

The Auditor-General
Audit Report No.10 2003–04
Performance Audit

Australian Defence Force Recruiting Contract

Department of Defence

Australian National Audit Office

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Canberra ACT
27 October 2003

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Defence in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure to the Parliament. The report is titled *Australian Defence Force Recruiting Contract*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'P. J. Barrett'.

P. J. Barrett
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office. The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Abbreviations

ADF	Australian Defence Force
ANAO	Australian National Audit Office
APS	Australian Public Service
DDFR	Director Defence Force Recruiting
DFR	Defence Force Recruiting
DFRO	Defence Force Recruiting Organisation
DGWPRR	Director General Workforce Planning, Recruitment and Retention
DSC	Defence Service Centre
GMDFR	General Manager Defence Force Recruiting
KPI	Key Performance Indicator
MIS	Management Information System

Summary and Recommendations

Summary

Background

1. Defence's ability to defend Australia and its interests depends, in part, on its ability to recruit sufficient numbers of personnel to the Australian Defence Force (ADF) to enable it to undertake complex military operations. Defence has previously acknowledged that recruiting personnel is one of the most significant challenges it faces, with changing demographics in the Australian workforce presenting substantial problems for successful recruitment.
2. In 2002–03, the ADF recruited 4322 members to its permanent force, against a target of 5164. In the same period, 3065 members were recruited to the Reserve force, against a target of 3605. For the permanent force, the percentage of the recruitment target achieved for the whole of the ADF improved from 76 to 93 per cent between 1999–2000 and 2001–02, falling to 84 per cent in 2002–03. For the Reserve force, the percentage of the recruitment target achieved increased from 34 to 85 per cent between 1999–2000 and 2002–03.
3. Following signature of the original outsourcing contract between Defence and Manpower Services (Australia) Pty Ltd (Manpower) in September 2000, two trials of outsourcing the provision of recruiting services to the ADF were conducted in the regions of Victoria, Southern NSW (excluding Sydney) and Tasmania. On 14 November 2002, Defence and Manpower signed the second amendment deed to the contract, providing for Manpower to supply recruiting services to the ADF nationally.
4. A composite organisation, Defence Force Recruiting (DFR), consisting of personnel from Defence (ADF and Australian Public Service) and Manpower, has been responsible for delivering ADF recruiting services since 1 July 2003. DFR's objectives, as specified by the second amendment deed, are to recruit the right number of people of the right quality at the right time to meet enlistment targets, while reducing the overall cost of recruiting services and ensuring uniform national standards and equality of access to an ADF career by all interested Australians.
5. As part of its 2001 inquiry into the recruitment and retention of ADF personnel, the Senate Foreign Affairs, Defence and Trade References Committee reviewed Defence's contract with Manpower for trialling the outsourcing of recruiting services to the ADF. In its inquiry, the Committee found that benchmarks against which an evaluation could be conducted were not included in the contract. From this, the Committee concluded that the evaluation regime

lacked a pre-determined 'line in the sand'. In its subsequent report, the Committee commented that the original contractual arrangements with Manpower for the trial left much to be desired and deserved further scrutiny by the Australian National Audit Office (ANAO).

6. The objective of the audit was to examine Defence's management of the contractual arrangements with Manpower for the provision of recruiting services to the ADF. In examining the management of the contract, the ANAO looked at the roles and responsibilities associated with ADF recruiting, and Defence's monitoring of contractual performance and management of risks associated with ADF recruiting. Manpower itself was not subject to the audit.

Key audit findings

Contract Evaluation (Chapter 2)

7. The ANAO examined the evaluations conducted of the two trials of outsourcing the provision of ADF recruiting services. Both of these evaluations were essentially benchmarking exercises.

8. The ANAO also considered the evaluation provisions of the contract's second amendment deed in the light of the Senate Committee's concerns. The provisions allow for an evaluation, to be conducted by a professional evaluator, of the performance of DFR in the first three years of the contract. However, as there is no mention of benchmarks to be used in the evaluation, the ANAO considers that the Senate Committee's concerns would not be allayed. The ANAO considers that documented performance against the contract objectives would be an appropriate benchmark to inform the decision on whether Manpower's term is to be extended.

Contract Management (Chapter 3)

9. The ANAO found that roles and responsibilities for the delivery of ADF recruitment services are clearly specified in the contract. These are promulgated in *Defence Instruction (General) Personnel 29-1 Defence Force Recruiting*. DFR's organisational structure includes a Board of Management, intended to assist with the management and administration of DFR at a strategic level, and an Operational Management Group, intended to advise on the management and administration of DFR at an operational level.

10. A cell in DFR manages the contract. The ANAO found that not all of the processes used by this cell for day-to-day management of the contract were adequately documented. Documentation of processes is under way but this is likely to be slow due to resource constraints.

11. A management information system has been developed by the contract administration cell to be used in managing and monitoring performance under the contract. This should prove to be useful in managing the contract and in monitoring Manpower's contractual compliance.

Monitoring Contract Performance (Chapter 4)

12. The ANAO found that DFR has put in place adequate processes to monitor performance under, and compliance with, the second amendment deed. These issues are regularly reported to the Board of Management and Operational Management Group.

13. The ANAO considers that the key performance indicators established in the contract are measurable and provide a focus on elements which are key to the achievement of the DFR mission, which is 'to recruit the right people to sustain and enhance Defence capability.'

14. DFR also has measures in place to gain feedback on the recruiting process from those who have, and have not, been successful in their attempt to join the ADF. The level of satisfaction with the ADF recruiting process is measured by the ADF Entrant Opinion Survey, which is completed by new recruits to the permanent and Reserve forces on their appointment or enlistment day. Two reports based on the analysis of responses have been completed. These reports indicate which aspects of the recruiting process successful applicants are satisfied with and which areas DFR may need to refine.

15. In addition, Air Force administers a series of questionnaires seeking opinions on the recruiting process. Following discussions between the Directorate of Strategic Personnel Planning and Research and Air Force, it has been agreed that they will work together on aligning or combining the Air Force questionnaires and the ADF Entrant Opinion Survey to avoid unnecessary duplication of resources.

16. Complaints about the recruiting process are centrally monitored to allow for the identification of trends.

Risk Management (Chapter 5)

17. The ANAO found that a risk management approach is apparent in Defence's approach to ADF recruiting, although this is not always evident in formal documentation. Steps are being undertaken in DFR to address this issue, and to update the risk management plan. The ANAO notes that Manpower is yet to meet its contractual requirement to provide a Risk Management Plan.

18. The DFR Risk Management Plan will be passed to the Operational Management Group for approval and ongoing management. High-level consideration is given to the issue of risk through regular consideration by the Board of Management.

Overall audit conclusion

19. Overall, the ANAO found Defence's contractual arrangements with Manpower for the provision of recruiting services to be sound. Over the course of the audit, the ANAO observed many areas of contract management, such as the reporting and monitoring of contract performance, to be in accordance with better practice. In other areas, DFR showed a willingness to implement suggested measures, subject to time and resource constraints. The ANAO also noted DFR exhibited an awareness for continuous improvement to identify and treat practices that affect recruiting outcomes.

20. The ANAO considers, however, that the arrangements for an evaluation of performance under the second amendment deed would be insufficient to meet the Senate Committee's concerns about the need for benchmarks or evaluation criteria to inform the decision on whether Manpower's term is to be extended. Defence has advised that it has commenced benchmarking recruiting finances and performance for the two years prior to national rollout, that is, 2001–02 and 2002–03. The results of the benchmarking exercise will be used in assessing the ongoing performance of the outsourced recruiting function, as well as assisting in the evaluation of the first three years of the contract term. Defence will capture recruiting data on a monthly basis to use in assessing Manpower's performance in providing ADF recruiting services.

21. Defence has further advised that a 'line in the sand' will have to be agreed by Manpower to enable the full comparison of recruiting activity to be evaluated. It is Defence's intention to have the benchmark and evaluation criteria in place by end November 2003.

Response to the report

22. The proposed report was issued to Defence and Manpower. Manpower had no comments on the proposed report. Defence advised the ANAO of its response to the audit as follows:

Defence took the opportunity to work with the auditors at this early stage of the outsourced delivery of ADF recruiting services to focus on areas of the contractual arrangements between Defence and Manpower that could be improved. Defence agrees with the ANAO recommendations that Defence continue to develop performance measures and processes for evaluating the contract with Manpower.

Defence Force Recruiting is currently developing benchmarks and criteria to do so and will take them to the ANAO for comment in November 2003. Defence appreciates the ANAO's overall conclusion that Defence's contractual arrangements with Manpower for the provision of recruiting services are sound.

Recommendations

Set out below are the ANAO's recommendations, with report paragraph references, and an indication of the Defence response.

Recommendation No. 1
Para. 2.56 The ANAO recommends that, as a matter of priority, Defence complete the documentation of performance against the Australian Defence Force recruitment contract objectives, specified in the second amendment deed, for use in evaluating the performance of Defence Force Recruiting.

Defence response: Agreed.

Recommendation No. 2
Para. 3.15 The ANAO recommends that Defence Force Recruiting continue to document the processes utilised in the management of the contract and establish a firm timetable for the completion of this task.

Defence response: Agreed.

Audit Findings and Conclusions

1. ADF Recruiting Arrangements

This chapter provides some background about ADF recruiting. It also sets out the objectives and scope of the audit and outlines the report structure.

Overview

1.1 Defence's ability to defend Australia and its interests depends, in part, on fulfilling its people goal of ensuring that the ADF has the right people with the right skills and experience to provide the capabilities needed to undertake complex military operations.^{1 2} Being able to recruit sufficient numbers of personnel to the ADF is paramount to Defence's capacity to do this. The importance of recruiting is reflected in the five themes which underpin Defence's people capability policies and initiatives. These themes are:

- Attracting—to make Defence an employer of choice;
- Recruiting—to recruit the right people;
- Developing—to develop our people to meet Defence and individual needs;
- Retaining—to create a climate where the people with the skills we need will want to stay in Defence; and
- Transitioning—to ensure that our people are supported when they leave Defence and that they are welcome back, including for part-time work.³

Entry into the ADF, both into the permanent and Reserve forces, is predominantly at base level positions. Entry at higher level positions tends to be limited to selected employment categories where civilians possess recognised qualifications in professional and specialist technical vocations.

2000 Defence White Paper

1.2 The 2000 Defence White Paper commented that 'the key to maintaining the ADF as a first-class military force is having the right people, with the skills and experience they need to succeed in complex military operations'.⁴ The White Paper further commented that 'recruiting and retaining sufficient skilled and

¹ *Portfolio Budget Statements 2003–04, Defence Portfolio (Department of Defence and the Defence Housing Authority), Budget Related Papers Nos. 1.4A and 1.4C, 2003, p. 3 and 13.*

² 'Defence' comprises the Department of Defence and the Australian Defence Force (ADF), which in turn comprises the three Services: Navy, Army and Air Force.

³ *Portfolio Budget Statements 2003–04, op. cit., p. 175.*

⁴ *Defence 2000: Our Future Defence Force, Defence Publishing Service, Canberra, 2000, p. xii.*

experienced people will be one of the most significant challenges in building the ADF of the twenty-first century'.⁵

1.3 The White Paper outlined proposals to increase the size of the ADF's permanent force from 51 500 to 54 000 members by 2010⁶ and noted that 'recruiting the right sort of people for our Defence Force will not be easy'.⁷ The changing demographics of the Australian workforce were identified as a significant contributor to the recruiting problem,⁸ which is exacerbated when separation rates from the three Services are higher than normal.⁹

1.4 The White Paper observed that ADF recruiting processes were being re-designed, with innovations including:

- trialling a commercial service provider;
- making better use of technology, including use of call centres;¹⁰
- delivering information more rapidly; and
- faster, more efficient processing of applications.¹¹

Recent recruiting performance

1.5 In September 2002, the then Minister Assisting the Minister for Defence commented that the ADF had demonstrated exceptional performance by increasing the number of enlistments in the previous three years.¹² The Minister stated that, over that period, enlistments to the permanent force had increased by almost 50 per cent and to the Reserve force by over 70 per cent.¹³ Figures 1 and 2 show the percentage of the recruitment target achieved for each of the Services, and the ADF as a whole, together with the target, for the years 1999–2000 to 2002–03.

⁵ *ibid.*, p. xii.

⁶ *ibid.*, p. xii.

⁷ *ibid.*, p. 62.

⁸ *ibid.*, p. 66.

⁹ *ibid.*, p. 62.

¹⁰ *ibid.*, p. 67.

¹¹ *ibid.*, p. 68.

¹² The Hon. Danna Vale [Minister Assisting the Minister for Defence], *Boost For Defence Force Recruiting*, Media Release MIN521/02, [26 September 2002], 2002.

This media release has been reproduced in Appendix 2.

¹³ ANAO analysis shows that the increases were 44.3 per cent for the permanent force and 68.9 per cent for the Reserve force.

1.6 The ADF permanent and Reserve forces grew from 51 365 and 21 001 members at 30 June 2002,¹⁴ respectively, to 51 791 and 21 588 members at 30 June 2003.¹⁵ These figures include 4322 members recruited to the permanent force in 2002–03 (5836 in 2001–02)¹⁶ and 3065 members recruited to the Reserve force in 2002–03 (2870 in 2001–02).¹⁷ These figures indicate that the increase in the size of the permanent and Reserve forces can be attributed to an improvement in retention rather than an improvement in recruiting performance. Although there was an improvement in recruiting personnel to the Reserve force between 2001–02 and 2002–03, this is smaller than the increase in numbers to the Reserve force.

