

The Auditor-General
Audit Report No.16 2001–2002
Performance Audit

Defence Reform Program Management and Outcomes

Department of Defence

© Commonwealth
of Australia 2001
ISSN 1036-7632
ISBN 0 642 44289 4

COPYRIGHT INFORMATION

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth, available from AusInfo. Requests and inquiries concerning reproduction and rights should be addressed to:

The Manager,
Legislative Services,
AusInfo
GPO Box 1920
Canberra ACT 2601
or by email:
Cwealthcopyright@finance.gov.au

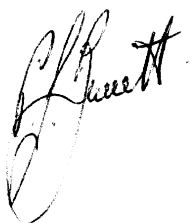
Canberra ACT
5 October 2001

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 Reform Program Management and Outcomes*.

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



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

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

Auditor-General reports are available from Government Info Shops. Recent titles are shown at the back of this report.

For further information contact:

The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone (02) 6203 7505
Fax (02) 6203 7519
Email webmaster@anao.gov.au

ANAO audit reports and information about the ANAO are available at our internet address:

<http://www.anao.gov.au>

Audit Team

John Oldroyd
Greg Adnams
John Guilfoyle

Contents

Abbreviations	7
Summary and Key Findings	
Summary	11
Background	11
Conclusion	12
Key findings	14
Lessons to be learned	16
Audit Findings and Conclusions	
1. Introduction	19
Background	19
Defence Reform Program	21
DRP achievements	23
The audit	24
2. Planning, Monitoring and Reporting DRP	25
Planning	25
Monitoring	27
OEB report	29
Conclusion	31
3. Issues Arising from Implementation of DRP	33
Introduction	33
Focus on savings	33
Changing organisational culture	34
Ability to report on DRP's progress	36
Environmental factors	36
Communication issues	37
Conclusion	39
4. DRP Savings Initiatives	40
Recurrent savings	40
One-off savings	43
Conclusion	44
5. Reinvestment of DRP Savings	46
Introduction	46
Reinvestment	46
Reconciliation of savings and reinvestment	48
Conclusion	50

Appendices	
Appendix 1: DER Findings and Recommendations	53
Appendix 2: OEB Lessons Learned and Recommendations	65
Appendix 3: Performance Audits in Defence	69
 Index	 70
Series Titles	72
Better Practice Guides	74

Abbreviations

ADF	Australian Defence Force
ANAO	Australian National Audit Office
CDF	Chief of the Defence Force
CSP	Commercial Support Program
DEO	Defence Estate Organisation
DER	Defence Efficiency Review
DMC	Defence Management Committee
DPE	Defence Personnel Executive
DRP	Defence Reform Program
DRP-SMART	Defence Reform Program Strategic Management and Review Team
OEB	Organisational Effectiveness Branch
RFP	Resources and Financial Programs Division

Summary and Key Findings

Summary

Background

1. The Government introduced the Defence Reform Program (DRP) in 1997 to enable Defence's resources to be focused more efficiently and effectively on its core functions. DRP was based on the report of the Defence Efficiency Review. DRP's key objectives were to:

- maximise the focus of the Defence organisation and its resources on achieving the Defence mission, which was then '*to prevent or defeat the use of armed force against Australia and its interests*';
- have a Defence organisation organised for war and adapted for peace with a clear command and management structure and better long-term planning and decision making;
- increase the efficiency of support and administrative functions; and
- maximise the resources available to sustain and enhance the operational capabilities of the Australian Defence Force (ADF).

2. DRP was expected to achieve one-off savings in excess of \$500 million and at least \$770 million, and possibly \$1 billion, in savings on annual costs in support areas and to redirect the savings to enhancing ADF capabilities. Defence implemented DRP for three years and brought it to an accounting close on 30 June 2000. Defence considers that DRP's achievements, in summary, were as follows:

The DRP changed the organisational structure of Defence to ensure that its people concentrated on core business. The proportion of ADF personnel in combat or combat-related positions has increased from about 40 to 60 per cent. DRP challenged the existing culture and broke down many of the functional stovepipes that had stood as barriers to change. Cross group rationalisation was then possible, removing duplication and generating efficiencies. Market testing produced further efficiencies.

The DRP will, when all initiatives are complete, deliver about 90% of its estimated savings target. Savings to 30 June 2001 have been redirected primarily to the maintenance of the ADF with 50 000 personnel (\$430m), to capability related logistics (\$560m), to the personnel and operating costs of new capabilities (\$260m) and to new capital investment (\$260m).

The changes were essential precursors to the organisational renewal agenda, which is seeking to engender a culture of continuous improvement.

3. The objective of the audit was to assess Defence's management and implementation of DRP and the extent to which it achieved savings for reinvestment in the operational capabilities of the ADF. The audit also sought to highlight any lessons to be learned from the implementation of DRP.

Conclusion

4. At the start of DRP there was inadequate planning and analysis in generating initiatives and savings targets designed to achieve the DRP's key objectives successfully. Inadequate involvement of the Defence Groups that were to be responsible for implementing the initiatives meant that initiatives and savings targets were developed without the benefit of detailed information from these Groups.

5. DRP encountered numerous problems as a change program because the major focus was on savings and not on the initiatives themselves and their successful implementation. In practice, target savings were often taken from the Groups' budgets ahead of the initiatives that were to produce the savings. Further, the Groups were not held directly responsible for ensuring implementation of specified initiatives.

6. Defence has recognised that DRP could have been better managed. An implementation team, as proposed in the Defence Efficiency Review report, would have enhanced Defence's ability to manage, control and report DRP's implementation and progress at a Group and corporate level. A comprehensive communication strategy for DRP would also have helped to gain Defence personnel's acceptance of DRP and to overcome the resistance to change that the Defence Efficiency Review identified.

7. DRP savings expectations were based on the maintenance of a steady state within Defence. The actual situation has been significantly different. Notably, the decision to maintain the ADF at 50 000 personnel will absorb the majority of DRP savings, requiring an annual reinvestment of \$649 million from 2003–04.

8. Defence reported that, by March 2001, DRP had already achieved \$644.4 million in recurrent annual savings. This figure was based on responses to an internal review of DRP's achievements from the Defence Groups which implemented DRP's initiatives.

9. In order to assess the level of confidence that could be placed on the reported savings, the ANAO examined the 10 largest DRP reported recurrent annual savings, totalling \$482.4 million. The ANAO found adequate supporting documentation for \$412.5 million of that amount. In addition, the ANAO examined, and found adequate supporting documentation to support, the five largest DRP reported one-off savings, totalling \$48.3 million.

10. Although it is not possible, on a statistical basis, to extrapolate these findings to DRP savings as a whole, they do suggest that DRP has produced substantial savings on a recurring basis. These savings have allowed Defence to reinvest significantly in enhancing military capability, and were achieved despite a changing strategic and organisational environment during DRP's implementation.

11. Defence, and consequently the ANAO, were unable to establish a direct relationship between DRP savings and reinvestment in military capability due to the inadequacy of DRP's management information systems. However, Defence reports that, through the reinvestment of savings, the DRP has assisted in raising the proportion of ADF personnel in combat and combat-related positions from 42 per cent in 1996 to 62 per cent in 2001. This indicates that, although there were significant issues arising from its management and implementation, the DRP has been successful in enhancing the ADF's operational capability.

Key findings

Planning, monitoring and reporting DRP (chapter 2)

12. Many of the DRP initiatives cut across Defence Group responsibilities and reform categories. As a result, lines of accountability became blurred. This adversely affected the ability of Group Managers to plan and implement DRP effectively.

13. Defence attempted to manage DRP by means of a computer-based spreadsheet outlining the initiatives and associated savings targets. The lack of a more comprehensive management system restricted Defence's ability to manage and control the implementation of DRP initiatives at both a Group and corporate level.

14. The ability of the Defence Executive, as the senior executive body, to make informed decisions in relation to the implementation of DRP was also adversely impacted by a restricted flow of management information caused by difficulties in ensuring Groups' compliance with the reporting framework.

15. At the close of DRP, a Defence review of its implementation identified 'lessons learned' to assist in any future change program. These include the need for incentives and reward processes; a formal implementation team; a central clearing process for savings and reinvestment; an effective management information system; and accountability of individuals rather than groups.

Issues arising from implementation of DRP (chapter 3)

16. DRP savings were often arbitrarily taken from the Groups' budgets without prior assessment of realistic savings that could be delivered by the initiative. Without good systems for tracking savings and initiatives and for reporting DRP's progress, it was difficult to assess DRP's achievements.

17. Taking money from budgets ahead of initiatives enforced savings targets but it also adversely affected staff morale. Without a central implementation team or oversight committee, it was difficult for Defence to communicate DRP objectives, benefits and progress to staff and to control, monitor and report on the implementation of DRP.

18. The dynamic environment that faced Defence during the implementation of DRP exerted a significant influence on the program's final outcome. Factors that have had an impact on Defence's environment include the strategic decision to have a 50 000 strong ADF and realignments in Defence's organisational structure.

DRP savings initiatives (chapter 4)

19. Defence reported that, by March 2001, DRP had already achieved \$644.4 million in recurrent annual savings and that one-off savings amounted to \$77 million. The ANAO examined DRP's top 10 recurrent savings (\$482.4 m) and top five one-off savings (\$48.3 m). Of the top 10 recurrent savings, the ANAO sighted adequate documentation to support \$412.5 million and sighted adequate documentation for the top five one-off savings.

20. The lack of adequate documentation to support some savings is indicative of DRP implementation problems raised by this report. However, Defence documentation indicates that it is well aware of the need for better systems to track initiatives and savings in any future change program.

Reinvestment of DRP savings (chapter 5)

21. The DRP has achieved significant savings for Defence to reinvest in the ADF's operational capabilities. Defence has calculated that reinvestment over the specific three year period of DRP implementation to 1999–2000 amounted to \$1137 million (including transition costs). This amount exceeded the DRP savings that had then matured and were available for reinvestment. Defence advised that that situation was due to uncertainty in reinvestment expenditure timing, and that the excess was managed by other means.

22. Reinvestment was difficult to track due to inadequate management information systems. However, Defence records indicate that the DRP has assisted in raising the proportion of ADF personnel in combat and combat-related positions from 42 per cent in 1996 to 62 per cent in 2001. The decision to maintain the ADF at 50 000 personnel will absorb most of the DRP savings and will require an estimated annual reinvestment of \$649 million from 2003–04.

Lessons to be learned

The ANAO identified the following lessons to be learned by Defence from the implementation of DRP:

1. The ability of Defence to plan and implement DRP effectively would have been improved if clear lines of responsibility and accountability were embedded in the process from the outset. (paragraph 2.25)
2. There was inadequate planning and analysis in generating the savings targets, and the lack of Group involvement early in the planning stage meant that initiatives and savings were produced without the benefit of detailed information from the Groups. (paragraph 2.25)
3. A more effective management system would have greatly enhanced Defence's ability to manage and control the implementation of DRP initiatives at both a Group and corporate level. (paragraph 2.27)
4. DRP was not as effective as a change program because the savings, and not the initiatives, were a major focus. (paragraph 3.6)
5. An assessment, at DRP's planning stage, of the impact of individual initiatives on efficiency is likely to have led to better targeting of savings and acceptance of the initiatives. (paragraph 3.7)
6. A central implementation team could have facilitated the effective coordinated communication of DRP objectives, benefits and progress. (paragraph 3.10)
7. Inadequate reporting systems and processes utilised for tracking DRP progress have been a major contributory factor to Defence's difficulties in assessing DRP's achievements. (paragraph 3.15)
8. A greater emphasis on communicating the goals of DRP at its commencement, combined with more ongoing reporting of its progress and achievements during implementation, would have presented a more positive view of the program and its benefits for Defence personnel. (paragraph 3.27)

Audit Findings and Conclusions

1. Introduction

This chapter outlines the Defence Efficiency Review and the Defence Reform Program and reports the latter's achievements. It also sets out the audit objectives.

Background

1.1 'Defence' comprises the Department of Defence and the Australian Defence Force (Navy, Army and Air Force). Defence is managed jointly by the Secretary of the Department and the Chief of the Defence (CDF), who are responsible to the Minister for Defence. The 'Defence Outcome' is the 'defence of Australia and its national interests.'¹ Defence expends some \$13 billion a year and controls assets valued at \$41 billion. There are some 51 000 full-time military personnel, 21 000 part-time Reserve personnel and 16 000 civilian personnel. Defence's structure and management were changed in 1997 as part of the Defence Reform Program, which was based on the report of the Defence Efficiency Review.

