

# Report 383

- **Amphibious Transport Ship Project**
- **Implementation of Whole-of-Government Technology and Infrastructure Consolidation and Outsourcing Initiative**
- **AQIS Cost-Recovery Systems**
- **Knowledge System Equipment Acquisition Projects in Defence**

Review of Auditor-General's Reports  
2000–2001  
First Quarter

Joint Committee of Public Accounts and Audit

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## Foreword

**Report 383** is the outcome of the review by the Joint Committee of Public Accounts and Audit (JCPAA) of the Auditor-General's audit reports tabled in the first quarter of 2000–2001. Of the eleven audit reports reviewed, the Committee selected four for further examination.

*Audit Report No.8, Amphibious Transport Ship Project; Audit Report No.9, Implementation of Whole-of-Government Technology and Infrastructure Consolidation and Outsourcing Initiative; Audit Report No.10, AQIS Cost-Recovery Systems, Australian Quarantine and Inspection Service; and Audit Report No. 11, Knowledge System Equipment Acquisition Projects in Defence* were examined at public hearings in Canberra on Friday, 2 March 2001.

*Audit Report No 8* focused on the commissioning of HMAS *Manoora* and HMAS *Kanimbla* which had been purchased from the US Navy in August 1994 for \$61 million. On their delivery, Defence found problems with both ships, despite having engaged an inspection team to examine both carefully. On the basis of this experience, Defence acknowledged the need to have clearly established its functional requirements before proceeding with an acquisition, and to undertake a careful costing process for repair of older vessels.

Extensive maintenance work and numerous capability upgrades were performed on *Manoora* and *Kanimbla*, costing about \$395.1 million and taking up to 44 months. A decision to further increase the capability of the ships is planned for 2004–05 at an expected cost between \$50–\$100 million. This will increase the total project cost to \$445 million.

The Committee heard the difficulties inherent in trying to assess the relative advantages and disadvantages of building a new ship as opposed to acquiring the two older vessels. Defence claimed that having two ships enhanced Defence's capabilities because it is able to operate in two different locations at the same time. This has allowed Defence to increase its flexibility of operations.

*Audit Report No. 9* examined the strategies developed by the Office of Government Information Technology (OGIT) and the Department of Finance for outsourcing of Commonwealth IT services. The Whole of Government IT Infrastructure Consolidation and Outsourcing Initiative was directed at achieving long-term improvements in the structuring and outsourcing of IT services across agencies. It was designed to facilitate greater integration in the delivery of programs and to realise significant cost savings.

Aggregate savings to the Commonwealth from the IT Outsourcing Initiative were confirmed in the audit report, in the Humphry Report and again at the public hearing by the ANAO.

The Committee noted the different approach to the accounting standards by ANAO and OASITO. The Committee believes that correct treatment of accounting standards is fundamental to transparent reporting and budget honesty. Agencies should adopt consistent accounting standards which also are consistent with the proper management of risk to the Commonwealth.

*Audit Report No. 10* was undertaken by the ANAO following advice from the JCPAA that an audit of AQIS's cost-recovery systems was a parliamentary priority. The objective of the audit was to assess the efficiency and effectiveness of the management of AQIS's cost-recovery systems and provide assurance to the Parliament that the cost-recoverable programs were identifying and recovering the full costs of services provided, without cross-subsidisation.

While the audit found that overall AQIS's cost-recovery systems were mature and stable and, with some exceptions, had delivered near cost-recovery for the AQIS recoverable programs, it also found a number of inherent weaknesses in the cost-recovery systems which potentially impaired the efficiency and effectiveness of the management of those systems.

Cost recovery is a central part of AQIS's business. AQIS has been involved in cost recovery for over two decades and has been recovering 100 per cent of costs for recoverable programs for the last 10 years. The Committee considers that AQIS is taking a long time to reach an appropriate level of sophistication in its cost measurement processes and agrees with the ANAO that it is not possible to assess with any confidence how well AQIS's fees and charges reflect the actual costs incurred.



The Committee considered that being able to accurately cost its services would allow AQIS to drive its business with greater focus and efficiency and to operate with greater transparency and equity. The Committee made recommendations addressing the alignment of fees and costs, the reduction of over-recoveries and the non-meat EXDOC system project.