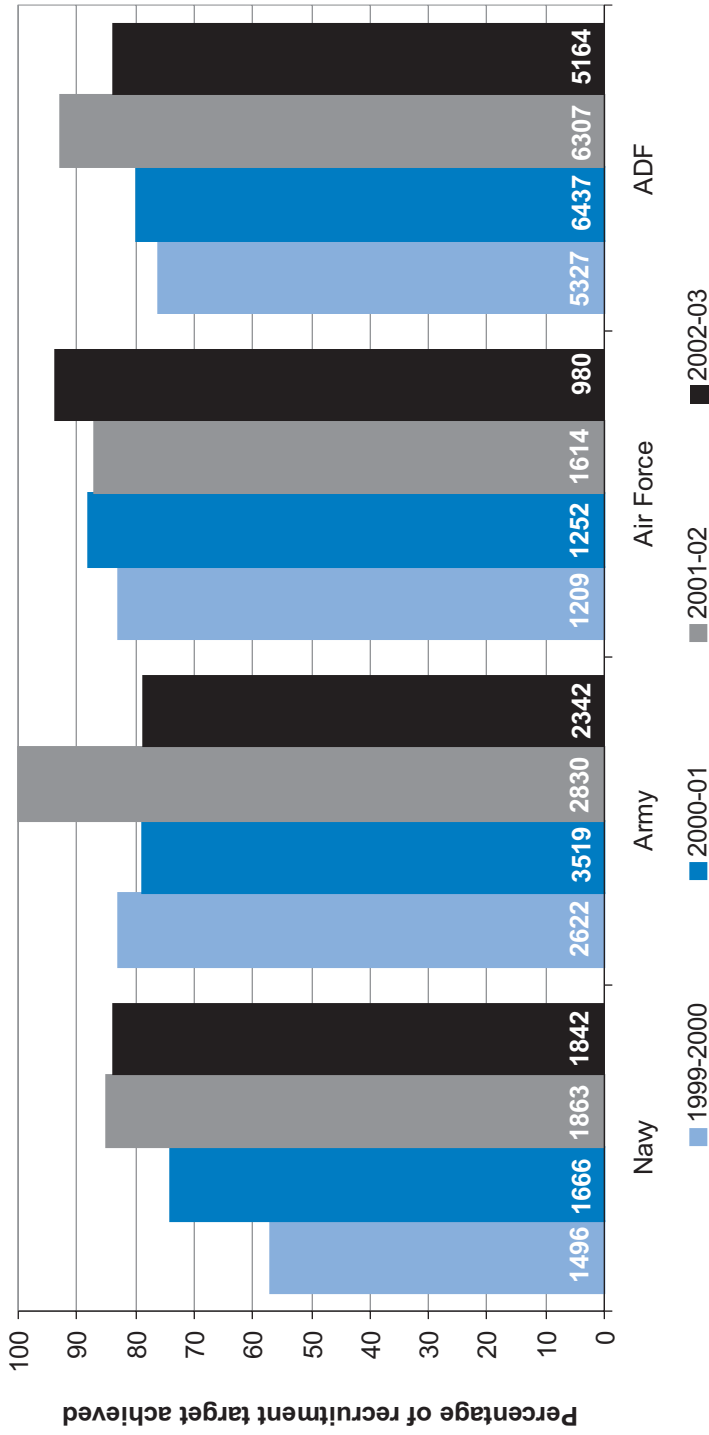
¹⁴ *Defence Annual Report 2001–02*, 2002, pp. 286–7.

¹⁵ Data for 2002–03 was supplied by DWPE.

¹⁶ *Defence Annual Report 2001–02*, op. cit., p. 291.
Data for 2002–03 was supplied by DFR.

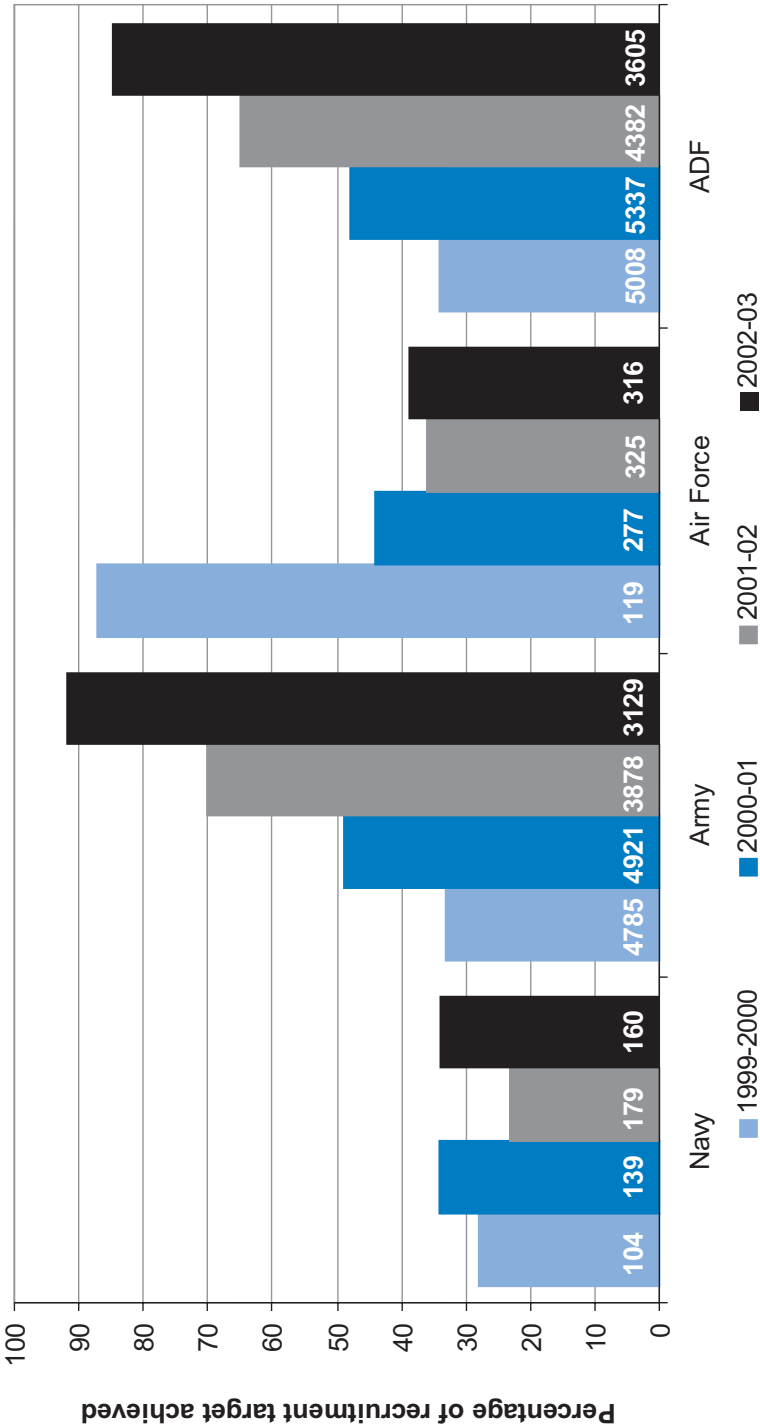
¹⁷ *Defence Annual Report 2001–02*, op. cit., p. 292.
Data for 2002–03 was supplied by DFR.

Figure 1
Recruitment target achievement—permanent force, 1999–2000 to 2002–03



Source: *Defence Annual Report 2001–02*, Table 5.12: ADF—Permanent Force Recruiting Activity 2000–01 and 2001–02, p. 291.
 Data for 1999–2000 and 2002–03 was supplied by DFF.

Figure 2
Recruitment target achievement—Reserve force, 1999–2000 to 2002–03



Source: *Defence Annual Report 2001–02*, Table 5.13: ADF—Reserve Force Enlistments 2000–01 and 2001–02, p. 292. Data for 1999–2000 and 2002–03 was supplied by DFR.

1.7 The Minister also commented in September 2002 that the recruiting results achieved in the past three years were ‘... even more impressive when set against a reduction in marketing and advertising spending of 35 per cent over the same period’.¹⁸ The Australian National Audit Office (ANAO) was advised by the Minister’s office that this data was provided by Defence.

1.8 The ANAO notes, however, that data available in Defence does not support this comment. Figure 3 shows marketing and advertising expenditure for ADF recruiting purposes from 1999–2000 to 2002–03. Data supplied by Defence Force Recruiting (DFR)¹⁹ indicates that marketing and advertising expenditure increased from \$32.5 million in 1999–2000 to \$42.1 million in 2000–01 (which represents an increase of 29 per cent). From 2000–01 to 2001–02 expenditure then fell to \$33.0 million (a decrease of 22 per cent). This represents an overall increase between 1999–2000 to 2001–02 of 1.48 per cent.

1.9 Marketing and advertising expenditure for ADF recruiting in 2002–03 was \$26.3 million.^{20 21}

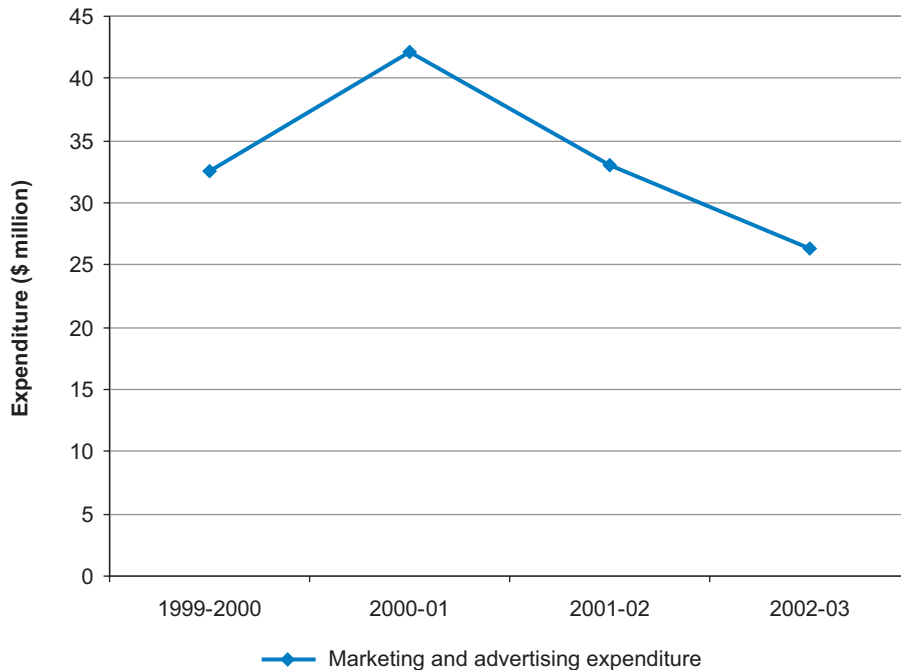
¹⁸ The Hon. Danna Vale, op. cit.

¹⁹ Figures for marketing and advertising expenditure for 2001–02 were obtained from the *Defence Annual Report 2001–02*. As previous annual reports did not provide figures on marketing and advertising expenditure in a form consistent with that of the Annual Report for 2001–02 information for 1999–2000 and 2000–01 was obtained from DFR.

²⁰ From 2000–01 to 2002–03 there was a decrease in recruiting marketing and advertising expenditure of 37.5 per cent.

Data for 2002–03 was supplied by DFR.

²¹ The projected cost of marketing and advertising for 2003–04 is in Table 2. Reduction in advertising and marketing expenditure of five per cent per year (based on the advertising and marketing allocation in the DFR budget for the previous year) is a key performance indicator (KPI) against which to measure the performance of DFR and the performance of the recruiting services. This KPI is discussed in Chapter 4.

Figure 3**ADF recruitment marketing and advertising expenditure, 1999–2000 to 2002–03**

Source: *Defence Annual Report 2001–02*, Table 5.14: Total Advertising and Market Research Expenditure—Defence Force Recruiting Organisation, p. 293.

Data for 1999–2000, 2000–01 and 2002–03 was supplied by DFR.

Note: Recruiting marketing and advertising expenditure consists of:

- advertising agencies—20.42 per cent of recruiting marketing and advertising expenditure for 2002–03;
- media advertising organisations—77.34 per cent of recruiting marketing and advertising expenditure for 2002–03; and
- market research organisations—2.24 per cent of recruiting marketing and advertising expenditure for 2002–03.

Delivery of ADF recruiting services

1.10 Recruitment of personnel to the ADF is centrally managed in Defence by Defence Force Recruiting.²² Targets are set by the individual Services with assistance from the Directorate of Workforce Planning and Establishments. Entry standards for recruits are set by the Services. Recruiting units throughout Australia advise and interview potential applicants to the ADF.

²² Prior to January 2003, Defence Force Recruiting was known as the Defence Force Recruiting Organisation (DFRO). This report uses the latter title when the events being referred to occurred prior to January 2003.

Market testing the provision of ADF recruiting services

1.11 ADF recruitment was an issue considered in the Defence Efficiency Review (DER) in 1997. The possibility of commercialising a significant number of recruiting processes by Defence was considered by the DER Secretariat. It noted that steps to commercialise recruiting had generally been discouraged, but there were indications that substantial savings could be made. The Secretariat considered that, as a minimum, Defence should test recruiting processes in a major recruiting centre as a matter of priority, and made a recommendation to this effect. It was estimated that savings of \$10 million per annum could be realised in the area of recruiting.²³

1.12 In 1998, in line with that recommendation, Head Defence Personnel Executive directed that recruiting operations be market tested. The aim of market-testing was to develop a cost effective Defence recruiting model and to assess whether outsourcing the provision of recruiting services to the ADF would be viable.

1.13 After a competitive tendering process in 1999–2000, Defence signed a six-year contract on 4 September 2000 with Manpower Services (Australia) Pty Ltd.²⁴ The contract period was broken into two. During Phase 1, which was to last one year, Manpower was:

... only required to provide the Recruiting Services in the regions of Victoria, Southern NSW (excluding Sydney) and Tasmania. The area of operations for Southern NSW will be NSW as far north as that area of and including Tumbarumba and Tumut in the east, Coolac, Junee, Leeton, Hay, Balranald following the Sturt Highway to Robinvale. During Phase Two, the Service Provider [Manpower] is required to provide the Recruitment Services nationally, for all States and Territories.^{25 26}

²³ *Future Directions for the Management of Australia's Defence, Addendum to the Report of the Defence Efficiency Review*, Secretariat Papers, 1997, Directorate of Publishing and Visual Communications, Canberra, p. 279.

The recommendation that a significant number of recruiting processes should be market tested was made by the DER Secretariat and was not a recommendation of the DER Senior Review Panel. The Panel said in its report that it benefited greatly from papers produced by the Secretariat but did not always accept its recommendations.

²⁴ *Contract for the provision of recruiting services to the Australian Defence Force*.

²⁵ *ibid.*, Statement of Work, cl. 1.3.

