



**Sharon Grierson MP  
Federal Member for Newcastle**

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**Chair's Tabling Statement in the Federal Parliament**

**Joint Committee of Public Accounts and Audit's Report 411  
Progress on Equipment Acquisition and Financial Reporting in Defence**

Defence, the largest of all Australian government departments by budget and personnel volumes, is an immense and complex portfolio. Over the last decade it has been the subject of a great deal of public and Parliamentary scrutiny, with good reason. At the same time as it has been the beneficiary of generous funding, Defence has suffered from major deficiencies in its financial reporting and in its capacity to acquire major equipment both on time and on budget. Defence has been under intense pressure to make effective changes.

Two significant Defence-related reports were published in 2003. The first, a Senate committee report into materiel acquisition and management in Defence, provided a snapshot of progress since the restructure of the Defence Materiel Organisation. The second, the *Defence Procurement Review*, or the Kinnaird Review, recommended a number of important reforms to processes around developing and maintaining capability. The year 2003 also saw the initiation of a comprehensive financial remediation program to address Defence's financial management challenges.

In March 2006, the Joint Committee of Public Accounts and Audit decided it was time to take stock of the progress that has been made by Defence since those important reviews. To that end, it resolved to conduct an inquiry into financial reporting and equipment acquisition at the Department of Defence and the Defence Materiel Organisation.

The Committee received twenty written submissions, including from the Department of Defence, Defence industry representatives, as well as private individuals with an interest in the inquiry.

The Committee took evidence at public hearings during 2006 and 2007 and two inspections were conducted at Qantas Airways Limited to compare stores and procurement management processes.

The evidence suggested that Defence have undertaken a substantial amount of work to remediate its financial management practices. Likewise, both Defence and the Defence Materiel Organisation, have worked hard to implement the recommendations of the

Kinnaird Review. The Committee commends Defence's senior leadership teams to driving these reforms through the Department. However, there is more work to be done.

The Committee found three key areas were still deficient. First, while it is clear the Kinnaird Review recommendations have been implemented, it is not clear if the intent of the reforms is adequately reflected in performance outcomes. The intent of the Kinnaird reforms was to make the DMO a more business-like, outcomes-focused organisation so that optimum capability was realised. The extent to which this has occurred can be best determined through careful monitoring of acquisition projects outcomes.

Second, given the significant investment the Department has made in reforming its processes and practices, it is imperative that the Department develops techniques to evaluate the outcomes of its reform agenda, including documenting lessons learned. These techniques need to include creating and applying metrics to gauge the impact of the Kinnaird reforms on cultural change across the Department. Embedding best practice into ongoing performance remains a major challenge.

Linking these first two elements is the final area of concern - that of improving transparency and accountability in capability procurement across Defence – through the Major Projects Report. An absence of clear, consistent information from which to assess the progress of Defence's major acquisition projects has been a major concern for many years. This deficiency led the Committee to unanimously recommend that the Auditor-General receive funding to produce the annual Major Projects Report. This report represents a significant step forward for Defence. It is a vehicle by which project outcomes can be monitored and tracked in a systematic and holistic manner producing over time a comprehensive understanding of where projects succeed and where they fail. The Committee firmly believes that while the Major Projects Report is not a panacea for all Defence's acquisition difficulties, it will go a long way toward providing the transparency and accountability the Australian taxpayers deserve.

The Committee has recommended and expects the Department to address these findings and provide it with an update in 12 months time. Additionally, the Committee is committed to monitoring and reviewing the Major Projects Report annually. To that end, the Committee keenly awaits the pilot report which is anticipated to reach Parliament in November this year.

In concluding, I would like to acknowledge the organisations and individuals who prepared written submissions and gave up their time to appear before the Committee – the Committee is grateful for these contributions. I also thank the committee secretariat, in particular Kris Veenstra and Glenn Worthington for their support throughout this inquiry.

I also thank my colleagues on the Joint Committee of Public Accounts and Audit, in particular, the Defence Sectional Committee including Senator John Hogg, who in taking up the position of President of the Senate, is no longer a member of the Committee. We wish Senator Hogg well – he will be missed.

I commend the report to the House.