



# Submission No 1

## Review of Defence Annual Report 2004-2005

**Organisation:** Air Power Australia

**Contact:** Mr Peter Goon, BEng, FTE (USNTPS)

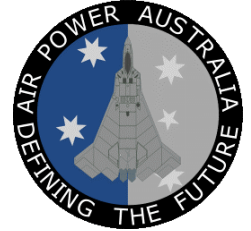
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**The.Firm**

**From:** The.Firm [the.firm@internode.on.net]  
**Sent:** Thursday, 2 March 2006 11:46 AM  
**To:** 'Bruce.Scott.MP@aph.gov.au'  
**Cc:** 'The Firm Distribution List'; 'jscfadt@aph.gov.au'; 'JeanroyP@aph.gov.au'  
**Subject:** REVIEW OF DEFENCE ANNUAL REPORT 2004-05

To: The Hon Bruce Scott, MP  
Chair, Defence Sub Committee  
Joint Standing Committee on Foreign Affairs, Defence and Trade



Dear Mr Scott,

The risk analyses that have been done in support of submissions to various parliamentary inquiries have required us to look into broader areas of governance and behaviours in the Department of Defence. Two such areas fall under the tightly focused program of tomorrow's public hearing, so the following information is provided on the basis it may be of assistance to the current inquiry.

Topic 4 – Remediation of Defence's Financial Statements

The Firm Consultancy Group has done a detailed study of the department's statutory financial statements and the associated ANAO audit reports. Attached is one outcome of this study - a compilation of the Category 'A' and Category 'B' risks identified by the ANAO over the period 2001 – 2005.

Notwithstanding the results of the Department of Defence exceed those of all other Commonwealth entities by some degree and are increasing, it would appear these may be understated from an overall business risk perspective. No mention of the risks associated with major capability acquisition projects (post second pass approval milestone) or major capability development projects (pre second pass approval milestone) was evident in the reports studied.

Including the risks associated with each of the trilogy of Cost, Schedule and Capability/Performance of existing capability acquisition projects, such as SEA 1411 – the Super Sea Sprite and AIR 5376 – Hornet Upgrade and its related activities, would increase these results by some degree. A similar, potentially larger, increase in the number of risks, especially in Category 'A' – *'matters which pose significant business or financial risk to the entity'* – would result if this trilogy of risk sources in the capability development projects, such as AIR 6000/NACC, were to be included in the tally.

An estimate that includes contributions from these sources of risk into a revised tally of the 2005 results would be Category 'A' - 54, Category 'B' – 79. By its nature, this estimate is conservative.

Military Justice – Chief of Defence Force and Secretary (Afternoon Session)

In 1998, the then Secretary of Defence and Chief of Defence Force promulgated the Defence Service Charter, a copy of which is attached. This Charter remained active through to 2002. Performance under the Charter is reported upon annually in the Defence Annual Report and to the Minister. Circa 2003, an abbreviated version of the Charter replaced the attached document on the Defence internet and intranet web sites. Submission No 16 to your inquiry into ADF air enclosed and referred to a copy of the original Defence Service Charter. Latterly, the Committee Secretariat has been advised by Defence that this document is *'an old document that has been superseded by the web linked pages because of Sept 11'*.

A review of Annual Reports dating back to 2000 shows, during 2002-2003, the Defence Service Charter was "updated, providing a simplified charter...replaces the original Defence Service Charter issued in 1998."

The experiences of people who have raised issues pertaining to the Military Justice, Complaint Resolution, and Administrative Review systems with senior officials of the Department of Defence are at odds with what is stated in both versions of the Defence Service Charter.

The experiences of people and organisations who have provided constructive feedback to senior defence officials, in keeping with both versions of the Defence Service Charter, are also at odds with what is stated in these Charters.

As a result of the above, the following questions arise and we respectfully seek your assistance in having them canvassed with the CDF and the DEFSEC :

1. Is the Defence Service Charter still promulgated under the authority of DEFSEC and CDF?
2. To whom in the ADO does this Defence Service Charter apply?
3. What aspects in the original Defence Service Charter (circa 1998) are not included or required under the current version?
4. Why are the experiences of people who have raised issues pertaining to the Military Justice, Complaint Resolution, and Administrative Review systems with senior officials of the Department of Defence at odds with what is stated in both versions of the Defence Service Charter?
5. Why are the experiences of people and organisations who have provided constructive feedback to senior defence officials, in keeping with both versions of the Defence Service Charter, at odds with what is stated in these Charters?
6. Why aren't these matters reported in the section on the Defence Service Charter in the Defence Annual Report and, as per the statement "The following is the full account of the report provided to the Minister" in each Defence Annual Report (DAR) since 2001, to the Minister.
7. The original Defence Service Charter of 1998 was still in vogue when DAR 2001-02 reported favourably on the award received from the Institute for Public Administration of Australia for 'the clear reporting on corporate governance, people management and the Defence Service Charter'. Why was it deemed necessary to change the Charter? Who authorised the change?