²⁶ Recruiting services to be provided were:

- recruitment planning services;
- career information services;
- testing and assessment services; and
- recruitment support services.

Contract for the provision of recruiting services to the Australian Defence Force, op. cit., Statement of Work, cl. 2.1.

Recruiting services outside the Southern region continued to be provided by DFRO during Phase 1. The aim of Phase 1 was to assess whether Manpower could deliver recruiting services to the required ADF standards. Phase 1 was extended ('Phase 1A') to 2002.

1.14 On 14 November 2002, Defence and Manpower signed an agreement for the national provision of recruiting services to the ADF.²⁷ This agreement is collaborative in nature and establishes that Defence and Manpower will work together to achieve outcomes. Table 1 shows the key events leading to the signing of this agreement.

Table 1

Key events leading to outsourcing of recruiting services to the ADF

<p>Phase 1 (also known as the 'Pilot')</p> <p>4 September 2000 to 3 September 2001</p>	4 September 2000	<i>Contract for the provision of recruiting services to the Australian Defence Force signed by Defence and Manpower.</i>
	April 2001	<i>Performance Evaluation Team Report on the Provision of Recruiting Services to the Australian Defence Force presented to Defence.</i>
<p>Phase 1A</p> <p>11 August 2001 to 11 July 2002</p>	20 August 2001	<i>First Amendment Deed to the Contract for the Provision of Recruiting Services to the Australian Defence Force signed by Defence and Manpower.</i>
	August 2002	<i>Backing Results through People: ADF Recruiting Services Outsourcing Trial Evaluation Final Report presented to Defence.</i>
<p>Phase 2</p> <p>14 November 2002 to 30 June 2007</p>	14 November 2002	<i>Second Amendment Deed to the Contract for the Provision of Recruiting Services to the Australian Defence Force signed by Defence and Manpower.</i>
	November 2002 to 30 June 2003	Transition-in period.
	1 July 2003	Manpower becomes responsible for the national provision of recruiting services to the ADF.

Source: ANAO analysis of Defence documents.

Note: The evaluation reports prepared during Phase 1 and Phase 1A are discussed in Chapter 2.

²⁷ *Second Amendment Deed to the Contract for the Provision of Recruiting Services to the Australian Defence Force.*

1.15 ADF recruiting services are now delivered by a composite organisation, Defence Force Recruiting, which consists of personnel from Defence (ADF and Australian Public Service (APS))²⁸ and Manpower. Responsibility within this organisation for activities such as financial and resource management and development and implementation of the national marketing plan has been designated as belonging to either ADF, APS or Manpower personnel.²⁹ Within DFR, Manpower is specifically responsible for:

- providing the administrative and logistical support required for the overall administrative management of candidates;
- managing Service personnel 'embedded' in DFR in accordance with agreed employment guidelines,³⁰ and
- information and technology support services.³¹

Defence is responsible for providing recruitment targets to Manpower,³² which is paid according to the level of achievement against these targets.³³

1.16 When an applicant makes an initial enquiry seeking basic information about applying to become a member of the ADF, calling the 131 901 phone number, their call will be handled by a Defence public servant at the Defence Service Centre.³⁴ Alternatively, or to gain specific information about one of the Services or a particular job of interest, such as a Nursing Officer, the applicant may attend an ADF Career Reference Centre, where they can speak to a member of the ADF.

1.17 During the assessment stage of the recruiting process, the applicant will undergo medical and psychological tests, which are delivered by Manpower sub-contractors. A 'Defence Interviewer', who is a member of the ADF, interviews applicants during this stage of the recruiting process.

The cost of ADF recruiting

1.18 The cost of recruiting personnel to the ADF is not restricted to costs incurred by DFR but includes costs borne by other parts of Defence. The latter

²⁸ Most of the ADF personnel are 'embedded personnel' under the supervision of Manpower and employed on tasks that contribute to the performance of the recruiting services. For example, embedded personnel will provide potential applicants with a perspective on Service life.

²⁹ *Defence Instruction (General) Personnel 29-1 Defence Force Recruiting*, p. 3.

³⁰ DI(G) PERS 29-1 specifies that DDFR is responsible for personnel management, including performance appraisal and career developmental requirements, for all staff posted to DFR units.

³¹ DI(G) PERS 29-1, op. cit., p. 5.

³² Targets for the next financial year will be provided to the Board of Management by 1 October in the preceding year, as a preliminary target estimate, and by 1 March, as a confirmed target.

³³ Fees payable to Manpower are discussed in Appendix 3.

³⁴ The Defence Service Centre is discussed in Appendix 4.

costs tend to relate to the provision of certain services which are designated under the second amendment deed as being functions retained by Defence. Retained functions may be funded by DFR or other parts of Defence. Candidate travel from the point of enlistment to the initial training establishment, and handling initial enquiries about joining the ADF by the Defence Service Centre, are retained functions funded by parts of Defence other than DFR.³⁵

1.19 Under the second amendment deed, Defence is obliged to provide personnel, as required, to be 'embedded' as part of DFR. The cost associated with these personnel, funding for the provision of the communication plan, and the fees payable to Manpower for recruiting personnel to the ADF, form the bulk of the recruiting costs incurred by DFR, as is shown in Table 2.

Table 2

Projected cost of ADF recruiting for 2003–04

	\$ million	Percentage of total recruiting expenditure (%)
Fees payable to Manpower	55.0	52.3
Advertising and marketing	27.0	25.7
Day-to-day expenses	2.6	2.5
Employee expenses	20.5	19.5
TOTAL	105.1	100

Source: *Defence Force Recruiting Report*, May 2003, supplied to Operational Management Group.

Note: 'Fees payable to Manpower' have been estimated based on 100 per cent achievement of the recruitment targets.

1.20 Employee expenses (see Table 2) are to meet the cost of embedded ADF personnel, in addition to those required to manage DFR. Under the contract, Defence is responsible for supplying the following number of staff in DFR:

- 221 full-time ADF personnel;
- 39 Reservists; and
- 15 Defence APS employees.³⁶

1.21 Fees payable to Manpower for provision of ADF recruiting services consist of a fixed fee (\$499 563 per month, or \$5 994 756 per annum)³⁷ and a recruitment fee. The recruitment fee is payable monthly to Manpower and is dependent on Manpower's level of achievement against the enlistment targets set each year.³⁸

³⁵ DI(G) PERS 29-1, op. cit., Annex A to DI(G) PERS 29-1: Defence Retained Functions.

³⁶ *Second Amendment Deed*, op. cit., Part E: Contract Particulars, Attachment 3: Quantity of Manpower Employees and Embedded Personnel.

³⁷ *ibid.*, Part F: Pricing Schedule, cl. 2.1.

³⁸ *ibid.*, cl. 3.1.

The total fee payable to Manpower for 2003–04 has been estimated by DFR to be \$48.3 million, based on DFR’s experience that less than 100 per cent of the recruitment target will be achieved for some categories.

1.22 Fees payable to Manpower are discussed in Appendix 3.

The audit

1.23 The Senate Foreign Affairs, Defence and Trade References Committee reviewed Defence’s contract with Manpower Defence Recruiting for the provision of recruiting services to the ADF as part of its inquiry into recruitment and retention of ADF personnel.³⁹ In their subsequent report, the Committee commented that ‘the original contractual arrangements with Manpower for the trial leave much to be desired and deserve further scrutiny by ANAO’.⁴⁰ (The Committee’s concerns are discussed in Chapter 2.)

1.24 In response to the Committee’s comments, the ADF recruiting contract was selected as a topic for audit. This topic addresses the performance audit theme of procurement and contract management. In addition, the topic is consistent with the human resource management theme the ANAO has adopted as an element of its audit coverage in recognition of the importance of workforce planning and effective human resource management for the production of agency outputs and outcomes.

Audit objective

1.25 During the ANAO’s preliminary study in March and April 2003, it became apparent that a full audit was not warranted at this time as ADF recruiting was subject to considerable change. It was instead decided to conduct a limited scope performance audit to provide assurance to Parliament about Defence’s management of the contractual arrangements with Manpower for the provision of recruiting services to the ADF. As such, Manpower itself was not subject to the audit.

1.26 An audit of ADF recruiting practices and procedures will be considered in the context of the ANAO’s annual work program for 2004–05.

Audit scope and methodology

1.27 The scope of the audit included an examination of:

³⁹ Manpower operated as ‘Manpower Defence Recruiting’ with respect to the provision of services to the ADF during the initial stage of the operation of the contract.

⁴⁰ Senate Foreign Affairs, Defence and Trade References Committee, *Recruitment and Retention of ADF Personnel*, Canberra, 2001, p. 36.

- the evaluation process informing the final decision made at the end of each contractual phase for outsourcing the provision of recruiting services to the ADF;
- the roles and responsibilities associated with ADF recruiting and the contract management framework;
- monitoring performance in the delivery of contracted services;
- costs incurred by DFR in recruiting personnel to the ADF; and
- risk management of recruiting to the ADF.

1.28 The findings presented in this report are based on examination of contract management files held by DFR and interviews with Defence personnel responsible for managing aspects of the contract. Comments were also sought from each of the Services, the Defence Service Centre and Manpower.

1.29 A discussion paper consolidating the findings of the audit was provided to Defence and Manpower in mid-June 2003. Comments on the discussion paper were received in early August and considered in the preparation of the proposed report. The proposed report was provided to Defence and Manpower in August 2003. Comments made by Defence in response to the proposed report are reproduced in full at Appendix 1.

1.30 The audit was conducted in conformance with ANAO auditing standards and cost \$160 000.

Previous audit coverage

1.31 The ANAO has not previously audited ADF recruitment operations exclusively. However, several ANAO audit reports have included the issue of recruitment to the ADF as part of wider considerations. Relevant findings from these audit reports are outlined in Appendix 5.

Report structure

1.32 The remainder of this report is structured as follows:

- Chapter 2—examines the Senate Committee concerns and the evaluations conducted of the contract phases;
- Chapter 3—discusses the framework for the management of the contract;
- Chapter 4—examines the processes established to monitor contract performance; and
- Chapter 5—examines risk management in Defence for ADF recruitment.

2. Contract Evaluation

This chapter discusses the Senate Foreign Affairs, Defence and Trade References Committee's concerns about the contract for the provision of ADF recruiting services. The conclusions and recommendations made in the evaluation reports of Phase 1 and Phase 1A are examined, together with the evaluation provisions in the second amendment deed and whether these would address the Senate Committee's concerns.

Senate Committee's concerns about the contract

2.1 As part of the Senate Foreign Affairs, Defence and Trade References Committee's inquiry into recruitment and retention of ADF personnel, the Committee reviewed Defence's contract with Manpower for provision of ADF recruiting services.⁴¹ The Committee visited an ADF recruiting unit in Melbourne on 26 July 2001 and took evidence from Manpower at a public hearing on 21 September 2001. The period of operation of the contract examined by the Committee was Phase 1, which had just been completed at the time of the hearing.

2.2 The Committee asked about the evaluation of Phase 1. Manpower's then chief executive informed the Committee that Manpower understood that after the evaluation '... a decision would be made about whether to go into a full national roll-out'.⁴²

2.3 The Committee then questioned the then chief executive about benchmarks against which an evaluation might be conducted.⁴³ He indicated that there were no benchmarks in the contract, and that '... the ability to benchmark our performance under the original contract was not there'.⁴⁴

2.4 With the presence of key performance indicators (KPIs), but absence of benchmarks, in the contract, the Committee, in its subsequent report, commented that '... the contract lacked a proper evaluation mechanism'.⁴⁵ The Committee further commented that 'It was remiss of Defence not to include a full evaluation regime in the contract so that both sides had confidence that Manpower's

⁴¹ *ibid.*, p. 32.

⁴² Malcolm Jackman, Senate Foreign Affairs, Defence and Trade References Committee Inquiry—Reference: Recruitment and retention of Australian Defence Force personnel, *Official Committee Hansard*, DPRS, Canberra, [21 September 2001], p. FAD&T 717.

⁴³ Senator John Hogg, Senate Foreign Affairs, Defence and Trade References Committee Inquiry—Reference: Recruitment and retention of Australian Defence Force personnel, *Official Committee Hansard*, DPRS, Canberra, [21 September 2001], p. FAD&T 718.

⁴⁴ Malcolm Jackman, *op. cit.*, p. FAD&T 718.

⁴⁵ Senate Foreign Affairs, Defence and Trade References Committee, *op. cit.*, p. 34.

performance was adequately assessed and a decision to continue with the contract or terminate it was soundly based'.⁴⁶

2.5 The Committee was not specific about what it expected of an evaluation regime. Implicit in the discussion between members of the Committee and Manpower is an expectation that a full evaluation regime would include a pre-determined 'line in the sand', with successful achievement of that line resulting in progression to the next stage of the contract.

Phase 1

2.6 Defence and Manpower signed the contract for the provision of recruiting services for the ADF on 4 September 2000. Under the contract, a pilot phase (also known as 'Phase 1') was designated as 4 September 2000 to 3 September 2001. During this phase, Defence was to decide whether Manpower could deliver the desired recruiting services to the required ADF standards, prior to implementation of Phase 2, in which Manpower would provide ADF recruiting services on a national basis. At the conclusion of Phase 1, the options available to Defence under the contract were to:

- proceed with Phase 2 of the contract in its entirety;
- require Manpower to perform only some of the stated recruiting services during Phase 2 (i.e. reduce the scope of Phase 2);
- notify Manpower that it must remedy any identified breach of contract, or submit a remediation plan for such breach; or
- not proceed with Phase 2 at all (i.e. terminate the contract).⁴⁷

2.7 An evaluation of Phase 1 was conducted in March and April 2001. This timing was chosen as, under the contract, Defence was required to notify Manpower of the way it intended to proceed within 84 days prior to the end of Phase 1 (i.e. by 12 June 2001). An evaluation team, known as the Recruiting Services Performance Evaluation Team, was led by Cogent Business Solutions Pty Ltd and included representatives from each of the Services, Defence Health Services, Defence Force Psychology Organisation and law firm Clayton Utz.⁴⁸

⁴⁶ *ibid.*, p. 34.

⁴⁷ J. E. Longworth, *Performance Evaluation Team Report on the Provision of Recruiting Services to the Australian Defence Force*, April 2001, Annex A: Recruiting Services Performance Evaluation Team ('RSPET') Terms of Reference ('TOR').

