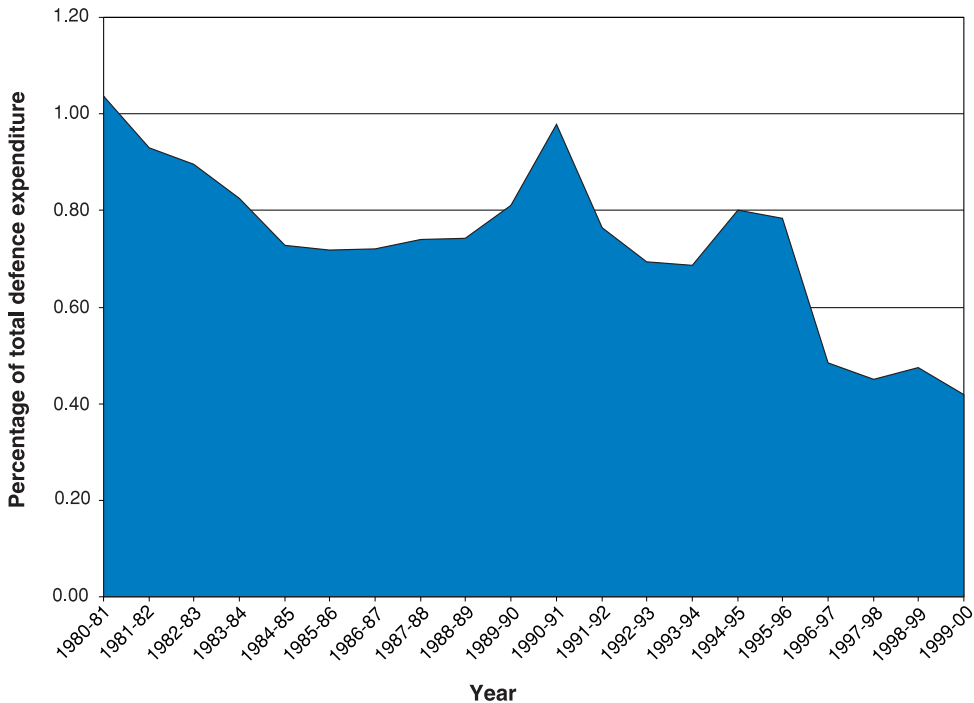
<i>DC component</i>	<i>\$ m</i>
Papua New Guinea	7.986
South Pacific Region	21.109
South-East Asia and Indochina	23.739
Other Regional Activities	2.252
Facilities for Training in Australia	0.015
Total	55.101

Source: *Defence Annual Report 1999–2000*.

1.7 Figure 1 illustrates DC expenditure as a proportion of total Defence expenditure since 1981.

Figure 1

DC Expenditure as a percentage of total Defence Expenditure



Source: Prepared by the ANAO from data in Defence Annual Reports 1975–76 to 1999–2000 and other Defence documents.

The audit

1.8 The audit objectives were to:

- consider how Defence assesses performance in meeting DC objectives;
- review Defence’s development of DC objectives; and
- identify areas for improvement in managing DC resources.

1.9 The audit focused on DC activities, the development by Defence of the policy framework to guide the administration of these activities, and the systems and processes employed in the management of the activities.

1.10 Audit criteria were developed to address the areas of performance assessment and reporting, the development processes of program objectives and project administration. A preliminary study began in March 2000. Audit fieldwork was carried out in Defence Headquarters, Canberra, the Defence International Training Centre, Laverton, Victoria and Australian overseas posts. Officials of countries participating in DC in Asia and Papua New Guinea were also consulted. Issues Papers were provided to Defence in October and November 2000. The proposed report of the audit was provided to Defence in January 2001. Defence comments, received in February 2001, were taken into account when completing this report.

1.11 The ANAO engaged Mr John M. Moten from John Moten & Associates to assist in the collection and analysis of information and in the preparation of the audit report. He was selected because of his experience in related evaluation and review activities.

1.12 The audit was conducted in conformance with ANAO Auditing Standards at an estimated cost to the ANAO at the time of tabling of \$349 000.

1.13 The ANAO acknowledges assistance received during the audit from Defence managers and staff, particularly those in IP Division and at Defence sections overseas and the Defence International Training Centre. The Heads of Mission and Foreign Affairs and Trade personnel in the Australian missions in Malaysia, Thailand, Vietnam, Indonesia and Papua New Guinea also assisted, as did the Office of National Assessments and the Defence Intelligence Organisation. The ANAO wishes to thank officials in the defence organisations of Indonesia, Malaysia, Papua New Guinea and Thailand for their frank and constructive contributions to the audit.

Previous reviews

1.14 The Senate Standing Committee on Foreign Affairs and Defence reviewed DC in 1984. It reported that the aims of the program were not sufficiently defined to allow adequate monitoring and evaluation of activities. It also reported on confusion on what constituted a DC activity as distinct from bilateral civil aid projects; poor financial information management and inadequate public reporting.²

² *Australia's Defence Co-operation with its Neighbours in the Asian-Pacific Region*, Senate Standing Committee on Foreign Affairs and Defence, 1984.

1.15 A 1986 report on DC by the then Auditor-General³ concluded that, although the program had generally been effective in fostering and maintaining cooperative links of a defence-related nature with regional countries, there were weaknesses in program administration. The weaknesses identified differed little from those identified in the 1984 Senate committee report. That report commented that there was insufficient coordination and consultation between Defence and other government agencies involved in the region to avoid overlap and maximise benefits. It indicated concern about planning and evaluation procedures for DC training activities. See also paragraph 4.35.

1.16 Defence's Inspector-General published a program evaluation report on DC in 1995.⁴ The report commented on the need for clearer and public articulation of the goals and objectives of DC activities and on aspects of the implementation and review of activities and their administration where performance could be enhanced.

1.17 Defence's Management Audit Branch has, in the last few years, undertaken a number of audits relating to the administration of DC at specific Defence sections overseas.

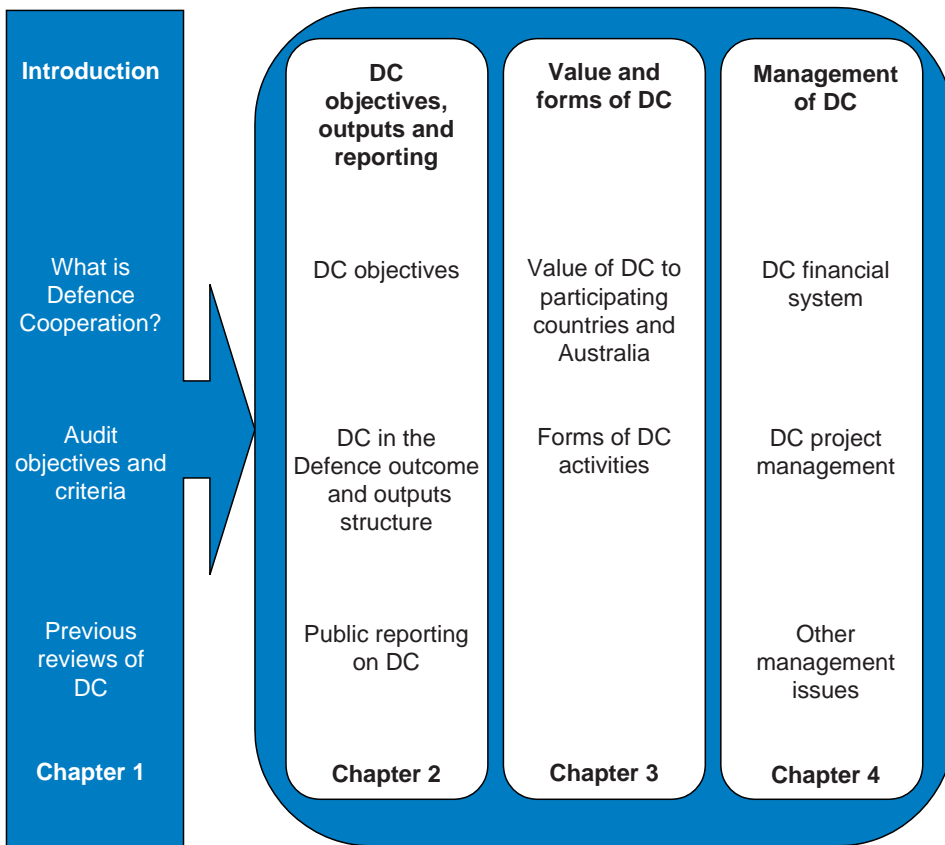
Report structure

1.18 The structure of the report is shown in Figure 2.

³ *Administration of the Defence Cooperation Program, Report of the Auditor-General, 1986.*

⁴ *Defence Cooperation—Program Evaluation*, Department of Defence, Inspector-General Division, January 1995.

Figure 2
Report Structure



2. Defence Cooperation Objectives, Outputs and Reporting

This chapter identifies the broader Government policy framework for DC and the work undertaken by Defence in setting DC objectives. It also discusses DC in a 'whole-of-nation' context, the place of DC in the Defence outcome and outputs structure and reporting on DC activities and performance.

Defence Cooperation policy

Background

2.1 The ANAO sought to identify Government policy on Defence Cooperation (DC) to assess Defence's work in giving effect to this policy and formulating objectives to direct the selection and assessment of DC activities.

2.2 DC funds are drawn from the total International Policy (IP) Division budget allocation, within the Strategic Policy Group. They are allocated at the divisional level. Defence sees DC activities as a subset of its larger regional engagement activities:

distinguishable by being funded through the Defence Cooperation fund managed by IP Division. They do not differ from other regional engagement activities in the goals they are directed toward achieving.

2.3 There is no specific statement of Government policy on DC. It must be inferred from broader statements of Government policy on national interest and defence. Set out below are aspects of three recent Government policy statements that are relevant to DC.

In the National Interest—Australia's Foreign and Trade Policy

2.4 The Government's White Paper, *In the National Interest—Australia's Foreign and Trade Policy* (1997) indicated that there are three components to Australia's security strategies:

- national (maintaining a strong defence capability and a non-aggressive defence policy);
- bilateral (close defence and security cooperation with regional countries, especially South East Asia); and
- regional (regular bilateral security dialogues with countries in East Asia and multilateral mechanisms dealing with regional security issues, promotion of transparency and reinforcement of Australia's commitment to working cooperatively with regional countries on security issues).

Australia's Strategic Policy

2.5 The Government's 1997 strategic review *Australia's Strategic Policy (ASP 97)* set out the Government's planning basis for taking Australia into the 21st Century. The aim was to be '*a secure country in a secure region*'.

2.6 ASP97 stated that Australia's key strategic interests in the Asia-Pacific region are to help:

- prevent the emergence of a security environment dominated by any power(s) whose strategic interests would likely be inimical to those of Australia;
- maintain a benign security environment in South East Asia, especially in maritime South East Asia, which safeguards the territorial integrity of all countries in the region;
- prevent the positioning in neighbouring states by any foreign power of military forces which might be used to attack Australia; and
- prevent the proliferation of weapons of mass destruction in our region.

2.7 ASP 97 did not specify objectives for DC. However, the development of Australia's bilateral strategic relationships and participation in multilateral security institutions in the Asia-Pacific region are to be guided by the key interests listed above. These:

should not be interpreted narrowly. And we must be realistic about our capacity to influence outcomes even when they are highly important to us. Many of these interests can only be realised in close cooperation with other countries in the region. It is therefore important that these interests are widely shared with other countries in the region.
(page 8)

2.8 ASP 97 placed Australia's strategic policy in the context of a wider national approach whereby '*strategic policy will vigorously pursue opportunities to influence the regional environment in ways which reduce the risks of armed attack on Australia*'. The national approach to the region has '*a number of elements both to exploit opportunities and manage the risks presented to us*'.