There are a myriad of examples of the experiences referred to in 4 and 5 above. Many are now being aired in the public domain and are contributory to the retention and recruiting challenges we face in our Defence Forces. There are many, many more likely to become matters of public interest given the behaviours

A contemporaneous example of experiences that have led to Question 5 may be found in The Firm bulletin entitled, 'The Great Debate – Some Contemporaneous Proof' (copy attached).

A more dated example can be seen in the attached E-Letter to CDF and DEFSEC et al, dated 18 July 2005 and entitled, 'Defence Service Charter'.

No responses have been received to either of these feedback contributions.

However, should your Committee need assistance with some specific examples from our research, including the people/organisations, the issues they have raised, and the senior defence officials to whom these were referred, we would be more than willing to oblige should our services be needed. The latter list is long and pre-eminent in its make-up and includes the CDF (past and present), the DEFSEC (past and present), the Inspector General-ADF and the Defence Force Ombudsman.

An Adobe PDF copy of this E-mail is attached for your convenience.

Very Best Regards,

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Peter Goon BE (MechEng)USNTPS (FTE)  
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*"Air Power Australia - Defining the Future"*  
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**Attachments:**



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# ATTACHMENT 1

## **COMPILATION OF DATA ON MAJOR RISKS IDENTIFIED IN ANAO AUDITS OF FINANCIAL STATEMENTS AND CONTROL STRUCTURES OF COMMONWEALTH ENTITIES 2001 TO 2005**

# COMPILATION OF DATA ON MAJOR RISKS IDENTIFIED IN ANAO FINANCIAL STATEMENT AUDITS 2001 TO 2005

## The Auditor - General Audit Report - Definitions of Audit Finding Categories

The ANAO rate audit findings according to the potential risk posed to the entity. The rating structure is as follows:

Category	Description
<b>A</b>	Those matters which pose significant business or financial risk to the entity and must be addressed as a matter of <b>urgency</b> . This assessment takes into account both the likelihood and consequences of the risk eventuating.
<b>B</b>	Control weaknesses that pose moderate business or financial risk to the entity or matters referred to management in the past, which have not been addressed satisfactorily. These would include matters where the consequences of the control weakness might be significant; however there is little likelihood of the consequences eventuating.
<b>C</b>	Matters which are procedural in nature or minor administrative shortcomings. These could include relatively isolated control breakdowns, which need to be brought to the attention of management.

**Tabular Data Compilation from the Auditor – General Reports for Years Ending 30 June 2005, 2004, 2003, 2002, & 2001**

Commonwealth Entity	2005		2004		2003		2002		2001	
	A	B	A	B	A	B	A	B	A	B
Department of Agriculture, Fisheries and Forestry	0	0	0	3	0	4	0	1	1	0
Attorney-General's Department	1	3	0	1	0	1	0	4	0	7
Australian Customs Service	0	6	0	1	0	2	0	2	0	13
Australian Federal Police	0	3	0	4						
Department of Communications, Information Technology and the Arts	0	0	0	2	0	7	0	8	0	18
Department of Defence <sup>5 6</sup>	40	49	27	48	10	29	13	32	10	34
Department of Veterans' Affairs	0	2	0	5	0	4	0	0	0	12
Department of Education, Science and Training	0	0	0	2	0	2	0	3	0	4
Commonwealth Scientific and Industrial Research Organisation	0	0	0	3						
Department of Employment and Workplace Relations	0	1	0	2	0	5	0	8	0	17
Department of Environment and Heritage	0	8	0	4	0	2	1	13	1	18
Department of Family and Community Services	0	12	0	8	0	6	0	4	1	8
Department of Finance and Administration	0	1	0	0		0	0	0	0	4
Department of Human Services <sup>7</sup>	TBA	TBA	N/A	N/A						
Centrelink	0	4	0	5	0	5	0	3	0	11
Health Insurance Commission	0	2	0	21	0	7	1	12	1	20
Department of Foreign Affairs and Trade	0	0	0	0	0	1	0	1	0	4
Department of Health and Ageing	0	1	0	2	0	5	0	5	1	12
Department of Immigration and Multicultural and Indigenous Affairs	1	4	0	12	0	6	0	14	0	8
Department of Industry, Tourism and Resources	0	2	0	0	0	3	0	3	0	2
Department of Prime Minister and Cabinet	0	0	0	1	0	0	0	1	0	5
Department of Transport and Regional Services	0	1	0	1	0	1	0	1	0	9
Department of the Treasury	0	2	0	1	0	1	0	4	1	1
Australian Taxation Office	7	12	1	9	1	5	3	7	1	12
Aboriginal and Torres Strait Islander Services <sup>8</sup>									0	9
Australian Securities and Investment Commission										
National Archives of Australia							0	3	0	3
Joint House Department (Parliament House)							0	0	0	3
Australian National University							0	1	0	2
<b>Total As Reported</b>	<b>9**</b>	<b>64**</b>	<b>1*</b>	<b>87*</b>	<b>11</b>	<b>96</b>	<b>18</b>	<b>133</b>	<b>17</b>	<b>236</b>
<b>Total Including Defence (disregarding exclusions stated in report)</b>	<b>49</b>	<b>113</b>	<b>28</b>	<b>135</b>	<b>11</b>	<b>96</b>	<b>18</b>	<b>133</b>	<b>17</b>	<b>236</b>