⁴⁸ Defence Health Services provides medical entry standards and procedures for medical examinations of applicants. Defence Force Psychology Organisation is responsible for the provision of psychological entry standards to the ADF.

Role of the evaluation

2.8 Although the evaluation was conducted to assist Defence to decide how to proceed at the end of Phase 1, the contract did not require an evaluation.⁴⁹ Further, the recommendations in the evaluation report were not binding on Defence. Defence could decide not to proceed with Phase 2 even if the evaluation report indicated that Manpower had performed well under the contract during Phase 1.

2.9 In addition, the terms of reference for the evaluation team note that Manpower's achievement against the KPIs in the contract was not contractually relevant to Defence's decision at the conclusion of Phase 1. In other words, there was no express link in the contract between Manpower's performance of the KPIs and the options open to Defence at the conclusion of Phase 1. Manpower was not automatically entitled to expect to perform the recruiting services in Phase 2 simply because it performed well against the KPIs during Phase 1.

The evaluation

2.10 The evaluation team prepared an evaluation plan, which was approved by the contract administrator.⁵⁰ Under the terms of reference, the team was required to:

- consult various stakeholders and other relevant parties concerning their perceptions of the success or otherwise of Phase 1;
- critically evaluate information gathered from stakeholders and other relevant parties against the statement of work included in the contract; and
- make recommendations to Defence, via the contract administrator, regarding the future direction of the Manpower pilot.

2.11 The evaluation team's report was presented to Defence in April 2001.⁵¹ The report was based on the perceptions of stakeholders, the evaluation team's

⁴⁹ Although there is no mention of the conduct of an evaluation in the contract, there is a clause relating to acceptance testing of recruiting services. In Part 2: Contract Conditions, cl. 3.3 states that:

- (a) Defence may audit and review the Recruiting Services during Phase One to establish whether the Service Provider is:
- (i) providing the Recruiting Services in accordance with the Contract during Phase One; and
 - (ii) capable of providing the Recruiting Services in accordance with the Contract during Phase Two.

Contract for the provision of recruiting services to the Australian Defence Force, op. cit., Part 2: Contract Conditions, cl. 3.3.

⁵⁰ The contract administrator is a Defence APS employee. The functions of this position are discussed in Chapter 3.

⁵¹ J. E. Longworth, *op. cit.*

observations of the Manpower information system 'PowerForce',⁵² and available data on DFRO target achievement statistics and financial costings.

2.12 The evaluation team assessed contractual performance in terms of the statement of work in the contract, which defined the scope of work to be undertaken as recruitment planning services, career information services, testing and assessment services, and recruitment support services.⁵³ The evaluation team noted where activities had been completed in accordance with the KPIs. The KPIs were essentially the completion of various tasks required under the contract, with a specific time requirement in some cases.⁵⁴

2.13 The evaluation team also considered national figures for tri-Service general entry,⁵⁵ but was unable to reconcile DFRO's figures with Manpower's.⁵⁶ KPIs in the contract for target achievement for full-time and part-time entry to each of the Services and for the completion of recruit training and initial employment training were not reported by the evaluation team.⁵⁷

Conclusion of the evaluation

2.14 The evaluation team report concluded that Manpower should exit from the arrangements at the end of Phase 1, unless it demonstrated significant improvement in its contractual performance. The major conclusions of the evaluation were as follows:

- **Risk of Proceeding to Roll-out.** Without significant improvement in service delivery in a limited timeframe, the business risks to Defence from roll-out with Manpower were too high.
- **Quality.** The quality of Manpower's delivery of recruiting services at the time of the evaluation report was at an unacceptable standard.
- **Recruitment targets.** Manpower had not met target requirements.
- **Value for Money.** Manpower had shown it could achieve levels similar to those of Defence and at a saving of approximately 17 per cent (based on recruiting 6500 personnel), but the reduction in the quality of service and

⁵² PowerForce has been specifically developed to meet ADF recruiting requirements.

⁵³ J. E. Longworth, op. cit., p. 7.

⁵⁴ The purpose of the KPIs was described in the contract as being to 'specify quantitative and qualitative assessment mechanisms for measuring over and under achievement against specified targets'.

Contract for the provision of recruiting services to the Australian Defence Force, Part 2: Contract Conditions, cl. 14.1(a)(ii).

⁵⁵ 'General entry' is entry into the non-officer ranks.

⁵⁶ J. E. Longworth, op. cit., p. 29.

⁵⁷ Full-time entry is to the permanent force and part-time entry is to the Reserve force.

negative impact on Defence's public image were not worth the associated risks or savings.⁵⁸

2.15 The evaluation also concluded that it would be premature for Defence to initiate termination action in advance of Phase 1 notification timelines and that Manpower should be provided with an opportunity to improve during the remaining period of Phase 1. The team commented that Manpower '... must demonstrate substantive and tangible commitment to Defence recruiting, before roll-out to Phase Two can be contemplated'.⁵⁹

Recommendation of the evaluation

2.16 In line with its conclusion, the evaluation team recommended that Manpower should exit at the conclusion of Phase 1, unless it demonstrated significant improvement in its contractual performance. The team further recommended that parallel actions should be taken during the remainder of Phase 1 to allow for the departure of Manpower or, if Manpower's performance improved significantly, for national roll-out to proceed.⁶⁰

2.17 The evaluation team also made 38 minor recommendations aimed at:

- holding Manpower to account for identified poor performance;
- confirming a number of Manpower strategies; and
- establishing several audit processes to confirm and ensure proper conduct of specified activities.⁶¹

Contract administrator's brief

2.18 In May 2001, Defence's contract administrator provided Head Defence Personnel Executive with an assessment of Manpower's performance from a contract administration perspective.⁶²

2.19 In his assessment, the contract administrator noted that:

- several contractual requirements were yet to be fulfilled;
- reports and plans required under the contract lacked accuracy and detail;
- Manpower had not demonstrated the level of innovation it had outlined in the tender;

⁵⁸ J. E. Longworth, op. cit., p. 51.

⁵⁹ *ibid.*, p. 51.

⁶⁰ *ibid.*, p. 52.

⁶¹ *ibid.*, Annex G.

⁶² *Contract Administrator's Brief: Contractual Performance—Phase One of the Provision of Recruiting Services to the Australian Defence Force by Manpower Services (Australia) Pty Ltd.*

- the number of ministerial representations and complaints about recruiting services had increased;⁶³
- the accuracy of performance reports was poor;
- non-functionality of the IT system on introduction, contrary to tender documentation, resulted in extra work for embedded personnel; and
- there had been an increase in requests for waivers,⁶⁴ of which several were for reasons contrary to ADF policy.

2.20 In addition, the contract administrator noted that, with respect to officer entry, there were fewer applications, and fewer applicants suitable to appear before Officer Selection Boards, than in previous years. Although Manpower was meeting targets for general entry (both for the permanent and Reserve forces), its performance was no better than DFRO's in recruiting to categories traditionally hard to recruit to.

2.21 The contract administrator also noted Manpower's indication that no real investment would be made in the project unless it was decided to proceed to Phase 2. He considered that this indicated a lack of commitment to the overall project and should be viewed with great concern by Defence.

2.22 The overall conclusion reached by the contract administrator was that, in terms of contract management, Manpower's performance had been poor. The commitment in Manpower's tender to bring innovative and 'best practice' measures had not materialised to any great extent during Phase 1 and Manpower's performance during this time had not provided confidence in its ability to undertake Phase 2 successfully.

Recommendation to the Minister for Defence

2.23 In its recommendation to the Minister, Defence noted that the provision of recruiting services had always been considered a very high-risk activity.⁶⁵ Defence acknowledged that the recruiting system at the time had scope for improvement, mainly as a result of the significantly reduced staffing levels under the Defence Efficiency Review. It was considered that Phase 1 had demonstrated that DFRO's performance was better than that of a commercial organisation and represented value for money for the Government. Defence believed that

⁶³ Ministerial representations and complaints related to slow processing of applications, inability of applicants to contact Manpower, and short notice of specialist medical appointments and enlistment dates. Enlistees also mentioned a lack of career and training establishment information.

⁶⁴ Waivers are exemptions from a standard of entry that defines the minimum requirements for enlistment/appointment to the ADF. Standards of entry exist for areas such as age, education and citizenship.

⁶⁵ *DFRO Market Test Project—Recommendation for Phase Two*, p. 6.

the risks associated with outsourcing the entire recruiting process were too high and that there was potential for a reduction in operational effectiveness.⁶⁶

2.24 Defence recommended that the recruiting function should be retained within Defence. A further recommendation was that the acquisition strategy be modified to consider the viability of contracting out specific activities within the recruiting function rather than outsource the entire process.⁶⁷ Defence said that a 1998 report prepared by Coopers & Lybrand, which had been engaged to review the recruiting function to identify activities and processes that could be market tested,⁶⁸ had recommended this.⁶⁹

Phase 1A

2.25 After expressing concern at the validity and independence of the evaluation of Phase 1 of the contract, the then Minister, the Hon. Peter Reith, directed Defence to examine other options and negotiate with Manpower to address areas of concern raised in the evaluation report. Subsequently, on 11 July 2001, the Government decided to extend the pilot trial in Victoria and Tasmania past its scheduled completion date of September 2001 'to incorporate lessons learnt during the initial pilot period and to allow a robust evaluation of the trial'.⁷⁰ Consequently, Phase 1 was extended by the first amendment deed to include the period 11 August 2001 to 11 July 2002,⁷¹ which was known as Phase 1A.

Role of the evaluation

2.26 The first amendment deed provided for Defence to engage an evaluator to evaluate Manpower's performance under the contract during Phase 1A for the period up until 11 July 2002.⁷² The deed specifies that the purpose of the evaluation is to evaluate Manpower's performance of the recruiting services during Phase 1A and establish whether the recruiting services were performed:

- in accordance with the contract;

⁶⁶ *ibid.*, p. 7.

⁶⁷ *ibid.*, p. 7.

⁶⁸ *ibid.*, p. 1.

⁶⁹ *ibid.*, p. 7.

⁷⁰ Senator the Hon. Robert Hill (Minister for Defence), Answer to Defence: Manpower Call Centre (Question No. 1083), *Proof Senate Hansard*, DPRS, Canberra, 14 May 2003, p. 10 962.

⁷¹ *First Amendment Deed to the Contract for the Provision of Recruiting Services to the Australian Defence Force*.

⁷² *ibid.*, Part 2: Contract Conditions, cl. 3A.1(a).

- in a manner which furthered the contract objectives to a greater extent than if DFRO had performed those recruiting services during Phase 1A;⁷³ and
- in a manner which demonstrated that Manpower would be able to further the contract objectives to a greater extent than would be the case if DFRO performed the recruiting services during Phase 2.⁷⁴

2.27 To conduct the evaluation, Defence engaged Deloitte Touche Tohmatsu, which reported in August 2002.⁷⁵

The evaluation

2.28 Deloitte's evaluation methodology incorporated criteria agreed by Defence and Manpower. The methodology was designed to measure performance during Phase 1A and to appraise the potential for Phase 2 rollout.

2.29 The evaluation compared Manpower's performance with that of a DFRO proxy, which was a representation of what a DFRO in-house service provider might have achieved if Defence had retained the recruiting services function in the Southern region. Data for the proxy was obtained by aggregating the performance of ADF recruiting units in all other regions.⁷⁶

Evaluation of Phase 1A

2.30 The methodology involved assessment of performance in three areas: contractual compliance, operational performance and financial performance. Data was collected monthly from Manpower and the DFRO proxy. Relative performance was then reported at a monthly contract review meeting.⁷⁷

2.31 Deloitte conducted quantitative and qualitative assessments. Table 3 shows the quantitative indicators included in the evaluation report and the relative performance of Manpower and the DFRO proxy.⁷⁸

⁷³ The contract objectives for Phase 1A are presented in Table 4.

⁷⁴ *First Amendment Deed*, op. cit., Part 2: Contract Conditions, cl. 3A.1(b).

⁷⁵ Deloitte Touche Tohmatsu, *Backing Results through People: ADF Recruiting Services Outsourcing Trial Evaluation Final Report*, August 2002.

⁷⁶ *ibid.*, p. 7.

⁷⁷ *ibid.*, pp. 7–8.

⁷⁸ The KPIs in the contract were not used in the evaluation conducted of this phase.

Table 3**Relative performance against Phase 1A quantitative indicators**

	Manpower	DFRO Proxy
Percentage annual ADF recruitment target achieved during period 1 July 2001 to 31 March 2002	51.1%	56.9%
Percentage of Army general entry recruits who commenced at the Army Recruit Training Centre after 1 July 2001 and discharged prior to 31 March 2002	7.9%	7.6%
Per-recruit costs for the period September 2001 to March 2002	\$12 629	\$12 614

Source: Deloitte Touche Tohmatsu, *Backing Results through People: ADF Recruiting Services Outsourcing Trial Evaluation Final Report*, August 2002.

Note: 1) 'General entry' is entry into the non-officer ranks.
2) The Army Recruit Training Centre is where basic training is conducted for non-officer entry into Army.

2.32 Contractual compliance, which applied to Manpower only, was assessed through administration of a monthly checklist. Improvements in this area were observed over the evaluation period.

2.33 Operational performance comprised three elements: quantity of recruits, quality of recruits, and stakeholder satisfaction with the recruiting process.

2.34 The quantity of recruits enlisted/appointed was assessed by examining the percentage of the annual ADF recruitment target achieved.⁷⁹ Deloitte's noted that Manpower's performance improved over the period.

2.35 Recruit quality was assessed using the percentage of entrants who remained with the ADF for at least one year. Remaining after the first year, which includes initial training, is held to be a reasonable indicator of recruit quality, as entrants still serving 12 months after their enlistment are considered 'retained' for at least the duration of the service obligation they signed on entry to the ADF. Deloitte's noted that, because of information system problems, Defence could not supply aggregated tri-Service data to measure retention rates at the one-year in-service mark. The substitute used was the percentage of recruits who had commenced at the Army Recruit Training Centre after 1 July 2001 and discharged before 31 March 2002.⁸⁰

2.36 Senator Evans commented in a media release about this data not being supplied and observed that '... in a recent answer to a question on notice Labor was given this very information that Deloitte's was told did not exist.'⁸¹

⁷⁹ Appointed candidates are candidates successful in applying for Officer entry. Enlisted candidates are candidates successful in applying for general entry.

