



**Australian Government**

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**Defence**

**Joint Committee of Public Accounts and Audit**

**Inquiry into the Failed Visa Privatisation Process and the  
Implementation of Other Public Sector IT Procurements and  
Projects**

**Department of Defence**

**Submission**

**April 2024**

## Introduction

Defence thanks the Joint Committee of Public Accounts and Audit for the invitation to make a submission to its Inquiry into the failed visa privatisation process and the implementation of other public sector IT procurements and projects.

While Defence did not have a role in the procurement of the Permissions Capability, on 29 February 2024 the Committee expanded the scope of the inquiry to consider other IT procurement processes across the public sector. The scope of this inquiry submission focuses on item 3a of the revised Terms of Reference, which refers to lessons arising from an Auditor-Generals' Report titled *Defence's Administration of Enabling Services – Enterprise Resource Planning Program: Tranche 1 2021-22*.

## Enterprise Resource Planning (ERP) Program

The Defence Enterprise Resource Planning (ERP) Program - ICT2283 (the Program) is being delivered by the Defence Digital Group and is part of the Defence Business Integration Program. The Program reinforces the Government's commitment to improving Defence enterprise business processes by implementing reform across Defence to maximise business commonality and effectiveness. It aims to modernise, integrate and transform critical functions across logistics, engineering, maintenance, finance, human resources, security and estate management.

Defence's objective is to standardise inefficient and overlapping business processes through the delivery of an ERP capability based on the Enterprise Application Integration Software, SAP. The Program is simplifying, automating and integrating Defence business processes to better coordinate resources and activities.

The ERP capability includes multiple SAP products that, in replacing many legacy systems, must interface with other Defence systems. For any particular business function, both SAP and non-SAP processes must interact to complete the end-to-end ERP function.

The ERP capability will affect every part of the Defence organisation with an estimated 80,000 users interacting with the new system, covering more than 107 locations in Australia and 41 international locations. This is the most significant business transformation initiative ever undertaken by Defence.

The Program is being rolled out over a number of years in a series of stages, called 'tranches'. Defence priorities have set the order in which systems and processes will be replaced.

- **Tranche 1 Release 1A (R1A)** delivered an early release of finance foundations providing an enhanced reporting capability.
- **Tranche 1 Release 1B (R1B)** will provide a logistics and Defence material maintenance capability, and establish the remaining foundations for the Defence ERP transformation across finance, procurement and human resources.
- **Tranche 2** will see the introduction of a simplified, integrated and standardised case management system.
- **Tranche 3** will build on the capability delivered in tranches 1 and 2, and will include multiple releases across Tranche 3. The details of these releases are still in planning.

## ERP Australian National Audit Office (ANAO) Audit Findings

In June 2021 the ANAO completed a performance audit of Defence's Administration of Enabling Services - Enterprise Resource Planning Program: Tranche 1<sup>1</sup> (the Audit). While the Audit found the administration of the program largely effective, the ANAO noted there was scope for Defence to improve program governance arrangements, in particular the management of probity and conflicts of interest in decision-making arrangements for various contracts. Defence has taken actions to address the areas for improvement identified by the Audit, closing out the five recommendations.

Further to the management responses outlined below, Defence has undertaken additional activities to improve the resilience and effectiveness of the Program's governance. Specifically, Defence has enhanced Commonwealth oversight and strengthened governance arrangements through the appointment of a Senior Executive Service Band Two Program Director to lead delivery of the Program, who has extensive experience in delivering complex, large scale, technology driven transformational change programs within the Australian Public Servant (APS). This position reports directly to the Defence Chief Information Officer. Commonwealth Official positions have also been established in key roles, including a Deputy Program Director (Australian Defence Force One Star), an APS Commercial Director and an APS Operations and Program Management Office Director. Furthermore, in 2022 Defence appointed an Australian Defence Force Two Star Major General as the Head of Business Transformation to focus on business readiness and organisational change management required for successful Program delivery.

### Recommendation 1

The Department of Defence should review arrangements for its internal reporting and its reporting to government on ERP program risks, to ensure there is the consistency in program risk reporting.

#### *Management Response*

The Program has adjusted its risk management framework and governance approach to align with Defence governance arrangements. Project level risks are reviewed weekly in accordance with project management governance cycles and Program level risks are now elevated to the ERP Program Steering Group (PSG) for review on a monthly basis. The monthly ERP PSG was established in December 2021 and is chaired by the Associate Secretary.

The ERP PSG provides enhanced oversight of the Program and enables the Associate Secretary, as the Capability Manager, in partnership with other Program Sponsors and Delivery Groups, to monitor risks and quickly resolve emerging issues that may impact the Department's ability to deliver and integrate the ERP capability. This steering group is supported by the ERP Advisory Group (EAG), which is co-chaired by the Program Director and Head of Business Transformation. The Program has also implemented a dedicated risk management resource unit within its Program Management Office that manages the governance of risk items, independently of the individual risk owners, so they can exercise independent judgement and ensure there is consistency in program risk reporting. The newly implemented ERP Risk Management Framework requires either an APS or ADF staff member to be the risk approver.

