

Summary

- 1.1 The importance of effective risk management was the key theme that emerged from this inquiry. The Committee emphasises that risk management is vital to reduce risks to the Great Barrier Reef from permitted activities and to reduce financial risk for Australian taxpayers in terms of major Defence spending.
- 1.2 Effective risk management in the context of better practice regulation was emphasised in the Committee's inquiry into the audit of Great Barrier Reef Marine Park permits and approvals. The Committee notes the seriousness of the Auditor-General's overall conclusion that shortcomings in the Great Barrier Reef Marine Park Authority's (GBRMPA) regulatory processes and, more particularly, its regulatory practices have undermined the effectiveness of the permit system as a means of managing risks to the Marine Park. The Committee was strongly concerned about this finding, given the environmental, social and economic significance of the Great Barrier Reef Marine Park and its World Heritage listing. The Committee therefore recommended that GBRMPA:
 - appropriately accelerate its projected timeframe for implementation of the audit recommendations in the Australian National Audit Office's (ANAO) Report No. 3 and report back to the Committee within six months on how it has achieved this, including details of new implementation dates and milestones
 - implement more effective performance information, including targets, for permit application processing, assessment and approval timeframes, and continue to monitor and publicly report on performance outcomes in this area
 - report back to the Committee at 18 months from the tabling of the Committee's report on whether it has met the new implementation dates and milestones in response to recommendation 1, and on implementation details and dates achieved for a range of initiatives

related to permit application assessment, compliance management and response to non-compliance

1.3 Effective risk management in the context of procurement was emphasised in the Committee's inquiry into the audit of Australian Defence Force's medium and heavy vehicle fleet replacement program (Land 121 Phase 3B). The Committee notes the failed first tender process resulted in an estimated seven-year delay to delivering new vehicles and a need to sustain the existing fleet far beyond initial specifications. The Committee expressed strong disappointment in this flawed process and costly outcome. It is difficult to understand how such fundamental mistakes as poor test and evaluation (T&E) of the proposals, significantly flawed value-for-money assessments, and failure to inform the Minister of the significant capability and technical risks could be made. Defence presented a strong argument that the lessons of the failed first tender process have been learned, and the Committee acknowledged that the reforms underway as part of the First Principles Review could minimise the risks of similar issues reoccurring. However, given the significance of the audit findings, the Committee recommended that:

- Defence provide additional evidence that the lessons learned from this acquisition are being firmly embedded and broadly disseminated through incorporation into standard operating procedures

1.4 Effective risk management in the context of procurement was again emphasised in the Committee's inquiry into the audit of Defence's T&E processes for major equipment acquisitions. The Committee notes that, over a number of years, several ANAO audits and external reviews have identified deficiencies in aspects of Defence's T&E program. Defence have made progress in a number of areas towards implementing recommendations from these reports, but this has taken considerable time. Overall, Defence still needs to improve key aspects of its T&E administration, and to do so in a timely manner. Reforms to T&E competency and training arrangements need to be completed. Further, as the conduct of T&E was distributed across 12 Defence organisations, Defence needs to introduce arrangements to provide a more coordinated, whole-of-Defence T&E governance through enterprise-level advice to senior leaders, integrated T&E policy and procedures, and improved performance measures. To promote continued improvement in T&E of major equipment acquisitions by Defence, the Committee recommended that the department report back to the Committee at 12 months from the tabling of the Committee's report, on:

- how T&E is being coordinated across the department and how this coordination is consistent with the recommended outcomes of the First Principles Review: Creating One Defence (2015)
- key improvements to T&E performance monitoring and reporting
- each element of the ANAO recommendation on T&E competency and training, including the key findings of and actions from the competency and training needs analysis