Defence Efficiency Review

1.2 In October 1996 the Minister for Defence announced the Defence Efficiency Review (DER), which was to be conducted by a Senior Review Panel comprising six members.² The DER was to examine Defence management with a view to eliminating unnecessary administrative practices and duplication and ensuring that Defence focused on its core functions. The DER's terms of reference were to:

- a) *identify key management processes across the Defence program structure;*
- b) *assess the efficiency and effectiveness of current management and financial processes; and*
- c) *make recommendations for reforming Defence management and financial processes to ensure that they:*
 - *are carried out in the most efficient and effective manner possible;*
 - *eliminate duplication between and within Defence programs;*

¹ The Defence Outcome as stated in the *Portfolio Budget Statements 2001–02—Defence Portfolio*. The Defence Mission in 1997, at the commencement of DRP, was 'to prevent or defeat the use of armed force against Australia and its interests'.

² Dr Malcolm McIntosh (Chairman), the Chief Defence Scientist, the Vice Chief of the Defence Force and three private-sector members.

- *take a rigorous approach to defining ‘core’ and ‘non-core’ business;*
- *make appropriate use of commercialisation options;*
- *reflect, where appropriate, modern business practices;*
- *enhance combat capabilities; and*
- *produce the most efficient and effective Defence Force possible within current budgetary restraints.*³

1.3 The DER report (March 1997) contained 18 findings and made 52 recommendations.⁴ It forecast \$773 million in recurrent savings and \$442 million in one-off savings, with the potential for \$146 million in further recurrent savings and \$233 million in further one-off savings. The estimated savings included 4743 military and 3075 civilian personnel, with the potential for further savings of 412 military and 325 civilian personnel. Functions performed by another 12 949 positions were to be market tested.

1.4 The report said that it took a conservative approach in estimating savings, which *‘necessarily have a degree of imprecision which we have recognised by classifying them as “estimates” and “potential”’*.⁵ The report also raised concerns regarding resistance to change in Defence and found that *‘while there is great enthusiasm for and expectations of change in many areas of Defence, there is considerable resistance in others’*.⁶

1.5 The DER report proposed an implementation strategy. It recommended that the Secretary and CDF should lead and manage the implementation; line managers, suitably assisted by a small implementation team comprising some members of the DER team that assisted the Senior Review Panel, should be responsible for preparing, committing to and implementing detailed plans in their own areas; and a small special group should be created in the implementation team to coordinate personnel adjustments and liaise with personnel authorities.⁷

³ *Future Directions for the Management of Australia’s Defence: Report of the Defence Efficiency Review*, 10 March 1997, Introduction, p. 1.

⁴ *ibid.* Annex E.

⁵ *ibid.*, p. 53.

⁶ *ibid.*, Annex E, p. E8.

⁷ *ibid.*, Annex E, p. E8.

Defence Reform Program

1.6 In April 1997 the Minister for Defence, when releasing the DER report, announced the Defence Reform Program (DRP). The DERP was the Government's response to the DER and comprised initiatives based on the DER's findings and recommendations. (In practice, the DERP modified and refined DER findings and recommendations.) Implementation of DERP was to involve major restructuring of Defence to achieve economies and efficiencies and to provide substantial savings that were to be applied to the enhancement of Defence's operational combat capability (the 'sharp end').

1.7 The Minister stated that:

In keeping with the Government's election commitment not to cut defence spending, resources freed by the Defence Reform Program will be redirected to enhancing military capabilities to keep pace with changing strategic and military circumstances.⁸

1.8 Implementation of DERP's 139 initiatives⁹ was expected to:

...achieve one-off savings in excess of \$500 million. At maturity, there will be at least \$770 million with the possibility of \$1 billion annual costs cut from support areas and redirected into enhancing military capabilities.¹⁰

1.9 The expected annual savings of \$1 billion constituted about 10 per cent of the annual Defence budget at the time. The DERP commenced in July 1997 and was originally expected to be completed by 2001. Subsequently, Defence decided to bring DERP to an accounting close at 30 June 2000.¹¹ However, Defence continued to report on DERP during the transition year 2000–01 prior to the commencement of the Defence Financial Management Plan on 1 July 2001. Any ongoing DERP related activities were to be continued as separate initiatives.

⁸ Minister for Defence Media Release, *McLachlan Announces Defence Reform Program*, 11 April 1997.

⁹ There were originally 131 initiatives and eight were added to replace some of the 24 initiatives that were not pursued.

¹⁰ Minister for Defence Media Release, *McLachlan Announces Defence Reform Program*, 11 April 1997.

¹¹ Included in the Government's response to the joint Finance/Defence report 'Improving Delivery of Results and Financial Management in the Department of Defence'(1999).

1.10 Implementation of DRP was to achieve four key objectives:

- to maximise the focus of the Defence organisation and its resources on the achievement of the Defence mission, which was then '*to prevent or defeat the use of armed force against Australia and its interests*';
- to have a Defence organisation organised for war and adapted for peace with a clear command and management structure and better long term planning and decision making;
- to increase the efficiency of support and administrative functions; and
- to maximise the resources available to sustain and enhance the ADF's operational capabilities.¹²

DRP structure

1.11 DRP can be divided into three parts: formulating and implementing initiatives to give effect to DRP's objectives; achieving the nominated savings; and investing the savings in the 'sharp end'.

Initiatives

1.12 DRP's initiatives included a range of activities, from single projects to combinations of projects and omnibus groupings. Each initiative was to be cross-referenced to the relevant DER findings and recommendations and allocated a savings target in terms of both personnel numbers and dollar amounts.

Savings

1.13 DRP savings and improvements in efficiency and effectiveness in Defence were of two kinds: estimated one-off and recurrent savings in dollars; and savings derived from the reduction in military and civilian personnel.

'Sharp end'

1.14 Savings generated from DRP were to be retained by Defence and reinvested in the 'sharp end' of ADF's combat capability and in increasing levels of training and readiness. Areas where funds were to be reinvested included an additional 1000 regular personnel in infantry; special forces and combat support roles; modifications to the landing ships *Kanimbla* and *Manoora*; and increased logistic support for existing capabilities.¹³

¹² Minister for Defence Media Release, *Defence Reform Program Delivers Increased Defence Preparedness*, 11 March 1999.

¹³ *ibid.*

DRP achievements

1.15 DRP savings and reinvestment of the savings have been reported in the Defence Annual Reports and annual Portfolio Budget Statements and by the Minister¹⁴. DRP was brought to a close at 30 June 2000. Defence provided the ANAO with the following summary of DRP's achievements:

The Defence Reform Program changed the organisational structure of Defence to ensure that Defence's people concentrated upon the real or core business of Defence. The proportion of Australian Defence Force personnel in combat or combat-related positions has increased from about 40 to 60 per cent.

The Reform Program challenged the existing culture and broke down many of the functional stovepipes that had stood as barriers to change. Cross group rationalisation was then possible, removing duplication and generating efficiencies. Subsequent market testing of the rationalised organisations produced further efficiencies.

The Defence Reform Program will, when all initiatives are complete, deliver about 90 per cent of its estimated savings target. The savings to 30 June 2001 from these initiatives have been redirected primarily to the maintenance of the Australian Defence Force at the previously required level of 50 000 (\$430m), to capability related logistics (\$560m), to the personnel and operating costs of new capabilities (\$260m) and to new capital investment (\$260m).

Most importantly and perhaps least understood, the Defence Reform Program changed the higher management culture of Defence. New higher Defence arrangements were implemented with the aim of developing a more joint and integrated approach to Defence planning and management. While some of the details have evolved over time, the Defence Reform Program agenda has been maintained. The Defence Reform Program changes were essential precursors to the organisational renewal agenda, which is seeking to engender a culture of continuous improvement in which Defence is seeking ongoing internal renewal.¹⁵

¹⁴ For example, Media Release—The Hon John Moore MP, Minister for Defence, 11 March 1999 MIN067/99 *Defence Reform Program Delivers Increased Preparedness*.

¹⁵ Provided by Defence's Organisational Effectiveness Branch, June 2001.

The audit

1.16 The parliamentary Joint Committee of Public Accounts and Audit, in March 1999, indicated that the ANAO might schedule an audit to assess the results of the DRP about the time it was completed. Accordingly, the ANAO commenced an audit in October 2000.

1.17 The objective of the audit was to assess Defence's management and implementation of DRP and the extent to which it achieved savings for reinvestment in the operational capabilities of the ADF. The audit also sought to highlight any lessons to be learned from the implementation of DRP.

1.18 The audit team examined internal reports on DRP and related records and interviewed relevant Defence personnel. It also selected the DRP's 10 largest recurrent savings and five largest one-off savings for closer examination.

1.19 Given the one-off nature of the DRP, this report does not make recommendations but does identify some lessons to be learned from the implementation of the program. Defence itself has reviewed DRP and drawn out 'lessons learned' and recommendations for future change programs (see 'OEB report' in chapter 2).

1.20 The proposed report of the audit was provided to Defence in August 2001. The final report was prepared after considering Defence's comments provided later that month. The audit was conducted in conformance with ANAO auditing standards and cost \$211 000.

Report structure

1.21 The remainder of this report sets out the ANAO's findings and conclusions and is divided into four chapters as follows:

- Chapter 2—planning, monitoring and reporting DRP;
- Chapter 3—issues arising from implementation of DRP;
- Chapter 4—DRP savings initiatives; and
- Chapter 5—reinvestment of DRP savings.

2. Planning, Monitoring and Reporting DRP

This chapter summarises audit findings on the planning, monitoring and reporting processes of the Defence Reform Program.

Planning

2.1 Defence began the DRP implementation with an organisational restructure, from eight to 14 Groups.¹⁶ Defence regarded this as an essential prerequisite to achieving savings. The rationalisation of old functional Groups was to create a more efficient, integrated organisation.

2.2 The Defence Efficiency Review (DER) report had proposed an implementation strategy and a small implementation team to assist line managers to plan and manage the changes. In the event, however, Defence set about implementing DRP without an implementation team. In view of the need to achieve financial savings, Defence's Resources and Financial Programs Division (RFP) supervised the numerous savings initiatives. RFP sought to coordinate and plan the DRP initiatives at a corporate level by means of a computer-based spreadsheet attached to a minute issued in October 1997.¹⁷ The minute and spreadsheet allocated responsibility for specific initiatives, and the relevant target savings, to individual Groups in Defence.

2.3 DRP initiatives were grouped under particular categories of reform:

- higher Defence arrangements;
- operational headquarters;
- intelligence;
- capability development;
- acquisition;
- Defence policy for industry;
- science and technology;

¹⁶ 'Groups' are identifiable groupings of functions and activities within Defence. Examples are Navy, Army, Air Force and (in 1997) Defence Acquisition Organisation.

¹⁷ RFP minute of 13 October 1997 *Allocation of Defence Reform Program Savings* and attached spreadsheet *Defence Reform Program Validated Recurrent Savings from 1996–97 Budget Base*.

- facilities and long term force disposition;
- logistics;
- personnel planning and management;
- education and training;
- administrative support; and
- information management.

2.4 The spreadsheet outlined the initiatives to be undertaken and linked them, where appropriate, to the findings and recommendations of the DER, on which DRP was based. Savings targets based on the original DER annual savings estimates were allocated among the 14 Groups then in existence in Defence. It was clear from the minute that RFP understood DRP to have a savings focus.

2.5 The DER savings estimates were not intended to be precise but the DER report believed them to be attainable and expandable during the implementation of the initiatives.¹⁸ They were adopted for the DRP without further analysis. The RFP minute stated that '*No attempt has yet been made to determine the feasibility of the savings*'. It allowed little flexibility to adjust the savings targets:

... the policy basis and objectives of the DER recommendations and the related DRP savings initiatives and targets are givens. This position has been reinforced by the Minister's statement to Parliament on 3 September, in which he confirmed that the DRP has a target for mature ongoing annual savings of at least \$900 million, additional to one-off savings of \$500 million.

2.6 Where initiatives spanned a number of Groups, or where major initiatives within a category were the responsibility of different Group Managers, the Group Managers were to report separately on the progress of initiatives.¹⁹ Since many of the initiatives cut across Group responsibilities and categories, lines of accountability became blurred and adversely affected the ability of Group Managers to manage particular initiatives. In turn, this reduced Defence's ability to plan and implement DRP effectively.

¹⁸ *Future Directions for the Management of Australia's Defence: Report of the Defence Efficiency Review*, 10 March 1997, p. 53.

¹⁹ RFP minute of 27 October 1998 *Revised Reporting Framework for the DRP*.

2.7 As it turned out, the use of a single computer-based spreadsheet to manage the DRP savings at a corporate level was an ineffective means of managing the planning and implementation of a major reform program. The lack of a more comprehensive management information system reduced Defence's ability to manage the implementation of DRP initiatives at both a Group and corporate level.