⁸⁰ Because of this substitution, the measure only included those recruits who enlisted for general entry into Army, as the Army Recruit Training Centre is where Army basic training is conducted.

⁸¹ Senator Chris Evans, *Major Concerns About \$250 Million Defence Contract*, Media Release, [3 October 2002].

This media release has been reproduced in Appendix 2.

2.37 Inquiries made by the ANAO indicate that the Directorate of Workforce Planning and Establishments (DWPE) collect information about length of service. DWPE provided the ANAO with the following:

Because the range of queries that might be asked is extremely wide, length of service profiles are not regularly produced as a matter of course. They are generally constructed in response to specific customer needs, to specific queries or for internal purposes. The ADF length of service profile is an example of such a report. This particular profile would normally show the length of service of current ADF members by rank or by gender unless some other specific metrics were requested. On an infrequent basis, DWPE is requested to construct length of service profiles for those members who have separated during a particular financial year. These profiles can be constructed to meet specific customer requirements.⁸²

2.38 DFR's approach to monitoring retention rates at the one-year in-service mark for Phase 2 is discussed at paragraphs 4.12 to 4.17.

2.39 Stakeholder satisfaction was examined from two perspectives: customers (recruits); and clients (other parts of Defence that supply inputs to the recruiting process or receive its outputs).

2.40 Customer satisfaction was assessed using the ADF Entrant Opinion Survey (discussed in Chapter 4). Results were based on 1618 responses from recruits who had been appointed or enlisted from late February to early June 2002. The evaluation report noted satisfaction with the overall ADF recruiting process and the procedures involved. Respondents recruited by DFRO reported higher overall satisfaction than those recruited by Manpower.

2.41 Client satisfaction, assessed from interviews with numerous Defence stakeholders, such as personnel in Service training establishments, indicated no significant differences between the performance of Manpower and the DFRO proxy.

2.42 Financial performance was to be measured by comparing per-recruit costs during Phase 1A. However, Defence financial systems at the time were unable to produce, automatically, 'cost-per-recruit' metrics.⁸³ Deloitte therefore constructed a costing model to produce a modelled cost per-recruit for the DFRO proxy to compare with the Manpower cost for the period September 2001 to March 2002.

⁸² Email from DWPE to ANAO, 17 June 2003.

⁸³ On 16 May 2002, Senator Evans asked a question on notice seeking information on how much it cost per permanent recruit to recruit him or her to the ADF. Senator Hill replied that the information was not readily available and to provide a complete response would require considerable time and resources. Senator the Hon. Robert Hill, Answer to Australian Defence Force: Recruitment (Question No. 319), *Senate Official Hansard*, DPRS, Canberra, 27 June 2002, p. 3040.

Conclusion of the evaluation of Phase 1A

2.43 On the basis of work completed between September 2001 and 31 March 2002, and observations of the contractual and operating environment of Phase 1A, Deloitte concluded that ‘... the relative performance of MDR [Manpower] and the DFRO Proxy was fairly similar and unlikely to be a substantial differentiator as to the decision about whether Defence should proceed to Phase 2 with Manpower’.⁸⁴ When reporting this to Defence in May 2002, Deloitte recommended that any decision on whether DFRO should proceed to Phase 2 with Manpower should await analysis of operating models proposed by Manpower and DFRO.⁸⁵

Evaluation of potential for Phase 2 rollout

2.44 Deloitte assessed the degree to which the strategies and plans provided by Manpower and DFRO for Phase 2 satisfied the four contract objectives contained in the first amendment deed. Table 4 displays the contract objectives and Deloitte’s assessment of relative performance against them.

Table 4

Relative performance against contract objectives

Contract Objective	Manpower	DFRO Proxy
To provide an efficient and effective recruiting service for Defence which delivers the required number of applicants at the required standards for enlistment into the ADF at the right time, while maintaining operational effectiveness.	***	**
To reduce the overall cost of providing recruiting services to Defence.	**	*
To ensure uniform national standards and equality of access to an ADF career by all Australians.	***	***
To maintain the image of the ADF to fulfil Government requirements.	***	***

Source: Deloitte Touche Tohmatsu, *Backing Results through People: ADF Recruiting Services Outsourcing Trial Evaluation Final Report*, August 2002.

Key: *** There is substantial relative opportunity to achieve the contract objective.
 ** There is some relative opportunity to achieve the contract objective.
 * There is minimal relative opportunity to achieve the contract objective.

2.45 Deloitte concluded that, overall, the Manpower model would better deliver the contract objectives. In reaching this conclusion, Deloitte considered that outsourcing to Manpower would provide:

⁸⁴ Deloitte Touche Tohmatsu, op. cit., p. 16.

⁸⁵ *ibid.*, p. 16.

- an enhanced outcome focus in the area of ADF recruiting;
- a better ability to innovate and improve ADF recruiting processes;
- an improved alignment of responsibilities and accountabilities;
- a better means of controlling costs;
- an enhanced ability to assure quality of service;
- a better means of obtaining reliable and timely management information;
- and
- an example of fostering a collaborative workplace.⁸⁶

2.46 Deloitte also noted that there would be risks associated with a decision to proceed to Phase 2 and that successful transition would require careful transition planning, risk management, change management and effective communication.⁸⁷ Nevertheless, they recommended that Defence proceed with a national rollout of the ADF recruiting outsourcing program with Manpower.⁸⁸

Phase 2

2.47 On 23 September 2002 the Minister endorsed Defence's recommendation to proceed with the Phase 2 rollout. The then Minister Assisting the Minister for Defence subsequently announced, on 26 September 2002, that Defence would enter into a collaborative arrangement with Manpower.⁸⁹ The second contract amendment deed, which provided for Manpower to undertake national delivery of recruiting services to the ADF, was signed on 14 November 2002. Under the deed, the initial term for Manpower to supply national recruiting services is from 1 July 2003 to 30 June 2007.⁹⁰ A transition-in process occurred between November 2002 and 30 June 2003.

2.48 At the conclusion of the four-year initial term, Defence may decide to engage Manpower to provide recruiting services for a further term, or terms,⁹¹ of not more than two years.⁹² Alternatively, Defence could decide to undertake a competitive tendering process or reinstate in-house provision of recruiting services for the ADF.

⁸⁶ *ibid.*, p. 34.

⁸⁷ *ibid.*, p. 35.

⁸⁸ *ibid.*, p. 1.

⁸⁹ The Hon. Danna Vale, *op. cit.*

⁹⁰ *Second Amendment Deed*, *op. cit.*, Part D: Glossary and Interpretation.

⁹¹ *ibid.*, Part C: Contract Conditions, cl. 1.2(a).

⁹² *ibid.*, Part C: Contract Conditions, cl. 1.4.

2.49 A clause in the second amendment deed provides for Defence to engage an evaluator to evaluate the performance of DFR and the performance of the recruiting services for the first three years of the contract term or for any other period relevant to Defence's option to engage Manpower for a further term.^{93 94} Unless Defence advises otherwise, the evaluation will examine the first three years of the contract term and be conducted during the period 1 July 2006 to 30 September 2006.⁹⁵

2.50 The purpose of the evaluation will be to assist Defence in deciding whether to exercise its option under the contract to engage Manpower for a further term.⁹⁶ Terms of reference and criteria for the evaluation will be developed by Defence.⁹⁷

Role of the evaluation

2.51 The evaluation is to be only one consideration in Defence's decision on what to do.⁹⁸ Any recommendation of the evaluation report would not be binding on Defence.⁹⁹

Conclusion

2.52 The ANAO considers that the evaluation mechanism outlined in the second amendment deed will not allay the Senate Committee's concerns about benchmarks to be used in conducting an evaluation. This mechanism does not include a 'line in the sand', as discussed in paragraph 2.5, but simply says that an evaluation is to be conducted to inform the decision as to whether Manpower's term should be extended.

2.53 A benchmarking exercise is essentially what Deloitte conducted in the Phase 1A evaluation and is an approach which could usefully be applied again. However, the ANAO considers that the benchmark should be based on performance prior to national rollout. As the contract objectives for the second amendment deed have changed from the previous contract objectives, there

⁹³ *ibid.*, Part B: Management Structure, cl. 9.1(a).

⁹⁴ The person engaged by Defence to undertake the evaluation is to be an expert professional provider of business evaluation services.

ibid., Part D: Glossary and Interpretation.

Recruiting services are defined in the second amendment deed as the services to be provided by Manpower in accordance with the Statement of Work and all other things Manpower is required to do under the contract, including variations to the contract.

ibid., Part D: Glossary and Interpretation.

⁹⁵ *ibid.*, Part B: Management Structure, cl. 9.1(b).

⁹⁶ *ibid.*, Part B: Management Structure, cl. 9.1(c).

⁹⁷ *ibid.*, Part B: Management Structure, cl. 9.2 and cl. 9.3.

⁹⁸ *ibid.*, Part B: Management Structure, cl. 9.4(b).

⁹⁹ *ibid.*, Part B: Management Structure, cl. 9.4(c).

would be benefit in Defence documenting performance against these objectives now in order to provide information to benchmark against when an evaluation is conducted at the three-year point.

2.54 DFR advised the ANAO that it has engaged Deloitte to benchmark recruiting finances and performance for the two years prior to national rollout, that is, 2001–02 and 2002–03. The results of the benchmarking exercise will be compared to recruiting data captured on a monthly basis and used to assess the ongoing performance of Manpower in delivering the recruiting services for the financial years beyond 2003–04. Monthly performance reports incorporating this material will be available for consideration by the Board of Management and Operational Management Group.¹⁰⁰

2.55 Defence has further advised that a ‘line in the sand’ will have to be agreed by Manpower to enable the full comparison of recruiting activity to be evaluated. It is Defence’s intention to have the benchmark and evaluation criteria in place by end November 2003.

Recommendation No.1

2.56 The ANAO recommends that, as a matter of priority, Defence complete the documentation of performance against the Australian Defence Force recruitment contract objectives, specified in the second amendment deed, for use in evaluating the performance of Defence Force Recruiting.

Defence response

2.57 Defence agrees with the recommendation. Defence is currently undertaking the benchmarking exercise and will develop, as part of the benchmarks, a set of criteria that will be used to evaluate the performance of the recruiting services by Manpower. The benchmarks and criteria will be forwarded to the ANAO for comment by the end of November 2003.

¹⁰⁰ The Board of Management and Operational Management Group are discussed in Chapter 3.

3. Contract Management

This chapter outlines responsibilities for recruiting to the ADF and examines the framework for managing the contractual arrangements for the provision of recruiting services to the ADF.

Responsibility for ADF recruitment

3.1 In announcing the decision to outsource the ADF recruiting function, the then Minister Assisting the Minister for Defence stated that the division of responsibilities for recruiting would be as follows:

- Manpower would be responsible for the service delivery aspects of Defence recruiting; and
- Defence would retain control of entry standards; decide which applicants are accepted into the ADF; and remain accountable for overall results.¹⁰¹

The specific functions to be performed by Defence and Manpower are detailed in the contract and are promulgated in a Defence instruction.¹⁰²

3.2 Figure 4 indicates the Defence bodies with a responsibility for ADF recruitment and outlines their roles. DFR is a public sector/private sector collaboration between Defence and Manpower. DFR's mission is to recruit the right people to sustain and enhance Defence capability. As stated earlier, it is a composite organisation consisting of ADF personnel, Defence APS personnel and Manpower staff, and has been structured to manage both the contract and recruiting services.

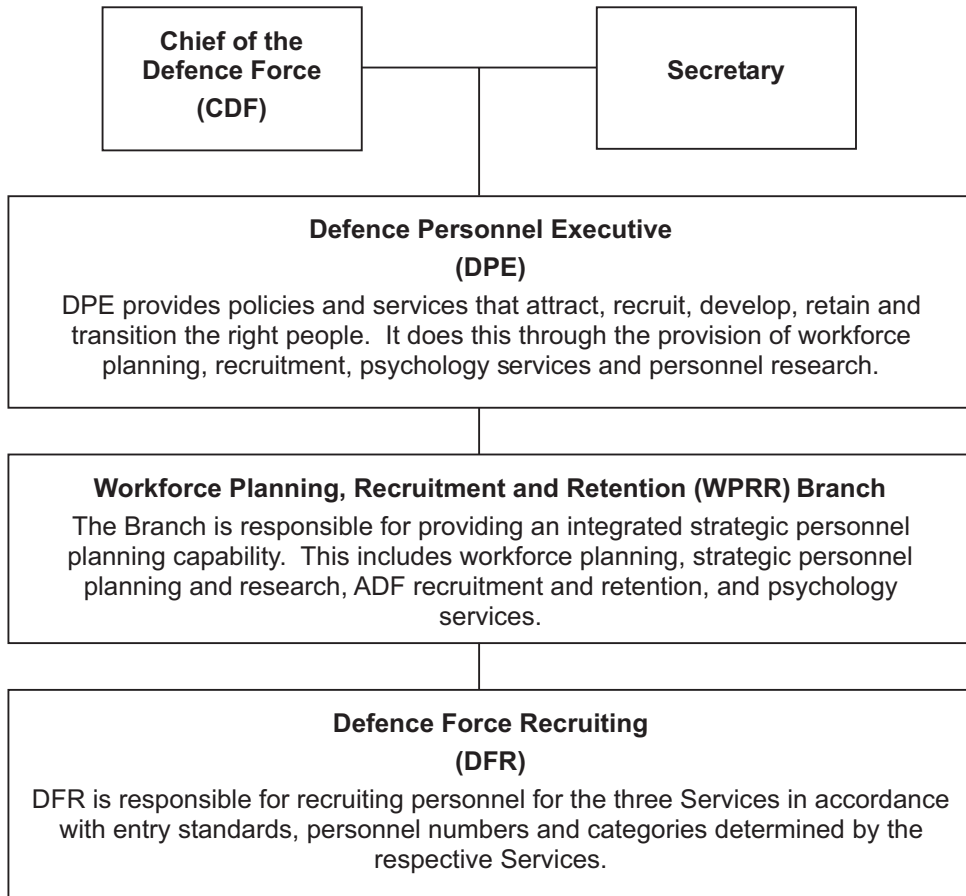
3.3 Director-General Workforce Planning, Recruitment and Retention (DGWPRR)¹⁰³ is responsible for DFR and is accountable to Head Defence Personnel Executive for recruitment performance and outcomes. Mirroring the division of responsibilities in the contract, Director DFR (DDFR—an ADF officer) is accountable to DGWPRR for the ongoing operational functions of DFR. General Manager DFR (GMDFR—a Manpower position) is responsible for delivering the recruiting services, including recruitment planning services, career information services, testing and assessment services, and recruitment support services.