Background

- 1.5 One of the duties of the Joint Committee of Public Accounts and Audit (JCPAA) is to ‘examine all reports of the Auditor-General ... that are tabled in each House of the Parliament’ and ‘report to both Houses of the Parliament, with any comment it thinks fit, on any items or matters in those ... reports, or any circumstances connected with them ...’¹
- 1.6 In selecting audit reports for inquiry, the Committee considers:
- the significance of the program or issues raised in audit reports
 - the audited agencies response to the audit
 - the potential public interest benefits in conducting an inquiry
- 1.7 The Committee examines a broad range of evidence when determining its comments and recommendations. In addition to the ANAO reports, the Committee receives submissions from audited agencies and the public, and conducts public hearings. To provide broader context, the Committee also considers the relevant public sector frameworks and findings of other relevant reviews, reports and audits.
- 1.8 In this way, the Committee seeks to identify key issues, and recommend actions needed to both remedy any immediate concerns and promote key learnings for future activities.

Relevant public sector frameworks

- 1.9 Key public sector frameworks referenced by the Committee are the relevant sections of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and PGPA Rule 2014, and associated resource management guidance.

1 Section 8 of the *Public Accounts and Audit Committee Act 1951*.

- 1.10 As the primary piece of Commonwealth resource management legislation, the PGPA Act establishes a single system of governance and accountability for public resources. In particular, s16 of the PGPA Act, supported by the *Commonwealth Risk Management Policy* (2014), requires agencies to establish appropriate systems for the management of risk. The goal of the *Commonwealth Risk Management Policy* is to embed risk management as part of the culture of Commonwealth agencies where the shared understanding of risk leads to well informed decision making.
- 1.11 Additional key references for the Committee's inquiry into Audit Report No. 3 (2015-16), *Regulation of Great Barrier Reef Marine Park Permits and Approvals*, include the ANAO Better Practice Guide on *Administering Regulation: Achieving the Right Balance* (2014), which states that risk management is an 'integral component of good regulatory administration' and can be used to 'support regulatory administration, the monitoring and management of regulatory compliance, and the efficient allocation of available resources'.²
- 1.12 Additional key references for the Committee's inquiry into Audit Report No. 52 (2014-15), *Australian Defence Force's Medium and Heavy Vehicle Fleet Replacement (Land 121 Phase 3B)*, include the Commonwealth Procurement Framework through the *Commonwealth Procurement Rules: Achieving Value for Money* (CPRs), Department of Finance (July 2014), issued under the PGPA Act.³ The CPRs focus on achieving value for money through the efficient, effective, economical and ethical use of public resources, and ensuring accountability and transparency in government procurement activities. In terms of management of procurement risk, section 8.2 of the CPRs state that 'relevant entities must establish processes for the identification, analysis, allocation and treatment of risk when conducting a procurement ... Relevant entities should consider risks and their potential impact when making decisions relating to value for money assessments, approvals of proposals to spend relevant money and the terms of the contract'.
- 1.13 Additional key references for the Committee's inquiry into Audit Report No. 9 (2015-16), *Test and Evaluation of Major Defence Equipment Acquisitions*, include Defence's *First Principles Review – Creating One Defence* (April 2015) and the *Defence Capability Development Manual* (December 2014), which
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2 ANAO Better Practice Guide, *Administering Regulation: Achieving the Right Balance* (2014), p. 14. See also Department of Prime Minister and Cabinet, *The Australian Government Guide to Regulation* (2014).

3 The procurement framework for the period covered by the ANAO audit was through the July 2012 *Commonwealth Procurement Rules* and, before that, the *Commonwealth Procurement Guidelines* – each of these documents require procurements to represent value for money for the Commonwealth and encourage competition in procurement.

states that Defence T&E arrangements provide decision-makers with factual information to 'help assess risks to achieving the desired capability. T&E in Defence is a deliberate and evidentiary process applied ... to ensure that a system is fit-for-purpose, safe to use and that Defence personnel have been trained and provisioned with the enduring operating procedures and tactics to be an effective military force'.⁴

4 Defence, 'Introduction to Test and Evaluation', *Defence Capability Development Manual* (December 2014), p. 1.