2.8 The ANAO was told that the Groups were involved only in initial DRP planning at the implementation stage. Initiatives and savings targets were produced without the benefit of detailed information from the Groups. This adversely affected the Groups' acceptance of the initiatives and their level of commitment to implement them.

Monitoring

2.9 It was originally envisaged that DRP would be based on the findings and recommendations of the DER. However, in April 1998, the Defence Management Committee (DMC) agreed that:

DER findings and recommendations provide a poor basis for the effective monitoring of progress in the implementation of the DRP and are no longer appropriate as the basis for regular reporting as action on most is substantially complete.²⁰

2.10 A revised reporting framework was therefore developed later in 1998, requiring quarterly reporting from the Groups. Information generated from the quarterly reports was to be used for internal and external purposes, and the reports were to be utilised to meet requirements regarding the annual Defence budget submission to Government and the Defence annual report.

2.11 DRP progress reports from individual Groups were to be prepared and signed by the Group Managers. Lead Group Managers were appointed for reporting against each of the categories of reforms (see paragraph 2.3) and the individual initiatives under these categories.

²⁰ *ibid.*

2.12 The Groups' reports were to provide:

- qualitative assessment of progress in the category of reform;
- progress against each initiative with details about recurring and one-off savings in qualitative and quantitative terms;
- progress on reinvestment decisions by DMC/Defence Executive, assessing the impact in capability/output terms;²¹
- details of proposed adjustments to DRP plans and timeframes; and
- any specific issues of concern—at both strategic/corporate and detailed/bilateral levels.

2.13 RFP Division was responsible for coordinating DRP reports, harvesting savings from Group budgets and providing an overview of DRP progress to the DMC.

2.14 In the event, RFP encountered difficulties in ensuring compliance with the reporting framework and this restricted the flow of management information to the Defence Executive (Defence's senior executive committee). The Defence Executive would have been in a stronger position to make informed decisions in relation to implementation of DRP had the Groups reported as required and had RFP been able to exercise greater control in monitoring the Groups' performance in meeting the required outcomes.

DRP-SMART

2.15 In May 1999, given poor compliance with the existing reporting system, Defence established the DRP-Strategic Management and Reporting Team (DRP-SMART) '*to quality assure and facilitate the Defence Reform Program*'.²² The team comprised Defence military and civilian personnel and was to report direct to the Secretary of the Department and the Chief of the Defence Force.

2.16 DRP-SMART sought to prepare a quality assurance report on DRP but, like RFP Division, it encountered numerous difficulties in obtaining verifiable information from the Groups. DRP-SMART's reporting deadline was extended a number of times before the team was disbanded late in 1999.

²¹ The DMC and the Defence Executive were the most senior Defence committee when each existed.

²² DEFGRAM No 120/99 *Defence Reform Program—Strategic Management and Reporting Team*, 17 May 1999.

OEB report

2.17 The Organisational Effectiveness Branch (OEB) was established in February 2000. It was given the task of completing the DRP quality assurance task using the Defence Groups' earlier responses to DRP-SMART and reviewing overall DRP implementation and progress. The quality assurance work indicated that the implementation of DRP initiatives had received insufficient attention by the Groups.

2.18 The quality assurance work, supplemented by further investigation, enabled the OEB to produce *The Defence Reform Program Internal Review and Lessons Learned Report—March 2001*. The OEB report, prepared from available records, is a relatively comprehensive examination of DRP and seeks to document DRP's achievements to 30 June 2000.

2.19 OEB's summary of DRP achievements is at paragraph 1.15 of this audit report. On savings and reinvestment, OEB reported that, as at 30 June 2000:

- DRP had achieved net recurrent savings of \$457 million in 1999–2000 and a total of \$77 million in one-off savings;
- from the personnel point of view, savings are clear in that positions saved have been disestablished; and
- a cumulative total of \$1137 million had been reinvested in current and future capability (\$846 million) and in transition costs (\$291 million) as part of DRP.²³

2.20 The ANAO examined a sample of reported DRP savings. The results of the examination are summarised in chapter 4.

2.21 Any incomplete DRP initiatives are to be progressed in line with the continuous improvement culture now being promoted in Defence. The status of the 131 original DRP initiatives prior to the completion of the OEB report was 60 still 'in progress'; 24 'not pursued' by the Groups; and four were 'Defence Executive forgiven' as it was not considered appropriate to proceed with them.²⁴ The report set out the original DER findings and recommendations and their status at the end of the DRP—see Appendix 1 to this audit report.

²³ Organisational Effectiveness Branch *The Defence Reform Program Internal Review and Lessons Learned Report—March 2001*, pp. 5, 10, 13.

²⁴ There were originally 131 initiatives to which the Groups later added a further 8 initiatives. As a result of OEB's review, a resolution was reached regarding the status of initiatives for the purpose of closing DRP. OEB considered 55 recurrent initiatives to be complete; 47 other recurrent initiatives would be carried forward into continuous improvement. OEB considered nine one-off initiatives to be complete; 28 would be moved to continuous improvement.

2.22 The OEB report commented that DRP had not been successful in generating a positive view towards reform, and that it lacked strong central direction as a change program and commitment by Group managers. It commented on the difficulty in tracking savings as follows:

*While this report has been critical of the ability of our systems to track resources and personnel, it would be a remarkable system that could preserve a clear and auditable trail in this environment. ... The fact that it has proved almost impossible to reconcile Group transfers is not surprising. Such an exercise would have required a dedicated implementation team and processes that ensured visibility of transfers and savings.*²⁵

Summary of OEB's lessons learned from DRP

2.23 The OEB report identified several 'lessons learned' from DRP. These are set out at Appendix 2 to this audit report and are summarised below.

Global reform is difficult to achieve in a savings exercise. DRP lapsed into a savings exercise. It challenged the single-Service stovepipes in order to achieve savings and lacked their support. An ongoing cultural reform program independent of any efficiency exercise is necessary.

The need for an implementation team. DER recommended that its changes be implemented by line managers assisted by an implementation team, but no such team was established. Many of the problems in DRP would have been resolved by such a team.

Accountability arrangements need to be flowed down. If reform is intended, individuals need to be responsible, not groups or organisations.

Personnel reinvestment. DRP envisaged significant reduction in personnel to fund improved capability. Without a process to centrally account for reinvestment of personnel, all visibility has been lost. For the future, apart from improving personnel systems, there should be a central clearing process for personnel savings and reinvestment.

²⁵ Organisational Effectiveness Branch *The Defence Reform Program Internal Review and Lessons Learned Report—March 2001*, p. 28.

Management of overheads. Overheads were originally calculated using the current ready reckoner, which is out of date. Application of overheads was inappropriate.

Incentives for savings. Efficiency, reform, and improvement have become synonyms for budget cuts. Behaviour for the corporate good is not perceived to be rewarded. The shift to Continuous Improvement requires that incentives and reward processes are developed.

Ownership of change is vital. DRP was a major crash through program that achieved fundamental change and opened up opportunities for efficiencies. But the opposition of much of the senior and middle management built resentment rather than change culture. There is a strong need to move on from DRP.

Accounting for change. Corporate systems lack an ability to adequately trap data. We should adopt a process for major change where resources, personnel and financial resources are written back to a common account and thence disbursed. This would help prevent leakage, provide a reinvestment pool and improve transparency of change activity.

Improvement is not only a financial measure. A reform program needs measures of success other than dollars saved. Dollars are important, but the culture of renewal and change needs measures of a job well done.

2.24 The OEB has done valuable work in identifying 'lessons learned' from DRP's implementation. The lessons should assist Defence as it attempts to develop a culture of continuous improvement (see paragraph 3.11). The OEB report was under consideration by Defence at the completion of this audit.

Conclusion

2.25 The ability of Defence to plan and implement DRP effectively would have been improved if clear lines of responsibility and accountability were embedded in the process from the outset. There was inadequate planning and analysis in generating the savings targets, and the lack of Group involvement early in the planning stage meant that initiatives and savings were produced without the benefit of detailed information from the Groups.

2.26 The Defence Executive would have been better informed on DRP implementation had the Groups successfully utilised reporting mechanisms put in place by RFP and had RFP been able to exercise greater control in monitoring the Groups' performance in providing required outcomes.

2.27 The use of a single computer-based spreadsheet for the management of the DRP savings at a corporate level could not be regarded as an effective way to manage the planning and implementation of a major reform program. A more effective management system would have greatly enhanced Defence's ability to manage and control the implementation of DRP initiatives at both a Group and corporate level.

2.28 The OEB has done valuable work in identifying 'lessons learned' from DRP's implementation. The lessons should assist Defence as it seeks to move to a culture of continuous improvement.

3. Issues Arising from Implementation of DRP

This chapter examines the main DRP implementation issues identified during the audit. These concern the focus of DRP; Defence's organisational culture; DRP progress reporting; environmental factors affecting DRP; and communication issues arising from DRP.

Introduction

3.1 The DRP was a large and complex reform program that affected all areas of Defence and raised many issues during its implementation. The OEB report, referred to in the previous chapter, examined the main issues and outcomes resulting from the DRP.

3.2 The OEB report found that DRP had achieved substantial savings for reinvestment in operational capability but that arrangements for planning, monitoring and reporting were inadequate for a reform program of this size.

3.3 The ANAO, during the course of the audit, identified some important issues relating to the implementation of DRP, of which many were also raised in the OEB report. The main issues are summarised below.

Focus on savings

3.4 The early focus on achieving savings rather than progressing initiatives led to the DRP being seen by Defence personnel mainly as a cost-cutting exercise. The Defence Management Committee, when reviewing the DRP reporting framework in 1998, sought:

a greater focus on an overall assessment of progress, expressed in output or capability terms and including both quantitative and qualitative measures, as the DRP is not fundamentally about major organisational changes or the achievement of large-scale efficiency savings but rather about the way in which the Defence organisation is managed and operates.²⁶

²⁶ Defence Minute—27 October 1998, *Revised Reporting Framework for the DRP*.

3.5 However, little progress was made in refocusing DRP. In evidence to the Senate ‘estimates’ committee in 2000, Defence confirmed the emphasis on savings:

If the organisation has not achieved the savings, they have to look for other ways of achieving it, because the money is actually taken out of their budget...

The fact that we achieved the savings is not in doubt, because of the way that the friendly finance people extract the money from the budget.

The fact that the savings have been extracted meant that there was not a great deal of attention paid... to the specific initiatives.²⁷

3.6 The intention had been that the initiatives themselves were to enable Defence to become more efficient and focused on its core activities, thus creating savings. But DRP suffered as a change program because the savings, and not the initiatives, were a major focus. As long as savings were made, Groups were not held responsible for ensuring implementation of the actual initiatives. In the event, amounts equivalent to target savings were often taken from Group budgets ahead of the initiatives and without assessing what savings the initiative could deliver.

3.7 The ability to achieve a savings target by whatever means possible became the measure of an initiative’s success. There was little incentive to achieve or measure efficiency gains resulting from the implementation of an initiative. Achieving change does not depend on precision of measurement. However, an assessment at DRP’s planning stage, of the impact of individual initiatives on efficiency is likely to have led to better targeting of savings and acceptance of the initiatives.

Changing organisational culture

3.8 Taking savings from Groups’ budgets ahead of the initiatives that were to generate the savings, and without a clear indication of how to achieve them, led to uncertainty among staff, with some being unsure as to the tenure of their positions.

3.9 Defence recognised in 2000 that there were negative perceptions of DRP and consequent morale and productivity problems among staff:

... the benefits of improved effectiveness and efficiencies delivering resources available for reallocation to combat capability are looked on

²⁷ Senate Foreign Affairs, Defence and Trade Legislation Committee, Hansard 23 November 2000 p. FAD&T34.

*with some cynicism. In the construct of 'Defence Matters' and an environment of continuous improvement, negative views identifying 'reform' as a euphemism for 'cuts' and 'savings' are an obstacle to progress.*²⁸

3.10 There was also no central implementation team of the kind recommended by the Defence Efficiency Review report. Such a team could have facilitated the effective coordinated communication of DRP objectives, benefits and progress. The OEB report noted that:

*the lack of a dedicated implementation team for the whole program, an inability to convey to Defence's people in simple terms the benefits of the Program, a focus on savings and the underestimation of the degree of change weariness all combined to severely limit the ability of the Defence Reform Program to genuinely change the culture.*²⁹

3.11 Using 'lessons learned' from DRP, Defence is seeking to create an environment of continuous improvement, as envisaged by the Government's Defence White Paper,³⁰ with projected savings of \$50 million in 2001–02. The ANAO observes that, to create a culture in support of continuous improvement, an organisation's actions and words need to communicate the same message. Achieving synergy between culture, strategies, and organisational structure will enable greater success.³¹ As part of the organisational renewal agenda and cultural reform, Defence is also proceeding with the *Defence Matters* scorecard and an internal 'Rip-Up Red Tape' campaign which encourages individuals to identify nugatory work practices. The campaign is to make bureaucratic processes less frustrating and more results-focused and efficient, although savings will not be readily measurable.³² When asked about this at a recent Senate 'estimates' committee, Defence explained that:

*"Rip up red tape" does not actually have a savings target. We are trying to create a culture where improvement is not necessarily associated with savings. It includes all forms of improvement.*³³

²⁸ DRP—Final Progress Report Minute 30 June 2000.