¹⁰¹ The Hon. Danna Vale, *op. cit.*

¹⁰² DI(G) 29–1 Defence Force Recruiting was finalised on 6 August 2003. It is available to the wider Defence organisation through the Defence intranet.

¹⁰³ Workforce Planning, Recruitment and Retention was previously the Personnel Plans Branch. This change in name took effect from 15 January 2003.

Figure 4
ADF recruitment organisational structure



Source: Department of Defence, *DPE Branches & Contacts*, [Online], Available at: <http://defweb.cbr.defence.gov.au/dpe/branches/branches.htm>, [Accessed: 12 March 2003].

Department of Defence, *Functional Directory*, [Online], Available at: http://defweb6.cbr.defence.gov.au/functional/organisation_show.cfm?cat=branch&ID=87, [Accessed: 12 March 2003].

Department of Defence, *About the Defence Personnel Executive*, [Online], Available at: http://www.defence.gov.au/dpe/dpe_site/about_dpe/about.htm, [Accessed: 9 August 2003].

Contract management responsibilities

3.4 Under the contract, Defence functions include monitoring Manpower's performance and maintaining a contractual compliance checklist.¹⁰⁴ Specific

¹⁰⁴ This is discussed in paragraphs 3.17 to 3.20. Monitoring and reporting on contractual compliance are discussed in Chapter 4.

contract management responsibilities are vested in the Board of Management, the Operational Management Group, and the contract administrator.

3.5 The purpose and functions of the Board and the Group, together with their composition, are set out in the second amendment deed. The Defence Instruction mentioned above sets out the purpose of the Board and the Group and the charters under which these two bodies operate.

3.6 Specific contract management responsibilities are explained below.

Board of Management

3.7 The purpose of the Board of Management is to assist DGWPRR in the management and administration of DFR at a strategic level. It meets every two months and is chaired by DGWPRR. The membership of the board is displayed in Table 5. Board functions include reviewing aspects of the contract and activities to be performed under the contract. The Board has a specific role in reviewing and approving the contract objectives.

Table 5

Board of Management membership

Permanent Members	Permanent Invited Members	Invited Members
Director General Workforce Planning, Recruitment and Retention	Director Defence Force Recruiting	Director General Defence Health Service
Managing Director, Manpower Services (Australia) Pty Ltd	General Manager Defence Force Recruiting	Director Defence Force Psychology
Director General Navy Personnel and Training	Assistant Secretary Personnel Services Delivery	Partner, Deloitte Touche Tohmatsu
Director General Personnel–Army	Contract Administrator	Partner, Clayton Utz
Director General Personnel–Air Force		
Director General Communication Strategies–Public Affairs and Corporate Communication		

Source: *Second Amendment Deed to the Contract for the Provision of Recruiting Services to the Australian Defence Force*, Part B: Management Structure, cl 3.2 (b)(i).

Note: 1) Shading indicates position is filled by Manpower.
2) Service participation in the Board of Management will assist in facilitating resolution of Service-specific recruiting concerns.

Operational Management Group

3.8 The purpose of the Operational Management Group is to provide advice to DDFR and GMDFR on the management and administration of DFR at an operational level. Membership of the Group comprises DDFR, GMDFR and the contract administrator. The Operational Management Group may seek assistance from a number of advisers, who are listed in Table 6. As well as a number of roles relating to activities to be performed under the contract, such as reviewing DFR policies and procedures and monitoring recruitment target achievement, a specific role of the Operational Management Group is to monitor performance against the contractual compliance checklist.

Table 6

Advisers to the Operational Management Group

Position	Organisation
Manager Policy and Development	Air Force
Manager Resources	Department of Defence
National Operations Plans Manager	Manpower
Campaigns Manager	Army
National Support Manager	Manpower
National Marketing Manager	Manpower
Navy Recruiting Liaison Officer	Navy
Army Recruiting Liaison Officer	Army
Air Force Recruiting Liaison Officer	Air Force
Recruiting Communications Manager–Public Affairs and Corporate Communication	Department of Defence

Source: *Second Amendment Deed to the Contract for the Provision of Recruiting Services to the Australian Defence Force*, Part B: Management Structure, cl. 3.3 (b)(ii).

- Note:
- 1) Shading indicates position is filled by Manpower.
 - 2) Recruiting Liaison Officers are responsible to their respective Service headquarters for maintaining liaison with Headquarters DFR about single Service policies and requirements.
 - 3) Service participation in the Operational Management Group will assist in facilitating resolution of Service-specific recruiting concerns.

Contract administrator

3.9 The contract administrator has numerous roles to perform under the contract. This position is located in the contract management cell of DFR. Day-to-day management of the contract is the responsibility of this cell, which consists of two Defence APS employees (a contract manager and a contract administrator) located in Headquarters DFR. Tasks to be undertaken by the occupants of these positions, as identified in their duty statements, are presented in Table 7.

Table 7

Tasks for positions in contract management cell

<p>Assist in the maintenance of the contract management procedures for DFR.</p> <p>Interface with the contractor on day-to-day management activities and monitor the service provider's performance against set criteria.</p> <p>Undertake contract interpretation and administration as required.</p> <p>Design and implement a performance management and monitoring mechanism that meets Defence's requirements and ensures the project outcomes are achieved.</p> <p>Monitor Manpower's performance against mutually agreed performance measures.</p> <p>Conduct monthly, quarterly and annual contractual meetings to discuss contractual performance, continuous improvement and any appropriate actions that need to be taken.</p> <p>Design and implement a quality assurance mechanism to ensure that enlisted applicants are eligible, fit and suitable for employment in the ADF.</p>
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Source: ANAO analysis of Defence records.

3.10 Specific qualifications and/or experience were not pre-requisites for these positions. DDFR has indicated that the experience required and classification level of the holders of these positions are to be reviewed this year. Given the level of financial management responsibility required, it is possible that the classification level of the contract administrator position may be raised.

3.11 Management of the contract has been reliant on a good working knowledge of the contract and what needs to be done and when. Administration and management skills have been more important than procurement skills in daily management of the contract.

3.12 It would be beneficial for Defence to have better documentation of the contract management cell's processes. During the audit, it became apparent that the cell's processes were not all documented. For example, the cell's processing of Manpower's invoices, which may be considered an example of better practice, was documented following the suggestion of the ANAO.¹⁰⁵ Given the small size of the cell, incomplete documentation of procedures incurs a management risk from a business continuity perspective.

3.13 Defence has advised that it agrees that there should be better documentation of contract management processes and procedures. Defence notes that, although this development is under way, progress is restricted because of limited resources.

¹⁰⁵ Prior to the payment of Manpower's invoices, Defence compares:

- each enlistee on the invoice with Defence's PMKeys records of ADF personnel to ensure that enlistment took place;
- the names on the previous four invoices provided by Manpower to ensure that there have been no duplicate entries; and
- the names on the invoice with the Enlistment Day Advices provided during the month to ensure that all enlistees have been recorded on the invoice.

Defence Force Recruiting: Invoice Checking and Payment Statement Process: Contract for the Provision of Recruiting Services, draft as at 31 March 2003, p. 3.

Conclusion

3.14 Roles and responsibilities associated with the management of the contract are clearly specified. The ANAO considers that better documentation of processes associated with day-to-day management of the contract would benefit Defence but acknowledges that this is likely to be a slow process due to resource constraints.

Recommendation No.2

3.15 The ANAO recommends that Defence Force Recruiting continue to document the processes utilised in the management of the contract and establish a firm timetable for the completion of this task.

Defence response

3.16 Defence agrees with the recommendation. Defence Force Recruiting is continuing to document the process used to manage the Contract. This also includes the population of the specifically designed Contract Management System that will be used to monitor financial, target achievement and contract compliance requirements of the Contract. Although the documentation process will be ongoing as process and policy matters change, it is anticipated that the majority of this task will be completed by the end of November 2003.

Management information system

3.17 The contract administrator identified the need to develop an information technology system to assist Defence to track activities and contract requirements and facilitate performance reporting against the contract. Accordingly, a management information system (MIS) to help the contract management cell in managing the recruiting contract began operating from 1 July 2003.

3.18 The MIS is to assist in administering the contract in the areas of:

- monitoring contractor compliance with requirements;
- managing targets; and
- financial tracking.

3.19 The MIS will replace the contractual compliance checklist,¹⁰⁶ which was developed as part of the evaluation of Phase 1A. The checklist was an excel spreadsheet list of every clause in the contract and was found to be cumbersome to use. The MIS is to provide automatic reminders of due dates and will also facilitate reporting on contractual compliance.

¹⁰⁶ Reporting on contractual compliance is discussed in Chapter 4.

3.20 In comments made to the ANAO in August 2003, DGWPRR advised that he believes that a MIS is an essential tool for managing and monitoring performance under the contract. The ANAO considers that the MIS should prove to be very useful in managing the contract and in monitoring Manpower's contractual compliance.

Stakeholder concerns about ADF recruiting arrangements

3.21 The ANAO sought the opinion of each of the Services and the Defence Service Centre on the arrangements between Defence and Manpower for the provision of recruiting services to the ADF. Discussions with these stakeholders also highlighted general recruiting issues, which, although beyond the scope of the audit, are important for the effectiveness and efficiency of ADF recruitment and may assist in identifying future areas for improvement.

3.22 Following consultation with DFR and DGWPRR on these general issues, it became apparent that there are some concerns to be addressed regarding DFR's communication with the individual Services and with the Defence Service Centre. DGWPRR advised that these communication concerns would be addressed in the second half of 2003.

3.23 The strengthening of communication links between DFR and other parts of Defence could be an area for inclusion in DFR's quality assurance system. Under the second amendment deed, there is a requirement for a project-specific quality assurance system for the recruiting services to be planned, developed and implemented.¹⁰⁷ The aim of this clause is to develop a quality system that fully addresses the provision of recruiting services, marketing, Defence Service Centre activities, training and staff development, advertising and any supporting IT systems.

3.24 The ANAO notes this inclusion of a quality assurance and improvement system and encourages DFR in its pursuit of process improvement.

3.25 The general recruiting issues raised with the ANAO by the Services and the Defence Service Centre would be examined in the proposed audit of ADF recruitment (see paragraph 1.26).

ANAO access

3.26 Under s.33 of the *Auditor-General Act 1997*, the Auditor-General may, at all reasonable times, enter and remain on any premises occupied by the

¹⁰⁷ *Second Amendment Deed*, op. cit., Part C: Contract Conditions, cl. 7.2(a).

Commonwealth, a Commonwealth authority or Commonwealth company. The Auditor-General's powers, however, do not extend to accessing the premises of government contractors to inspect records of contract operations unless the contract provides for it.

3.27 The Auditor-General wrote to all agencies, including Defence, in 1997 and 2001, seeking the inclusion in contracts of clauses designed to provide access by both agencies and the ANAO to records, information and assets associated with contractors' responsibilities for the delivery of services and/or equipment. Such clauses are considered by the ANAO to be particularly important in large contracts for services and/or facilities, such as outsourcing contracts. The ANAO expects that the need for ANAO access would be the exception rather than the rule, particularly if the agency has a robust control environment including sound monitoring and review of private sector involvement.

3.28 In its report *Contract Management in the Australian Public Service*, the Joint Committee of Public Accounts and Audit reaffirmed '... the need for the Auditor-General to have access to contractors' premises ...'¹⁰⁸

3.29 The second amendment deed does not provide for Auditor-General access to the contractor's premises. DFR considers that access would be through the contract administrator and would be met through the audit clause, which states 'Manpower must participate cooperatively in any audits conducted by Defence or its nominee'.¹⁰⁹ The ANAO does not regard this as a satisfactory solution to the question of audit access, since it precludes the ANAO from exercising its own discretion to access contractor assets, information and records relevant to the services provided to Defence.

3.30 A Defence Procurement Policy Instruction on including provision in Defence contracts for ANAO access to contractors' premises and records was issued in January 2003. The Instruction notes that provisions for ANAO access to contractors' premises, records and accounts varied across Defence.¹¹⁰

3.31 The Instruction notes that current practice relating to the granting of ANAO access to contractor premises largely follows the Commonwealth Procurement Guidelines and Best Practice Guidance. The Instruction states that:

When developing all future Requests for Tender and contracts, Defence purchasing officers are requested to consider whether specific ANAO access provisions are required ...¹¹¹

¹⁰⁸ JCPAA Report 379, *Contract Management in the Australian Public Service*, 2000, p. 55.

¹⁰⁹ *Second Amendment Deed*, op. cit., Part C: Contract Conditions, cl. 32.3(b).

¹¹⁰ Department of Defence, *Australian National Audit Office Access Provisions*, Departmental Procurement Policy Instruction No 1/2003, 7 January 2003.

¹¹¹ *ibid.*

3.32 The instruction further notes that 'Where a contract provides for the provision of outsourced services, specific clauses allowing for direct ANAO access will be required.'¹¹²

Conclusion

3.33 The ANAO considers that, when developing future contractual arrangements for provision of recruiting services, the inclusion of appropriate access clauses would strengthen accountability and aid contract management by DFR. Implementing the approach advocated in the Defence Procurement Policy Instruction would address this issue.

Defence comment

3.34 Defence has agreed that future contracting arrangements should include appropriate access clauses. DFR will implement the approach advocated in the Defence Procurement Policy Instruction relating to ANAO access for audit purposes. The ANAO has been advised that this is one of a number of contract amendments identified for incorporation into the contract post-national transition.

¹¹² *ibid.*

4. Monitoring Contract Performance

This chapter examines Defence's arrangements for monitoring Manpower's performance. The key performance indicators for measuring the performance of DFR and the recruiting services are analysed. Measures of customer satisfaction are also appraised in this chapter.