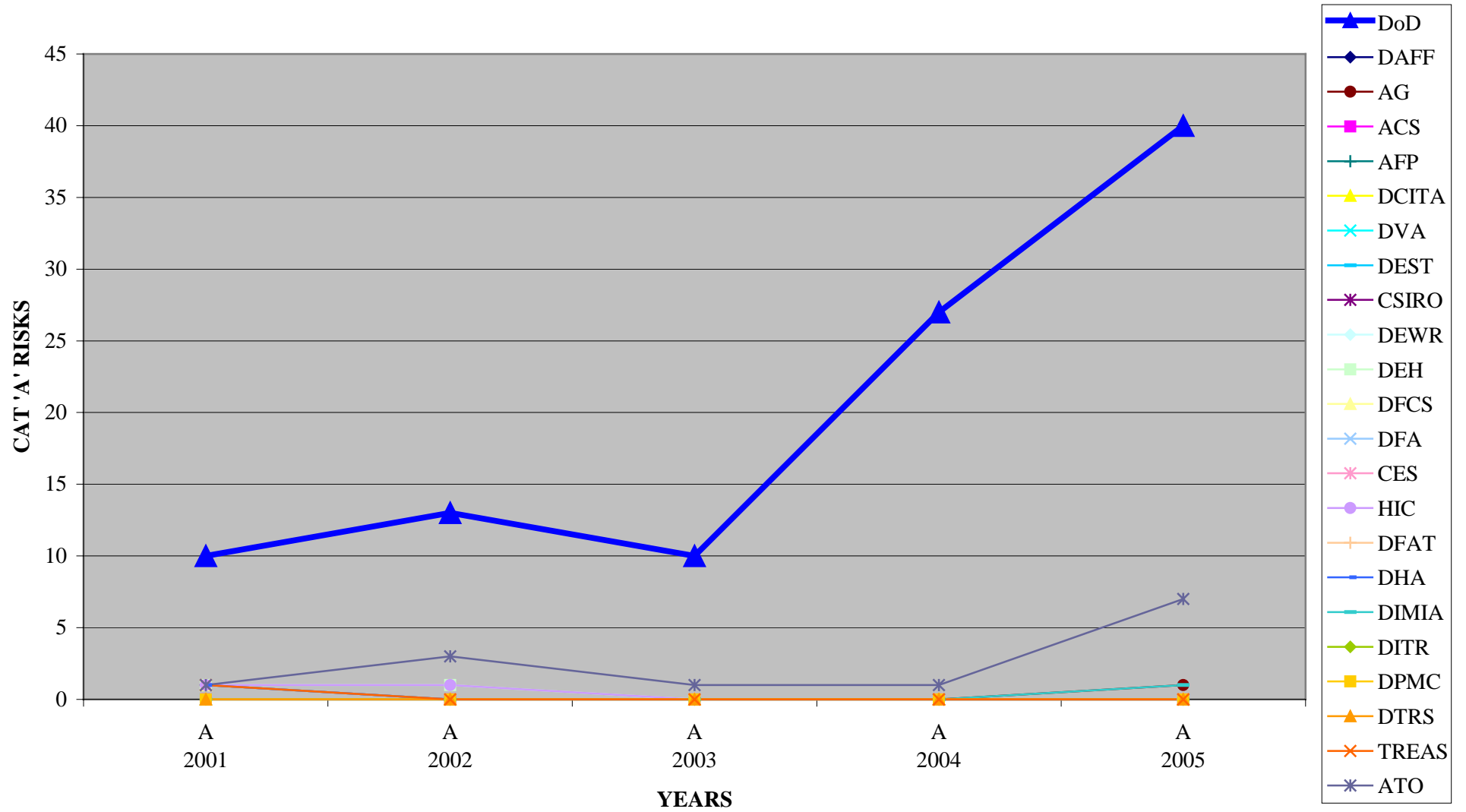
<sup>5</sup> \* In 2004, the number and classification of Category 'A' and 'B' findings for Defence were not finalised but have been obtained from 2005 reports.

<sup>6</sup> \*\* In 2005, the number and classification of Category 'A' and 'B' findings for Defence were not finalised but have been derived from body of reports.

<sup>7</sup> 'TBA' means the audit was still in progress at the time of publication of the report. 'N/A' means not applicable

<sup>8</sup> Some entities ceased to be subject to reporting for various reasons eg. change in status, merging with another entity, becoming a prescribed agency, etc.

# CATEGORY 'A' RISKS





# CATEGORY 'B' RISKS