2.9 The twin objectives of exploiting opportunities and managing risks *require Australia to engage closely in the region, building the widest possible network of relationships through which we can influence developments within the region. Both require us to encourage trends to an open, cooperative, interdependent region in which countries are free to make their own decisions, conscious of the interests of others.*

2.10 In respect of policy direction for DC, ASP97 contained two broad statements of intent:

- ***Southeast Asia:** In all of our defence relationships in Southeast Asia we will continue the trend of recent years of moving away from the ‘aid’ elements of Defence Co-operation, to focusing more on strategic dialogue and interaction.*
- ***PNG and the South Pacific:** Our objective should be to maintain our position as the country with the strongest strategic presence in this region. Our primary long-term strategic interest is to prevent the positioning by any foreign power of military forces which might be used to attack Australia or its interests. Our strategic interests are served by strengthened habits of good governance in Pacific countries.*

Defence 2000—Our Future Defence Force

2.11 The Government’s White Paper *Defence 2000—Our Future Defence Force* (December 2000) affirmed Australia’s strategic interests and objectives at the global and regional levels. Chapter 4 of the White Paper set out five strategic objectives in Australia’s broad strategic policy:

Australia’s most important long-term strategic objective is to be able to defend our territory from direct military attack. ...

Our second strategic objective is to help foster the stability, integrity and cohesion of our immediate neighbourhood, which we share with Indonesia, New Zealand, Papua New Guinea, East Timor and the island countries of the Southwest Pacific. ...

Our third strategic objective is to work with others in Southeast Asia to preserve the stability and cooperation which has been such a notable achievement over the past few decades. ...

Our fourth strategic objective is to contribute in appropriate ways to maintaining strategic stability in the Asia Pacific region as a whole, and to help contribute to building a stronger sense of shared strategic interests. ...

Our fifth strategic objective is to contribute to the efforts of the international community, especially the United Nations, to uphold global security.

DC is mainly relevant to the second, third and fourth of those objectives.

2.12 Chapter 5 (*Australia's International Strategic Relationships*) of the White Paper explains how Australia works with other countries to achieve Australia's strategic objectives. It outlines the contribution of non-government, foreign policy and Defence elements to enhancing regional stability and security, including elements that fall under DC. It sets out details of Australia's defence relationships, including their aims, with countries in Australia's region and beyond, thereby setting the framework in which DC is to operate.

Defence Cooperation objectives

Need for statement of objectives

2.13 In the absence of a specific statement of Government policy on DC, it would be good practice for Defence to prepare a statement of DC objectives that would guide its work in giving effect to Government policy in this area and give a clear and consistent justification for the expenditure of DC funds. Preparing a statement of program objectives is a normal part of agencies' work.⁵

2.14 The absence of detailed and well defined objectives for DC has resulted in a lack of comprehensive information that would help assess the cost-effectiveness of the resources allocated to these activities. It is also reflected in difficulties in establishing clear criteria to assess the relative merits of various proposals for DC funding and to evaluate DC activities for performance reviews.

2.15 The need for DC objectives was raised as long ago as 1984 in a Senate committee report on DC, which stated that:

...the use of terminology by the Departments [involved with the DC Program] such as 'criteria', 'achieving the objectives', 'developing effective capabilities', 'achieving cooperative activities', and 'objectives regularly assessed against each program', fail to establish what the true criteria and objectives are. This feeling of events occurring in a policy vacuum was felt by others

The Committee is concerned that there is a lack of information on the Defence Co-operation Program for scrutiny by the public and the Parliament. ... This lack of a clear statement of policy is severely hampering proper evaluation of the Defence Co-operation Program, especially in the Estimates hearings.⁶

⁵ Department of Finance's *Guide for Program Managers* (March 1989) defines a statement of program objectives as: *A statement of what is planned to be achieved by when. Where possible, they should be specific, detailed and unambiguous and stated in terms capable of measurement.*

⁶ *Australia's Defence Co-operation with its Neighbours in the Asian-Pacific Region*, Senate Standing Committee on Foreign Affairs and Defence, 1984.

2.16 The Inspector-General's 1995 program evaluation of DC found that:

...within the framework used for developing programs of activities, there is room for a clearer and public articulation of the goals and activities of the (DC) subprogram.⁷

2.17 The Inspector-General's program evaluation report recommended that Defence's IP Division adopt a hierarchical framework of objectives and strategies for DC, to strengthen the links between its mission and the particular activities conducted in pursuit of desired outcomes.

2.18 Defence's Deputy Secretary Intelligence and Strategy issued a *DC Manual* in September 1995. It contained broad program goals for DC, but no detailed objectives. The Inspector-General's follow-up on recommendations in his 1995 report concluded in May 1996 without the recommended framework of objectives and strategies having been completed.

2.19 From 1996, work in IP Division on a draft DC Corporate Plan, which was to include detailed objectives for DC, continued sporadically. The plan was not finished. However, the then Regional Engagement Policy and Programs Branch developed Business Plans for 1996–97 and 1997–98. Individual initiatives relating to DC were included in the plans, as were broad 'key objectives' in the form of strategies to shape the strategic environment in South East Asia and the Pacific. However, there were no objectives for DC as a whole, regionally or by country.

2.20 To take the place of the DC Corporate Plan, IP Division developed the *Defence International Engagement Plan 2000–2005*. That plan has not been formally endorsed.⁸ The *Defence Annual Report 1999–2000* stated that:

The development of the initial Defence International Engagement Plan facilitated a more robust linkage between our strategic policies and the specific objectives of the Defence Cooperation program.⁹

The ANAO has been unable to identify those specific objectives.

⁷ *Defence Cooperation—Program Evaluation*, Department of Defence, Inspector-General Division, January 1995.

⁸ A replacement plan is being developed by IP Division for the period 2001 to 2006.

⁹ *Defence Annual Report 1999-2000*, Department of Defence, October 2000, page 171.

2.21 In discussion with the ANAO, Defence maintained that there are two separate forms of objectives guiding DC. Firstly, objectives related to activities and programs agreed with participating countries, with performance measures such as completion on schedule and on budget and customer satisfaction. The audit fieldwork showed that these activity programs were usually lists of activities agreed to be undertaken. The project documentation rarely contained evidence of specific objectives to be met, or a review against such objectives. In its December 2000 response to the ANAO's Issues Papers, Defence agreed that there was a need to do more to set, record and implement these objectives consistently and methodically.

2.22 Secondly, there are unilateral goals for DC. These relate to the Defence outcomes to be achieved by Defence's international engagement activities and are of the nature of broad strategic outcomes to be achieved. Defence said that:

- 'broad objectives' for Australia's defence relationships with regional countries had been set out in a recent official submission to Government; and
- a focus for DC activities in certain countries was agreed by Government.

2.23 The ANAO notes that the broad objectives encompassed the Australian strategic and defence interests to be pursued in international relationships. They were not objectives in program or activity management terms and were not endorsed by the Government.

Core goals

2.24 Defence advised the ANAO that two 'core goals' for regional defence relationships (which Defence regard as indistinguishable from DC) are the objectives for DC and that they had Government endorsement for them. These goals relate to Australia's access and influence in other countries.

2.25 In discussion with the ANAO, IP Division desk officers stated that, when assessing the merits of DC activity proposals, the two 'core goals' were a major contributing factor.

2.26 The audit examination of documentation of DC activities showed that, in most instances, it was difficult to demonstrate benefits and/or establish clear causal links relating to the contribution made by the two core goals. IP Division files on DC revealed that the two goals were not usually helpful in informing decision making in relation to DC activities, either in the beginning at the selection stage or in the assessment of the various activities at their conclusion. Information on the extent that

individual proposals would achieve outcomes in respect of the two core goals or assessment of the contribution of activities to those goals was generally absent from documentation.

2.27 In response to the ANAO's Issues Paper, Defence in November 2000 undertook to examine DC arrangements in light of the Government's White Paper *Defence 2000—Our Future Defence Force* and changes in Defence's financial management, performance measurement and reporting. This should provide an opportunity to develop program objectives for DC activities to ensure their alignment with Government policy. Clear program objectives for these activities would provide the basis of a framework for DC managers to enhance the transparency and quality of decision-making in identifying, ranking, selecting and evaluating DC activities.

2.28 Defence advised the ANAO in February 2001 that the conceptual underpinnings and contribution of Defence's international engagement to the Government's objectives will be explained by the Defence International Engagement Strategic Plan. Defence does not plan on developing DC objectives per se. It intends to adopt an approach aimed at ensuring effective and well-targeted Defence international engagement in support of the Government's White Paper. The proposed Defence International Engagement Objectives (DIEOs) are to be linked to the five strategic goals described in the White Paper (see paragraph 2.11). Documentation for DC funding proposals and post-activity review will include the proposed DIEOs and relevant country unilateral and country bilateral goals.

2.29 The ANAO notes that, conceptually, there may be a need in DC for a distinction between the rationale for activities and the detailed objectives of these activities, similar to that made in Australia's Overseas Aid Program, administered by AusAID. The rationale for that program was reviewed by the Government in 1997, after the program had '*become burdened down by a variety of competing short-term interests*'.¹⁰ That program was given a clear goal ('*to advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development*') and role to play '*its part in creating a prosperous and stable future for Australia*'. Defence advised the ANAO that International Policy Division would appraise the AusAID planning, reporting and evaluation framework, with a view to adopting any facets relevant and useful for the management of Defence's international engagement.

¹⁰ *Better Aid for a Better Future*, Seventh Annual Report to Parliament on Australia's Development Program and the Government's Response to the Committee of Review of Australia's Overseas Aid Program, The Hon Alexander Downer MP, November 1997.

Conclusion

2.30 The Government's national interest and defence policy statements contain general policy directions and statements of Government intent relevant to DC. These should be developed by Defence into a clear statement of DC program objectives. The Senate Standing Committee on Foreign Affairs and Defence in 1984 indicated its concern about the lack of such a statement. This long-standing absence of detailed and well-defined objectives for DC has resulted in a lack of comprehensive information that would help management to adequately assess the cost-effectiveness of the resources allocated to these activities. It is also reflected in difficulties in establishing clear criteria to adequately assess the relative merits of various proposals for DC funding and to evaluate DC activities for performance reviews.

Recommendation No.1

2.31 The ANAO recommends that Defence develop Defence Cooperation (DC) objectives to allow the better targeting of decisions relating to the selection and prioritisation of DC activities and their subsequent evaluation.

Defence response

2.32 Agreed, with qualifications. Defence concurs with the recommendation that DC activities be managed and evaluated in accordance with clear objectives. Regional engagement activities, of which DC activities are a sub-set, are always undertaken in accordance with key Government objectives.

Defence Cooperation in a 'whole-of-nation' context

2.33 The Government's national interest policy statement mentioned at paragraph 2.4 stated that Australia's security interests go

well beyond the physical protection of Australian territory. More broadly, Australia's national security and its economic interests are inextricably linked to the security and stability of the Asia Pacific region.

Central to the strategies contained in the statement is a whole-of-nation approach that emphasises the link between Government policies and the requirement for Australia to make best use of its resources.

2.34 The policy indicates that Australia's security interests are not confined to potential military threats or regional conflict, and include non-military threats such as pandemics, illegal migration, refugee flows, environmental degradation, narcotics and transnational crime. It states that

for many countries, these [threats] are a more immediate concern than the prospect of invasion or military intimidation. They reinforce the importance of taking a broad view of security which goes beyond military and defence issues.

2.35 Recent developments in the region have highlighted external pressures such as transnational crime and increasing internal stresses due to deep-seated demographic, social, economic, ethnic and political problems. Formal recognition has been given at the national level of the need to provide more support for policing, internal security and general law enforcement in the South Pacific.

2.36 DC has included a number of governance-related activities such as seminars on the role of the military in society. AusAID is helping to improve governance (including strengthening general government services, the legal systems and the rule of law) in developing countries through direct assistance estimated at \$245 million in 2000–01. AusAID programs in 1999–2000 have included support to the Royal Papua New Guinea Constabulary with expenditure of \$4.376 million. DC is providing malaria research related assistance to Vietnam, and AusAID is also funding malarial projects to that country.