Monitoring and reporting DFR's and Manpower's performance

4.1 Monitoring and reporting how well the recruiting services for the ADF are performed entails examining performance in delivering the recruiting services, as well as ensuring that this is done in the manner stipulated by the contract. The performance of both Manpower and DFR is important in conducting these assessments.

Monitoring and reporting performance on delivering recruiting services

4.2 The second amendment deed requires Manpower to provide the contract administrator with annual and monthly reports on its performance and the performance of the recruiting services. These reports are to include details of:

- performance against the enlistment target, by job type and region;
- performance against KPIs;
- cost involved with carrying out the recruiting services;
- reasons why the enlistment target was or was not achieved;
- areas in which the recruiting services need to be improved, and proposed methods for implementing improvement;
- strengths, weaknesses, opportunities and threats in the market for candidates for the coming year and beyond; and
- any potential or actual adjustments in the cost of performing the recruiting services for the coming year and beyond.¹¹³

4.3 DDFR reports on DFR's performance to each Board of Management and Operational Management Group meeting. The reports provide information on:

- current recruiting priorities;
- performance relative to KPIs;¹¹⁴

¹¹³ *Second Amendment Deed*, op. cit., Part B: Management Structure, cl. 7.4.

¹¹⁴ Reporting under this heading is discussed in paragraphs 4.9 to 4.18.

- financial performance;
- strategic plans to meet priorities;
- tri-Service issues; and
- contractual issues.

4.4 DFR has advised the ANAO that it is in the process of developing a new monthly reporting process that will provide recruiting data in a format conducive to allowing a comparison against previous data, giving a good picture of Manpower's performance.

Monitoring and reporting contractual compliance

4.5 The second amendment deed provides for the Operational Management Group to review Manpower's compliance with the deed by means of a monthly checklist to be completed by Manpower.¹¹⁵

4.6 As noted in paragraphs 3.17 to 3.20, the MIS developed for the contract administration cell will assist with monitoring contract requirements, actions and contractor compliance and will replace the contractual compliance checklist used during Phase 1A, although documentation, such as the Defence Instruction on ADF recruiting, will continue to refer to a contractual compliance checklist. High-level user requirement documents for the MIS indicate that activities to be monitored using the system are essentially those that are date driven and include insurance, meetings, plans, target advice, payment dates and provision of project documents.

4.7 Contractual compliance is discussed regularly by the Operational Management Group and reported to the Board of Management.

Conclusion

4.8 The ANAO considers that the framework for the regular and on-going monitoring and reporting of contract performance facilitates the assessment of key aspects of performance of both DFR and Manpower. The inclusion of standard items in reports will allow relative performance over time to be properly assessed. This factor, together with a framework for regular review from both a strategic and operational perspective, would enable problems to be identified and remedied early.

¹¹⁵ *Second Amendment Deed*, op. cit., Part B: Management Structure, cl. 2.2(h) and cl. 3.3(a)(ix).

Key performance indicators

4.9 The second amendment deed specifies three KPIs against which to measure the performance of DFR and the performance of the recruiting services.¹¹⁶ The KPIs are outlined in Table 8. They relate to achieving recruitment targets, retaining recruits for 12 months and reducing expenditure on advertising and marketing.

Table 8

KPIs for the performance of DFR and the recruiting services

Performance Requirement	KPI	How monitored
Target Achievement	For each individual category of the Enlistment Targets.	Target achievement expressed as a percentage of target.
Enlisted/appointed Candidate Quality	Enlisted/appointed candidates complete a period of 12 months' service in the ADF after the date of enlistment/appointment, other than where the candidate has: <ul style="list-style-type: none"> suffered injuries directly and solely caused by participation in the Initial Recruit Training and which result in the candidate being discharged from the ADF; or failed to disclose information during the recruitment process at any time prior to enlistment which then results in the candidate being discharged from the ADF during Initial Recruit Training. 	This activity will be monitored using a manual process of comparing data from the single Services and PMKeys.
Reduced Advertising and Marketing Expenditure	Reduction of the annual advertising and marketing expenditure by 5% per year, based on the advertising and marketing allocation in the Budget for the previous year, on condition that the reduction does not have an adverse effect on achievement of Enlistment Targets and Enlisted Candidate quality.	This will be monitored manually based on budget figures for the previous year.

Source: *Second Amendment Deed to the Contract for the Provision of Recruiting Services to the Australian Defence Force*, Part E: Contract Particulars, Attachment 5: KPI Schedule.

High Level User Requirement: Defence Force Recruiting: Contract Management Package.

Note: 1) PMKeys is Defence's computerised personnel management system.

2) Initial recruit training lasts for a period of:

- 13 weeks for Navy;
- 6 weeks for Army; and
- 13 weeks for Air Force.

Second Amendment Deed, op. cit., Part D: Glossary and Interpretation.

¹¹⁶ *ibid.*, Part B: Management Structure, cl. 7.2(a).

Measurement and verification of KPIs

Target achievement KPI

4.10 Assessing target achievement requires provision of data from Manpower. As the amount paid to Manpower depends on the percentage of the enlistment target met, and after instances where Manpower omitted to charge for appointed recruits, a process has been implemented to check Manpower invoices against Defence's enlistment records.¹¹⁷

4.11 In DFR reports to the Board of Management and Operational Management Group, target achievement has been reported as the percentage of the target achieved for the year to date. An estimate has been made of the percentage expected to be achieved for the year.

Enlisted/appointed candidate quality KPI

4.12 As noted in paragraph 2.35, there have been problems in obtaining data on retention at the one-year in-service mark.¹¹⁸ The required data for this indicator has not previously been readily available from Defence's computerised personnel management system PMKeys (Personnel Management Key Solution) and has had to be manually collected from the Services. This problem has been compounded by each Service collating the information differently.

4.13 The number of recruits retained, which may alternatively be collected by recording the separation or discharge rate, is required in the following two forms under the second amendment deed:

- the number of enlisted/appointed candidates remaining in the ADF after completing 12 months' service (information which is required for the enlisted/appointed candidate quality KPI); and
- the number of enlisted/appointed candidates not completing initial recruit training (information required to determine if there is a basis for Defence to seek liquidated damages from Manpower, which is discussed in Appendix 3).¹¹⁹

4.14 The rate at which recruits discharge will be tracked using two methods. The first method uses a newly developed discharge report that will be common to the three Services. This report records date of enlistment and date of termination, together with the reason for termination. Reasons for termination recorded in this report include:

¹¹⁷ This process is outlined in Footnote 105.

¹¹⁸ Senator Evans referred to this issue in his media release, reproduced in Appendix 2.

¹¹⁹ Defence can seek to recover liquidated damages where the number of enlisted candidates who do not complete initial recruit training exceeds 15 per cent.

Second Amendment Deed, op. cit., Part C: Contract Conditions, cl.12.14(c).

- resignation from the ADF because of a change of mind about a military career or change in family situation;
- withdrawal of parental consent where the individual is under 18 years of age;
- unsuitability for further training because of failure to attain required academic or physical standards;
- medical conditions which prevent further military training;
- psychological factors;
- provision of false or misleading information to Defence during the recruiting process; and
- provision of false or misleading information by Defence during the recruiting process.

4.15 At the completion of each period of initial recruit training, the single Service training schools will provide completed discharge reports to DFR. For officer training establishments, the discharge reports will be provided to DFR monthly. This information will be used to compile an annual progressive total of the number discharged, by reason, and will include the number of recruits discharged as a percentage of the progressive enlistment total.¹²⁰

4.16 The second method will involve a PMKeys report listing enlistees/appointees by enlistment date and discharge date, which will provide a list of those discharged with less than 12 months' service. Data will be collated in the same form as that collected by the discharge report.¹²¹

4.17 Discharge data expressed as a percentage of enlistees/appointees will be reported to the Operational Management Group monthly and be included in the reports to the Board of Management for 2003–04 under 'performance relative to KPI'.¹²² This will replace reporting of the percentage of enlistees retained beyond their first 45 days in the Service.¹²³ DFR has advised that this indicator was reported during 2003 in place of retention at the 12 month point, due to data collection difficulties. Retention after 45 days in service was used as a substitute as, at that point in time, the Services know that all testing, such as medical and psychological testing, was completed.

¹²⁰ *Defence Force Recruiting: Discharge Tracking Process*, op. cit., p. 3.

¹²¹ *ibid.*

¹²² *ibid.*

¹²³ The length of Army basic training is 45 days.

Reduced advertising and marketing expenditure KPI

4.18 The KPI for advertising and marketing expenditure will be reported formally from October 2003. The base figure from which the five per cent reduction is to be made is the 2003–04 budget allocation. The ANAO has been advised that the allocation for advertising and marketing for 2003–04 is \$27 million.

Measuring achievement of the contract objectives

4.19 As discussed in paragraph 2.54, Defence has commenced work on benchmarking recruiting finances and performance for the two years prior to national rollout of the outsourcing of the provision of ADF recruiting services. Although the KPIs are useful and important tools for the ongoing monitoring of the performance of DFR and the recruiting services, they are of limited use in assessing whether the contract objectives are being met, due to insufficient alignment between the objectives and the KPIs. The contract objectives for DFR, as specified in the second amendment deed, are to:

- (a) efficiently and effectively attract, counsel, process, assess and enlist the right number of people of the right quality at the right time to:
 - (i) meet Enlistment Targets; and
 - (ii) sustain and enhance defence capability;
- (b) provide value for money, and reduce the overall cost of providing recruiting services, to Defence;
- (c) ensure uniform national standards and equality of access to an ADF career by all Australians; and
- (d) further the ADF as an employer of choice.^{124 125}

4.20 The KPIs for target achievement and enlisted/appointed candidate quality, to an extent, measure whether objective (a) is being met. However, the ANAO observes that information provided by the KPI for advertising and marketing expenditure would be of limited value in measuring whether objective (b) is being met as the objective refers to ‘overall cost of recruiting’, of which advertising and marketing forms some 25 per cent of projected costs for ADF recruiting services in 2002–03 (see Table 2). In addition, objective (b) refers to the reduction of cost, whereas the advertising and marketing expenditure KPI refers to budget allocation. The KPIs do not assist in assessing whether objectives (c) and (d) are being met.

¹²⁴ *Second Amendment Deed, op. cit.*, Part B: Management Structure, cl. 1.3.

¹²⁵ The contract objectives for Phase 2 are slightly different to those in previous phases. The contract objectives for Phase 1A, as set out in the first amendment deed, are in Table 4.

4.21 The ANAO has constructed Table 9 to assist Defence in developing a system and appropriate metrics for monitoring achievement against those contract objectives where there is either insufficient or no alignment with the KPIs.

Table 9

Suggested initial information to gather and action to take in measuring and monitoring achievement against contract objectives

Contract objective	Suggested initial information and action to take in measuring
(b) provide value for money, and reduce the overall cost of providing recruiting services, to Defence;	<ul style="list-style-type: none"> • define what is included in overall cost • the base year from which reduction is to be assessed • the actual cost in that year
(c) ensure uniform national standards and equality of access to an ADF career by all Australians;	<ul style="list-style-type: none"> • monitoring application of national standards of access—spot checks on application, monitoring complaints relating to entry standards and requests for waivers • monitoring application of measures for equality of access—spot checks on application, monitoring complaints relating to access
(d) further the ADF as an employer of choice	<ul style="list-style-type: none"> • DFR contribution to the ADF as an employer of choice • DFR activities to further the ADF as an employer of choice

Source: ANAO analysis.

4.22 Following suggestions made by the ANAO, DFR has commenced a process to establish the DFR baseline cost for the two financial years prior to the national rollout of the outsourcing of recruiting to the ADF, that is, 2001–02 and 2002–03. Deloitte has been engaged to benchmark recruiting finances and performance over this period. The results of the benchmarking exercise will be used in assessing the ongoing performance of the outsourced recruiting function, as well as to assist the evaluation of the first three years of the contract term, as discussed in Chapter 2.

Customer satisfaction

4.23 The measurement of customer satisfaction is not a requirement under the second amendment deed. Defence can, however, gain an indication of customer satisfaction by means of obtaining and analysing feedback on the recruiting process from applicants and recruits. Feedback from those who succeeded in

joining the ADF is obtained via the ADF Entrant Opinion Survey and the Air Force Recruiting and Appointment/Enlistment Questionnaires. Complaints made to DFR and to members of Parliament and to the Minister for Defence provide an avenue to gain feedback from both those who have, and have not, been successful in their attempt to join the ADF.

ADF Entrant Opinion Survey

4.24 The ADF Entrant Opinion Survey is administered by the Directorate of Strategic Personnel Planning and Research (DSPPR). Its purpose is to measure ADF recruits' level of satisfaction with the ADF recruiting process.¹²⁶ All new entrants to the permanent and Reserve forces complete the survey on their appointment or enlistment day. They are advised that the survey is designed to assess the effectiveness of ADF recruitment procedures and to reflect the changing needs and expectations of recruits. Questions are asked about:

- advertising that made the respondent aware of employment with the ADF;
- recruitment follow-up;
- application processes;
- assessment day processes;
- selection board processes;
- day of appointment/enlistment;
- recruiting process environment; and
- how the ADF recruitment process compares with other recruitment processes experienced.

4.25 The first ADF Entrant Opinion Survey was developed as part of the Phase 1A evaluation, discussed in Chapter 2, for the purposes of:

- assessing appointees/enlistees' satisfaction with the recruitment process, to provide DFRO and Manpower with feedback on procedures, performance and areas of the recruitment process in which there may be scope for improvement; and

¹²⁶ Interviews with ADF personnel conducted by the ANAO for Audit Report No.35 1999–2000 *Retention of Military Personnel* identified a common perception among recruits that the information supplied by DFRO staff was inaccurate and misleading. The ANAO recommended that Defence endeavour to make its recruitment strategies more effective in retaining recruits for a cost effective period by studying the perceptions held by recruits on the accuracy of recruitment information provided to them. Defence agreed with this recommendation. Audit Report No.31 2002–03 *Retention of Military Personnel Follow-up Audit* commented that Defence had made progress in attempting to gain a greater understanding of the views of recruits and making use of this information to improve its recruitment strategies.

