
The Parliament of the Commonwealth of Australia

Report 385

- **Australian Taxation Office Internal Fraud Control Arrangements**
- **Fraud Control in Defence**
- **Defence Estate Facilities Operations**

**Review of Auditor-General's Reports
2000–2001
Second & Third Quarters**

Joint Committee of Public Accounts and Audit

August 2001
Canberra

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Foreword

Report 385 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 second and third quarters of 2000–2001. Of the eighteen audit reports reviewed, the Committee selected three for further examination.

Audit Report No.16, *Australian Taxation Office Internal Fraud Control Arrangements*; Audit Report No.22, *Fraud Control in Defence*; and Audit Report No. 26, *Defence Estate Facilities Operations* were examined at public hearings in Canberra on Friday, 2 May 2001.

The ANAO has undertaken a series of performance audits on fraud control following the 1994 formation of the Commonwealth Law Enforcement Board to co-ordinate and develop public sector fraud control policy and to support the systemic commitment to eliminating fraudulent activity. The Committee is aware that the Attorneys-General have been working with agencies to reach an agreed definition of fraud. The Committee considers it would be useful for the ANAO, in its preparation of a better practice guide on fraud control, to develop subcategories of fraud for the purposes of fraud reporting, and has recommended accordingly.

Audit Report No 16 focused on internal fraud prevention and control arrangements in the Australian Taxation Office (ATO). The ANAO found that the ATO had demonstrated a strong commitment to fraud control and had established a comprehensive fraud control policy framework. The ANAO also found that the level of alleged fraud had steadily increased in recent years and that the security of IT systems should be an ongoing concern to ATO management.

Audit Report No. 22 examined the strategies developed by the Department of Defence for sound fraud control arrangements. ANAO found that there was scope for improvement in Defence's corporate governance with reference to fraud control. For instance, Defence's *Chief Executive Instructions* did not comply with the Commonwealth fraud control policy requirement to review its fraud control arrangements every two years. The

audit found that Defence lacked a suitable fraud intelligence capability, thereby making it difficult for Defence to estimate accurately the extent of fraud in or against Defence.

Although the Committee accepts that the amount of fraud detected in Defence has been fairly consistent over the past five years, the Committee questions whether Defence has been as diligent as it could be in detecting fraud, given that its asset register 'is not in good shape' and fraud investigation is undertaken in four separate areas. Namely the Inspector-General's division and the military police in each of the services.

The Committee is not convinced that the financial and administrative systems Defence has in place are sufficient to obtain an adequate organisational view of the occurrence of fraud in Defence. The Committee recommends that Defence address the shortcomings in its asset registers and develop a fraud intelligence capability.

Audit Report No. 26 was undertaken by ANAO to assess the efficiency and effectiveness of selected Defence facilities operations with a view to making practical recommendations for enhancing operations. The Committee was told that Defence Estate Office (DEO) had made a significant effort to develop and implement a strategic, corporate-focused framework for the delivery of maintenance work through its FACOPS Program. Initiatives, such as the Comprehensive Maintenance Contract, focus on economies and efficiencies that earlier approaches and/or methods lacked.

Evidence showed that DEO staff need to develop their abilities to prioritise timely maintenance, develop sound business practices and the skills to manage contractors. Defence needs to hone its performance indicators to reflect these skills and implement appropriate staff replacement strategies.

Having considered the evidence, the Committee believes that Defence still has a problem regarding its asset and property registers. While the Committee acknowledges that Defence is making an effort to achieve a full register and link it to ROMANS, the Committee is not satisfied that all the problems have been addressed effectively.

The Committee is aware of Defence's poor record in contract and project management, and is of the view that Defence still has a long way to go before DEO staff are able to effectively exercise their responsibilities for properties and assets with a gross replacement value of \$14.8 billion.



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



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

ADF	Australian Defence Force
AFP	Australian Federal Police
ANAO	Australian National Audit Office
APS	Australian Public Service
ATO	Australian Taxation Office
CEIs	Chief Executive Instructions
CLEB	Commonwealth:Law Enforcement Board
CMC	Comprehensive Maintenance Contract
DAC	Defence Audit Committee
DEO	Defence Estate Organisation
DEMS	Defence Estate Management System
DEMS/FM	Defence Estate Management System—Facilities Maintenance
DOD	[USA] Department of Defence
DoFA	Department of Finance and Administration
DPP	Director of Public Prosecutions
EDS	Electronic Data Systems
EOP	Estate Operations and Planning Branch

FACOPS	Facilities Operations
FP&C	Fraud Prevention and Control
IT	Information Technology
JCPAA	Joint Committee of Public Accounts and Audit
LANs	Local area networks
RECs	Regional Estate Centres
SDSS	Standard Defence Supply System
WAN	Wide Area Network



List of recommendations

Audit Report No.16, Australian Taxation Office Internal Fraud Control Arrangements

Recommendation 1 [paragraph 2.26]

The Committee recommends that the ANAO, in its preparation of a better practice guide on fraud control, develop subcategories of fraud for the purposes of fraud reporting, and discuss this issue with the Joint Committee of Public Accounts and Audit prior to finalisation of the better practice guide.

Audit Report No.22, Fraud Control in Defence

Recommendation 2 [paragraph 3.53]

The Joint Committee of Public Accounts and Audit recommends the Department of Defence address the shortcomings in its asset registers and report back to the Committee on the condition of its asset registers in July 2002.

Audit Report No.22, Fraud Control in Defence

Recommendation 3 [paragraph 3.68]

The Joint Committee of Public Accounts and Audit recommends that the Department of Defence immediately implement the Australian National Audit Office recommendation that it develop a fraud intelligence capability to ensure better management of public funds and increase its ability to detect fraudulent activity in Defence.

Audit Report No.26, *Defence Estate Facilities Operations***Recommendation 4** [paragraph 4.40]

The Committee recommends that the Defence Estate Organisation facilitate the consolidation of Regional Estate Centre activities fully onto Defence Estate Management System.

Audit Report No.26, *Defence Estate Facilities Operations***Recommendation 5** [paragraph 4.64]

The Committee recommends that Defence review its performance indicators for Defence Estate Organisation staff so that staff are encouraged to develop essential management and financial skills.