2.37 Recent regional developments reinforce the need to plan DC activities with regard to the interests and activities of other contributors in bilateral and multilateral relationships. There has been evidence of consultation among relevant agencies at the working level, but the ANAO would encourage regular and more formal exchange of information at the national level to help ensure that:

- agencies are aware of related activities and lessons to be learnt;
- the agency appropriate for a particular task carries out the task, taking into account the objectives of the task and the capacity of the agency to achieve it; and
- synergies are sought and harvested from the conduct of like or related projects.

Defence Cooperation in the Defence outcome and outputs structure

2.38 Government funds Defence for one desired outcome:

*The prevention or defeat of the use of armed force against Australia and its interests. ... Prevention, in this context, includes all tasks that contribute to a more stable and certain international environment, such as peacekeeping and assistance in overseas disaster-relief operations.*¹¹

2.39 There were 22 Defence outputs contributing to the Defence outcome in 1999–2000. These were reduced to five in 2000–01, namely:

- Output 1—Defence Operations;
- Output 2—Navy Capabilities;
- Output 3—Army Capabilities;
- Output 4—Air Force Capabilities; and
- Output 5—Policy Advice.

2.40 In the *Portfolio Budget Statements 2000–01—Defence Portfolio* the cost of DC activities (\$61.1 million) was included, but not separately listed, in Defence Output 1 (Defence Operations) and Output 5 (Policy Advice). Attribution of DC to two outputs was intended to fit DC costs to the Defence output framework in place at the time.¹²

Cost of administering DC

2.41 Information provided by Defence to the ANAO in November 2000 showed that the funding split in 1999–2000 was about 20 per cent to Output 1 and 80 per cent to Output 5. Defence advised that the DC component in Output 1 included the costs of specific DC activities and that the DC component in Output 5 covered the costs of DC administration. This indicated to the ANAO that DC administrative costs

¹¹ *Portfolio Budget Statements 2000-01—Defence Portfolio* (May 2000) p. 8.

¹² A new Defence outputs structure for 2001–02 will place all international engagement policy and cooperative activities into a Sub-Output 5.2 *International Policy, Activities and Engagement* in a renamed Defence Output 5 *Strategic Policy*. Sub-Output 5.2 is to be divided into:

- Sub Sub-Output 5.2.1 *International Policy*, including all international policy development and policy advice on international issues including guidance for DC expenditure, Defence International Engagement Plan development, Defence Attachés, Defence engagement with allies, contribution to multilateral activities and crisis management; and
- Sub Sub-Output 5.2.2 *Regional Engagement*, comprising all activities funded by DC, but excluding international activities undertaken for international policy reasons.

were a significant proportion of total DC costs. In response to ANAO's proposed audit report, however, Defence advised the ANAO in February 2001 that the split of DC funding between the two outputs for 1999–2000 was an early and approximate effort at managing attribution of spending between the two nominated outputs. Defence said that, in the event, an error had occurred and that the split was attributed in reverse to what had been intended. The ANAO notes that, if the DC administration component, which comprises mainly Defence salaries, were expressed on a full-cost basis, DC administration costs would still be a significant proportion of total DC costs.¹³

2.42 A costing of DC activities on a full-costing basis is not presently available. The ANAO considers that, to help assess the cost-effectiveness of the DC program output, there need to be reliable data on the cost of all DC activities, including DC administration. The ANAO is aware that Defence is endeavouring to implement a cost management system as part of the output management framework¹⁴ and to improve its overall financial management and information¹⁵. As part of the move to have better financial data available for management and evaluation purposes, the ANAO considers that Defence should determine the total costs of the DC program to bring to the notice of Defence's senior management the cost of administering DC in relation to the total amount spent on the DC program and to inform decisions about the cost-effectiveness of DC outputs. The ANAO notes Defence's point that in the effort to cost DC activities, there is a question of materiality and that decisions on cost-effectiveness will continue to rely on good judgments.

¹³ The Department of Finance *Guidelines for Costing of Government Activities* (July 1991) indicate that labour on-costs for superannuation, accommodation, administrative expenses and corporate support can be estimated by applying a factor of 154.4 per cent to salaries. In the context of the DC Program, Defence considers that the *Guidelines* overstate the cost of personnel by some 50 per cent.

¹⁴ The Cost Management Project was established by the Defence Executive in 1998 to develop a cost management system as an integral part of the accrual-based output management framework. The system is intended to communicate performance objectives down and across Defence and provide relevant cost and performance information to managers responsible for meeting the objectives. The aim was to have implementation complete late in 2001. In November 2000, however, Defence stated that development of a cost management information system had been deferred pending clarification of future financial information requirements.

¹⁵ See paragraph 4.3.

Recommendation No.2

2.43 The ANAO recommends that Defence assess the total costs of DC administration in relation to total DC funding to inform decisions about the cost-effectiveness of DC outputs, noting that the extent to which this should be done will be informed by questions of materiality and judgments regarding the value that it provides to the management of the DC Program.

Defence response

2.44 Agreed.

The reporting framework for Defence Cooperation

2.45 Broadly stated, agencies' annual portfolio budget statements (PBS) provide information on how budget appropriations would be spent, and their annual reports provide information on how the appropriations were spent.

Performance information on DC in Defence PBS

2.46 In advice to the ANAO, Defence stated that international engagement activity, its content, priorities and performance targets are described in PBS 2000–01,

...including the performance target of "Successfully conduct a program of Defence Cooperation activities, including education, training and exchanges. ...The prices of the Outputs containing international engagement activities are also shown. Approval of PBS 00/01 by Parliament therefore constitutes the legal authority for the undertaking of DC.

2.47 The ANAO notes, however, that the Parliament does not approve the PBS, which are prepared by agencies for the information of the Parliament in the process of enacting the Appropriation Acts. Furthermore, Defence's PBS 2000–01 do not disclose a total amount to be allocated to DC activities or allocations to specific countries or activities.

2.48 Defence's PBS 2000–01 (page 63) stated that Output 1 (Defence Operations) include

effective international activities, including overseas deployments and representation, to enhance the ADF's ability to conduct successful operations.

Priorities for Output 1, under the heading of International Activities and Regional Engagement, included the maintenance of

effective management processes for the expenditure of defence

cooperation funds on projects of mutual benefit with our regional neighbours (page 64).

Capability performance information for Output 1 listed a range of performance targets for DC activities (page 67), related mainly to successful completion of various programs of activities.

2.49 Performance measures for DC in Defence's PBS 2000–01 were general and, on the whole, qualitative in nature. Defence holds that few of the high-level outcomes sought in international engagement and DC are amenable to quantitative measurement and, for most, a reliance on judgment is unavoidable. Some, due to the risk of damaging international relationships, are unsuitable for inclusion in public documents, at least in unabridged form. The ANAO accepts the department's view on these matters. However this should not detract, in any significant way, from reporting on how the department expects to measure the effectiveness of the program as a whole.

2.50 Defence also advised the ANAO that the public Defence performance targets for DC in PBS 2000–01 are not intended to be final and that there is room for a fuller and more transparent statement of regional engagement performance targets in budgetary documents and the annual reports. Defence intends to remedy this in future annual reports and PBS. The ANAO also notes that DC related performance information is likely to benefit from work being undertaken by IP Division on performance measurement for international engagement.

2.51 The Senate Standing Committee on Foreign Affairs and Defence in its 1984 report on DC¹⁶ said that DC expenditure could be made clearer by the detailed breakdown of funding and that this would promote a more informed public debate on the aims of the program. Defence's budget papers since 1988–89 itemised the types of funding allocated to participants in the program. A Parliamentary research paper in 1993 stated that the

plethora of newspaper articles addressing specific DCP programs over the last five years suggests that this action has had the effect of promoting discussion on Australia's DCP assistance.¹⁷

¹⁶ *Australia's Defence Co-operation with its neighbours in the Asian-Pacific Region.*

¹⁷ *Australia's Defence Cooperation Program*, Research Paper 4, 1993, Department of the Parliamentary Library.

2.52 In the absence of details of allocations to DC in the budget documents for 2000–01, a request was made at the May 2000 Senate Estimates Committee¹⁸ hearings for a list of countries receiving defence assistance and the value of that assistance. Defence provided the details to the Committee in September 2000.

2.53 The ANAO suggested that Defence provide such details as a matter of course in its annual PBS, since the details would be useful in terms of facilitating public discussion and parliamentary scrutiny of a strategically important and sometimes politically sensitive Defence activity. The details would enhance transparency concerning a range of international activities undertaken by Defence.

2.54 Defence said in response:

...the Program Budget Statements for 2000–01 were a significant step in the evolution of a new style of reporting for Defence. Their priority was to adequately reflect the advent of two major initiatives, accruals and output management. Defence has returned to detailed reporting of DC expenditure in the forthcoming Portfolio Additional Estimates Statements, and will report similarly in future budget documents and Defence Reports.

2.55 The ANAO welcomes Defence's decision to return to detailed public reporting on DC in future budgetary documents and Defence's annual reports.

Reporting on DC in Defence annual reports

2.56 Reporting on DC in the Defence Annual Reports 1998–99 and 1999–2000 consisted of a description of activities undertaken, developments in the strategic environment, Defence responses to these and explanations for variations between planned and achieved activity levels. The latter report contained performance information on DC set out in Table 2.

¹⁸ Senate Foreign Affairs, Defence and Trade Legislation Committee.

Table 2
DC Performance Information

<i>Performance Indicator</i>	<i>1999-2000 Target</i>	<i>1999-2000 Performance</i>
Program of Defence Cooperation activities, including education, training and exchanges successfully conducted.	Fully achieve	Fully achieved Despite a reduction of defence activity with Indonesia, close to a thousand military and civilian personnel from ASEAN ¹ and Pacific nations attended military courses, Australian universities, exchange postings and staff colleges.
Program of overseas ADF deployments in support of Defence Cooperation, including exercises and combined operations, successfully conducted.	Fully achieve	Fully achieved International Policy Division worked productively with the Services and Headquarters Australian Theatre to ensure that desired exercises occurred in promotion of Defence Cooperation objectives for South East Asia.

Source: *Defence Annual Report 1999-2000* p172.

¹ ASEAN – Association of South-East Asian Nations.

2.57 Performance related information provided in the annual reports was too general to allow an assessment to be made as to whether, overall or for specific activities, DC resources had been used cost-effectively and DC objectives had been met.

2.58 As Defence proceeds with its review of arrangements for DC in the context of reform of Defence financial management, performance measurement and reporting, the public performance targets for DC should reflect these broader changes. Defence's review of DC reporting should also take account of Recommendations Nos.1 and 2 of this report. In its review, Defence should seek to remedy, to the extent possible with national security considerations, the lack of information on DC for evaluation of DC activities, identified by the Senate Standing Committee on Foreign Affairs and Defence in 1984.

Recommendation No.3

2.59 The ANAO recommends that Defence review its public reporting on DC program performance indicators and targets, with a view to disclosing information sufficient to discharge its accountability for public funds spent on DC and enabling an informed assessment of DC program performance.

Defence response

2.60 Agreed. Defence concurs with the recommendation and will review public documents such as the Portfolio Budget Statements and the Defence Annual Report with a view to providing a fuller statement of DC program performance. However, the release of detailed DC program performance indicators and targets will be guided by judgments regarding the sensitivity of this information.

Conclusion

2.61 There are several broad Government goals, policy directions and foci for DC activities, on a country, and in some cases regional, basis. These are not specific enough for direct use as program objectives to provide adequate management guidance on the selection and assessment of DC program activities. Defence has undertaken to examine the arrangements for DC in light of the December 2000 Defence White Paper and changes in Defence's financial management, performance measurement and reporting. Developing program objectives for DC activities would provide the basis of a framework for the managers of these activities to enhance the transparency and quality of decision making in identifying, ranking, selecting and evaluating DC activities.

