



**Minute**  
Chief Finance Officer

CFO 179/02

Mr Bob Charles MP  
Chairman  
Joint Committee of Public Accounts and Audit  
Parliament House  
CANBERRA ACT 2600

Dear Mr Charles

I am writing concerning the Executive Minute for Report 385 - Review of the Auditor-General's Reports 2000-2001 for the second and third quarters.

The 2001-02 financial statement and audit process was the most comprehensive Defence has experienced to date. Therefore, I would like to extend my apologies for the delay in our response to this matter.

Defence is finalising the establishment of a Project Office aimed at co-ordinating improvement initiatives planned and currently underway. Initiatives identified will have a relationship to financial improvement plans and 2001-02 audit findings.

Defence supports Recommendation Number 2:

*"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."*

This recommendation was made with regard to the ability of the Standard Defence Supply System (SDSS) to provide accurate and complete financial data relating to the fixed assets and inventory/logistics assets reported on it, and surrounding governance of the system. The integrity of the ROMAN (Defence's financial management information system) fixed asset register was not questioned.

Issues identified by the report included: relevant assets not recorded on SDSS; pricing and classification of inventory items; and the lack of key asset management data. These issues are being addressed, in part, by an SDSS Upgrade project (to be operational by 30 June 2003), initiatives under Project Office management, and as an integral part of the 2001-02 financial reporting process (in relation to pricing and asset recognition).

SDSS is Defence's prime logistics system and not the sole asset register, which is the ROMAN system. There are a number of improvement activities currently underway regarding Defence's asset register and associated systems. These include systems upgrades to tighten inventory accountability, regular reviews of inventory pricing and improved systems related documentation. The difficulty, previously, has been the ability to consolidate and report on all efforts being undertaken.

Defence has recognised the need to ensure all assets are correctly reflected on the asset systems, regular reconciliations are undertaken and improvements are made in asset reporting. Work undertaken in FY 2002 as part of broader financial statement improvement programs has realised significant benefits in the underlying reliability and integrity of data contained within Defence's financial systems, including the assets systems. This has increased Defence's ability to identify and classify asset movements.

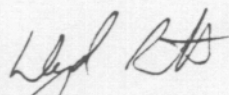
The Integrated Defence Asset Management System Project has commenced. This project is aiming to identify Defence's total asset management requirements and report its findings to senior management. This will involve identification of information and recording deficiencies across Defence's asset systems, including SDSS and the ROMAN asset register. It is anticipated that the report will be delivered in December 2002. Efforts are also underway to streamline the number of asset systems, while having regard to security implications for classified systems. Increased accountability will be required from the 2002-03 financial year in relation to all asset systems.

It should be noted that Defence's Accounting Policy manual has been strengthened in relation to asset management. Additionally a Chief Executive Instruction is under development in relation to asset management.

Defence received a dual qualification for its 2001-02 financial statements. These qualifications related to inventory pricing and quantity verification of repairable items. JCPAA Report 385 recognised these deficiencies.

These qualifications were given despite increased effort in the substantiation of Defence's accounts. It must be recognised that the ongoing initiatives addressing asset management in Defence will take a number of years to complete. The aimed result being material accuracy of Defence's accounts and the effective and efficient management of the asset base.

Yours sincerely



Lloyd Bennett  
Chief Finance Officer

27 November 2002