



Australian Government

Defence

**Joint Standing Committee on Foreign Affairs,
Defence and Trade**

**Inquiry into the
Auditor General's Report No. 4 21/22 – Defence
Industry Security Program**

Department of Defence

Submission

November 2022

Defence Response

The Joint Standing Committee on Foreign Affairs, Defence and Trade (herein referred to as the Committee) has initiated an inquiry into Defence's compliance with the Auditor General's recommendations arising from the 2021 Australian National Audit Office's (ANAO) Performance Audit of the effectiveness of Defence administration of contractual obligations relating to the Defence Industry Security Program (DISP).

The Committee has sought a formal submission by Defence to their Inquiry on this matter.

In responding to the ANAO's Audit Defence outlined the following¹:

"Defence acknowledges the conclusion that Defence's administration of contractual obligations relating to the Defence Industry Security Program (DISP) is partially effective. Defence agrees to implement all recommendations proposed in the report. To address these recommendations, Defence will continue a program of improvements that will enhance the effectiveness of the DISP, and also commence improvements to strengthen DISP requirements in Defence contracts.

The security of Defence's people, information and assets is vital to ensuring that Defence can deliver critical capabilities. In support of the secure delivery of these capabilities, Defence is working in partnership with defence industry to improve policies, practices and outcomes to securely deliver that capability. Amongst the suite of Government initiatives and regulations intended to shape a secure and resilient defence industry sector, is the jointly developed Defence and Australian Industry Group guide, Working Securely with Defence. This guide supports ongoing efforts to ensure defence industry is equipped with the tools and knowledge to defend against the wide range of security threats that Defence faces.

Defence has received positive feedback from industry regarding the Department's: engagement with industry; activities to expand advice and support available to industry members applying for DISP membership; and faster processing times for DISP applications since the improvement program commenced in December 2020. Defence is confident that it will continue to build on the improvements gained through the first half of 2021, with improved systems, processes and engagement for the DISP.

Furthermore, the DISP Assurance Program Framework, which was implemented across 2020 and 2021, is helping to practically improve security practices for DISP members. The Program periodically checks that DISP members are meeting Defence's security standards, and a cooperative 'uplift' component within the Program supports defence industry to improve security resilience when and where needed."

¹ Auditor General's Report No.4 (2020-21) Defence's Contract Administration – Defence Industry Security Program, page 11, paragraph 22.

In response to the ANAO report Defence initiated a detailed action plan to implement ANAO's six Recommendations. Defence's response to each of the recommendations is outlined below, together with the implementation status of each action as at the date of this Submission. ANAO has visibility of these actions as part of Defence's Audit recommendation reporting regime.

ANAO Recommendation One. The Department of Defence review its Suite of contracting templates to ensure references are to the current DISP requirements set out in the *Defence Security Principles Framework*.

- Defence has closed this item and implemented additional DISP related contract clauses for inclusion in future defence contracting, standing offers, and panel arrangement templates. These new clauses are aligned with the Defence industry security requirements in the *Defence Security Principles Framework*.

ANAO Recommendation Two. The Department of Defence ensure that contract managers receive adequate training and support in the application of *Defence Security Principles Framework* Control 16.1 - Defence Industry Security Program, to aid understanding and compliance.

- Defence has revised its security training courses to assist Contract Managers with the application of *Defence Security Principles Framework* Control 16.1 - Defence Industry Security Program. Defence has also refreshed the Defence Security Service Offer, which provides contract and project managers with comprehensive information on accessing security expertise, support and tools.
- Defence has also developed a decision framework to assist contract managers in determining when DISP membership is required, explain the security benefits of DISP membership, and reinforce the need for contract and project managers to manage security risks specific to their contracted activities.
- Defence has incorporated DISP training into its *Defence Commercial Skilling Framework* and embedded information on DISP into its *Defence Procurement Manual*. Specific policy guidance and training for contract managers and security personnel engaged in defence research and collaboration has been developed and is being implemented.

ANAO Recommendation Three. The Department of Defence assure itself that its current contracts meet DISP requirements, including that: contracts include DISP membership clauses where required; contractors hold the required levels of DISP membership; and, requirements for DISP membership are met by contractors on an ongoing basis.

- Defence has directed all contract managers to include DISP membership clauses where required in new contracts; determine if DISP clauses are needed in existing contracts; ensure contractors hold and maintain required levels of DISP membership; and confirm appropriate measures are being taken to address any potential DISP non-compliance.
- Defence is assessing enhancements to the *My Procurements* contracting tool to support Defence officials in determining if the scope and security risks associated with a procurement requires a successful tenderer to hold a DISP membership. *My Procurements* will also be reviewed to ensure clear guidance is provided to support Defence officials in incorporating appropriate DISP conditions in a resulting contract.

- Defence has included guidance in its *Contract Management Framework* to support managers in monitoring DISP membership compliance by their contractors throughout the term of the contract.

ANAO Recommendation Four. The Department of Defence, consistent with its policy on records management, ensure that supporting documentation for the DISP membership applications is accurate, accessible and auditable.

- Defence has developed standard procedures for management DISP membership applications and assurance activities. A new DISP records management system that is compliant with Defence's records management policy is in development and planned for introduction in 2nd Quarter of 2023.

ANAO Recommendation Five. The Department of Defence fully implement the DISP assurance activities documented in the Defence Security Principles Framework.

- Defence has implemented a *DISP Assurance Framework* that includes a range of review and audit activities, supported by an outreach engagement program to keep DISP members informed of their obligations. This includes advising Defence contracting authorities of DISP assurance outcomes.

ANAO Recommendation Six. The Department of Defence establish a documented framework for managing non-compliance with contracted DISP requirements, with a clear escalation pathway.

- Defence has updated *Defence Security Principles Framework* Control 16.1 - Defence Industry Security Program guidelines to establish an escalation pathway for non-compliance. Defence has clarified how contract managers should manage contractor non-compliance and is progressively amending its engagement arrangements with universities to manage instances of DISP non-compliance.