2.62 Recent developments in Australia's geographic region have highlighted external pressures such as transnational crime and increasing internal stresses due to deep-seated demographic, social, economic, ethnic and political problems. These developments have reinforced the need for DC activities to be planned with regard to the interests and activities of other contributors in bilateral and multilateral relationships and for regular, formal exchanges of information at the national level.

2.63 Available data indicated that the cost of administering the DC is a significant proportion of overall DC resources. Full costing would continuously bring to management's attention the cost of administering DC in relation to the total amount spent on the DC program.

2.64 Defence accepts that there is room for a fuller and more transparent statement of performance targets for its regional engagement activities (of which DC is part) in its public documents. Defence has advised that it intends to remedy this in future iterations of those documents.

3. Value and Forms of Defence Cooperation

This chapter outlines findings on the value of DC to participating countries and Australia, and examines the forms of DC activities and trends in the direction of those activities.

Value of Defence Cooperation

Value to participating countries

3.1 In discussions with the audit team, Australian and foreign government officials in South East Asia and Papua New Guinea indicated that DC activities are highly valued by participating countries and make a positive contribution to the overall work of the Australian missions. The consensus was that it provided depth to Australia's defence relationship with regional countries and demonstrated tangible evidence of Australia's seriousness in those relationships.

3.2 Training is an important component. The comprehensive training program offers opportunities relating to English language, a wide range of courses, staff college attendance and higher education opportunities, exchange of instructors, availability of mobile training teams, interface with Defence Science and Technology, and higher-level seminars.

3.3 South East Asian nations recognise that DC and related broader activities including bilateral and multilateral exercise programs expose their defence forces to the professionalism of the ADF and foster important elements of commonality, in military doctrine and support. They appreciate the training value of this exposure. They also appreciate that greater interoperability between forces would enable them, in time of need, to look to Australia and other friendly countries to provide logistic support, for example in communications and maintenance spares for common equipment. DC is also valued because it provides 'a bridge to the West' through Australia's access to leading technologies and intelligence information and other support.

3.4 There are consultative mechanisms in place to decide programs of activity (mainly involving training) with countries participating in DC. These are discussed later in this chapter. In a number of countries, foreign officials involved in DC considered that there would be merit in having clearer articulation of the underlying military objectives to be served by these activities. Defence informed the ANAO that it is considering a different approach: ascertaining from participating countries what military capabilities they wish to develop and, in consultation, deciding on activities to meet their requirements. This seems a useful way to arrive at a set of DC activities which meet both Australia's capacity to contribute and the military priorities of participating countries.

Value to Australia

3.5 Personal contacts and long-established relationships resulting from DC have been important to Australia's ability to obtain speedy and sympathetic hearings in countries in South East Asia and gaining support at the highest levels in contributing to the United Nations sponsored international force deployment to East Timor (Interfet). Military interoperability and personal contacts established or fostered through DC activities assisted in the realisation and operation of the international force.

3.6 Evidence indicates that DC activities assisted in gaining access for discussions but not necessarily decisive influence on the policy decisions taken by each country. Access and influence were the outcome of a multitude of Government activities and it was not practicable to quantify the individual contribution made by DC.

3.7 Advice from Australian participants in Interfet and at the Australian Embassy in Jakarta suggests that, in difficult military and diplomatic circumstances, DC, largely by its relationship-building successes, helped to contain tension at critical times and to prevent escalation. There are significant benefits to Australia's defence capabilities through the familiarisation of Australian Defence personnel with the environment, operating procedures, cultures and capabilities of regional countries. Some of these benefits are directly related to DC, because they would not be undertaken without DC funding, or because the long-term relationships established through DC programs such as training and visits make them possible.

3.8 DC evidently makes a positive contribution to the overall work of Australia's overseas missions and in helping to advance Australia's interests. But the benefits of DC have not been assessed systematically by Defence. There is a need, and indeed scope, for the collection of informative and, where available, of quantifiable data to help make a systematic assessment of DC cost-effectiveness from an Australian perspective. Although not all benefits are quantifiable, Defence stated in the course of the audit that there is scope for the collection of informative and in some cases quantitative data and that it is exploring a systematic approach to gathering such data. Analysis of the data would help in adequately assessing the cost-effectiveness of the various DC activities, in terms of their contribution to Australian Defence objectives, and help to direct DC activities to achieve better outcomes. The ANAO notes that Defence's approach to data collection will be based on judgments on the extent to which the cost of collation is commensurate with the value that it provides to the management of the DC Program.

Recommendation No.4

3.9 The ANAO recommends that, to help achieve better outcomes in meeting Australian Defence objectives through DC, Defence implement a more systematic approach to the collection of data to assist in assessing the cost-effectiveness of the various DC activities, noting that the extent to which this should be done will be informed by questions of materiality and judgments concerning the value that it provides to the management of DC activities.

Defence response

3.10 Agreed.

Forms of Defence Cooperation

3.11 DC developed from bilateral arrangements with Malaysia and Singapore in the 1960s (see Appendix 1). Paragraphs 1.4 and 1.5 in Chapter 1 outline the main DC activities.

3.12 Figure 3 shows developments, since 1990–91, in the costs of DC activities with countries in Asia and the South Pacific. Since 1990–91 the direction of DC has moved from a preponderance of resources on Papua New Guinea and other countries of the South Pacific to a wider program with an increase in the relative size of resources expended on Asian countries.

Figure 3

DC Costs by country/region 1990–91 and 1999–2000 (in 1999–2000 dollars)

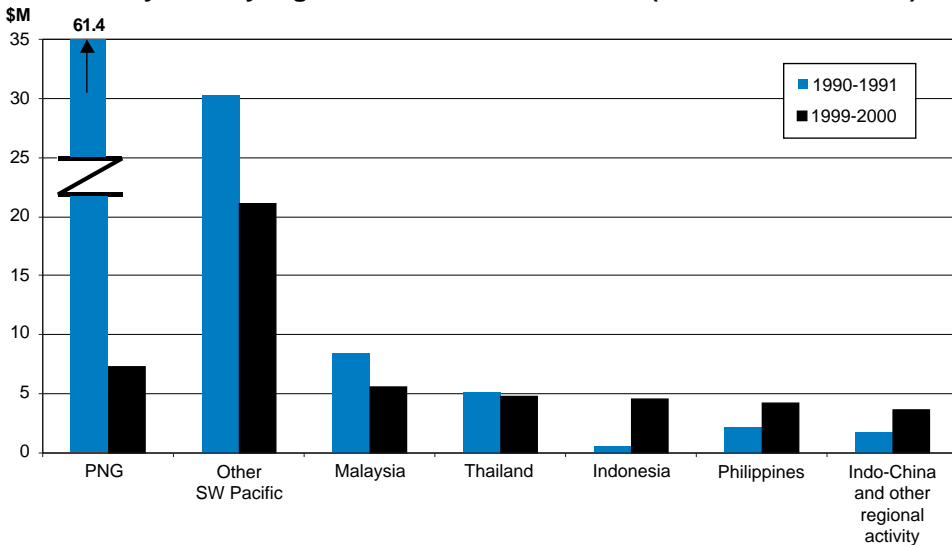


Figure 3 prepared by the ANAO from Defence Annual Reports and other records.

3.13 Table 3 shows the change in the broad share of DC resources since 1990–91, expressed in ‘real’ terms (1999–2000 prices). It shows, in real terms:

- a decrease in the resources for PNG as a proportion of total DC resources;
- an increase in the share of Other South West Pacific countries, but a significant decline in the amount;
- an increase in the total share of DC resources for the Asian region; and
- a decrease in total DC resources of some 50 per cent since 1990–91.

Table 3

DC costs and geographic share 1990–91 and 1999–2000

Country/region	DC costs 1990–91 (in 1999–2000 \$) \$m	DC costs 1999–2000 \$m	Share of total DC in 1990–91 %	Share of total DC in 1999–2000 %
Papua New Guinea	61.438	7.986	56.0	14.5
Other South West Pacific	30.222	21.109	27.5	38.5
Asia	18.095	26.006	16.5	47.0
Total DC	109.755	55.101	100	100

Compiled by the ANAO from Defence Annual Reports and other records.

3.14 The cost estimate for DC in 2000–01 is \$59.948m. In the Additional Estimates (November 2000), DC funds were reallocated, as shown in Table 4.

Table 4

Reallocation of DC resources in Additional Estimates 2000–01

<i>DC funds allocation 2000-01</i>	<i>Budget Estimate \$m</i>	<i>Revised Estimates \$m</i>	<i>Variation \$m</i>
Papua New Guinea	8.988	18.788	+ 9.800
South Pacific Region	19.026	13.659	- 5.367
South East Asia and Indochina	26.279	23.846	- 2.433
Other Regional Activities	5.552	3.552	- 2.000
Facilities for Training in Australia	0.103	0.103	-
Total	59.948	59.948	-

Source: *Portfolio Additional Estimates Statements 2000-01, Defence Portfolio* (November 2000).

3.15 The total estimate for DC in 2000–01 remains at \$59.948 million but the allocation of funds within the total has changed. Resources for activities with PNG have been doubled to fund recent initiatives, including assistance to the PNG Defence Force for national security capability. The Additional Estimates also include a provision for DC with East Timor (\$2 million). Defence stated that reduced DC activity in 2000–01 with Indonesia, the Solomon Islands and Fiji is reflected in reductions in funding allocations to these countries, enabling the transfer of resources to PNG and East Timor.

3.16 Over time, DC has moved away from the provision of materiel and infrastructure development. This is reflected in a decline in the proportion of total DC resources applied to projects, as shown in Figures 4 and 5. The focus of DC is now more on education and training, study visits and dialogue and information exchange at various levels. The mix of DC activities undertaken by Defence can vary from country to country.

Figure 4

DC Categories in 1993–94 as a percentage of total DC costs

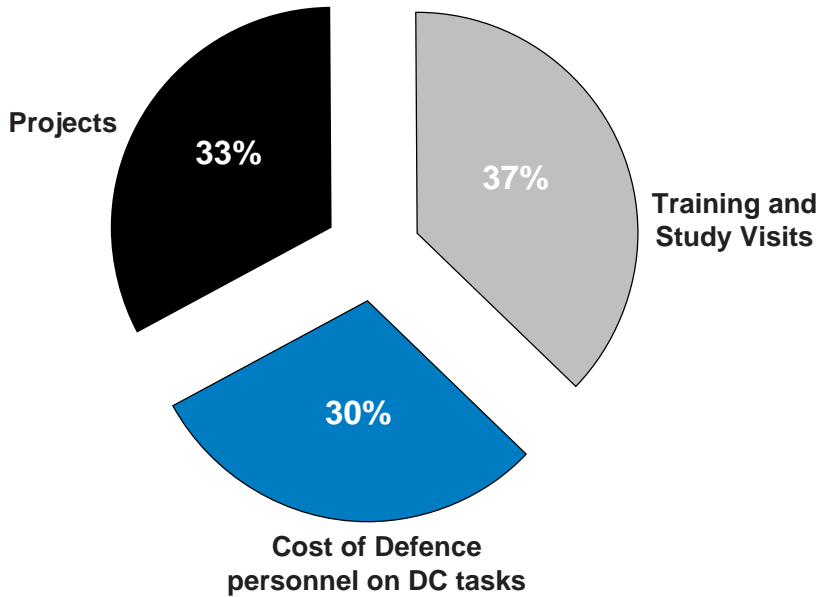
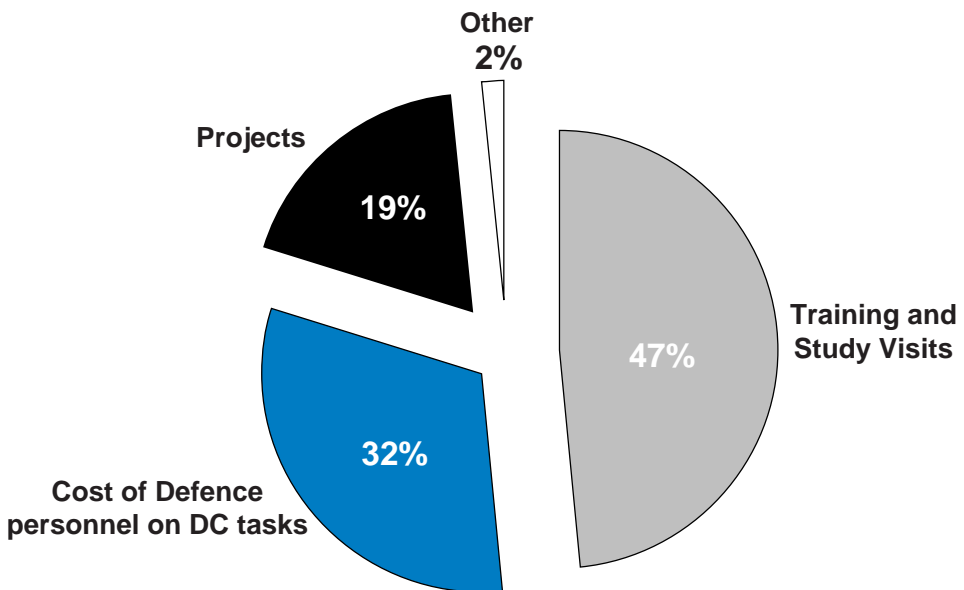