²⁹ Organisational Effectiveness Branch *The Defence Reform Program Internal Review and Lessons Learned—March 2001*, p. 5.

³⁰ The Defence White Paper *Defence 2000* (December 2000) concluded that '...the Government is strongly committed to continuing improvement and the need to ensure that money spent on defence is managed wisely'.

³¹ Bartol, K., Martin, D., Tein, M., and Matthews, G., (1997) *Management: A Pacific Rim Focus 2nd Edition*, McGrath-Hill, Sydney.

³² *Portfolio Budget Statements 2001–02—Defence Portfolio* (May 2001) p. 97.

³³ Senate Foreign Affairs, Defence and Trade Legislation Committee, Hansard 4 June 2001 p. FAD&T57.

Ability to report on DRP's progress

3.12 The Defence Groups' periodic reports on DRP used inconsistent formats. Some used spreadsheets to calculate savings; some used 'guidance trails' to show that savings had been taken from budgets; and others compared new support contracts and previous in-house baseline costs to measure savings achieved.

3.13 Budget reductions using guidance trails often meant that funds were handed up in large quantities and could not be directly linked to individual initiatives. As well, information on the extent to which initiatives had been completed was often not available.

3.14 The OEB report recognised the weaknesses in Defence's management information systems:

... the savings and reinvestment claims for the DRP have some potential for error as the supporting financial and personnel systems are simply inadequate to provide a good auditable trail in an environment of great and on-going change.³⁴

3.15 The inadequate reporting systems and processes utilised for tracking the progress of DRP have been a major contributory factor to Defence's difficulties in assessing accurately DRP's achievements. The lack of a central implementation team or oversight committee also reduced Defence's ability to monitor and report progress on the implementation of DRP and to exercise control by taking corrective action when necessary.

Environmental factors

3.16 DRP savings expectations were based on the maintenance of a steady state within Defence. The actual situation has been significantly different.

3.17 Defence's organisational structure has undergone significant change during the implementation of DRP. The reorganisation of Defence at the commencement of DRP, from eight to 14 Groups, was regarded as an essential prerequisite to achieving savings. Rationalisation of old functional Groups ('stovepipes') was meant to create a more efficient, integrated organisation.

³⁴ Organisational Effectiveness Branch *The Defence Reform Program Internal Review and Lessons Learned—March 2001*, p. 12.

3.18 The structure underwent further refinement throughout DRP. Defence has, in fact, restructured to some extent every year since 1997. The extensive organisational changes had some adverse impact on DRP's progress, and made tracking that progress all the more difficult for Defence managers. The reallocation of resources, the creation of new lines of accountability and reporting, as well as the need to devote time to implementing and communicating these changes, all influenced DRP implementation.

3.19 The strategic decision to maintain the ADF with a strength of 50 000 members also had a major effect on DRP. The DRP intended to reduce the number of ADF personnel to 42 700 from a baseline of 56 600. The subsequent decision to maintain the ADF at 50 000 meant that 90 per cent of the expected mature cash savings from DRP were needed to maintain this number of personnel.³⁵ The decision had a significant impact on the ability of DRP to deliver savings and fund reinvestment.³⁶

3.20 A further issue impacting the DRP was the Government's initiatives in support of rural and regional Australia. This had the effect of reducing the number of bases that Defence had intended to close. The OEB report stated that:

In this light, Government direction, under policy initiatives for rural and regional Australia, that Defence retain RAAF Wagga and Fort Queenscliff in Victoria, will impact on total savings.³⁷

3.21 It was within this changing, and challenging, environment that Defence attempted to implement DRP and assess its performance in achieving savings targets.

Communication issues

3.22 During the DRP many Defence personnel perceived a lack of effective communication on its purpose, implementation and achievements. Communication of the aim and rationale of DRP had been left to the discretion of individual managers, and this led to an inconsistent understanding of the program across Defence.

³⁵ Defence Committee Agendum 03/01.

³⁶ This was discussed at Senate 'estimates' committee. See for example, Senate Foreign Affairs, Defence and Trade Legislation Committee Hansard 29 May 2000, p. FAD&T 28 et seq.

³⁷ Organisational Effectiveness Branch *The Defence Reform Program Internal Review and Lessons Learned—March 2001*, p. 9.

3.23 When DRP-SMART was established in May 1999 (see paragraph 2.15), one of its terms of reference was:

*to support and manage a comprehensive internal communications program on the rationale and status of the Reform Program, with a particular emphasis on the benefits of the reforms.*³⁸

3.24 This indicates that, almost two years after DRP began, there was a perceived need to explain DRP to Defence personnel. The *1999 ADF Attitude Survey* confirmed that management and implementation of DRP was not well received and only moderately understood.³⁹ The Survey noted that:

*In general terms, both the service data and civilian data suggest that morale is mostly believed to be “fair” and that the DRP has not been positively received or experienced, despite being moderately well understood.*⁴⁰

3.25 The view that DRP was not entirely well received by Defence personnel was recently cited in the Defence submission to a Senate committee inquiry:

*Qualitative research in particular suggests that various change initiatives, such as DRP and CSP, have generally been perceived by ADF personnel as disruptive to morale and contributing to excessive workloads.*⁴¹

3.26 The OEB report, commenting on the findings of the survey, noted that:

*Against the observation that greater knowledge of Defence Reform Program correlated with increased negativity towards it, ... either the program was flawed or the information about it was flawed. Probably both were true. The Defence Reform Program crossed service cultures and in many ways it was a crash through program. It disturbed the status quo considerably and as such was never going to be positively received.*⁴²

³⁸ DEFGRAM NO 120/99.

³⁹ This was the first ADF-wide attitude survey. The ADF sent questionnaires in July and August 1999 to a random sample of approximately 20 per cent of Navy, Army, and Air Force personnel. The survey sought to gain information from respondents on a range of issues including management, supervision, career management, postings, organisational change, service conditions, equity, family and career intentions.

⁴⁰ *1999 ADF Attitude Survey: DRP and Morale Issues*, p. 4, Directorate of Strategic Personnel Planning Branch, September 1999.

⁴¹ Department of Defence Submission to the Senate Foreign Affairs, Defence and Trade References Committee's Inquiry into Recruitment and Retention of ADF Personnel, 24 May 2001, p. 27. One of the issues being considered by the Committee is: 'the impact of the Defence Reform Program on retention levels and recruiting'.

⁴² Organisational Effectiveness Branch *The Defence Reform Program Internal Review and Lessons Learned—March 2001*, p. 30.

3.27 A greater emphasis on communicating the goals of DRP at its commencement, combined with more ongoing reporting of its progress and achievements during implementation, would have presented a more positive view of the program and its benefits for Defence personnel. Poor communication has been cited as being one of the two main reasons why change programs fail, the other reason being poor design.⁴³

3.28 The DER report had mentioned that there was a resistance to change in Defence (paragraph 1.4 above). This should have prompted Defence to adopt an implementation strategy with communications as a major element.

Conclusion

3.29 DRP encountered numerous problems as a change program because the savings were often the major focus and not the initiatives. As long as savings were made, Groups were not held responsible for ensuring implementation of the actual initiatives.

3.30 The intention had been that the initiatives themselves were to enable Defence to become more efficient and focused on its core activities, thus creating savings for reinvestment. In practice, however, savings were often arbitrarily taken from Groups' budgets without prior assessment of savings that could be delivered by implementing the initiative. This approach did not take sufficient account of its impact on staff morale.

3.31 Establishment of a central implementation team would have facilitated better communication with staff on DRP's aims, progress and achievements, and improved Defence's ability to manage the overall implementation process. The DER report had commented that there would be resistance to change in Defence. This should have prompted Defence to adopt an implementation strategy with communications as a major element.

3.32 DRP progress reporting was hindered by inadequate reporting systems and processes. This was a major contributing factor in the inability to provide an accurate assessment of DRP's achievements. The dynamic Defence environment during DRP implementation also hindered accurate assessment of DRP's achievements and exerted a significant influence on DRP's final outcome. Factors that had an impact on Defence's environment included the decision to maintain 50 000 personnel in the ADF and realignments in Defence's organisational structure.

⁴³ Professor David Garvin, Harvard Business School, as reported in *Harvard Management Update*, July 2001.

4. DRP Savings Initiatives

This chapter discusses the achievement of savings targets for initiatives, the factors that have influenced the level of savings that could be realised and the ability of the OEB and ANAO to confirm reported savings.

Recurrent savings

4.1 It was originally considered that, as a result of the successful implementation of DRP's initiatives, *'there will be at least \$770 million with the possibility of \$1 billion annual costs cut from support areas'*.⁴⁴

OEB findings

4.2 The OEB, in reviewing the implementation and progress of DRP, reported the status of recurrent savings resulting from DRP initiatives. These results are summarised in Table 4.1.

Table 4.1

DRP recurrent annual savings as at March 2001

<i>Initiative status</i>	<i>Number of initiatives</i>	<i>Targeted savings (\$m)¹</i>	<i>Achieved savings estimate (\$m)²</i>	<i>Difference (\$m)</i>
Savings not linked to specific initiatives ³	N/A	152.2	217.0	64.8
Initiative complete	55	211.3	90.8	-120.5
In progress to CI ⁴	47	577.5	336.6	-240.9
Totals	102	941.0	644.4	-296.6

1. Savings targets in RFP's 13 October 1997 DRP spreadsheet.

2. OEB's estimate of the maximum annual savings that will be achieved when the initiative has been fully implemented.

3. Defence Groups' overhead savings that were not linked to a particular DRP initiative.

4. Initiatives carried forward to a program of continuous improvement.

Source: table derived by the ANAO from the OEB report *The Defence Reform Program Internal Review and Lessons Learned—March 2001*.

4.3 As Table 4.1 indicates, most of the reported shortfall of \$296.6 million between targeted and achieved saving is due to the large number of initiatives that have not yet been achieved but are regarded by Defence as still being in progress. They will be pursued under Defence's continuous improvement framework and are expected by Defence to realise additional savings.

⁴⁴ Minister for Defence Media Release, *McLachlan Announces Defence Reform Program*, 11 April 1997.

ANAO approach

4.4 To avoid duplicating the work of the OEB, which reported the status of DRP initiatives based on feedback from the Groups, the ANAO selected the 10 DRP initiatives with the largest savings, and reviewed documentation relating to the savings. The 10 initiatives selected account for approximately 75 per cent of the \$644.4 million in ‘achieved savings’ in Table 4.1. Table 4.2 sets out the top 10 savings and indicates the results of the ANAO’s review.

Table 4.2

Top 10 DRP recurrent annual savings

<i>Initiative</i>	<i>OEB achieved saving estimate (\$m)¹</i>	<i>ANAO savings estimate (\$m)²</i>
‘Schedule CSP’ (Commercial Support Program contracts under DRP)	187.7	182.0
Superannuation & Fringe Benefits Tax HQ, Finance/Inspector-General and	110.1	114.0
Defence Personnel Executive overheads	76.3	10.9
ADF School of Technical Training	32.0	28.3
Defence Acquisition overheads	16.6	16.6
Electricity savings	15.0	11.8
Reduce travel and subsistence	13.3	17.4
Collocate Facilities Operations staff	11.1	11.1
Abolish Defence Industry Development Program	10.4	10.4
Renegotiate QANTAS contract	9.9	10.0
Total	482.4	412.5

1. OEB’s estimate of the maximum annual savings that will be achieved when the initiative has been fully implemented. Figures have been rounded to one decimal point.
2. Savings supported by adequate documentation and assuming that current plans to achieve the savings are not significantly altered. Figures have been rounded to one decimal point.

Source: OEB and ANAO

4.5 The ANAO ran into difficulties of the kind that OEB experienced in tracking savings from the available documentation. The OEB report’s Lessons Learned (Appendix 2 of this audit report) identified, under the heading ‘Accounting for Change’, the need for better systems for capturing data in future change programs.

4.6 As indicated in Table 4.2, the ANAO estimate (third column) was the same, or greater than, OEB’s achieved savings estimate (second column) for six of the 10 initiatives examined. For the other four initiatives, the ANAO’s estimate was less than the OEB’s. Variations over 5 per cent between the ANAO and OEB estimates are discussed below.

