

Defence's qualified financial statements

Background

4.1 The 2003 Australian Strategic Policy Institute (ASPI) policy report *Sinews of War* charted the recent history of financial management in Defence. The report advised that there have been significant improvements to Defence fiscal discipline and budgeting since a serious breakdown in 2000 and 2001. However, in the area of accounting and auditability, significant concerns remain. In the 2003-04 Financial Statement by the Chief Executive and Chief Finance Officer, Defence conclude that the statements of account fail to give a true and fair view of the matters required by the Financial and Management and Accountability Act 1997 (FMA). This is a more serious qualification than the 'except for' qualification that arose in 2001-02 and 2002-03¹. The qualifications relate to significant structural deficiencies and appear likely to continue for a number of years to come.

4.2 In the *Defence Annual Report 2003-04* Defence declared that:

...in relation to certain accrual entries and provisions and their resultant impact, the Secretary could not conclude on the financial statements as a whole. The qualifications identified in previous years remain on the statement for 2003-04, and the scope of some of them has increased. In particular, work by Defence's Management Audit Branch and the ANAO identified shortcomings in stock recording policies and practices.²

1 Mr Mark Thompson, ASPI, *The Cost of Defence – ASPI Defence Budget Brief 2005-2006*, May 2005, p.101

2 Department of Defence, *Defence Annual Report 2003-04*, November 2004, p. 20.

- 4.3 Defence further commented that 'this outcome is disappointing, as we had increased significantly the resources committed to trying to achieve compliance with accrual accounting standards and the introduction of other new accounting standards.'³
- 4.4 The aim of this Chapter is to report on the detailed remediation plans being undertaken by Defence and to describe the committee recommendations on the path toward achieving a true and accurate financial statement.

Discussion

- 4.5 ASPI and the Australian National Audit Office (ANAO) continue to monitor Defence management performance closely. The audit of the 2003-04 financial accounts built upon the accumulated understanding of several years of ongoing scrutiny by the ANAO in particular. This high degree of scrutiny in part explains the apparent deterioration in the state of Defence accounts. However both agencies report that Defence is working hard to improve performance. ASPI note that:

Defence is working hard to reduce administrative spending and improve day to day business processes. Secretary Ric Smith is driving a bottom up approach to improve financial management. He has avoided high profile initiatives, and instead favours a relentless attack to get the basics right.'⁴

ANAO Concerns

- 4.6 The ANAO reports that many aspects of financial management are being adequately handled. In relation to the financial statement the ANAO commented that 'the balances relating to Cash, Receivables, Revenues from Government, Specialist Military Equipment (exclusive of repairable items) and quantities of Explosive Ordnance, are fairly stated.'⁵
- 4.7 However the ANAO remains critical of Defence's internal control environment which should prevent and detect errors in accounting and financial reporting. ANAO state that the Defence internal control environment:

3 Department of Defence, *Defence Annual Report 2003-04*, November 2004, p. 20.

4 Australian Strategic Policy Institute, *Your Defence Dollar: The 2004-05 Defence Budget*, July 2004, p. 47.

5 Australian National Audit Office (ANAO), *Independent Audit Report to the Minister for Defence*, 17 November 2004.

...contains significant deficiencies due to weaknesses in internal controls pertaining to financial management and operational systems, inadequate accounting records and poor inventory and asset recording. The control breakdowns have resulted in material uncertainties.⁶

4.8 Specifically, the ANAO remain concerned that the following management issues fail to meet the standards mandated in the Financial Management Act (FMA):

- inventories;
- land and buildings and infrastructure, plant and equipment; and
- military leave provision.