Figure 5

DC Categories in 1999–2000 as a percentage of total DC costs



Figures 4 and 5 prepared by the ANAO from Defence Annual Reports 1993–94 and 1999–2000. Earlier figures for this activity split are not available.

Developing military capabilities and infrastructure

3.17 Partly in recognition of the relatively small budget allocation, Defence does not see DC as developing or enhancing regional capabilities to any significant extent. Defence notes, however, that projects such as advisory assistance in the maintenance of Nomad maritime surveillance aircraft in Indonesia and the Pacific Patrol Boat Program in the South Pacific have made significant contributions to the maritime surveillance capabilities of the recipient countries, although the original aim of complete self-reliance in carrying out these capabilities has not been reached.

3.18 Defence stated that, with modernisation of regional defence forces, the scope for and relevance of capability enhancement of regional countries through DC will decline and diminish. Alternatively, capability enhancement activities under DC might shift to areas where Defence has specialist expertise relevant to the regional military operating environment. DC activities in defence science and technology are already being undertaken with regional countries, making use of the complementary capabilities of participating nations to achieve mutual benefits.

3.19 The projects mentioned above have been core activities and have continued without interruption through the vicissitudes over time in other aspects of international relationships. They have brought benefits by providing an enduring element in these international relationships.

3.20 There are also situations where infrastructure programs may be a worthwhile undertaking for DC. An example is the recent project for the Papua New Guinea Defence Force (PNGDF) to upgrade cooking and eating facilities at the Goldie River Barracks¹⁹ (near Port Moresby). This project was carried out before the catering function was contracted to a commercial firm and helped the PNGDF move more quickly to improve services. The audit team noted the high standards in food preparation and of the facilities. Such improvements benefit not only PNGDF personnel, but also Australian Defence personnel working at or visiting these facilities.

¹⁹ The Murray Barracks mess in Port Moresby was also refurbished and commercialised.

3.21 Notwithstanding that the general New Defence Partnership with PNG excludes infrastructure and facilities from the defence relationship, it has now been agreed that PNG requests for assistance with facilities and infrastructure projects should be considered, with a particular emphasis on jointly funded projects. It has also been agreed that any infrastructure support provided by Australia should be linked to training and exercise outcomes or reform of PNGDF management. A package to assist PNG in its reform measures for the PNGDF was announced by the Australian Prime Minister on 18 October 2000. The measures are to be funded by DC.

Cost sharing

3.22 Economic factors can determine the affordability of some DC programs to participating countries. This has been particularly evident as a result of the economic downturn and subsequent reductions in regional defence budgets that occurred in much of South East Asia in 1997–98. Prior to that, these countries contributed to the cost of DC sponsored training and study visits to Australia by covering the cost of airfares. Since 1997–98 Australia has relaxed these cost-sharing arrangements but has indicated a desire to reinstate them as soon as practicable. In some cases, they will apply from the beginning of 2001.

Framework for Defence Cooperation discussions

3.23 Over time, highly structured frameworks of dialogue between Australia and participating countries have developed. The arrangements in place vary from country to country. At the higher levels in particular, the processes have tended to become very formalised.

3.24 One of the more fundamental insights that DC aims to promote is a better understanding of the strategic policy issues, interests and concerns a country may have and the factors that drive this thinking. Officials of other countries told the audit team while in South East Asia that Australia makes an effort to explain its strategic approach and its force development concepts and priorities in the context of developing policy statements and government white papers. The officials said, however, that there are limited opportunities for discussion and exchange of ideas and that there would be benefit in Defence more actively canvassing the views of partner countries on similar matters.

3.25 In response, Defence told the ANAO that it disagrees emphatically with the contention that there is little opportunity for exchange of ideas and points of view.

3.26 The audit team noted that there were sometimes large Australian delegations in the working groups that discuss and plan DC activities at working level; for example, 11 Australian-based delegates for discussions on training and other activities with Malaysia in November 1999. As these large groups did not always make significant change to planning documentation that they discussed, the ANAO has some doubt as to their cost-effectiveness. Consideration should be given to making greater use of resident Australian Defence personnel and to making available to participating countries additional information such as details of training courses which are open to them. This should assist in keeping down the management cost for DC activities. Defence advised that they are seeking to maximise the use of Defence personnel posted overseas.

3.27 Defence advised that it has started to implement a restructure of bilateral management bodies to streamline them and improve coordination by moving to a consolidated two-tier structure. In that restructure Defence seeks to ensure that the views of interlocutors are given full attention.

Education and training

3.28 In discussions overseas, a number of inefficiencies were mentioned to the audit team. These included sending senior officers nearing retirement to undertake training courses in Australia, whereas greater longer term benefit would be gained by sending officers with potential for higher rank and longer service life. In other cases the same officers were being accepted to attend a wide range of courses in Australia without any clear purpose and without Australia questioning this practice. The capability oriented approach to DC mentioned in paragraph 3.4 would help to minimise such occurrences.

3.29 There were also suggestions that, instead of sending small numbers of specialist personnel to Australia on training courses, it would be more cost effective for Australia to send Mobile Training Teams (MTTs) to run courses for far greater numbers in-country. Defence said in response that it uses such teams but that there were benefits in training in Australia, such as the wider range of experiences gained by studying in a foreign country.

3.30 For the same reasons, countries in South East Asia welcomed the opportunity to have Australian Defence personnel attend their staff colleges and training establishments. They were keen for Australia to better understand their ways of thinking and their cultures and so help strengthen the partnership.

3.31 The standards for English language course prerequisites for Australian Defence courses attracted comment by some language training officials in South East Asian countries' defence forces. The officials commented that their trainees found it difficult to reach the required standards, particularly in English language listening skills. In their experience, it was unrealistic to expect their prospective trainees to reach the required standards in listening skills unless they were English language teachers or had previously been immersed in an English language environment for a protracted period at a staff college.

3.32 In one country, the ANAO was told that that only one in nine prospective trainees was able to reach the requisite standard in listening skills. Officials also said that trainees with an initial score of one level below the required standard (which was regarded as achievable) were able to cope with course requirements. The officials were concerned that capable and promising trainees would be excluded from valuable training in Australia by an English language competency hurdle that in their view was unrealistic for a number of training courses.

3.33 A review of course requirements, together with assistance to help improve English language standards in selected DC countries, would help avoid a situation where required standards may militate against the achievement of bilateral DC objectives.

Conclusion

3.34 DC is valued highly by participating countries and is seen by stakeholders as making a positive contribution to the overall work of Australia's overseas missions and in helping to advance Australia's interests. But the benefits of DC have not been assessed systematically by Defence. There is scope for the collection of informative and, where available, quantifiable data to help make a systematic assessment of DC cost-effectiveness from an Australian perspective.

3.35 In the past 10 years, DC has moved from a situation where the preponderance of resources was applied to Papua New Guinea and the South Pacific to a wider program encompassing a significant number of Asian countries. The focus of DC has moved from the provision of materiel and infrastructure to education, training and personnel exchanges and dialogue and information exchanges at various levels. Defence's discussions with participating countries are likely to lead to further changes in the form of DC activities and consequent enhancements in the value of the program.

4. Management of Defence Cooperation

This chapter reviews aspects of DC management, including DC financial systems and planning, project monitoring and control, and personnel, assets and records issues.

Defence Cooperation financial system

Financial systems development

4.1 After the Inspector-General's program evaluation report on Defence Cooperation (DC) in 1995, Defence's International Policy (IP) Division developed a financial management database, the Defence Cooperation Activities Management System (DCAMS). DCAMS was to complement the mainframe Defence Financial Management Information System (DEFMIS). The ANAO understands that DCAMS was to meet the specific requirements of DC that were not met by DEFMIS, and to be used by IP desk officers in managing programs and monitoring expenditure of funds by country or by groups of countries. DCAMS was to integrate policy and program management to achieve DC policy outcomes and to be 'self-updating'.

4.2 However, at the time of audit field work, DCAMS was not interactive with DEFMIS, nor was it aligned to interact with the overseas Defence posts administering DC. Any updating was done manually and the audit trails for monitoring of approvals and expenditure had become blurred by the introduction of a multitude of cost charging codes. This seems to have resulted largely from the uncontrolled 'read and write' access by staff, irrespective of their level of financial management expertise and experience. With changes such as the introduction of accrual budgeting, the Defence chart of accounts, the information systems supporting DEFMIS and the introduction of ROMAN²⁰ (replacing DEFMIS), the effort to maintain consistency with Defence mainstream accounting systems became too great and it was decided to discontinue DCAMS.

²⁰ Resource and Output Management and Accounting Network.

4.3 Defence advised the ANAO that financial management of DC is in an interim phase. Use of ROMAN commenced in IP Division, but the system was not optimised for the financial management of international engagement activities, including DC. Supplementary action had to be taken by IP Division and the ROMAN Team. DC was likely to be included in a major overhaul of Defence's information and financial systems. Defence is endeavouring to improve its overall financial systems and its approach to financial management.²¹

Financial planning

4.4 There is no consolidated plan that brings together current and planned DC activities and their projected costs over the Defence forward five-year program. Funding allocations to DC appear to have become ad hoc to the point that, at the beginning of 2000–01, there was no clear understanding of the DC budget and no clear budget allocation by country. Such data was not presented in the *Portfolio Budget Statements 2000–01—Defence Portfolio* (May 2000).

4.5 Defence advised the ANAO that the absence of information on DC by country in the May budget documents was an unintended consequence of Defence changing to a significantly new output and reporting framework that was better suited to meaningful reporting for the majority of Defence's expenditure. Defence recognised a need for robust linkages between strategic guidance and DC program management and forward financial planning. The Defence International Engagement Plan was an important first step in building such linkages, as it directed DC program content over five years to meet country-specific objectives derived from Government guidance. Further steps under consideration by Defence include:

- five year country-specific budgets, in line with the Defence International Engagement Plan;

²¹ Defence stated in its PBS 2000–01 (May 2000) that, among its priorities for 2000–01, it would *embed accrual [accounting] management to support effective decision making and to enable Defence to provide informed advice to the Government, and strengthen corporate governance by refining corporate management information, financial and non-financial, so that leaders are better able to take critical decisions.*

The *Defence Annual Report 1999–2000* (October 2000) (page5) stated that, after a review of Defence's financial management by the Department of Finance and Administration, a number of significant improvements would be introduced in 2000–01, including a new planning framework, introduction of performance price arrangements and refinements to the application of accrual accounting. The changes were to place Defence's financial management arrangements on a firmer footing and facilitate progress towards accepted best practice.