HQ, Finance/Inspector-General and Defence Personnel Executive overheads

4.7 HQ/Finance/Inspector-General and Defence Personnel Executive (DPE) 'overhead savings' represent savings handed up by Groups (or taken from budgets) during DRP but not directly attributable to a particular DRP initiative. The HQ, Finance/Inspector-General components were well documented and amounted to \$10.9 million, but the DPE component was difficult to confirm.

4.8 DPE's role is such that its expenditure requirements vary with the number of personnel required in the ADF. DPE had significant savings taken from the budget for the duration of the Five-Year Defence Plan (FYDP). However, due to changes in ADF personnel requirements, not least the decision to maintain 50 000 personnel in the ADF, DPE was unable to sustain operations within its new budgetary restraints, and funds were returned to DPE.

4.9 There is inadequate documentation to be able to distinguish clearly between DRP savings which had been returned to DPE and new investment money to fund additional personnel costs. DRP 'guidance trails' (for tracking savings) provided to the ANAO showed conflicting budget reductions that could not be reliably linked to DPE overhead savings. The ANAO was therefore unable to confirm a DPE component of these savings. The ANAO estimate consists only of the HQ, Finance/Inspector-General components.

4.10 The OEB also found difficulties in tracking 'overhead savings':

Overheads are extremely difficult to track and are frequently the subject of dispute. Such claims are difficult to verify given the significant reallocation of resources, which took place in establishing the post DER organisation. This disagreement of where the overheads were harvested has prevented closure of many otherwise completed tasks.⁴⁵

ADF School of Technical Training

4.11 The proposed ADF School of Technical Training was not created but Army and Air Force achieved savings targets through '*rationalisation, restructuring and joint initiatives.*' The ANAO was informed that Navy's portion of the initiative was not planned until future years and therefore, given its current understaffing, its expected savings are likely to be nil overall. The ANAO estimate therefore consists only of Army and Air Force savings.

⁴⁵ Organisational Effectiveness Branch *The Defence Reform Program Internal Review and Lessons Learned—March 2001*, p. 13.

Electricity savings

4.12 DRP achieved electricity savings comprise those from renegotiation of electricity contracts and those from implementation of the Defence Energy Efficiency Program (DEEP). The ANAO found that the former had been under-estimated but that there was no evidence that the latter have yet been made. Defence business cases indicate that, if DEEP is successfully implemented, savings of some \$10 million are possible and the DRP achieved savings estimate would be exceeded.

Reduce travel and subsistence

4.13 The ANAO examined DRP spreadsheet calculations and guidance trails that showed savings taken from Groups' travel and subsistence budgets. On the basis of information provided to the ANAO, savings are estimated to be \$17.4 million.

One-off savings

4.14 The Minister's DRP announcement in April 1997 referred to target one-off savings of \$500 million but OEB's recent report put the target at \$449 million.⁴⁶ Table 4.3 indicates one-off achieved savings of \$77 million, mainly from sale of properties. Defence Estate Organisation (DEO) informed the ANAO that more properties are still to be sold in the medium to long term, with potential proceeds of around \$355 million. Not all the sales would be DRP-related. Most one-off savings would not occur until after 2001–02. The effect of the Government's rural and regional policy on expected Defence base closures has also had an impact on this area of expected savings.⁴⁷

⁴⁶ *ibid*, p. 3, notes that 'one-off cash savings typically reflect the sale of an underutilised asset. The exchange of cash for an asset is not technically a saving under accrual accounting, but the Defence Efficiency Review term has been retained.'

⁴⁷ For example, it was decided to retain RAAF Wagga and Fort Queenscliff. DER had expected that their disposal would yield one-off savings of \$25 million.

Table 4.3**OEB reported one-off savings from DRP initiatives**

<i>Status of initiative</i>	<i>Number of initiatives</i>	<i>Target savings (\$m)</i>	<i>Achieved savings estimate (\$m)¹</i>	<i>Difference (\$m)</i>
Action on initiative complete—property sales and disposals	9	48	48	0
Provision for property disposals	27	355	0	-355
Provision for Strategy & Intelligence initiatives	0	16	10	-6
Provision for inventory reduction	1	30	19	-11
Total	37	449	77	-372

¹ Savings programmed out to 2003–04.

Source: OEB

4.15 The ANAO reviewed the five initiatives with the largest one-off savings. These were in respect of Defence property sales and are listed in Table 4.4. DEO provided evidence of the sale prices of the properties listed in the table. This confirmed the achieved savings item of \$48 million in Table 4.3. After deducting sale costs, the net proceeds from sale of the properties were \$45.2 million.

Table 4.4**Top five DRP one-off savings**

<i>Property sold</i>	<i>Sale price (\$m)¹</i>
RAAF Fairbairn	21.5
Tresco	9.3
Jenner/ Bomera/Tarana Properties at Potts Point	8.9
Kelvin Grove Training Facility	6.0
Tighnabruaich	2.6
Total	48.3

¹ Figures have been rounded to one decimal point.

Source: OEB

Conclusion

4.16 Defence reported that DRP annual savings amount to \$644.4 million and that one-off savings amounted to \$77 million. These figures were based on responses to an internal review of DRP's achievements from the Defence Groups who implemented DRP's initiatives.

4.17 The ANAO examined the top 10 annual savings (\$482.4 million) and the top five one-off savings (\$48.3 million). Of the top 10 annual savings, the ANAO found adequate supporting documentation for \$412.5 million. There was adequate evidence for all of the five top one-off savings.

4.18 Although it is not possible, on a statistical basis, to extrapolate these findings to DRP savings as a whole, they do suggest that DRP has produced substantial savings on a recurring basis. This result has been achieved despite a changing strategic and organisational environment during DRP's implementation.

4.19 The lack of available evidence for some of the reported annual savings is indicative of DRP implementation problems discussed earlier in this report. OEB also had difficulty in tracking reported DRP savings and has identified the need for better systems to track initiatives and savings in any future change program.

5. Reinvestment of DRP Savings

This chapter gives an overview of the reinvestment of DRP savings in ADF operational capability, and discusses the reconciliation of DRP savings and reinvestment.

Introduction

5.1 DRP savings were to be reinvested in combat and combat support units in order to achieve enhanced ADF operational capability—the ‘sharp end’.

5.2 In the absence of a reliable management information system, the accuracy of the figures for reinvestment of savings in operational capability is dependent on the DRP reporting provided by Defence Groups and is difficult to confirm. In August 2000, at about the time that DRP was being brought to a close, the Secretary of the Department commented that there was a:

lack of valid corporate information available to CDF, myself and other key decision-makers. For example, we can prove what's been saved under the Defence Reform Program—we know those resources have been redeployed to the sharp end—but no one can tell us more precisely where those resources have gone to! This makes measuring our overall performance very difficult. It also creates significant credibility problems for us.⁴⁸

5.3 The ANAO found, in line with the Secretary’s comments, that it was not able to precisely match savings with reinvestment.

5.4 The ANAO examined Defence documentation relating to aggregated total DRP savings and reinvestment. Aggregated savings and reinvestment information provide a measure of the success of DRP in achieving enhancements in military capability. A number of issues were found during this examination and these are discussed below.

Reinvestment

5.5 Table 5.1 summarises DRP reinvestment information from Defence’s annual reports for the three years of DRP implementation.

⁴⁸ Defence media release (25 August 2000) based on an address by Dr Allan Hawke, Secretary, Department of Defence, in the Great Hall, Parliament House, 25 August 2000.

Table 5.1
DRP Reinvestment in Operational Capabilities

<i>Reinvestment</i>	<i>1997–98 (\$m)</i>	<i>1998–99 (\$m)</i>	<i>1999–2000 (\$m)</i>	<i>Total (\$m)</i>
New capital investment	0	0	85	85
Amphibious capabilities	5	28	34	67
Capability-related logistics costs	106	104	181	391
New capabilities—net personnel & operating costs	15	65	66	146
Defence science—capability projects	0	15	15	30
Army Program reinvestment	0	43	0	43
Provision for 50,000 ADF	0	11	64	75
Pilot training	0	4	5	9
Total reinvestment initiatives	126	270	450	846
Transition costs ¹	87	102	102	291
Total allocation	213	372	552	1137

¹ Voluntary redundancies and costs associated with market testing.

Source: Defence Annual Reports 1997–98, 1998–1999 and 1999–2000.

5.6 Table 5.1 shows that the total allocation for reinvestment resulting from DRP (including transition costs) amounted to \$1137 million to 30 June 2000, and that DRP provided a significant contribution to the enhancement of operational capability.⁴⁹

5.7 The Defence Annual Reports provide more detail on reinvestment decisions. The Report for 1997–98, for example, outlines that DRP reinvestment in capability-related logistics included an increased logistic support for Sea Hawk and Sea King helicopters, P-3C Orion aircraft and F/A-18 fighters. New capabilities also received DRP funds to enable in-service support for Anzac-class ships, Collins-class submarines and Anzac ship helicopters. Amphibious capabilities have been enhanced with the refit of HMA Ships *Manoora* and *Kanimbla*.⁵⁰

5.8 The OEB report commented that ‘Amphibious Capabilities, Net Personnel and Operating Costs and Defence Reform Program Transition Costs were explicitly defined and can be tracked’. However, OEB found that other areas such as capital investment and logistics were more difficult to follow. Monitoring of reinvestment was impeded by the inability of financial and personnel systems to track DRP savings and personnel displacement.⁵¹

⁴⁹ Defence figures for reinvestment for the four years to 30 June 2001 are at paragraph 1.15.

⁵⁰ *Defence Annual Report 1997–98*, p. 17.

⁵¹ Organisational Effectiveness Branch *The Defence Reform Program Internal Review and Lessons Learned—March 2001*.

5.9 Subsequent DRP savings were needed increasingly to meet Defence personnel cost increases and the decision to maintain 50 000 personnel in the ADF. This had an impact on reinvestment in equipment, as stated by the Secretary:

*With rising real costs for personnel it was inevitable that personnel costs would effectively absorb the bulk of DRP savings to cater for the 50 000 ADF decision. This had to be at the expense of investment.*⁵²

5.10 The decision to maintain 50 000 personnel in the ADF (paragraph 3.19) accounted for a significant proportion of DRP savings. The figures in Table 5.1 represent reinvestment before the full impact of the decision was felt. OEB reported that the decision cumulatively absorbed \$436 million for the four years to 30 June 2001 and is expected to require annual reinvestment of \$649 million from 2003–04.⁵³

5.11 Defence stated that the objective of increasing the number of personnel in combat and combat-related positions has been achieved. The proportion of ADF personnel in combat and combat-related positions rose from 42 per cent in 1996⁵⁴ to 62 per cent in 2001, just short of the target of 65 per cent.⁵⁵ Defence attributes this largely to reinvestment of DRP savings.

Reconciliation of savings and reinvestment

5.12 Table 5.2 summarises the reported savings and reinvestment for each year of DRP implementation. The discrepancies between the savings and reinvestment figures are indicative of the difficulties in matching DRP savings with reinvestment on a yearly basis.

⁵² Dr Allan Hawke, Secretary, Department of Defence, *Money Matters*, 27 April 2000, Address to the Royal United Services Institute of Victoria for Defence Studies.

⁵³ Organisational Effectiveness Branch *The Defence Reform Program Internal Review and Lessons Learned—March 2001*, p. 12.

⁵⁴ *Defence Annual Report 1997–98*, p. 13.

⁵⁵ Information on current personnel in combat and combat-related positions provided by Defence Workforce Planning. See also paragraph 1.15.

Table 5.2**Reconciliation of DRP Savings and Reinvestment**

	1997–98 (\$m)	1998–99 (\$m)	1999–2000 (\$m)	Total (\$m)
Total DRP savings	97	350	476	923
Total DRP reinvestment ¹	213	372	552	1137
Difference	116	22	76	214

¹ Includes transition costs. See Table 5.1.

Source: Defence Annual Reports.

5.13 The table indicates that there is not a direct relationship between DRP savings and reinvestment. Defence indicated that its strategy was to over-program reinvestment because of uncertainty in expenditure timing and to manage the excess spending by other means. The *Defence Annual Report 1998–99* explained the variation between the savings and reinvestment figures for that year (in Table 5.2) as follows:

Projected gross expenditure levels for these initiatives was in excess of the savings to be achieved through DRP. This strategy has been adopted due to the uncertainty related to some lead times and achievable expenditure spreads, particularly in logistic items. This over-programming ensures that overall expenditure on the package will exceed savings. Expenditure in 1998–99 was matched to the funds available by cash management techniques, review of priorities or provision of extra funds from the Defence outlay.⁵⁶

5.14 The *Defence Annual Report 1999–2000* explains the difference for that year as follows:

Gross Expenditure levels for these initiatives exceeded savings as additional funding was directed to capability-related logistics to accord with changing strategic priorities. The additional funding occurred as part of additional estimates and anticipates ongoing savings.⁵⁷

5.15 The reported figures for DRP savings available for reinvestment are subject to the ANAO's comments about reported savings in the previous chapter.