Defence Remediation Measures

4.9 Defence, in response to the continued qualification of their financial statement, reported that 'comprehensive remediation programs have now commenced and progress in these activities is regularly reported to the Defence Audit committee and the ANAO.'⁷ Defence stated that these remediation efforts will be strengthened in 2004-05. The Defence measures 'include remediation plans for each of the qualifications as well as more generic reforms aimed at meeting not only accrual accounting requirements but also the newly introduced International Financial Reporting Standards.'⁸

4.10 Defence reported during the hearing into the *Defence Annual Report 2003-04* that they have developed and commenced action on 14 remediation plans. These serve to accurately focus analysis to the problems that the Audit Office and Defence's own auditors have identified as the areas preventing the Department from certifying that their accounts are a true and accurate reflection of their status.

4.11 Defence described the three general and 11 specific plans in the following format:

- General Plans (G)
 - ⇒ G1 - Financial Reporting Framework. The aim of this plan is to institute a robust and sustainable financial controls framework which meets fully the requirements of accrual accounting;

6 ANAO, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2004*, p. 104.

7 Department of Defence, *2003-04 Defence Annual Report*, November 2004, p. 29.

8 Department of Defence, *Defence Annual Report 2003-04*, November 2004, p. 20.

- ⇒ G2 - Improving the ANAO Annual Audit Process. This plan seeks to gain agreement with the ANAO on timeliness, methodology and expectations of deliverables regarding the finalisation of annual financial statements;
- ⇒ G3 - Financial Management and Systems Training Program. This plan is based on the need to address ANAO recommendations with regard to the lack of knowledge in accounting, financial and business management processes. It also includes issues relating to the transition to new accounting standards and a further transition in the future to the Australian equivalent of international financial reporting standards.
- Specific Plans (S)
 - ⇒ S1 - Stores Records Accuracy – This plan addresses weaknesses in the internal controls over stocktaking, physical asset location and quantities, in short, inventory accounting;
 - ⇒ S2 - General Stores Inventory Pricing – addresses pricing for older equipment, explosive ordnance and spare parts whose purchase pre-dates current record keeping requirements.
 - ⇒ S3 - Supply Customer Accounts – addresses a particular form of inventory management, particularly in relation to repairable items and stock take procedures;
 - ⇒ S4 - Explosive Ordnance – this plan addresses pricing issues in relation to explosive ordnance stock, again seeking a method to determine the value of ordnance whose age pre-dates current record keeping requirements;
 - ⇒ S5 - Military Leave Records – addresses problems relating to insufficient supporting documentation and accounting error rates for military leave records;
 - ⇒ S6 - Civilian Leave Records – similar problems exist with civilian leave records;
 - ⇒ S7 - Executive Remuneration – this plan addresses accrual problems which in effect follows from the two previous problems;
 - ⇒ S8 - Property Valuations – addresses flaws identified in the project management, reporting practices and management review practices relating to the value of land, buildings, infrastructure and other plant;
 - ⇒ S9 – Preventing the Escalation of Category A and B Findings – this is a broad plan aimed at preventing the escalation of findings that the ANAO has identified as category A or category B findings – in other

words, the ones that are small scratches tomorrow but may become serious sores the day after;

- ⇒ S10 - Stockholding Controls - this plan relates to what used to be called asset write-offs and assets first found; and
- ⇒ S11 - Standard Defence Supply System Items Not-in-Catalogue - a plan for the improved management of items not in catalogue – that is, they are not entered onto inventories.⁹

Analysis

4.12 During the hearing the committee was briefed by Defence on the remediation measures in considerable detail. The committee then analysed the following factors:

- The cost of remediation;
- The root causes of the qualifications;
- A proposal to seek the points from which audit data can be trusted; and
- Specific recommendations to assist in resolving the qualifications.

Cost of Remediation

4.13 Defence was first asked to quantify the scale and cost of remediation measures. It was reported that at least 600 staff years (valued on average at \$100 000 per staff year) were being committed specifically to this task. An additional number of hours would be required to rectify stock-takes at operational units throughout the ADF. The number of staff years likely to be involved in the rectification of stocktaking discrepancies is unclear as it is being absorbed in normal operating activity. A further \$12 million was committed to consultancies and specific activities such as stock takes of the major warehouse facilities.¹⁰ It is therefore reasonable to extrapolate from the Defence response that close to \$100 million dollars will be expended this year to attempt to better quantify the Defence position.