- a performance measurement framework incorporating annual program evaluation, review and forward planning; and
- a Defence International Engagement Management System (DIEMS) to coordinate financial and program planning and provide visibility of current and past activities for reporting processes.

Conclusion

4.6 With the decision to abandon DCAMS on the introduction of ROMAN, the financial system for managing DC has been in an interim phase. Supplementary action to complement the limited capacity of ROMAN to contribute to the overall financial management of DC funds needs to be replaced by more permanent arrangements. This could be done as part of or in addition to the current major overhaul of Defence's information and financial systems.

4.7 There was no consolidated plan to bring together current and planned DC activities and their projected costs over a longer-term time-frame as one of the basic links between strategic guidance, DC program management and forward financial planning.

Recommendation No.5

4.8 The ANAO recommends that Defence develop a longer-term plan for DC activities as one of the links between strategic guidance and DC program management and forward financial planning.

Defence response

4.9 Agreed.

Project management

Monitoring and control of DC activities

4.10 Audit fieldwork revealed deficiencies in recording, monitoring and oversight of approvals and expenditure on individual DC projects. There was no effective system to ensure that actual expenditure did not exceed a delegate's project approval or systematic monitoring to ensure that expenditure was charged to the correct code and project. Apart from the risk of exceeding legal financial approval, this makes it difficult to monitor the progress of projects, detect under or over-spending and cost-drift and take early remedial action.

4.11 An example concerns the DC project to refurbish military catering facilities in Papua New Guinea (see paragraph 3.20). The delegate approved the project in July 1999 with a budget of \$700 000. In August 1999 the Project Manager estimated costs at \$925 000, due to a number of factors, including *'increases in material costs, currency fluctuations, and deterioration of kitchen equipment'*. Due to their lack of records, the project officer and the project manager were unsure of the approved project budget amount. Defence records indicate that tenders were awarded and the contractors paid, although, as at January 2000, only \$18 000 was recorded against the project expenditure code. Expenditure was charged to the wrong codes. When the project was complete, the project manager estimated costs at \$917 434. However, the project officer had not received details of total expenditure incurred, nor was there an end-of-project report or a delegate's approval for expenditure above the original project approval of \$700 000.

4.12 In Defence's view, DC project cost overruns and misallocations against incorrect codes are infrequent events. Defence stated that the project mentioned above had experienced difficulties for a number of reasons, including the project management unit's high operational tempo due to commitments in East Timor, a large number of DC projects and staffing shortages. Poor communication on project management had been noted by IP Division and efforts had been made to obtain an accurate picture of the state of projects and their costs. Defence informed the ANAO that the Defence Management Audit Branch was undertaking an audit of the above-mentioned project. A draft audit report was expected to be issued by the end of March 2001.

4.13 The ANAO notes that the systems in place did not prevent the misallocations and overspending of funds and that there was no evidence of systematic checks to detect and correct them. Defence advised the ANAO that remedial measures put in place to try to overcome such problems include dedicated finance and training staff for each country desk.

4.14 The system for charging DC for military salaries was under review by Defence at the time of the audit, after a suspected overcharge to the DC program of the order of \$3.8 million in 1999–2000.

4.15 Difficulties in controlling DC expenditure were exacerbated by a lack of compatibility between the electronic financial systems that the Department of Foreign Affairs and Trade (DFAT) uses at its overseas posts and the Defence systems employed there. The Defence charging codes were different from those employed by DFAT, which carries out payments on behalf of Defence. In respect of DC expenditure, Defence

sections were unable to match DFAT payments consistently with specific DC activities and projects. Defence advised in December 2000 that improving the interfacing between DFAT and Defence systems would remain a goal. In February 2001, in response to the ANAO's proposed audit report, Defence stated that the information from the DFAT system was now down-loaded into ROMAN on a weekly basis. DFAT codes were mapped back to ROMAN and therefore all expenses could be identified.

4.16 Exchange rate differences make it difficult to ascertain the actual amount spent on DC activities at the overseas posts. Funds for DC were transferred to the posts and converted to local currency at set budget rates. Expenditure of the funds was recorded at the spot exchange rate. There was no consistent reconciliation of these differences.

4.17 IP Division expects monthly financial reports on DC expenditure from Defence sections overseas. This reporting is not received regularly. In the Defence sections of the overseas posts visited by audit team members, each section had its own financial management systems to administer DC funds. Staff operating and developing the systems had greatly varying degrees of satisfaction with those systems.

4.18 A major effort has been made by the Defence section at the embassy in Jakarta over the last two years to develop a reliable and cost-effective resource management system. It was an advance on those the ANAO saw in use for DC in the Defence sections of other Australian missions. To avoid duplication of effort, spread the benefit of good systems and procedures across Defence sections and enhance compatibility among Defence posts and IP Division's systems, Defence should adopt a better management information system for the administration of DC funds by Defence sections overseas. The system used by the Defence section in Jakarta could serve as a model.

4.19 Defence stated that financial management by Defence sections overseas was a formidable task. Apart from the complexities associated with dispensing and tracking Defence money through DFAT systems, the changing nature of Defence's own financial systems and the difficulties of accounting for currency fluctuations, the majority of posts lack dedicated finance officers. IP Division was proposing to adopt a concerted financial awareness and education strategy to improve the financial skills of staff at overseas posts. IP Division had commenced a two-day finance course for all Defence administrative assistants posted overseas. IP Division was ascertaining whether the system at Jakarta meets IP requirements and would investigate the possibility of implementing it at all Defence overseas posts.

Conclusion

4.20 The systems and procedures used to administer DC were not effective in preventing misallocations and overspends and there was no evidence of systematic checks to detect and correct such errors. Defence was reviewing the system of charging DC for military salaries after a suspected overcharge to the DC program of \$3.8 million in 1999–2000.

4.21 The systems used by the Defence sections overseas to administer DC funds did not allow adequate transfer of data to and from DFAT and Australian-based Defence systems with which they had to interact. Each Defence section at overseas posts had a unique system to administer DC funds. Potential synergies through sharing development costs and best practice examples were not exploited.

Recommendation No.6

4.22 The ANAO recommends that Defence put in place effective management systems and procedures for the financial administration of DC in Australia and at its overseas posts.

Defence response

4.23 Agreed. Defence has implemented changes to current management systems and procedures and will continue to do so where these can be demonstrated to improve the financial administration of the DC Program.

Approvals for routine and non-routine activities

4.24 The latest formally-endorsed Guidelines for the management of DC projects are set out in the *Defence Cooperation Manual—Defence Cooperation Administrative and Financial Procedures*, issued in September 1995 (the *DC Manual*). A DC project is defined as ‘any activity planned to be conducted with an overseas country under DC auspices’. DC projects fall into two broad categories: significant new initiatives and sensitive activities; and activities of a routine nature. Projects are assessed on a case by case basis (however, see Recommendation No. 1). Each significant new initiative or sensitive activity requires discrete project approval. Routine activities require discrete project approval for each annual activity package; for example, routine training activities for a particular country or on-going attachments of Australian personnel in an overseas country.

Submissions for project approvals

4.25 Seeking approval for DC projects is the responsibility of the IP Division project officer. The *DC Manual* states that submissions for project approvals should address:

- (a) how the proposed project supports DC policy objectives and activity strategies, and its relative priority compared with other planned activities;
- (b) how the project relates to preceding or other on-going projects contributing to the same aim;
- (c) any policy sensitivities;
- (d) the project scope and planned implementation schedule, including details of the project manager, with a draft tasking directive or terms of reference providing clear guidelines for the project manager;
- (e) the estimated total project cost '*evidenced by a comprehensive and realistic project cost estimate*' in an attachment to the submission;
- (f) planned project commitment and expenditure phasings, and the financial provisions made or to be made within the approved DC budget or forward estimates; and
- (g) the type of approval sought (authority to proceed with detailed planning, or authorisation to incur the expenditure of Commonwealth funds, or both).

4.26 Audit file reviews in IP Division showed that the approval submissions met the first part of the requirement at para 4.25(a). However, relative priorities based on comparisons with other activities generally could not be found in the submissions. Information on how proposed activities related to previous or other current projects was rarely presented (para 4.25(b)).

4.27 In respect of project scope (para 4.25(d)), many submissions were vague with respect to what would count as the conclusion of the project (the deliverable). Implementation schedules and details of the project manager were generally not included in the submissions found on the files. Tasking directives or terms of reference to project managers were not included on submissions and generally could not be located in project files, nor did the submissions or project files contain measures to provide meaningful assessments of project performance.

4.28 Submissions included total estimated project costs, but there was usually no detailed supporting evidence included (para 4.25(e)).

4.29 Audit fieldwork demonstrated that IP Division staff have been mindful of policy sensitivities in their work (para 4.25(c)). The audit evidence also showed compliance with para 4.25(f) and (g).

Project implementation

4.30 The *DC Manual* states that, when a project is formally approved, the IP project officer is to write to an appropriate organisation (usually the Australian Defence Force or the Defence Materiel Organisation) to accept responsibility as project manager. This request is to contain clear guidance to the project manager on the project parameters, the responsibilities for planning, acquisition and conclusion actions and project progress reporting.

4.31 In general, the ANAO was unable to locate a formal detailed transfer of responsibility document on project files. There was often no agreed reference document detailing the respective responsibilities of the project officer and the project manager. Furthermore, with the notable exception of Pacific Patrol Boat related activities, DC projects generally did not include in their implementation planning all or most of the key elements of a project management and acquisition plan spelt out in the *DC Manual*, namely:

- a clear statement of the project terminal objectives;
- the environmental assumptions and optimal strategy for achieving those objectives;
- a detailed statement of the material, manpower and other resources and their cost required to successfully complete the project;
- a detailed schedule of project activities, showing the key project implementation milestones to be achieved each month;
- a detailed supporting financial program showing the phasing of commitment and expenditure requirements in each month of the current financial year of the project, in each quarter of the following year and for each financial year thereafter; and
- contingency arrangements for unanticipated but foreseeable changes in the expected project environment.

4.32 The *DC Manual* requires reporting on activities and financial progress on projects '*regularly (at least monthly)*'. With the exception of the Pacific Patrol Boat related projects, project files examined by the ANAO showed that reporting on the progress of DC has generally been at best irregular, with no evidence of persistent follow-up to remedy the situation.

Project completion reports

4.33 The *DC Manual* requires that, on completion of a project or a major project phase, the project manager is to provide an activity completion report to the IP Division project officer. The report is to include the following information:

- details of actual achievements against planned milestones;
- details of expenditure for the final reporting period and final overall project cost;
- the final scope and cost outcomes of the project and comment on variations from the original plan;
- successes and shortcomings experienced in the implementation of the project; and
- an assessment of the success of the project in meeting its stated aims.

4.34 On the IP project files there were few completion reports, and none contained the information specified in the preceding paragraph.

Earlier Audit Office report

4.35 As noted in paragraph 1.15, DC administration was the subject of an audit in 1986. The report commented on:

- lack of a readily accessible data base on current and completed projects to enable management analysis and review;
- insufficient information on the basis for selection of some projects or evidence of consideration of the cost benefits of alternatives;
- lack of an effective project monitoring system, shown for example by inaccurate project financial records, lack of evidence of progress and completion reports for some projects, and no evidence on the Division's project files of final cost and completion on some projects; and
- lack of performance standards and unclear project objectives and milestones.²²

²² *Administration of the Defence Cooperation Program*, Auditor-General, March 1986.