⁵⁶ *Defence Annual Report 1998–99* p. 18.

⁵⁷ *Defence Annual Report 1999–2000* p. 53.

Conclusion

5.16 The DRP has achieved significant savings for Defence to reinvest in the ADF's operational capabilities. Defence calculates that total reinvestment over the three years of DRP implementation amounted to \$1137 million (including transition costs). This amount exceeded the DRP savings that had then matured and were available for reinvestment because of uncertainty in reinvestment expenditure timing, and the excess was managed by other means.

5.17 Reinvestment was difficult to track due to insufficient management information systems. However, Defence records indicate that the DRP has assisted in raising the proportion of ADF personnel in combat and combat-related positions rose from 42 per cent in 1996 to 62 per cent in 2001. The decision to maintain the ADF at 50 000 personnel will absorb most of the DRP savings and will require an estimated annual reinvestment of \$649 million from 2003–04.



Canberra ACT
5 October 2001

P. J. Barrett
Auditor-General

Appendices

Appendix 1

DER Findings and Recommendations

As indicated in chapter 1, the report of the Defence Efficiency Review (DER) formed the basis for the Defence Reform Program. Set out below are the findings and recommendations of the DER report,⁵⁸ together with their status at the conclusion of the DRP as reported by OEB in March 2001.⁵⁹

	FINDINGS AND RECOMMENDATIONS	CURRENT STATUS
Strategic Settings		
F1	The end of the Cold War has made Australia's regional strategic circumstances more complex, uncertain and demanding. Australia's need for military capabilities remains at least as high today as it has been over the past twenty-five years.	Consideration Complete—Update: Reflected in the White Paper [<i>Defence 2000—Our Future Defence Force</i> , December 2000].
F2	If we are to remain confident that we could defeat any credible attack against Australia, our capabilities need to grow to keep abreast of the unprecedented growth and sophistication of military capabilities within the region.	Consideration Complete—Update: Reflected in the White Paper.
F3	Better planning and better management are essential components of our future defence capability.	Unchanged
F4	To take advantage of our strategic geography and the existing strengths of our defence forces and our nation, we need to build an increasingly technology-intensive defence force and, most importantly, organise our forces so that they can operate as a single, joint force.	Consideration Complete—Update: Reflected in the White Paper.
F5	Finding and redistributing savings to warfighting capability will be a major step forward. However, it is likely that more overall resources (ie a higher proportion of Gross Domestic Product) will need to be allocated to Defence in the future.	Consideration Complete—Update: The need for additional overall resources reflected in the White Paper.

continued next page

⁵⁸ *Future Directions for the Management of Australia's Defence—Report of the Defence Efficiency Review*, 10 March 1997.

⁵⁹ Organisational Effectiveness Branch *The Defence Reform Program Internal Review and Lessons Learned—March 2001*.

	FINDINGS AND RECOMMENDATIONS	CURRENT STATUS
Higher Defence Arrangements		
F6	A pervasive view exists that the Defence Organisation is not functioning at its optimum level.	Consideration Complete—Update: The organisational renewal agenda aims to build the Government's confidence in the way Defence does business and to improve the quantity of Defence's non-operational performance.
F7	The Chief of the Defence Force and the Secretary to the Department of Defence must be unambiguously in charge of the Defence Organisation.	Consideration Complete—Update: A new Ministerial structure to the Secretary and the Chief of the Defence Force was issued in 2000.
F8	The ways in which the Chiefs of the three Services exercise their responsibilities have changed considerably and the Review discerned substantial differences of view as to current arrangements, which must be resolved.	Consideration Complete—Update: New Group Head Charters have been issued and were signed 22 December 2000.
F9	The three Service Chiefs are pre-eminently the best advisers on their single Service capabilities and possible contributions to contingencies. Accordingly, their role within the strategic structure needs to be enhanced.	Consideration Complete—Update: The responsibilities of the Service Chiefs are set out clearly in their Charters.
F10	A balanced approach to defence requires processes that encourage consultation and reconcile diverse views in a timely manner, and lead to clear decisions and accountability for action. Defence appears to have too many committees with too many members.	Consideration Complete—Update: In addition to the action reported, the top committee structure has been revised under R7 as part of the new governance arrangements under the Organisation Renewal agenda.
R1	The Defence Organisation should be organised for war and adapted for peace.	Action Complete
R2	The diarchic relationship between the Secretary and the CDF should be retained, with a clearer definition of those functions that are solely the responsibility of the Secretary, those that are solely the responsibility of the Chief of the Defence Force, and those which must be shared.	Action Complete—Update: The new Directive from the Minister to the Secretary and the Chief of the Defence Force clearly defines their separate and joint responsibilities.
R3	Directives to the Secretary to the Department of Defence, CDF and the Service Chiefs should be along the lines of the drafts at Annex B to this [DER] Report. Directives to the Service Chiefs should be issued by the CDF.	Action Complete—Update: The Charters for the Service Chiefs reflect the structure of the new Ministerial Directive.

continued next page

	FINDINGS AND RECOMMENDATIONS	CURRENT STATUS
Higher Defence Arrangements (<i>continued</i>)		
R 4	The separate identities of the three Services should be retained.	Action Complete—Update: As a result of the Defence Matters reorganisation as part of the organisational renewal agenda, the status of the Services has been enhanced by formally recognising the Service Chiefs as Output Managers.
R 5	Collocation and integration of staffs should be progressed including the creation of a single authoritative joint policy staff at the strategic level within the Defence Organisation.	Action complete—Update: Collocation and integration of policy staff has been improved with the occupation of the new Russell Offices. Under the organisational restructure from 1 July 2000, the Defence Headquarters, as a separate organisational entity, has ceased to exist.
R 6	The function of longer-term resource analysis should return to the central policy and planning area.	Action Complete—Update: Under the organisational renewal agenda, a Chief Finance Officer's Organisation has been created to drive forward the business strategy for Defence, which includes long term Defence planning and resource analysis.
R 7	The Chiefs of Staff Committee and a Defence Management Committee should be retained to provide high level policy and Management guidance to the Defence Organisation.	Action Complete—Update: A revised government structure is in place as a result of the organisational renewal agenda. The new structures incorporate the Defence Committee, the Chiefs of Staffs Committee, and the Defence Capability and Investment Committee. Greater management oversight is also in place through the Defence Audit Committee and the Minister's Defence Improvement Committee both of which incorporate external members.
Management and Finance		
R 8	The authority for operational managers to move resources between inputs to achieve outputs should be further devolved.	Action Complete—Update: The new Defence business model introduced as part of the organisational renewal agenda strengthens the focus of accountability in the delivery of outputs.

continued next page

	FINDINGS AND RECOMMENDATIONS	CURRENT STATUS
Management and Finance (continued)		
R 9	The Forces Executive and Strategy and Intelligence Programs should be abolished and replaced by a Defence Headquarters Program, incorporating head office activity, comprising the CDF and the Secretary, VCDF and DEPSEC S&L and their staffs.	Action Complete—Update: As part of the organisational renewal agenda, Defence has restructured along Output Executive, Owner Support Executive and Enabler Executive lines to make clearer the accountabilities of executives.
R 10	The number of headquarters and personnel employed at the operational level of command should be reduced.	Carried forward to Continuous Improvement: DRP Initiative SC15 to be carried forward to Continuous Improvement.
R 11	The Inspector General Organisation should become an Executive and report directly to the Secretary and the CDF.	Action Complete—Update: The Inspector General is an owner executive function with direct access to the Secretary and CDF. The position is also strengthened by access to a Defence Audit Committee with an external Chair and other external members.
R 12	The long-term justification for retaining the Deputy Secretary Budget and Management position, in its present form, should be examined.	Action Complete—Update: The restructuring which took place on 1 July 2000 under the organisational renewal agenda, saw the responsibilities of the former Deputy Secretary Corporate dispersed to the heads of new organisational entities, principally the Chief Finance Officer and the new Deputy Secretary Corporate Services.
R 13	<p>The top level Defence Program structure should be realigned along the following lines.</p> <p>Program / Program Authority: Defence Headquarters / Deputy Secretary Strategy and Intelligence, VCDF Navy / Chief of Navy Army Chief of Army Air Force / Chief of Air Force Intelligence / Deputy Secretary Strategy and Intelligence Acquisition / Chief Defence Acquisition Science and Technology / Chief Defence Scientist Logistics / Commander Support Defence Estate / Head, Defence Estate Executive Personnel / Head, Personnel Executive Education and Training / Commandant, Australian Defence Force Academy Administration / Deputy Secretary Budget and Management</p>	<p>Action Complete—Update: Defence has restructured along the following lines to improve the output focus and ensure alignment with Government direction and policy:</p> <p>Output Executives —HQ Australian Theatre, Navy, Army, Air Force, Strategy, Intelligence.</p> <p>Owner Support Executives —Vice Chief of the Defence Force —Chief Finance Officer —Defence Personnel Executive —Public Affairs and Corporate Communication —Inspector General —Defence Science and Technology Organisation Enabling Executives —Defence Materiel Organisation —Corporate Services</p>

continued next page

	FINDINGS AND RECOMMENDATIONS	CURRENT STATUS
Strategy and Intelligence		
F11	A greater emphasis should be placed on the production of longer term strategic analyses.	Consideration Complete—Update: The White Paper represents the culmination of efforts to improve long term strategic capabilities and resource planning.
Capability Development		
F12	Better coordination is required of all the different components that create a new capability or enhance an existing capability (eg. Personnel, tactics, doctrine, maintenance and repair systems).	Consideration Complete—Update: Under the organisational renewal agenda, there is a strengthened focus on whole-of-capabilities, whole-of-life issues in the assessment of investment proposals.
R14	There is a need for more advanced modelling and simulation to be applied to capability development in the ADF.	Action Complete—Update: The Australian Defence Simulation Office, headed by DGSIM, was established on 25 February 2000.
R15	A Defence Capability Committee (DCC), comprising DEPSEC S&I (Chair), VCDF and the Chief Defence Acquisition (CDA) should approve major projects over \$100 million, the overall program of lesser projects, and such lesser projects as are deemed sufficiently sensitive or contentious. For projects with special difficulties, it may be appropriate to coopt CDS to assist in the analysis of trade-offs and the relevant Service Chief. The DCC should review the Unapproved Capital Equipment (Pink Book), Approved Capital Equipment (White Book), and Facilities (Green Book) together annually.	Action Complete—Update: Under the organisational renewal agenda, a new committee, the Defence Capability and Investment Committee considers major capability proposals. New accountability arrangements require the CDF, the Deputy Secretary strategy, the Chief Finance Officer and the Under Secretary Defence Material to sign off on all major projects. Capability development plans are also addressed in the context of the Defence Plan, which is also considered by the Committee.
R16	The Concepts and Capabilities Committee, the Force Structure Policy and Programming Committee and the Defence Source Definition Committee should be disbanded and replaced with competent staff work and ad hoc meetings if necessary.	Action Complete—Update: The Best Practice Business Management Branch have disestablished the Defence Source Selection Board (DSSB) and are providing guidance for revising the Major Capital Equipment Source Selection Process.
R17	The Defence Management Committee should ratify significant decisions made by the Defence Capability Committee.	Action Complete—Update: The new committee structure and the new planning arrangements give visibility of decisions to the Defence Committee and Government more often in the decision cycle.