4.14 The cost of remediation is therefore significant. While only a small percentage is 'cash' being spent outside the department, the internal expenditure of time and effort draws significantly from Defence capability at a time when many of the same personnel could have been committed to preparing stores and equipment for disaster relief in Indonesia or preparation of the Al Muthanna Task Group for southern Iraq.

9 Mr Ric Smith, Secretary, Department of Defence, *Transcript*, p. 45

10 Department of Defence, *2003-04 Defence Annual Report*, November 2004, p. 60.

- 4.15 Because of the size and nature of this remediation cost the committee sought from the Secretary and his staff the root causes of the qualifications in order to provide advice to the Parliament about possible alternate remediation strategies.

Root Causes

- 4.16 It has been commonly held that all the root causes of the problems with the Defence financial statement stem from the mandated transition to accrual accounting. Put simply this transition, now ten years old, has seen Defence move from a cash accounting system, which all external agencies agree it continues to manage well, to a more comprehensive system that aims to account for the complete business position of the organisation. Accrual accounting considers such issues as depreciation on assets such as property and consumption of stock, to determine the true cost of conducting defence business.
- 4.17 However, Defence acknowledged that the qualifications to the report go beyond difficulties with the transition to accrual standards and include other structural and cultural limitations:
- I would have to say that Defence did not build in either the technical systems with all the functionality required or, to be honest, the culture and training that was necessary to get there. Whether it would have got there even then is a big question.¹¹
- 4.18 Perhaps the most obvious example of the type of structural limitations being addressed by Defence is in the area of Management Information Systems (MIS). Most notable amongst these has been the Standard Defence Supply System (SDSS) which manages Defence inventory. This system appears unable to meet the needs of practitioners on the ground in Defence bases when they attempt to track inventory location, nor does it meet the needs of the auditor in the area of pricing control. 'Users of the system were able to enter data directly into the price field without sufficient controls and it was not possible to assess with confidence the cumulative financial effect of prices that had been inadvertently adjusted or incorrectly calculated.'¹²
- 4.19 Like many of the other deficiencies in Defence accounting processes, the problems with SDSS have had a long gestation period. The system entered service in 1992-3 over due and well over budget. It has struggled to meet functionality requirements and is still in the process of being upgraded.

11 Mr Ric Smith, Secretary, Department of Defence, *Transcript*, p. 61

12 Report 396, Review of Auditor-General's Reports 2002-03, the Parliament of the Commonwealth of Australia, Sep 2003, p. 72

The current ADF leadership, while not responsible for the origins of the problems they inherited, must now develop an alternative that is both efficient and effective. The SDSS 'Get Well' project is the most recent band-aid applied to the system. Get Well is unlikely to be sufficient to meet the requirements of the Finance Minister's Orders, which mandate the application of Australian Accounting Standards regarding pricing controls but does appear likely to complete Defence's ability to manage the location of inventory. Defence has advised the *Joint Public Accounts and Audit Committee* that this upgrade will be the last before the SDSS is replaced under Joint Project 2077 - Improved Logistics Information Systems.¹³