Management Audit Branch reports

4.36 Defence's Management Audit Branch (MAB) audited aspects of DC in 1999.²³ MAB found that there was a lack of strategic objectives and performance measures in terms of the contribution to DC program objectives, lack of adequate asset management and discrepancies between project funding approval and financial administration practices. MAB informed the ANAO in June 2000 that there had been no follow up, and that it considered its recommendations accepted by the client once the report is issued. MAB stated that, in accordance with Defence policy, management of implementation was the responsibility of the client. In February 2001, in response to the ANAO's proposed report, Defence stated that

recommendations made in agreed management Action Plans for the audits in Jakarta and Tonga were entered on the Audit Recommendations data base and have been implemented.

4.37 The ANAO's review of DC projects in the current audit disclosed project management deficiencies of the kind identified in the 1986 and 1999 audit reports. However, implementation of requirements in the 1995 *DC Manual*, if updated to reflect the current legislative, regulatory, organisational and management information system environment, would form a sound basis for good project management.

4.38 Defence advised that IP Division recognises the need for improvement in DC project management. The Division was rewriting the section of the *DC Manual* dealing with project management. Other approaches to remedy the current lack of project management practice and skills included the introduction of an appropriate project management database or Information Technology tool.

Recommendation No.7

4.39 The ANAO recommends that, to help ensure that DC funds are used cost-effectively, Defence issue revised project management requirements for DC projects.

Defence response

4.40 Agreed.

²³ Management Audit Branch (internal reports) *Defence Cooperation Project—Redevelopment of the Taliai Military Facilities in Tonga; Defence Cooperation with Indonesia—review of Financial Procedures in Jakarta; and Defence Cooperation with Vanuatu—Review of Financial Procedures in Vila.*

Other management issues

Personnel management in International Policy Division

4.41 Rapid turnover of staff was identified in the Inspector-General's 1995 report on DC as an issue to be addressed by IP Division.²⁴ It was still a problem at the time of the audit fieldwork. IP Division did not hold any consolidated records on staff turnover or trends. A comparison of staff telephone lists for January 1999 and July 2000 showed that 38 of the 71 staff listed in January 1999 were no longer in the Division. Thus, 54 per cent of the staff in IP in January 1999 were no longer there in July 2000. The proportion of staff with less than 18 months in IP Division in July 2000 was 63 per cent. The importance of some stability in personnel career management and in developing and sustaining organisational change is emphasised in a recent article in the Australian Defence Force Journal, which stated, *inter alia*:

*Job rotation can be valuable when the leader is growing in mastery, is well trained for each successive stage and is supported in each appointment by subordinates who are equally well trained individually and as a team. Where few of these factors apply, it is often counterproductive.*²⁵

4.42 The overall impact of high staff turnover is one of disruption and inefficiency in DC policy development and management. Organisations interacting with IP Division on DC matters quoted an average of six months for desk officers, which posed problems in terms of corporate memory at working level on matters concerning the history of projects, and agreements reached on the direction of activities.

4.43 For example, many subject files changed titles and file numbers as new personnel, unaware of extant files, raised new files. Tracking information to create an audit trail then becomes a major file search problem. Some staff were unclear about the demarcation of responsibility between IP Division and other functional areas of Defence, including the Defence sections overseas, and about cost and accounting records and responsibility for expenditure acquittal action.

²⁴ *Defence Cooperation—Program Evaluation*, Department of Defence, Inspector-General Division, January 1995, page 7–11 paragraphs 750–752.

²⁵ Brigadier Nick Jans (retired) Rich Organisation, Poor Organisation: Defence Performance and Military Leadership *Australian Defence Force Journal* No.142, May/June 2000.

4.44 Defence advised the ANAO that the Chief of the Defence Force and the Secretary of the Department have recognised staff retention and staffing turbulence as issues for the entire Defence organisation. The issues were being considered and appropriate strategies to deal with them were to be recommended by the Head of the Defence Personnel Executive. IP Division recognised that people management was a key part of delivering results to Government. As part of implementing its Balanced Scorecard performance measurement framework, IP Division would be conducting exit interviews to diagnose dissatisfaction, and if possible addressing any recurring issues. The ANAO understands that a database recording the period that IP Division staff stay in the Division would be put in place during 2001.

4.45 IP Division saw the lack of an effective approach to managing knowledge as a significant contributor to the staff turnover problems mentioned above. In IP Division's Balanced Scorecard, knowledge management had been nominated as a key strategy for improving its business processes. The Division would develop a knowledge management strategy aimed at improving the retention and circulation of knowledge in the Division.

4.46 There are a number of approaches Defence proposed to remedy the disruption and inefficiencies in the policy development and management of DC resulting from high staff turnover and the lack of effective knowledge management. Defence should monitor the effectiveness of these approaches over time and take further action if necessary.

Asset management

4.47 Over time, DC activities have involved the acquisition of a significant quantity of Commonwealth equipment used for DC purposes. No detailed consolidated data on these assets are available. However, estimates on Defence files put the value of DC assets held in the custody of Defence personnel in the South West Pacific (not including assets handed over to DC countries) at \$15.9 million in April 1998. DC assets at the Australian Maritime College, Launceston, and the (Pacific Patrol Boat) Follow-on Support Agency (FOSA) were estimated at \$1.2 million. Continuing expenditure for equipment replacement for the South Pacific DC advisers alone was estimated at \$400 000 per annum. No consolidated estimate of the value of DC assets in the other DC countries was available.

4.48 IP Division for some time has been aware of the need to put in place an asset management system. An effective asset management system is required to meet statutory and Defence internal reporting requirements and to help ensure cost-effective acquisition, through-life management and disposal of DC assets. Concern in IP Division was raised by indications that a DC funded vessel for recreational use by Defence personnel posted to the Marshall Islands had been disposed of without the delegate's authority or attempts to maximise the return to the Commonwealth. There were also indications of poor design and visibility of cost for a recreational vessel with a stated prime cost of about \$75 000 in the Solomon Islands, discrepancies between reported (\$4 million) and estimated (\$13 million) values of DC assets in 1996–97 for the South West Pacific, lack of standardisation in recording and reporting of assets and lack of strategic planning in asset management.

4.49 In 1998 IP Division initiated a trial by a contractor to develop and implement a Defence Cooperation Asset Management Information System (DCAMIS). The contract for DCAMIS concluded in December 1999. As part of the contract, Defence was to provide the contractor with asset management data from all countries in the South West Pacific. The required asset data could not be provided for the Solomon Islands, Fiji and Tuvalu. The first two of these countries are considered in Defence documentation to be 'relatively rich' in DC assets. DCAMIS was discontinued, apparently in the expectation that ROMAN,²⁶ the new Defence financial management system, would contain an asset management module. Defence advised the ANAO in February 2001 that IP Division was looking at reusing DCAMIS to manage all assets at posts as ROMAN would not be used overseas, except for the United States of America and the United Kingdom.

4.50 Given the significant resources invested in Commonwealth assets used for DC purposes, an effective asset management system is important to ensure that Defence's reporting reflects these investments accurately and is an essential part of an integrated planning framework for the acquisition, operation and disposal of Commonwealth assets. This is to ensure that DC assets achieve best value for the Commonwealth by maximising the contribution they make to program delivery, through a continuous process where information from each phase in the asset life-cycle is used as an input to planning.²⁷

²⁶ Resource and Output Management and Accounting Network.

²⁷ see ANAO Asset Management Handbook, 1996—page 7.

4.51 Defence advised the ANAO that IP Division was proposing to adopt an asset management system for the acquisition, operation and disposal of Commonwealth assets.

Records management

4.52 The Australian Standard on Records Management²⁸ states:

Records should be full and accurate to the extent necessary to:

- a) facilitate action by employees;*
- b) make possible a proper scrutiny of the conduct of business; and*
- c) protect the financial, legal and other rights of the organisation, its clients and any other people affected by its actions and decisions.*

4.53 The standard further requires that organisations demonstrate that they have systematically and comprehensively identified the accountability requirements to which they and their employees are subject and that they have assigned responsibilities for record-keeping requirements to appropriate people.

4.54 Audit fieldwork showed that the record keeping practices and standards in the DC project files varied greatly over time and across projects. It was often difficult to find and follow a management trail. Minimum standards of record keeping should be set by IP Division and responsibility for them allocated to ensure that staff and management have a reliable basis for decision-making, business can be properly scrutinised and Commonwealth interests protected.

4.55 Defence advised the ANAO that IP Division had recently appointed a dedicated part-time officer to oversee the efficient ordering, storage and management of its files and that the Division's knowledge strategy will encourage common, sensible and innovative approaches to storage of information.

²⁸ Australian Standard: Records Management AS 4390, 1996, Standards Australia, Pt. 1, page5.

Cash gifts

4.56 Examination of Defence files showed that it was common practice for Defence Representatives in Jakarta to use Representational Allowances for cash wedding gifts for senior Indonesian military staff. This was in clear breach of Defence instructions that state that '*gifts of cash are not permitted*'.²⁹ It was also inconsistent with an instruction that recommended that

*to the extent that it is practicable to do so, gifts should be in a form representing the establishment making the gifts, for example, plaques, flags...or another suitable item of Australian origin.*³⁰

A May 2000 revision of the latter instruction omitted this clause.

4.57 Defence files show that the practice of giving cash as wedding gifts has been questioned since at least 1996. In June 2000 an administrative instruction was issued at the post advising Defence staff in Jakarta that the use of representational funds for cash gifts at weddings cease until further notice. Defence also advised the ANAO that IP Division was looking to reinsert the relevant clause in the Defence Instruction.

DC travel expenditure and visit reports

4.58 IP Division staff were unable to provide the audit team with DC travel expenditure totals for the current or any previous years. It was said that the figures were not readily available, as the Defence Cooperation Account Management System would allow them to ascertain a travel total only by manually adding up the travel expenditure for each DC activity over the course of a given year. Prior to 2000 a single staff member managed the recording and reconciliation of all DC travel. In October 2000 this responsibility was delegated to the respective IP Division Branch Personal Assistants (PAs).

4.59 The PAs and IP Division's Director Coordination indicated that the records were being collated for periodical reporting on travel totals and trends, as they had been prior to 2000. However, IP Division could not locate evidence of such collation and reporting on either current or past travel. Audit examination of IP Division files also failed to find post visit reports to correspond with most of the DC related overseas visits. Without such information, it is impossible to monitor trends and assess whether value for money is being obtained for the travel undertaken.

²⁹ Defence Instruction (General) FIN06-1, 25 May 1994, and the Defence Protocol and Visits Manual (POLMAN 1).

³⁰ Defence Instruction (General) ADMIN23-6, 13 February 1995.

4.60 IP Division had established a system, using the PAs, to track travel with a view to finding efficiencies in travel. IP Division would reconcile the aggregated figures for IP against the figure given by ROMAN. IP staff were expected to record the outcomes of overseas visits in the most appropriate form. This could be a formal visit report, but could also be in the form of briefs, minutes of meetings, records of conversation, cables to posts and other means. These records might not always be transferred to paper files.

4.61 Defence informed the ANAO in February 2001 that IP Division would utilise a staff member to manage and reconcile all of IP Division's travel, including DC travel.

DC cars

4.62 At some overseas posts, small fleets of motor vehicles are bought and maintained from DC funds (for example, 26 vehicles in Papua New Guinea). In the posts visited, there were systems in place to charge personnel for the private use of those vehicles. DC vehicles were to be available to legitimate users and were not to be treated as personal vehicles. This did not seem to be adhered to in all cases.

4.63 The ANAO notes that Defence has in place a system for charging for home garaging of its vehicles in Australia. The relevant Chief Executive's Instruction on charging for private use of Commonwealth vehicles could be applied at overseas posts.