continued next page

	FINDINGS AND RECOMMENDATIONS	CURRENT STATUS
Capability Development (<i>continued</i>)		
R18	The CDA should be responsible for developing the cash flows and project cost estimates and for approving these in the Organisation's not yet approved program of Major Capital Projects—the Pink Book.	Action Complete—Update: Following the merger of the Defence Acquisition Organisation with the Defence Support Command, the Defence Materiel Organisation is headed by USDM. Projects are now considered by the Defence Capability Improvement Committee (DCIC).
Acquisition		
F13	While many specialist aspects can be outsourced, the core procurement task must be internal.	Consideration Complete
F14	New procurement approaches should be adopted in the acquisition of software intensive systems.	Action Complete—Update: Implementation ongoing. A software Acquisition Reform Program has been established to improve existing standards and apply continuous improvement to software acquisition and maintenance. The information is included in the Defence Materiel Knowledge System.
R19	The Defence Acquisition Organisation should be retitled as the Defence Acquisition Executive and its head as the CDA.	Action Complete—Update: The Defence Acquisition Organisation has been merged with Support Command Australia and is now called the Defence Materiel Organisation. The Head of the Organisation is called the Under Secretary Defence Materiel.
R20	Military staffing in the Acquisition Executive should be reduced from about 30 per cent to about 10 per cent. For Colonel (equivalent) and higher levels, a posting to the Acquisition Executive should be only considered if the individual has served in the organisation at least once before at a lower rank.	Carried forward to Continuous Improvement . The plans for reductions in staff were delayed by the decision to maintain an ADF of 50,000. The planned reduction of 460 was reduced to 278. The final figures are all under review with the formation of the DMO, which is an amalgamation of Support Command and the Acquisition Organisation. Rationalisation is under way.
R21	CDA should be the employing delegate for all staff employed in the Defence Acquisition Executive.	Action complete

continued next page

	FINDINGS AND RECOMMENDATIONS	CURRENT STATUS
Acquisition (<i>continued</i>)		
R22	The Acquisition Executive should be reorganised into functional groups along the following lines: - Surface ships; - Submarines; - Land vehicles, guns and engineering equipment; - Aircraft and related systems; - Communications, command and control and electronic warfare; and - Missiles and ammunition.	Action complete—Update: The new Defence Materiel Organisation created under the organisational renewal agenda is structured along the following lines: Electronic Systems; Maritime and Ground; and Aerospace.
R23	The Acquisition Executive as a whole should be collocated, with consequent savings of 15 to 20 per cent.	Action Complete—Update: With the creation of the Defence Materiel Organisation (DMO), the strategy to collocate DAO fully has now changed with the requirement to locate DMO personnel close to its customers.
Industry		
F15	A fundamental element of defence policy for industry should be to use the widest possible range of industrial support in peace because that will be necessary in war.	Consideration complete
F16	Defence should involve local industry, using competition and all other tools at its command (mainly the timing and structure of demand) to ensure its suppliers are seeking the maximum possible competitiveness through innovation and other efficiency measures.	Consideration complete
R24	The through life cost of ownership of equipment should be competed rather than only the cheapest initial acquisition cost.	Action complete
R25	Industry Involvement and Contracting Division should be disbanded and industry specialists closely integrated into acquisition functional groups.	Action Complete—Update: Specialists closely integrated into acquisition functional groups as part of the DMO rationalisation.
R26	Defence Industry Development funds should only be earmarked for requirements studies and development projects. These funds should be administered by the industrial cells in the functional groups of the Acquisition Executive and DSTO, with advice from the Capability Development staff.	Action Complete—Update: The Capability Development Advisory Forum established in 1998 meets twice per year. Working Groups aligned to the four capability development environments (Maritime, Land, Aerospace and C3I) have been formed and report back to the forum regularly.

continued next page

	FINDINGS AND RECOMMENDATIONS	CURRENT STATUS
Industry (continued)		
R27	A small, dedicated export unit, augmented as appropriate, and headed by a marketing expert from industry on a fixed term secondment, should be established.	Action Complete—Update: Export Advisory Group now provides a point of contact and support for Australian industry and the ADF.
R28	The cost effectiveness of the overseas Defence Trade Commissioners and related staff overseas should be examined.	Action Complete—Update: The Trade Commissioners in Bangkok, Kuala Lumpur, Jakarta: Defence Industry liaison positions in Washington & London have been abolished.
R29	The process of privatisation needs completing with the sale of the Government's equity in Australian Defence Industries and the Australian Submarine Corporation.	Action Complete—Update: ADI has been sold but the Government has bought the Australian Submarine Corporation. Sale of the Submarine Corporation is being progressed.
Science and Technology		
F17	A technological edge remains fundamental to our defence aims and DSTO needs to retain its overall familiarity and greater depth in areas of particular concern.	Consideration Complete
R30	DSTO should develop further its advanced modelling and simulation capability.	Consideration Complete
R31	There should be a program of concept or technology demonstrators, especially in the fast-moving high-technology areas.	Action Complete—Update: The Capability and Technology Demonstrator policy paper was further refined by the Capability Forum (CF) in 1999. Currently, five CTDs are seeking approval for inclusion in the 2001–02 Defence Budget. The total expenditure on these five CTDs is \$12.12m, which brings the total expenditure on CTD development in 2000–01, including the CTDs from previous years, to \$19.692m. The endorsement of these CTDs will see a total of 19 CTDs approved since July 1998.
R32	All test and evaluation functions in the Services should be placed in the Science and Technology Program as an integrated unit, where they should be rationalised and used with a greater degree of "user pays".	Action Complete—Update: Test & Evaluation function including AEA Test & Evaluation Ranges and DSTO test facilities was market tested and successfully won by an In-House-Option bid.

continued next page

	FINDINGS AND RECOMMENDATIONS	CURRENT STATUS
Facilities		
R33	A Defence Estate Executive should be responsible for all 'building owner' functions, which would be managed on a national basis.	Action Complete—Update: - Strategic plan has been developed.
R34	A system of internal rents should be introduced to change the culture that facilities are a 'free good'. This will expose the full cost of ownership and encourage a more business-like approach to holding assets.	Carried forward to Continuous Improvement, in the context of the drafting of Customer Supply Agreements which will be available at the end of March 01.
Logistics		
R35	A military Support Command arrangement should be established, analogous to Commander Australian Theatre, with the specific objective of reducing the size of organisations providing logistic and administrative support.	Action Complete—Update: Support Command amalgamated with DMO. A Commander Joint Logistics has been established with responsibility for Operational Logistics. The equipment support elements of Support Command are being integrated with the acquisition elements to establish a unified whole-of-life management.
R36	The value of the ADF inventory should be reviewed to ensure its accuracy.	Action Complete—Update: SCA devoted considerable effort to revaluing the ADF's inventory under R36 and as a part of the move to the New Defence Resource Management Framework. An amount of \$930m was set aside as a provision to allow for the expected obsolete and surplus items in the consumable inventory. Each Service will be allocated its share of this \$930m for actioning, ie. Mark the items on the applicable IT system for disposal, and then arrange for sale/disposal. Completion of the entire task is not expected before end of 2000–01.
R37	Defence, with the assistance of industry, should develop a more efficient storage and distribution system which can accommodate its operational requirements.	Carried forward to Continuous Improvement—Government is considering Defence Integrated Distribution System. It is expected that an announcement will follow that consideration.

continued next page

	FINDINGS AND RECOMMENDATIONS	CURRENT STATUS
Personnel		
R38	A single Personnel Executive should be formed with the specific intent of achieving greater commonality, integration and efficiency in personnel administration and management amongst the three Services and the Department.	Carried forward to Continuous Improvement—The task of streamlining and rationalising the single service and civilian personnel structures is ongoing.
R39	The CDF should be the employing authority for all military personnel. The Secretary to the Department of Defence should be the employing authority for all civilians.	Action Complete
R40	The principle of payment for job type, rather than qualifications held, should be applied more widely and used to determine salaries for individual jobs, rather than the use of variable allowances.	Carried forward to Continuous Improvement—The ADF Pay Structure project has yet to report.
Training and Education		
R41	All basic non-military training, where appropriate, should be merged across the three Services, contract out to recognised civil institutions, and then topped-up on-the-job in military facilities.	Carried forward to Continuous Improvement—Progressive rationalisation of common non-military training under way; decision as to contracting out taken on each rationalisation project.
R42	The availability of the Australian Defence Force Academy (ADFA) to all members of the ADF and to Defence and other civilians to undertake mature age, full-time and part-time studies should be more strongly encouraged.	Carried forward to Continuous Improvement: Expanded use of ADFA, with educational arrangements at ADFA subject to further review by Professor Ian Zimmer, who was appointed by the Minister. Professor Zimmer's report is expected to be considered by the Defence Improvement Committee in July 01.
R43	A review should be conducted of the totality of initial officer entry and training.	Review Complete.
R44	Various high level courses should be merged for their common elements across the Services. Merging and collocating the three Service Staff Colleges, possibly in Canberra, could be undertaken quite quickly. The Joint Services Staff College and the Australian College of Defence and Strategic Studies should be merged and retained in Canberra.	Action Complete: JSSC and ACDSS merged to form the Australian Defence College in 1999 (now Centre for Defence and Strategic Studies), three Services staff colleges merged and collocated as the Australian Command and Staff College at Weston Creek in Jan 01.

continued next page

	FINDINGS AND RECOMMENDATIONS	CURRENT STATUS
Training and Education (<i>continued</i>)		
R45	The responsibility for development of ADF Training and Education Policy should be given to the Commandant, ADFA, in consultation with the Rector, University College, UNSW.	Not proceeded with—ADF education and training policy retained in Defence Personnel Executive (JET, then Defence Education and Training Policy, a branch of DPE).
Administrative Support		
R46	A Defence Administrative Support Executive should be established which would be charged with taking in and rationalising the central and regional administrative structures of the three Services and the Public Service.	Action Complete—Update: The former Defence Corporate Support Group has been absorbed within the new Corporate Services Group.
R47	Legal services should be restructured to confine military officers to military and combat law, with commercial law work being outsourced.	Action Complete.
R48	Medical services need to be pulled together and rationalised, taking account of community expectations and civil arrangements.	Carried forward to Continuous Improvement—Market testing within health continues with initial outcomes not due until late 2001.
Information Management		
R49	A single Defence Information organisation should be established in the medium term with initial division of operational and administrative systems to allow these functions to be quickly rationalised. Expenditure is to remain with the Program Managers.	Action Complete—The former Corporate Information Program, later re-named as the Defence Information Systems Group, has now been absorbed within the new Corporate Services Group.
Implementation		
F18	While there is great enthusiasm for and expectations of change in many areas of Defence, there is considerable resistance in others.	Consideration Complete—The mature experience of Defence Reform Program is that it has not been effective in promoting a culture of change. It has changed the way we work and are organised but the concerns remain. They are being addressed by the organisational renewal agenda and a shift to continuous improvement.
R50	The Secretary and CDF should lead and manage the implementations.	Action complete—Update: See lessons learned in DRP Final Report.

continued next page

	<i>FINDINGS AND RECOMMENDATIONS</i>	<i>CURRENT STATUS</i>
Implementation (<i>continued</i>)		
R51	Line managers, suitably assisted by a small Implementation Team comprising some members of the Review Teams, should be responsible for preparing, committing to and implementing detailed plans in their own areas.	Action Complete—Implementation teams disbanded once implementation under way in Groups. See lessons learned in DRP Final Report.
R52	A small, special group should be created within the Implementation Team to coordinate personnel adjustments and liaise with personnel authorities.	Action Complete—Update: Personnel aspects of initiatives were resolved as part of the setting of savings targets. Ongoing arrangements were inadequate. See lessons learned in DRP Final Report.

Appendix 2

OEB Lessons Learned and Recommendations

Set out below are the sections on 'lessons learned' and recommendations in the OEB report on DRP.⁶⁰

Lessons Learned

The Defence Reform Program provides many lessons for the future. In some cases they are already being pursued in the Defence Renewal Agenda instituted by the Chief of Defence Force and the Secretary.

Global reform is difficult to achieve in a savings exercise. From the moment the decision was made to let Group managers manage and report against gross savings targets, the Defence Reform Program lapsed into a savings exercise and reported as such. There was little success in selling the rationale and the necessity for the reforms. Because the Defence Reform Program challenged the Single Service stovepipes in order to achieve savings, beyond those achieved in the first half of the decade, it singularly lacked support in the Services. The necessity for an ongoing cultural reform program independent of any efficiency exercise is necessary. However, given the turnover in senior ranks, great efforts need to be made to reach the middle ranking officers.

The need for an implementation team. The Defence Efficiency Review recommended management by line managers assisted by an implementation team. No such team was established, perhaps because the Defence Management Committee at the time considered that the reform element of the Defence Reform Program had been achieved once the new Organisational structures were in place and the plan established. It was time to let the managers manage. This meant that while the executive received reports on savings, at the working level, there was no repository to maintain the corporate knowledge, no arbitrator for resource issues and no independent oversight. When the need for some central coordination was realised and the DRP SMART established, much of the trail was lost. Many of the problems identified in this and the supporting report would have been resolved by a dedicated implementation management team. The experience reinforces the Renewal Agenda message that we must get better at implementation.

⁶⁰ Organisational Effectiveness Branch *The Defence Reform Program Internal Review and Lessons Learned—March 2001.*

Accountability Arrangements need to be flowed down. Group managers declined to be held responsible for specific initiatives but agreed to be responsible for target savings. The achievement of savings became a resource management issue as part of normal business. Accountability requires individuals not groups and those individuals need to be involved in achieving and reporting the task. Many people performing projects in support of the Defence Reform Program had no real understanding how their activities related to the Defence Reform Program and what the initiative was trying to achieve. Reporting became a financial issue. If reform is intended individuals need to be responsible not groups or organisations.