In addition to the internal risk management activities, Defence has provided various updates to Government on the Program through Integrated Investment Program Biannual Updates and more recently through the Defence Business Integration Program Annual Update in late 2023. Additionally, since February 2023 the Program has continued to report risks to the Minister for Defence Industry through the monthly Project of Interest reports, and regularly briefs the Assistant Minister for Defence who oversees Defence ICT projects.

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<sup>1</sup> [Defence's Administration of Enabling Services — Enterprise Resource Planning Program: Tranche 1 | Australian National Audit Office \(ANAO\)](#)

## Recommendation 2

The Department of Defence:

- a. review its probity arrangements for the Enterprise Resource Planning Program, particularly with respect to its use of contractors, and apply lessons learned to similar programs; and
- b. develop more robust processes for on-boarding contractors, including ensuring awareness of probity and information security requirements.

### *Management Response*

Defence completed a management review of ERP probity arrangements and implemented a Contractor Integrity Framework. To complement the oversight provided by the PSG and the EAG, regular probity advisory engagements are undertaken to ensure delegations for procurement activities are only exercised by those APS or ADF staff members that have no conflict of interest. Conflicts of interests are declared on an annual basis and as required for special purpose activities. These improvements bring the Program into alignment with Defence's Contractor Integrity Framework. Defence Digital Group is implementing a reduction in the reliance on contractors to ensure more project management activities are being undertaken by APS or ADF personnel.

In addition, the Program has implemented a robust process for on-boarding all ERP Program staff, including contractors. This includes a comprehensive handbook which provides high level information, processes, tools, standards, templates and frameworks used in the day-to-day running of the Program to ensure consistency in operations.

## Recommendation 3

Defence review Enterprise Resource Planning program decision-making arrangements to ensure that they:

- a. are clearly and consistently set out in program guidance documentation;
- b. avoid real and perceived conflicts of interest where contractors are potentially involved in decision-making regarding their contracts, including contract variations with financial consequences for the Commonwealth; and
- c. enable delegations to be exercised by individuals who are in positions where they are able to make independent judgements.

### *Management Response*

The Terms of Reference for the ERP PSG articulates the decision-making arrangements for the Program and the authorities of the Steering Group. The authorities include, but is not limited to, decisions related to ERP Program priorities, allocation of funding and other resources, and resolution of issues raised by or arising among the Program stakeholders. Where a decision cannot be agreed by the ERP PSG, or will have a major impact on the business operations of one or more business areas within Defence, the decision must be escalated to the Defence Enterprise Business Committee (EBC).

The Steering Group subscribes to the conflict of interest principles set out in Defence policy: Defence Instruction (General) 25-6 *Conflicts of Interest and Declarations of Interest*. For agenda items that consider matters that may be subject to conflict of interest determination, the Chair will seek declarations of interests from all members present. A member who has a material personal interest in any matters due for consideration must give the other Committee members notice of the interest. The notice must give details of:

- a. the nature and extent of the interest; and
- b. the relation of the interest.

The details are then recorded in the outcomes of the meeting and the Secretariat must retain all details of interests declared and all standing notices of interest. In addition, all contractors working on the Program are required to declare Conflicts of interests on an annual basis and as required for special purpose activities. The improvements bring the ERP Program into alignment with Defence's Contractor Integrity Framework.

#### **Recommendation 4**

The Department of Defence should review contract governance arrangements to ensure timesheet approvals are made by personnel with adequate visibility of work performed.

##### *Management Response*

Defence has updated and implemented contract governance processes to ensure timesheets are approved by APS or ADF personnel only.

#### **Recommendation 5**

The Department of Defence should develop benefits realisation plans for each Enterprise Resource Planning program Tranche and the program overall.

##### *Management Response*

A comprehensive Benefits Management Strategy and follow on Benefits Realisation Plan (BRP) for the Program was approved by the EBC, chaired by the Associate Secretary, on 23 August 2023. The BRP outlines the activities that ensure the realisation of benefits through mapping and tracking five (5) Enterprise level benefits and eight (8) operating level benefits that are enabled by the delivery and ongoing implementation of ERP. The first biannual update of progress against the BRP is currently scheduled for consideration at the June 2024 EBC.

#### **Conclusion**

The Audit into the Program provided Defence with a reference point to effect a course correction, improving the overall governance approach for the program. The Audit report served as a timely reminder that risk is a dimension that cannot be outsourced and that complex multi-vendor IT programs require strong Commonwealth leadership and oversight to ensure this key strategic capability is delivered and value for money is being achieved throughout program delivery.

The corrective actions taken by Defence, in accordance with the recommendations provided by the ANAO, have improved the overall position of the Program and its ability to deliver foundational capabilities that underpin key elements of the *Defence Strategic Review* (DSR).

Defence welcomes the Committee's consideration of its submission.