- 4.20 While acknowledging that structural limitations have compounded Defence's problems, it is important to note that accrual standards do not fit neatly over Defence operating procedures. Australian businesses operate vastly differently to the Defence organisation. Of Australia's military peers only New Zealand has made a successful transition to accrual standards. While this transition is admirable it is not clear whether the significantly smaller NZDF is a useful benchmark in this regard. The committee sought to better understand the impact of these accrual standards on Defence.
- 4.21 Defence has no peer in Australia in terms of either size or task. Telstra and Australia Post were discussed as potential peers in this context, particularly during the period in which they transitioned from Government controlled organisations toward corporatisation or privatisation. However, despite matching Defence in some characteristics, neither organisation even closely resembles the manner in which Defence is required to operate. Businesses, for example, seek to hold stock for as short a period as possible before it is sold to a customer. Equipment holdings are kept to a minimum and must be able to contribute directly to the organisation's 'bottom line'. Defence on the other hand may 'issue' a piece of equipment for an exercise or operation and then receive the item back into a warehouse many times through the life of the equipment. This issue and receipt process may occur on different continents and under demanding operating conditions. Defence purchases and stores many expensive items it hopes never to use, a concept completely foreign to modern 'just-in-time' business practice. An item such as a guided anti-ship missile may cost tens of thousands of dollars but may remain in warehouses for many years, outliving accounting tools and information systems. The Secretary summarised these differences when he described

13 Mr Ric Smith, Secretary, Department of Defence, *Transcript Joint Committee on Public Accounts and Audit*, 28 Apr 2005, p. 18

the organisation as 'a just in case organisation', which keeps massive redundancy in a way that other modern businesses would not.'¹⁴ Australia's western military peers share many of the same problems with contemporary accounting requirements. ASPI note:

...it is far from a unique position for a western military to find itself in. The US Department of Defense cannot complete auditable accounts and both the UK and Canadian Ministries are both heavily qualified in some of the same ways as Australia's Defence Department.¹⁵

- 4.22 Simplistically, it may be possible to argue that accrual standards should not apply to Defence. However, Defence itself recognises the potential advantages of the accrual system:

Cash and cash flow are very important for investment decision making and understanding the day-to-day health of the business. That is very useful information in its own right. But accrual information gives you very good information about the long-term health and whether you are replacing depreciating assets. How your balance sheet is moving from year to year is an important indicator of the health of the business. So I think we need both in our environment. In the outside world there is no such thing as cash or accrual accounting; there is just accounting.¹⁶

- 4.23 Having determined that the accounting method was not the sole cause of the ongoing structural problems in Defence accounting, the committee explored the additional factors. One of the most obvious is the scale of the problem. Defence holds 75% of Government fixed assets and has millions of inventory items, which equates to \$52 billion in assets of which \$30 billion is specialised military equipment and \$10 billion is in land and buildings. The committee investigated two account qualification issues specifically associated with scale – property holdings and personnel leave accounting.

- 4.24 Remediation plan S8 referred to problems with property valuations. Defence has contracted out property valuation to the Australian Valuation Office (AVO). In an apparently reasonable decision, given the size and value of the Defence property portfolio, the Defence contract allowed AVO to bypass properties with a value of less than \$250 000. However, when considered together, the \$250 000 properties have a combined value of \$1.3 billion, a significant amount in any financial language. When asked

14 Mr Ric Smith, Secretary, Department of Defence, *Transcript*, p. 61

15 Mr Mark Thompson, ASPI, *The Cost of Defence – ASPI Defence Budget Brief 2005-2006*, May 2005, p.103

16 Mr Lloyd Bennett, Chief Finance Officer, Department of Defence, *Transcript*, p.63

by the committee to report progress on remediation plan S8, Defence stated:

We have put the [new AVO] valuation letter through very extensive review both internally and with external expert opinion to make sure it meets all the current standards and anticipates all the Australian equivalents to the international financial reporting standards and also all the latest issues through the Urgent Issues Group. Yes, we are very confident. On top of that, we are also making sure that we do, as it were, spot checks of the valuation work to make sure that we are confident they are applying all of those instructions in an appropriate way.¹⁷