*Audit Report No. 11* examined Defence's military and administrative information systems which combine to form the Defence Information Environment (DIE). Effective use of information is vital to Australia's defence capacity. Defence's main problem is the inability of specific functional areas to transmit information from one area to another. DIE is aware that its data needs to be developed and shared in a coherent and integrated manner with all organisational areas with legitimate needs for the data. It has appointed a Chief Knowledge Officer to bring the knowledge environment under adequate managerial control.

In order to achieve its goal, Defence has to change its existing culture so that a holistic approach can be achieved. Management of knowledge system projects in Defence is a complex and demanding task. Integrated training is essential if this change is to be implemented successfully.

The Committee is of the view that Defence's ability to develop an effective Information environment centres on Defence's ability to recruit, develop and retain skilled individuals needed in all parts of the Defence information environment. The Committee urges Defence to finalise its specific project architectural checklists as soon as possible so that these can be disseminated across all sectors and the Services, and become part of the negotiation requirements in any new project.

**Bob Charles MP**  
**Chairman**





## Membership of the Committee

Chair Mr Bob Charles MP

Deputy Chair Mr David Cox MP

Members	Senator Helen Coonan	Mr Kevin Andrews MP
	Senator the Hon Rosemary Crowley (until 28/06/01)	Mr Malcolm Brough MP (until 7/3/00)
	Senator the Hon John Faulkner (until 12/10/00)	Mr Petro Georgiou MP
	Senator the Hon Brian Gibson AM	Ms Julia Gillard MP
	Senator John Hogg	Mr Alan Griffin MP (until 9/8/99)
	Senator Andrew Murray	Mr Peter Lindsay MP (from 7/3/00)
	Senator the Hon Nick Sherry (from 28/06/01)	Ms Tanya Plibersek MP (until 10/4/00)
	Senator John Watson	The Hon Alex Somlyay MP
		Mr Stuart St Clair MP
		Mr Lindsay Tanner MP (from 9/8/99)
		Mr Kelvin Thomson MP (from 10/4/00)



# **Membership of the Sectional Committee**

**Chair**            Mr Bob Charles MP

**Deputy Chair**   Mr David Cox MP

**Members**        Mr Petro Georgiou MP

Senator the Hon Brian Gibson AM

Ms Julia Gillard MP

Senator Andrew Murray

Mr Peter Lindsay MP

Mr Alex Somlyay MP

Mr Lindsay Tanner MP

## **Committee Secretariat**

**Secretary**            Dr Margot Kerley

**Inquiry staff**        Ms Maureen Chan

Mr Stephen Boyd

Ms Jennifer Hughson

Mr Ngan Thai

Ms Maria Pappas

Ms Nina Franklin



## Duties of the Committee

The Joint Committee of Public Accounts and Audit is a statutory committee of the Australian Parliament, established by the *Public Accounts and Audit Committee Act 1951*.

Section 8(1) of the Act describes the Committee's duties as being:

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth, including the financial statements given to the Auditor-General under subsections 49(1) and 55(2) of the *Financial Management and Accountability Act 1997*;
- (b) to examine the financial affairs of authorities of the Commonwealth to which this Act applies and of inter-governmental bodies to which this Act applies;
- (c) to examine all reports of the Auditor-General (including reports of the results of performance audits) that are tabled in each House of the Parliament;
- (d) to report to both Houses of the Parliament, with any comment it thinks fit, on any items or matters in those accounts, statements and reports, or any circumstances connected with them, that the Committee thinks should be drawn to the attention of the Parliament;
- (e) to report to both Houses of the Parliament any alteration that the Committee thinks desirable in:
  - (i) the form of the public accounts or in the method of keeping them; or
  - (ii) the mode of receipt, control, issue or payment of public moneys;
- (f) to inquire into any question connected with the public accounts which is referred to the Committee by either House of the Parliament, and to report to that House on that question;

