



Joint Committee of Public Accounts and Audit

Defence's Implementation of the First Principles Review (Auditor-General Report No.34 of 2017–18)

12 September 2018

Opening Statement by Mr Grant Hehir, Auditor-General for Australia

1. Good morning Chair and committee members. Thank you for the opportunity to appear before the Committee today.
2. The Minister for Defence commissioned the First Principles Review of Defence in August 2014. The Review was designed to ensure Defence was fit-for-purpose and able to promptly respond to future challenges. In April 2015, following government consideration, the Minister for Defence released the report of the Review, entitled *First Principles Review: Creating One Defence*.
3. Although Defence has been subjected to many reviews over the years, the First Principles Review was intended to be an end-to-end review of Defence, considering structures, systems and processes. The Review was to be adopted as the 'road map' for Defence reform for the subsequent five years with no additional reviews of the matters covered by this Review imposed on Defence, particularly within the early years of implementation. The audit was a priority of the Parliament due to the review's significance.
4. The objective of the audit was to assess the effectiveness of Defence's implementation of the First Principles Review. The audit represents the position at the beginning of 2018.
5. We found that Defence had implemented a substantial number of the most important recommendations of the Review—relating to building a strong strategic centre within Defence and reforming the capability development process. The implementation of other

important recommendations—including the reform and consolidation of Defence's Systems Program Offices and enabling services—remained a work-in-progress.

6. Defence had established sound governance arrangements for the implementation of the First Principles Review, which were commensurate with the importance and scope of the activity. The Secretary and Chief of the Defence Force invested substantial time and effort, and were seen by Defence as leading the implementation. Responsibility for implementation tasks was clearly allocated to the most senior leaders in the Defence Groups, the schedule was closely monitored, and reporting to senior management and Government was regular and thorough. Although Defence indicated to the Government that efficiency improvements would be possible, no quantifiable savings have been identified.
7. We also found that Defence had made good progress with a range of significant structural changes and some important legislative changes. There has also been improved engagement with central agencies, but opportunities remained to improve the policy function, especially in regard to ministerial engagement.
8. Achieving full implementation and the intended results of the agenda presented by the Review will require continued focus across Defence for several more years. For example, reform of the Systems Program Offices was expected to run until 2023.
9. At the time of the audit, Defence was not yet in a position to demonstrate that it had achieved all the intended outcomes of the Review. However, at the conclusion of the audit Defence had begun work on evaluating whether its implementation of Review recommendations was achieving the intended outcomes.
10. We made one recommendation: that Defence ensures that its evaluation encompasses all of the recommendations of the First Principles Review and seeks to assess whether the intended outcomes of the Review have been achieved.
11. The audit team and I would be pleased to answer any questions the Committee may have.