Personnel reinvestment. The Defence Reform Program envisaged a significant reduction of personnel to fund improved capability. Soon after it was introduced, however, the decision was taken to maintain the full time strength of the ADF at around 50 000. This policy, which ran counter to the aims of the Defence Reform Program, which would have seen the ADF drop to around 42 700 in order to achieve its savings targets. Of the 11 000 personnel to be saved under the Defence Reform Program, 7300 would have to be brought back as a reinvestment to meet the new policy objective. While not an unreasonable proposition if the aim of developing more combat power was achieved, the process needs validation. The reinvestment caused problems in funding of contracts—Service positions saved were invariably reinvested elsewhere by the Service and there was a dispute over how much had been saved—some reinvestment anticipated the savings measure. Without a process to centrally account for reinvestment of personnel, all visibility has been lost. It will take another study of the employment of the workforce as conducted in 1996 to determine how the ADF was reshaped by the Defence Reform Program. For the future, apart from improving personnel systems, there should be a central clearing process for personnel savings and reinvestment.

Management of Overheads. Overheads were originally calculated using the current ready reckoner. The document is out of date and application of overheads inappropriate and it needs to be kept current. Overheads in estate and corporate management do not vary at the same rate as for salaries and direct expenses. While the costs (if accurate) are real another approach is needed to harvest them. It is proposed that corporate overheads be accumulated until there is sufficient change to harvest the overheads in meaningful chunks. It makes little sense to try and harvest the facility operations overheads for saving 10 people in the Russell precinct. Once cumulative changes reach 200 it might be practical.

Incentives for Savings. With a few significant exceptions, Groups reported that initiatives achieved exactly their direct savings or fell short. Only in Defence Corporate Support did savings offered up exceed the target but in that group there was no initiative management to determine how this was achieved.⁶¹ Where initiatives could not be achieved the issue was quickly identified. Similarly, in spite of the requirement to offer up savings in compensation for initiatives not pursued, few Groups did. In the first round of seeking initiatives for a program of continuous improvement, few concrete offers were made. It is believed the reason is that, in the climate of recent years where there have been large unfunded budgetary pressures in many parts of Defence, there is a defensive posture to offering up savings created by the sure knowledge that efficiency, reform, and improvement are all synonyms for budget cuts. Behaviour for the corporate good is not perceived to be rewarded. It is imperative that as part of our cultural change activity and our shift to a program of continuous improvement incentives and reward processes are developed.

Ownership of Change is Vital. The Defence Reform Program was a major crash through program, which did achieve fundamental change in the way Defence was managed and opened up opportunities for efficiencies like no other. However, the opposition of much of the senior and middle management and their negative attitude to it has ensured that it has built resentment rather than change culture. Under these circumstances damage is done and cultural change can be impeded rather than enhanced. This challenge can only be met with an ongoing cultural alignment program. The current renewal agenda has a strong role to play and there is a strong need to move on from the baggage of the Defence Reform Program name.

Accounting for Change. Throughout this [OEB] report and the Enclosure, reference is made to the lack of the ability of our corporate systems to adequately trap data. This matter is currently being addressed but it would be a mistake to assume that given the amount of change evidenced any system would of itself solve the problem. We should adopt a process for major change where resources, personnel and financial are written back to a common account and thence disbursed. Such a process would address many problems of preventing leakage, providing a reinvestment pool and improving transparency of change activity.

⁶¹ No group was required to manage initiatives. Defence Corporate Support did not allocate managers savings targets but set out to rationalise all the activities passed to it without particular reference to any specific objective. To do so it would have needed access to the background papers for the Defence Efficiency Review as there is little detail in the reports.

Improvement is not only a financial measure. While the only measure of improvement is financial other forms of improvement are ignored. In order to communicate the degree of change it would be highly desirable to articulate other measures of success to enable the communication of reform in other measures than purely dollars saved. While dollars are important, the culture of renewal and change need to include other measures of a job well done.

Recommendations

The OEB report made the following recommendations:

- a. The disposition of the Defence Reform Program initiatives in Annex B *[of the OEB report]* be agreed.
- b. That it is noted that the most likely mature outcome of the Defence Reform Program will be a recurrent savings of \$718 million.
- c. That it is noted that a program of continuous improvement is also tasked to deliver savings of \$200m per annum by 2003–04 and the programmed Defence Reform Program savings must be achieved.
- d. As part of a program of continuous improvement, an improved process for accounting for savings be developed.
- e. An incentive regime be developed as part of a program of continuous improvement.
- f. Non-financial performance measures need to be developed and assessed as part of any improvement initiative.
- g. Methods for accounting of overhead savings should be developed to make such harvesting practical.
- h. The Ready Reckoner of Personnel and Overhead Costs be updated.
- i. Greater emphasis be given to the need to identify and report improvement activity both for internal and external consumption both to communicate our efforts and to assist in engendering a culture of renewal.
- k. The Defence Reform Program be considered closed and reporting of outstanding activity be done under the banner of a program of continuous improvement.

Appendix 3

Performance Audits in Defence

Set out below are the titles of the ANAO's previous performance audit reports on Defence operations tabled in the Parliament in the last five years.

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 2000–2001

Environmental Management of Commonwealth Land—follow-up

Audit Report No.8 2000–2001

Amphibious Transport Ship Project

Audit Report No.11 2000–2001

Knowledge System Equipment Acquisition Projects in Defence

Audit Report No.22 2000–2001

Fraud Control in Defence

Audit Report No.26 2000–2001

Defence Estate Facilities Operations

Audit Report No.32 2000–2001

Defence Cooperation Program

Audit Report No.33 2000–2001

ADF Reserves

Audit Report No.41 2000–2001

Causes and Consequences of Personnel Postings in the ADF

Audit Report No.51 2000–2001

ADF Health Services Follow-up Audit

Index

50 000 personnel 11, 12, 15, 23, 37, 39, 48, 50

A

accounting close 11, 21

achievements 11, 12, 14, 16, 19, 23, 29, 36, 37, 39, 44

active content 73

Australian Defence Force (ADF)
11-13, 15, 19, 23, 24, 37-39, 41,
42, 46-48, 50, 56-58, 60-63, 66, 69

C

capability 11, 13, 21-23, 26, 28, 29,
31, 33, 34, 46, 47, 49, 53, 55,
57-60, 66

Changing organisational culture 34

communication 12, 16, 33, 35, 37,
39, 56, 68

continuous improvement 11, 23,
30-32, 35, 40, 56, 58, 67, 68

D

Defence Efficiency Review (DER) 11,
12, 19-22, 25-27, 30, 35, 39, 42,
43, 53, 54, 65, 67

Defence Estate Organisation (DEO)
43, 44

Defence Executive 14, 28, 30, 32

Defence Personnel Executive (DPE)
41, 42, 56, 63

Defence Reform Program (DRP)
11-16, 19, 21-50, 53, 56, 63-68

DRP achievements 23, 29

DRP-SMART 28, 29, 38

E

effectiveness 19, 22, 23, 29, 30,
34-38, 42, 47, 48, 53, 60, 65

efficiency 11, 12, 16, 19, 20, 22, 25,
26, 30, 31, 33-35, 43, 53, 59, 62,
65, 67

electricity savings 41, 43

environment 13, 15, 30, 35-37, 39, 45

F

focus on savings 33, 35

G

Group Managers 14, 27, 28, 30, 65,
66

I

implementation 12-16, 20-22, 24-40,
43, 45, 46, 48, 50, 58, 63-65

initiatives 11, 12, 14-16, 21-30,
32-34, 36-45, 47, 49, 64, 66, 67,
68

J

Joint Committee of Public Accounts
and Audit 24

L

lessons learned 29, 30, 35-38, 40-42,
47, 48, 53, 63-65

M

management information systems
15, 36, 50

Minister for Defence 19, 21-23, 40

monitoring 14, 24, 25, 27-29, 31-33,
47

O

OEB report 5, 29, 30, 31, 33, 35, 36,
37, 38, 40, 47, 65, 68

One-off savings 5, 43

one-off savings 11, 13, 15, 20, 21, 24,
26, 29, 43, 44, 45

Organisational Effectiveness Branch
(OEB) 23, 24, 29-33, 35-38, 40-42,
44, 45, 47, 48, 53, 65, 67, 68

organisational structure 11, 15, 23,
35, 36, 39

overhead savings 40, 42, 68

P

planning 11, 12, 14, 16, 22-27, 29,
31-34, 48, 53, 55, 57, 69

R

recommendations 19-22, 24, 26, 27,
30, 53-65, 68

Reconciliation of savings and
reinvestment 48

recurrent savings 15, 20, 22, 24, 25,
29, 40, 68

reinvestment 12-15, 23, 24, 28, 29,
31, 33, 36, 37, 39, 46-50, 66, 67

Resources and Financial Programs
Division (RFP) 25-29, 32

S

School of Technical Training 41, 42

sharp end 21, 22, 46

spreadsheet 14, 25-27, 32, 40, 43

stovepipes 11, 23, 30, 65

W

White Paper 35, 53, 57

Series Titles

Titles published during the financial year 2001–02

Audit Report No.15 Performance Audit
Agencies' Oversight of Works Australia Client Advances

Audit Report No.14 Performance Audit
Client Service Initiatives Follow-up Audit
Australian Trade Commission (Austrade)

Audit Report No.13 Performance Audit
Internet Security within Commonwealth Government Agencies

Audit Report No.12 Financial Control and Administration Audit
Selection, Implementation and Management of Financial Management Information Systems in Commonwealth Agencies

Audit Report No.11 Performance Audit
Administration of the Federation Fund Programme

Audit Report No.10 Assurance and Control Assessment Audit
Management of Bank Accounts by Agencies

Audit Report No.9 Performance Audit
Learning for Skills and Knowledge—Customer Service Officers
Centrelink

Audit Report No.8 Assurance and Control Assessment Audit
Disposal of Infrastructure, Plant and Equipment

Audit Report No.7 Audit Activity Report
Audit Activity Report: January to June 2001
Summary of Outcomes

Audit Report No.6 Performance Audit
Commonwealth Fisheries Management: Follow-up Audit
Australian Fisheries Management Authority

Audit Report No.5 Performance Audit
Parliamentarians' Entitlements: 1999–2000

Audit Report No.4 Performance Audit
Commonwealth Estate Property Sales
Department of Finance and Administration

Audit Report No.3 Performance Audit
The Australian Taxation Office's Administration of Taxation Rulings
Australian Taxation Office

Audit Report No.2 Performance Audit
Examination of Allegations Relating to Sales Tax Fraud
Australian Taxation Office

Audit Report No.1 Financial Statement Audit
*Control Structures as part of the Audits of the Financial Statements of Major
Commonwealth Entities for the Year Ended 30 June 2001*

Better Practice Guides

Rehabilitation: Managing Return to Work	Jun 2001
Internet Delivery Decisions	Apr 2001
Planning for the Workforce of the Future	Mar 2001
Contract Management	Feb 2001
AMODEL Illustrative Financial Statements 2001	May 2001
Business Continuity Management	Jan 2000
Building a Better Financial Management Framework	Nov 1999
Building Better Financial Management Support	Nov 1999
Managing APS Staff Reductions (in Audit Report No.47 1998–99)	Jun 1999
Commonwealth Agency Energy Management	Jun 1999
Corporate Governance in Commonwealth Authorities and Companies–Principles and Better Practices	Jun 1999
Managing Parliamentary Workflow	Jun 1999
Cash Management	Mar 1999
Management of Occupational Stress in Commonwealth Agencies	Dec 1998
Security and Control for SAP R/3	Oct 1998
Selecting Suppliers: Managing the Risk	Oct 1998
New Directions in Internal Audit	Jul 1998
Life-cycle Costing (in Audit Report No.43 1997–98)	May 1998
Controlling Performance and Outcomes	Dec 1997
Management of Accounts Receivable	Dec 1997
Protective Security Principles (in Audit Report No.21 1997–98)	Dec 1997
Public Sector Travel	Dec 1997
Audit Committees	Jul 1997
Core Public Sector Corporate Governance (includes Applying Principles and Practice of Corporate Governance in Budget Funded Agencies)	Jun 1997
Administration of Grants	May 1997
Management of Corporate Sponsorship	Apr 1997

Telephone Call Centres	Dec 1996
Telephone Call Centres Handbook	Dec 1996
Paying Accounts	Nov 1996
Performance Information Principles	Nov 1996
Asset Management	Jun 1996
Asset Management Handbook	Jun 1996
Managing APS Staff Reductions	Jun 1996