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- (g) to consider:
    - (i) the operations of the Audit Office;
    - (ii) the resources of the Audit Office, including funding, staff and information technology;
    - (iii) reports of the Independent Auditor on operations of the Audit Office;
  - (h) to report to both Houses of the Parliament on any matter arising out of the Committee's consideration of the matters listed in paragraph (g), or on any other matter relating to the Auditor-General's functions and powers, that the Committee considers should be drawn to the attention of the Parliament;
  - (i) to report to both Houses of the Parliament on the performance of the Audit Office at any time;
  - (j) to consider draft estimates for the Audit Office submitted under section 53 of the *Auditor-General Act 1997*;
  - (k) to consider the level of fees determined by the Auditor-General under subsection 14(1) of the *Auditor-General Act 1997*;
  - (l) to make recommendations to both Houses of Parliament, and to the Minister who administers the *Auditor-General Act 1997*, on draft estimates referred to in paragraph (j);
  - (m) to determine the audit priorities of the Parliament and to advise the Auditor-General of those priorities;
  - (n) to determine the audit priorities of the Parliament for audits of the Audit Office and to advise the Independent Auditor of those priorities; and
  - (o) any other duties given to the Committee by this Act, by any other law or by Joint Standing Orders approved by both Houses of the Parliament.



## List of abbreviations

<b>AAS17</b>	Australian Accounting Standard 17
<b>ADF</b>	Australian Defence Force
<b>ADI</b>	Australian Defence Industries Ltd
<b>AEC</b>	Australian Electoral Commission
<b>AEW&amp;C</b>	Airborne Early Warning and Control
<b>AFFA</b>	Department of Agriculture, Fisheries and Forestry – Australia
<b>ANAO</b>	Australian National Audit Office
<b>AQIS</b>	Australian Quarantine and Inspection Services
<b>ATO</b>	Australian Taxation Office
<b>C<sup>4</sup>ISREW</b>	Command, control, communications, computers, intelligence, surveillance, reconnaissance, and electronic warfare
<b>CEO</b>	Chief Executive Officer
<b>DCIC</b>	Defence Capability Investment Committee
<b>DCISC</b>	Defence Capability Investment Sub-Committee
<b>DETYA</b>	Department of Education, Training and Youth Affairs
<b>DIE</b>	Defence Information Environment
<b>DIEC</b>	Defence Information Environment Committee

<b>DMO</b>	Defence Materiel Organisation
<b>DoFA</b>	Department of Finance and Administration
<b>EA</b>	Evolutionary Acquisition
<b>EN</b>	Employment National
<b>EXDOC</b>	Electronic Export Documentation System
<b>IT</b>	Information Technology
<b>JCPAA</b>	Joint Committee of Public Accounts and Audit
<b>JORN</b>	Jindalee Operational Radar Network
<b>OASITO</b>	Office of Asset Sales and IT Outsourcing
<b>OGIT</b>	Office of Government Information Technology
<b>RAN</b>	Royal Australian Navy
<b>SDSS</b>	Standard Defence Supply System
<b>SPMM</b>	Standard Project Management Method
<b>TGA</b>	Therapeutic Goods Administration





## **List of recommendations**

### ***Audit Report No.8, Amphibious Transport Ship Project***

#### **Recommendation 1** [paragraph 2.47]

The Committee recommends that the Department of Defence put in place appropriate reporting structures to ensure that all internal audits are reviewed by the Defence Audit Committee and provided to relevant internal stakeholders in a timely fashion.

### ***Audit Report No.10, AQIS Cost-Recovery Systems***

#### **Recommendation 2** [paragraph 4.37]

The Committee recommends that the Australian Quarantine and Inspection Service (AQIS) improve risk management in its fee-setting activities with the aim of significantly reducing over-recoveries.

#### **Recommendation 3** [paragraph 4.54]

The Committee recommends that the Australian Quarantine and Inspection Service implement the Australian National Audit Office's recommendation No. 6 of Audit Report No. 10, 2000-2001, namely that the Australian Quarantine and Inspection Service align fees charged to particular clients with the costs associated with servicing those clients where it is cost-effective to do so. Where this is not feasible, the reasons should be made transparent to relevant stakeholders and kept under review.

#### **Recommendation 4** [paragraph 4.64]

The Committee recommends that the Australian Quarantine and Inspection Service conduct a thorough cost-benefit analysis of the non-meat EXDOC system project.

**Audit Report No. 11, *Knowledge System Equipment Acquisition Projects in Defence***

**Recommendation 5 [paragraph 5.67]**

The Committee recommends that the Australian National Audit Office conduct a follow-up audit into Defence's strategies for recruiting, developing and retaining skilled IT personnel.