- 4.25 The second audit concern relating to scale concerned leave accounting amongst the 70 000 strong Defence workforce. Defence described the complexity of leave accounting, particularly for uniformed personnel. These personnel were eligible for a range of leave types such as basic recreation leave, war service leave, field leave, and flying leave. To satisfy the Australian Auditing and Assurance Standards, each leave transaction must have a paper approval form showing the request by the individual concerned and the approval by a supervisor. To put this in context Defence explained 'in the last 12 months we took 2.3 million days worth of leave, and that involved 350,000 separate leave transactions'¹⁸. Each one of those transactions would involve at least one piece of paper, and ANAO advise that the Archives Act required Defence to retain those pieces of paper for seven years.
- 4.26 As part of the remediation process, Defence leadership described groups of senior managers searching through boxes of documents in archives seeking to audit old leave transactions. While the committee accepts the need to achieve the mandated requirements, stories such as this led the committee to explore whether this is an effective use of senior managers' time. The committee sought to determine whether other audit qualifications may be a result of old gaps or failings rather than being due to the current systems or processes.

Seeking Reliable Data

- 4.27 One of the most demanding legacy issues for Defence is the question of inventory value. The Secretary reported to the committee that this legacy alone could mean that Defence expects to have to qualify its reports for

17 Mr Lloyd Bennett, Chief Finance Officer, Department of Defence, *Transcript*, p.50

18 Rear Admiral Brian Adams, Head Defence Personnel Executive, Department of Defence, *Transcript*, p 69

some years to come when he said 'I realistically have to say that we will have some qualifications on our statements for some years to come, yes.'¹⁹

4.28 While the Secretary's comments highlight the significance of this issue it is also important to note that in evidence to the *Joint Committee of Public Accounts and Audit* (JCPAA) Defence has assured the Parliament that the qualifications do not affect its ability to conduct its business. The issue of inventory pricing and repairable items did not impact on Defence's 'capability to perform, nor [did] they reflect any demands on cash or any other fraudulent activity'.²⁰

4.29 Much of the Defence inventory has been in the system for many years. The inventory (excluding ammunition) is spread over almost 150 warehouses and includes over 1 and a half million line items. Defence was not required to record the value of old inventory until the mid 1990s so lacks valid data on the value of many inventory items. Defence must now look for a pricing system that will meet the requirements identified by ANAO before it can accurately report its accrual position. It is also important to remember that the inventory items being analysed may be as complex as the myriad sub-systems that comprise an F111, many of which have been periodically upgraded and are now quite different from the original.

4.30 Defence has previously described to the JCPAA how the SDSS inventory management system compounds the complexity described above:

[It was] very much designed on quantity managing an item as opposed to capturing the financial information ...It was developed in the early eighties...it was put in place before the requirement for accrual accounting came in. So it was never designed as a financial management tool.²¹

4.31 SDSS is emerging as an important yardstick when assessing the measures taken to address the structural deficiencies that prevent Defence from accurately reporting their financial position. Despite the significant investment in this Australian developed information systems tool the product remains significantly behind the best-practice tools in use in business and possibly by peer military organisations. Defence will be required to quickly decide whether to invest further in the system, risking reinforcement of its current failure, or to seek a best-practice solution elsewhere.

19 Mr Ric Smith, Secretary, Department of Defence, *Transcript*, p. 56

20 Mr Lloyd Bennet, Chief Finance Officer, Department of Defence, quoted in *The Review of Auditor General's Reports 2002-03*, September 2003, p.73

21 Ms Anne Thorpe, Department of Defence, quoted in *The Review of Auditor General's Reports 2002-03*, September 2003, p.73

4.32 Defence gave examples of pricing strategies they have proposed to the ANAO that would address the lack of data regarding inventory value in the SDSS:

We did not have the paper invoices from the 1970s or 1980s so we have to look for a surrogate. The Americans have a huge database called FED LOG with virtually every military inventory item or asset on it with a price against it. Given that the American government buys at the cheapest price and we always buy at a dearer price, at least using FED LOG would put a floor under the cost of our inventory. That was the theory but that was not acceptable.²²

4.33 Unfortunately, when ANAO audited a sample of the FEDLOG values, a proportion of the results were different to known values in Australia. This result is frustrating for Defence as within the Department small variations in value do not influence operational decisions about the employment of a particular stock item.