4.64 Selection of types and models of cars for DC is largely left to the initiative of overseas posts. An audit sample included cars selected recently, and these seem to have been chosen with a view to obtaining good value to the Commonwealth. A Defence Instruction³¹ specifies that vehicles are to be replaced '*on the advice of local mission staff taking into account local sales tax regulations and market considerations*'. Purchases are to be made from commercial outlets in the host country with the prior agreement of the Vehicle Manager (the Defence Adviser/Attache) and approval from IP Division.

4.65 Defence advised the ANAO that a new Chief Executive Instruction was issued and that the new charging instructions recommended in it would now be implemented at all overseas posts. However, at some posts security considerations might make home garaging a sensible option. An amendment to the Chief Executive Instruction had been made to include the waiving of the home garaging charge at posts that have security issues.

³¹ Defence Instruction (General) LOG 01-6.

Conclusion

4.66 There was no consolidated plan to bring together data on current and planned DC activities and their projected costs over a longer time-frame, as one of the basic links between Defence's strategic guidance and DC program management and forward financial planning.

4.67 The systems, procedures and practices used to administer DC were not effective in preventing, nor in detecting misallocations and overspends. Financial data could not be exchanged adequately with other Defence and Department of Foreign Affairs and Trade systems with which interaction was required.

4.68 In the management of projects, IP Division staff have been mindful of the policy sensitivity of DC activities, but there were many instances where good practice guidelines regarding documentation of details in approving, implementing and concluding projects were not followed. There was a lack of accessible data on projects to enable management analysis and review, and inadequate information on the basis for selecting projects or evidence of consideration of the cost-effectiveness of alternatives. There were no effective project monitoring systems and procedures. Performance standards and project objectives and milestones in many cases were not specified, which is not conducive to sound management nor accountability for project outputs and outcomes.

4.69 There were a number of other areas, relating to staff turnover, assets management, records and travel, where arrangements could also be improved.



Canberra ACT
6 April 2001

P. J. Barrett
Auditor-General

Appendices

Appendix 1

Origins of the Defence Cooperation Program

The main source for this appendix was *Defence Cooperation—Program Evaluation*, Department of Defence, Inspector-General Division, January 1995.

1. Defence Cooperation (DC) originated from a change in Australian defence policy in the 1960s. Towards the end of this decade Australia's policy makers made changes in defence strategy, primarily with a shift away from reliance on the United States, United Kingdom and other Western countries. After the war in Vietnam and the British withdrawal east of Suez, Australia's policy of relying on traditional, powerful allies came under scrutiny. National strategic interests were emphasised, with the focus on the independent defence of Australia.

2. Originally, DC activities developed from bilateral arrangements with Malaysia and Singapore. In 1963–64 the first appropriation of funds was made for the purpose of cooperative defence activities, under the title of *Defence Aid to Malaysia*.

3. Cooperation with Indonesia in defence matters commenced in 1968. In 1972–73 the remaining Association of South East Asian Nations (ASEAN) countries (Philippines and Thailand) and Fiji were included³². Since then, programs have been developed with Vanuatu, Tonga, Solomon Islands, Western Samoa, Kiribati, Tuvalu and Papua New Guinea (PNG) (after its independence in 1975). More recently Marshall Islands, the Cook Islands and the Federated States of Micronesia have been included. In 1995 Palau made a request for a Pacific Patrol Boat under DC.³³

4. It was against this background that the Australian Government decided to establish a separate element in the defence budget to facilitate cooperative activities between the Australian Defence Force and regional security forces. This was to be controlled by the central policy area of the Department of Defence. Initially, the focus of activities funded under that program was on South East Asia (Malaysia in particular). The scope of activities broadened, particularly during the second half of the 1970s, when activities with the newly independent PNG assumed an increasingly important role in the program. Also in the late 1970s small steps were taken to establish a modest program of naval cooperation with Fiji and some technical trade assistance for the Tongan Defence Service.

³² Prior to this, funds for assistance to the Philippines and Thailand were charged to South-East Asia Treaty Organisation (SEATO) aid under the Department of Foreign Affairs and Trade appropriation.

³³ This was delivered in May 1996.

5. In 1970–71 funding for South Vietnam and in 1971–72 Singapore were added. In 1972–73 funding for *Defence Cooperation with Indonesia* and *Military Training Assistance to Other Countries* were included in the Defence appropriation. In 1974–75 the funding for military assistance to other countries was merged into one division called *Defence Cooperation*. There were six subdivisions: Malaysia, Singapore, Indonesia, Papua New Guinea (PNG), the PNG Defence Financial Assistance Grant, and Military Training and Advisory Assistance to Other Countries.

6. A range of political and strategic circumstances shaped the DC Program through the 1970s and 1980s. These included a concern for developing a coherent planning basis for the defence of Australia and not to become militarily involved again in South East Asia. This meant that, during the 1970s, Australia gave only limited attention to regional security in general. A modest program of defence cooperation, focusing primarily on materiel assistance, began with several neighbouring countries.

7. Apart from Indonesia, whose strategic importance to Australia was well recognised, the most substantial links (with PNG and with Malaysia and Singapore under the Five Power Defence Arrangements) were primarily an extension of former Western or colonial commitments. The emphasis was on enhancing the capacity of regional nations to provide for their own security. Little attempt was made to establish a comprehensive regional security policy.

8. In 1983–84 the DC appropriation was restructured to comprise 'Malaysia, Indonesia, PNG, Singapore, Other Countries, and Training in Australia'. In 1984–85 the subdivisions were removed and the appropriation was simply entitled 'Defence Cooperation'.

Pacific Patrol Boat Project

9. The Pacific Patrol Boat Project is the largest and most complex DC project. It dates back to 1979 when a group of Australian and New Zealand defence experts visited the South Pacific region at the request of the Pacific Island Countries (PICs). The declaration of 200-nautical-mile exclusive economic zones (EEZ) greatly expanded the PICs' formally recognised sovereign rights and economic interests. The 1979 examination highlighted surveillance as an effective means of asserting these rights and protecting these interests.

10. In 1983 the then Minister for Defence announced the development of the Project. It was expected that five or six vessels would be involved. However, when the contracts were signed in 1985, three PICs were involved at a cost at that time of \$8.4 million and the Project had grown to an expected 10 vessels. By 1993 the Project had expanded, with the delivery of 15 vessels in eight countries at a cost of \$91.5 million. Later in 1993 the building contracts were amended to provide five more vessels to three other PICs. The revised total project cost for the 20 vessels was then \$138 million. In 1996 and 1997 two more patrol boats were added to the Project, bringing the total cost for 22 vessels to \$155 million in 1997.

Appendix 2

Performance audits in Defence

Set out below are the titles of the ANAO's previous performance audit reports on Department of Defence and Australian Defence Force (ADF) operations tabled in the Parliament in the last five years.

Audit Report No.26 1995–96
Defence Export Facilitation and Control

Audit Report No.28 1995–96
Jindalee Operational Radar Network Project

Audit Report No.31 1995–96
Environmental Management of Commonwealth Land

Audit Report No.15 1996–97
Food Provisioning in the ADF

Audit Report No.17 1996–97
Workforce Planning in the ADF

Audit Report No.27 1996–97
Army Presence in the North

Audit Report No.34 1996–97
ADF Health Services

Audit Report No.5 1997–98
Performance Management of Defence Inventory

Audit Report No.34 1997–98
New Submarine Project

Audit Report No.43 1997–98
Life-cycle Costing in Defence

Audit Report No.2 1998–99
Commercial Support Program

Audit Report No.17 1998–99
Acquisition of Aerospace Simulators

Audit Report No.41 1998–99
General Service Vehicle Fleet

Audit Report No.44 1998–99
Naval Aviation Force

Audit Report No.46 1998–99
Redress of Grievances in the ADF

Audit Report No.13 1999–2000
Management of Major Equipment Acquisition Projects

Audit Report No.26 1999–2000
Army Individual Readiness Notice

Audit Report No.35 1999–2000
Retention of Military Personnel

Audit Report No.37 1999–2000
Defence Estate Project Delivery

Audit Report No.40 1999–2000
Tactical Fighter Operations

Audit Report No.41 1999–2000
Commonwealth Emergency Management Arrangements

Audit Report No.50 1999–2000
Management Audit Branch—follow-up

Audit Report No.3 2000–01
Environmental Management of Commonwealth Land—follow-up

Audit Report No.8 2000–01
Amphibious Transport Ship Project

Audit Report No.11 2000–01
Knowledge System Equipment Acquisition Projects in Defence

Audit Report No.22 2000–01
Fraud Control in Defence

Audit Report No.26 2000–01
Defence Estate Facilities Operations

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Department of Foreign Affairs and Trade

Audit Report No.30 Performance Audit
Management of the Work for the Dole Programme
Department of Employment, Workplace Relations and Small Business

Audit Report No.29 Performance Audit
Review of Veterans' Appeals Against Disability Compensation Entitlement Decisions
Department of Veterans' Affairs
Veterans' Review Board

Audit Report No.28 Audit Activity Report
Audit Activity Report: July to December 2000
Summary of Outcomes

Audit Report No.27 Performance Audit
Program Administration Training and Youth Division—Business Reengineering
Department of Education, Training and Youth Affairs (DETYA)

Audit Report No.26 Performance Audit
Defence Estate Facilities Operations
Department of Defence

Audit Report No.25 Benchmarking Study
Benchmarking the Finance Function

Audit Report No.24 Performance Audit
Family Relationships Services Program (FRSP)
Department of Family and Community Services (FaCS)

Audit Report No.23 Financial Statement Audit
Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2000

Audit Report No.22 Performance Audit
Fraud Control in Defence
Department of Defence

Audit Report No.21 Performance Audit
Management of the National Highways System Program
Department of Transport and Regional Services

Audit Report No.20 Performance Audit
Second Tranche Sale of Telstra Shares

Audit Report No.19 Financial Control and Administration Audit
Management of Public Sector Travel Arrangements—Follow-up audit

Audit Report No.18 Performance Audit
Reform of Service Delivery of Business Assistance Programs
Department of Industry, Science and Resources

Audit Report No.17 Performance Audit
Administration of the Waterfront Redundancy Scheme
Department of Transport and Regional Services
Maritime Industry Finance Company Limited

Audit Report No.16 Performance Audit
Australian Taxation Office Internal Fraud Control Arrangements
Australian Taxation Office

Audit Report No.15 Performance Audit
Agencies' Performance Monitoring of Commonwealth Government Business Enterprises

Audit Report No.14 Information Support Services Report
Benchmarking the Internal Audit Function

Audit Report No.13 Performance Audit
Certified Agreements in the Australian Public Service

Audit Report No.12 Performance Audit
Passenger Movement Charge—Follow-up Audit
Australian Customs Service

Audit Report No.11 Performance Audit
Knowledge System Equipment Acquisition Projects in Defence
Department of Defence

Audit Report No.10 Performance Audit
AQIS Cost-Recovery Systems
Australian Quarantine and Inspection Service

Audit Report No.9 Performance Audit
Implementation of Whole-of-Government Information Technology Infrastructure Consolidation and Outsourcing Initiative

Audit Report No.8 Performance Audit
Amphibious Transport Ship Project
Department of Defence

Audit Report No.7 Performance Audit
The Australian Taxation Offices' Use of AUSTRAC Data
Australian Taxation Office

Audit Report No.6 Performance Audit
Fraud Control Arrangements in the Department of Health & Aged Care
Department of Health & Aged Care

Audit Report No.5 Performance Audit
Fraud Control Arrangements in the Department of Industry, Science & Resources
Department of Industry, Science & Resources

Audit Report No.4 Activity Report
Audit Activity Report: January to June 2000—Summary of Outcomes

Audit Report No.3 Performance Audit
Environmental Management of Commonwealth Land—Follow-up audit
Department of Defence

Audit Report No.2 Performance Audit
Drug Evaluation by the Therapeutic Goods Administration—Follow-up audit
Department of Health and Aged Care
Therapeutic Goods Administration

Audit Report No.1 Performance Audit
Commonwealth Assistance to the Agrifood Industry

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