4.34 A similar problem exists in relation to the value of ammunition, known as Explosive Ordnance (EO). While Defence confirmed they know how much EO they are holding and where that stock is located, they cannot confirm the inventory cost. Differing accounting standards applied over the life of various ammunition types mean that different records are kept for different time periods.

4.35 Together, these two components of inventory value represent significant blocks toward the achievement of accurate accounts.

4.36 The complexity of the legacy issues faced by the current leadership of the Department and by the audit agencies is recognised. The committee supports initiatives to seek opportunities to 'draw lines in the sand' by selecting dates or points from which certainty can be achieved.

4.37 Defence and the ANAO are clearly working hard to identify such opportunities. Each proposed solution is submitted by Defence to the auditor for consideration and testing – an approach leading to many dead ends. However, the ANAO are unable to lead Defence through the issues without compromising their independence, a position in turn understood by the Defence leadership. Instead, Defence has cast its net widely in the audit and accounting industry, consulting with most of the leading private firms. However, the department is not glossing over the scale or nature of the issue:

Some of these we might have to accept. For instance, there will be a question about how long we go on arguing about pricing policy

22 Dr Stephen Gumley, Chief Executive Officer, Defence Materiel Organisation, *Transcript*, p. 56.

for inventory acquired some years ago. We could go on trying to develop a position on that and never agree and just go on committing people and effort to it, but it might be better to say: 'Okay, we'll live with that scar. It won't be enough to take us over the edge in itself, but it'll just have to sit there rather than try to spend another \$10 million fixing it.'²³

4.38 At the same time, Defence were frank in their discussion of their own structural impediments, or lack of controls, to a simple line-in-the-sand solution when they stated:

The sorts of controls we would be looking for are both the preventative controls that prevent people from getting it wrong in the first place and the detective controls—those controls which would let us know that some body has something wrong—or controls to give us insight or a management analysis into that. Clearly, at the moment we do not have enough of those in place and that is part of what we are doing with the remediation projects to start building the reports, the measures.²⁴

Conclusion

4.39 The committee notes that the impediments to Defence achieving an accurate financial statement are multi-dimensional. Many of these impediments result from the transition to a business style accounting model. Others relate to the scale of the organisation and the age and complexity of much of the equipment and stock holdings. The committee also notes the frankness with which the Defence leadership acknowledge that still further problems are a result of cultural issues in the department and technical accounting issues such as the lack of control systems.

4.40 As a result of these impediments, many of which are interconnected, the committee accepts the Defence argument that their accounts are likely to remain qualified for some time to come. Where the committee sees potential to help move, what may soon become an impasse, is in the need to identify points where it is possible to draw a line under old problems. Some of these problems elicit the law of diminishing returns – they are unlikely to be solved regardless of the amount of time or money thrown at them.

4.41 Defence has made considerable progress with qualifications that related to property valuations and the physical location of inventory through a

23 Ric Smith, Secretary, Department of Defence, *Transcript*, p. 56

24 Mr Lloyd Bennett, Chief Finance Officer, Department of Defence, *Transcript*, p.67

series of stocktakes. These two measures alone account for much of the cost to Defence of remediation thus far and should now be pursued to completion. Inventory location in an organisation such as Defence will always be difficult to pinpoint minute by minute. Therefore, it is likely that the 100% stocktake undertaken by Defence to meet the audit requirements will be out of date within days of its completion. Defence must rectify structural problems with the Standard Defence Supply System (SDSS) information system if it is to have any chance of accurately tracking inventory.

4.42 Three areas remain obvious candidates for stratification-based solutions in which Defence and the auditor seek to identify dates from which data can be trusted and then draw a line under those where data is never likely to be found. The Defence remediation areas in which stratified solutions may be found are as follows:

- S2 - inventory value,
- S4 - Explosive Ordnance (EO) value, and
- S5 - military leave.

4.43 The committee supports the Defence attempts to identify an alternate source of pricing data for old inventory. This effort must be linked to discussion between Defence and the Australian National Audit Office (ANAO) to determine the date from which existing data can be analysed to a degree appropriate to modern accounting practices. The methodology explored in relation to using prices listed in the US FEDLOG system appears to offer the most potential, of those discussed with the committee, to achieve a relatively accurate position in relation to old inventory value.

Recommendation 2

4.44 **The committee recommends that Defence seek to stratify inventory pricing data, drawing a line under old inventory for which pricing data cannot be found in order to prevent the wasteful expenditure of commonwealth funds in seeking records of values that are unlikely to exist.**

4.45 Regardless of the success of efforts to accurately define the value of Defence inventory, the limitations to the Standard Defence Supply System (SDSS) will continue to prevent an accurate depiction of the location and value of existing inventory. A decision must be made soon as to whether the existing system has the capacity to cope with the significant upgrades required to meet best practice, or whether an alternate system is available that better meets the requirement.

Recommendation 3

- 4.46 **The committee recommends that Defence analyse the Standard Defence Supply System (SDSS) to determine whether it has the capacity to cope with the significant upgrades required to meet best practice, or whether an alternate system is available that better meets the requirements of Defence practitioners and the audit legislation.**
- 4.47 The location and cost of Explosive Ordnance (EO) is a potentially more sensitive issue because of the security implications of misplaced items and the direct link to operational capability. The committee is pleased to note that the error rate in records of the location and types of EO held by Defence are particularly small, alleviating the security concerns of the committee. Like the inventory items discussed above, however, the values of the EO stocks held by Defence are difficult to determine. The committee supports Defence initiatives to identify appropriate values for EO stock in lieu of auditable purchase records, which were not required at the time of purchase.

Recommendation 4

- 4.48 **The committee recommends that Defence seek to stratify valuation data for Explosive Ordnance, seeking to identify points from which valuation records can be trusted, and then writing off the value of ordnance which predate current record keeping requirements, in order to prevent the waste of further resources in seeking old valuations that are unlikely to be found.**
- 4.49 Military leave discrepancies are more problematic. Adjustments to leave have a significant impact on morale, particularly when the leave has been earned as a result of arduous service on operations or in the field. The committee remains convinced, however, that the problems with leave record keeping must be resolved without further expenditure of time and resources searching for paper records that may be archived in a myriad of locations across the country, if they exist at all. Again, the committee favours an approach which seeks to identify a date from which data can be trusted and audited.
- 4.50 The largest area of concern with respect to Defence leave is in the area of military leave accounting. The committee acknowledges the scale and complexity of this remediation issue but is concerned by the Defence account of senior managers searching through paper archives to identify old leave transaction records. The remediation solution must ensure that

leave with a cash value, such as long-service leave, is accurately managed and fully audited. Defence reports that the error in accounting for this type of leave is very small, in the order of 0.2%. Where leave is of a type that cannot be redeemed for cash, the case for most military leave categories, the committee recommends that leave balances be accepted after a warning period of 30 days and wide publicity through the service newspapers. The committee assesses that sufficient time has elapsed since the migration of leave to the PMKeys information system to allow members to resolve any transfer errors. Adopting this approach is likely to ensure that service people suffer no detriment as they can have been expected to resolve any negative issues as soon as they were detected or at least during the 30 day warning period. A small number of errors may pass through such a line in the sand approach. These should be resolved using an appeals process put in place to ensure grievances can be resolved equitably. Resolution of leave discrepancies in this manner will save considerable time and effort seeking records from around the country.

Recommendation 5

- 4.51 **The committee recommends that military leave discrepancies be resolved by accepting current leave balances, after a 30 day warning period but that a process of appeal be established to ensure any grievances can be processed equitably.**