- providing a means of comparing client satisfaction with the recruitment processes operated by DFRO and those operated by Manpower.¹²⁷

4.26 Following the decision that Manpower will provide ADF recruiting services nationally, the survey will be used to gauge client opinion on the recruitment process.¹²⁸ Survey administration is ongoing, with completed surveys forwarded by recruitment centres to DSPPR regularly.

4.27 Two reports have been compiled from analysis of survey responses and are discussed below. DFR advised that action has not begun on addressing the concerns expressed in these findings as they have been advised to wait until they possess a sufficiently large body of analysis, the results of two or three reports, to allow trends to be detected. Further reports are planned for release in August 2003, October/November 2003 and February/March 2004. Reports have had restricted release to DFR, with a copy provided to GMDFR.

First survey report

4.28 The first survey report, published in July 2002, was based on surveys of successful applicants who were enlisted in or appointed to the ADF from late February 2002 to early June 2002.¹²⁹ The report concluded that respondents were generally satisfied with the overall recruitment process and many of the procedures involved. Respondents from Defence operated recruitment centres were likely to rate the recruitment process more highly than those from Manpower operated centres and were more satisfied with the overall process.¹³⁰

4.29 The strongest source of dissatisfaction among all recruits was the length of the overall recruitment process itself.¹³¹ Although respondents often felt that the waiting period between individual procedures was lengthy, the major cause for concern appeared to be the time between initial contact and subsequent follow-up. Dissatisfaction was also expressed about the time for initial contact to be followed up by recruitment staff.¹³²

4.30 Respondents gave recruitment staff, particularly ADF representatives, positive satisfaction ratings. The majority of respondents felt that their ADF application was valued, that they were provided with insight into Service life by recruitment staff and that they were well prepared by staff for their assessment day interview. Less positive responses were recorded with regard to the

¹²⁷ DSPPR, *The Australian Defence Force Entrant Opinion Survey: July 2002 Report*, DSPPR Research Report 13/2002, July 2002, p. 2.

¹²⁸ *ibid.*, p. 1.

¹²⁹ *ibid.*, p. vi.

¹³⁰ *ibid.*, p. 30.

¹³¹ *ibid.*, p. 30.

¹³² *ibid.*, p. 28.

information provided by recruitment staff regarding some aspects of the recruitment process and their chosen ADF profession. Responses about recruitment staff from Manpower operated centres tended to be slightly less positive than those from Defence operated centres.¹³³

4.31 Other major findings discussed in the report were that general entrants to the ADF were more satisfied with the recruitment process than officer entrants and, overall, respondents viewed appointment/enlistment day as being a positive experience.¹³⁴

4.32 Recommendations made in the July 2002 survey report included:

- consideration be given by DFRO to reviewing the ADF recruitment process with a view to exploring ways in which the problematic aspects of the process identified in the report could be improved in order to ensure that the process is optimal; and
- given the apparent level of dissatisfaction with the length of the recruitment process, consideration be given to investigating, and, where appropriate, adopting measures to reduce, the overall time taken to recruit and enlist ADF members.¹³⁵

Second survey report

4.33 The second survey report, published in April 2003, was based on surveys of successful applicants who were enlisted in or appointed to the ADF from July 2002 to early January 2003.¹³⁶ The report concluded that the ADF recruitment process was rated more positively by those recruited through a Defence centre than a Manpower centre, although this difference was less pronounced than for the first survey period.¹³⁷

4.34 In general, respondents from both Manpower and Defence recruitment centres were positive about their experiences during the recruitment process. Respondents recruited by Defence centres were slightly more positive across the board. The report notes that 'even though these differences were not statistically significant, they suggest there is greater margin for improvement in MDR [Manpower] recruitment processes. Furthermore, these differences represent consistent trends over the last twelve months data'.¹³⁸

¹³³ *ibid.*, p. 29.

¹³⁴ *ibid.*, p. 29.

¹³⁵ *ibid.*, p. 31.

¹³⁶ DSPPR, *The Australian Defence Force Entrant Opinion Survey: July 2002–January 2003 Reporting Period*, DSPPR Research Report 3/2003, April 2003, p. 2.

¹³⁷ *ibid.*, p. 40.

¹³⁸ *ibid.*, p. 38.

4.35 More than one third of respondents reported that the recruitment process was too long.¹³⁹ The report notes that, as for the past report, the length of the process itself is the strongest source of dissatisfaction with the recruitment process and is an area that seems to warrant further attention.¹⁴⁰ Based on the finding that a large body of respondents reported that the ADF websites provided outdated information that proved to be of little assistance during the recruitment process, the report recommended ‘... a rejuvenation of the ADF websites and the information contained therein ...’¹⁴¹

4.36 The third major issue discussed in the report was the finding that recruitment staff were generally regarded positively by respondents. Respondents reported that:

- face to face meetings with recruitment staff were positive experiences;
- the insight provided by recruitment personnel regarding service life was insightful;
- recruiters’ knowledge of the various job fields was impressive; and
- the staff encountered on the assessment day were approachable and helpful.¹⁴²

Some respondents, however, indicated that they were discouraged from joining the ADF by the way recruitment staff handled their application. The report concluded that this ‘... may be indicative of procedural requirements placed on staff during the process and the sheer number of applicants within the process at any one time.’¹⁴³

Air Force Recruiting and Appointment/Enlistment Questionnaires

4.37 The Air Force Recruiting and Appointment/Enlistment Questionnaires seek the opinions of newly appointed/enlisted recruits on services provided by ADF Recruiting Units or Manpower.¹⁴⁴ Air Force Headquarters developed the

¹³⁹ *ibid.*, p. 38.

¹⁴⁰ *ibid.*, p. 40.

¹⁴¹ *ibid.*, p. 39.

¹⁴² *ibid.*, p. 39.

¹⁴³ *ibid.*, p. 39.

¹⁴⁴ *Officer Recruiting and Appointment Questionnaire—DEO Entry*, Air Force Headquarters Director General Personnel—Air Force Minute, July 2002, p.1.

Officer Recruiting and Appointment Questionnaire—Ex Airmen and Airwomen Entry, Air Force Headquarters Director General Personnel—Air Force Minute, July 2002, p.1.

Airman/Airwoman Recruiting and Enlistment Questionnaire, Air Force Headquarters Director General Personnel—Air Force Minute, September 2002, p.1.

questionnaires after observing a higher level of complaints from applicants who had undergone recruitment processes in the Southern region compared to other regions.¹⁴⁵ There are separate questionnaires administered for the three modes of entry into the Air Force—direct officer entry, airman/airwoman entry and officer entry from the ranks of airman/airwoman. Each questionnaire has slight modifications to reflect the differences in testing and assessment for each mode of entry. The direct officer entry questionnaire has been administered since January 2002 and the airman/airwoman questionnaire since July 2002.

4.38 New recruits to the Air Force are asked to complete the questionnaires while attending Training Schools. Recruits are advised that the information from the survey will assist in improving the accuracy, efficiency and professionalism of Air Force recruitment and appointment processes.

4.39 The Air Force questionnaires and ADF Entrant Opinion Survey differ with respect to the nature of some of the questions asked and the extent to which the questionnaires may meet desired outcomes. The focus of the ADF Entrant Opinion Survey is on the recruiting process up to and including attendance at selection boards, with two questions asked about enlistment/appointment day. The Air Force questionnaires ask several questions which relate to what occurs after the conduct of selection boards and, in effect, can only reasonably be answered when candidates are attending training schools. For example, candidates are asked about their level of satisfaction with the detail provided in joining instructions issued prior to commencement at initial recruit training.

4.40 However, there is also considerable overlap between the surveys. In particular, both the Air Force questionnaires and the ADF Entrant Opinion Survey measure the quality and timeliness of information, quality of service and overall satisfaction with the process, all of which can be analysed by recruitment centre location.

4.41 Air Force is compiling the results of its surveys with a view to comparing the perceptions of those recruited by different recruiting centres, but it is yet to analyse the data. DSPPR and Air Force have agreed to work together on aligning or combining the current surveys to avoid unnecessary duplication of resources.

4.42 In deciding how to align or combine the ADF Entrant Opinion Survey and the Air Force Questionnaires, Defence may find it useful to consider what information could be collected about the recruiting process from individuals attending training schools who have had time to reflect on the process they have experienced. Such information could include feedback about processes following attendance at selection boards and on whether information given during the recruiting process accords with candidates' experiences thus far. The

¹⁴⁵ The areas included in the Southern region are explained in paragraph 1.13.

ADF Entrant Opinion Survey is currently unable to collect this type of feedback as it is administered prior to entry into the Services.

4.43 The ANAO acknowledges that some of these processes may be the responsibility of the Services, not DFR, but notes that this is a distinction that is unlikely to be made by recruits. The ANAO also notes that Navy indicated that it considered that the Air Force process of providing questionnaires to students at training schools had merit and could be applicable to Navy. Navy further commented that consideration could be given to making this a standardised tri-Service activity. As part of their upcoming review of the ADF Entrant Opinion Survey, DSPPR has agreed to take the lead in aligning or combining the current surveys, in consultation with DFR and the three Services.

Complaints

4.44 Complaints about the recruiting process may be either written or oral and can cover a wide range of subjects.

4.45 A cell in Headquarters DFR deals with complaints about the recruiting process. Complaints are registered in a database that allows trends to be monitored. Manpower does not have access to this database but will be provided with trend data.

4.46 Action on complaints is signed off by DDFR. Information on complaints will not be regularly reported to the Operational Management Group but will instead be reported by exception.

4.47 Monthly reports are provided to Defence on the number of complaints to Ministers.

Conclusion

4.48 Monitoring and reporting of the views of those who have, and have not, been successful in joining the ADF are important in monitoring the effectiveness of current recruitment practices and in identifying of potential areas for process improvement. Of equal importance, this information allows for the quality of the service delivered by Manpower to be monitored.

5. Risk Management

This chapter examines ADF recruiting in the context of Defence's risk management framework and Defence's arrangements for managing risks relating to outsourcing ADF recruiting services.

ADF recruiting in Defence's risk management framework

5.1 The *Defence Risk Management Implementation Plan 2002–2003* states 'formal risk management is no longer discretionary and is now considered an essential component of public sector management and sound corporate governance'.¹⁴⁶ The document states that the Plan '... communicates the joint commitment of the Secretary and the Chief of the Defence Force to the formal and systematic management of risk throughout Defence'.¹⁴⁷

5.2 The Minister for Defence has acknowledged that recruitment is a key area of risk. The 2002–03 Portfolio Budget Statements, submitted to the Parliament in support of the Defence budget, commented as follows:

Defence faces a number of key areas of risk and emerging priorities which must be monitored and addressed if it is to deliver the performance expected of it by the Government ... These include ... recruitment and retention of sufficient numbers of ADF personnel, especially in key skill areas.¹⁴⁸

5.3 The ANAO considers that recruitment of personnel, as an identified key area of risk, requires systematic treatment under Defence's Risk Management Implementation Plan. This plan is for the management of risks at all levels throughout Defence, including portfolio-wide or 'enterprise' risks.

5.4 Recruitment of personnel to the ADF falls under Enterprise Risk No.2. This risk has been articulated as 'the effective management of our people as a fundamental element of capability'.¹⁴⁹ Relevant identified impacts of failing to manage this risk include:

- failure to get the right people, right place, right time; and
- degraded force structure, readiness, and sustainability.¹⁵⁰

¹⁴⁶ *Defence Risk Management Implementation Plan 2002–2003*, April 2002, p. i.

¹⁴⁷ *ibid.*, p. 1.

¹⁴⁸ *Portfolio Budget Statements 2002–03, Defence Portfolio (Department of Defence and the Defence Housing Authority)*, Budget Related Paper Nos.1.4A and 1.4C, 2002, p. 5.

¹⁴⁹ *Strategic Risk Assessment for Enterprise Risk 2*, 2003.

¹⁵⁰ *Defence Enterprise Risks*, 2003, p. 2.

The development of alternative recruitment strategies was identified as a possible treatment strategy for Enterprise Risk No.2.¹⁵¹ The Defence 2003–04 Portfolio Budget Statement indicates that the specific actions that Defence is undertaking to target shortages in the ADF workforce include a technical trades recruitment strategy and a tertiary recruitment strategy to target university students for direct entry to the ADF.¹⁵²

5.5 The Defence Committee,¹⁵³ in February 2003, endorsed Head Defence Personnel Executive to manage Enterprise Risk No.2. The Defence People Committee,¹⁵⁴ which is led by Head Defence Personnel Executive, is responsible for progressing the people issues identified in the risk treatment strategies. In addition, the Defence People Committee plans to review Enterprise Risk No.2 on an annual basis.

5.6 As part of enterprise risk management in Defence, each Group is responsible for developing a Group Risk Management Plan, which is to have a strategic focus. These plans identify risks and treatments to address them; indicate responsibility for managing risks; and set out timelines for activities to address the risks.

5.7 The 2003–04 DPE Risk Assessment identifies the risk relevant to recruiting ADF personnel as being the ‘failure to provide a personnel environment that supports the delivery of capability’.¹⁵⁵ The likelihood of this happening has been assessed as unlikely (not expected to occur), with medium consequences should it occur (consequences would necessitate significant adjustments to overall functions). The treatment strategies for this risk, which are relevant to recruiting, are identified in Table 10.

5.8 Defence advised the ANAO that, in accordance with its approach to risk management, Defence Enterprise Risk Management is to be reviewed on the basis of the experience of, and developments over, the previous 12 months. The review was to be considered by the Defence Committee and Defence Audit Committee in August/September in relation to the way forward for enterprise risk management in Defence.

¹⁵¹ *Strategic Risk Assessment for Enterprise Risk 2*, op. cit.

¹⁵² *Portfolio Budget Statements 2003–04*, op. cit., p. 176.

¹⁵³ Defence Committee is the forum for considering strategic issues that require collective consideration in relation to the achievement of the Minister for Defence’s directive.

¹⁵⁴ Defence People Committee is a sub-committee of the Defence Committee. The committee’s role is to provide a strategic focus on, and to be an advocate for, the place of people in Defence capability.

¹⁵⁵ *2003–04 DPE Risk Assessment*, Risk 1: Failure to provide a personnel environment that enables the delivery of capability.

Table 10**Treatment strategies for risks relevant to ADF recruiting**

Treatment Strategy	Develop, implement and manage the Defence Workforce Plan and the Defence People Plan.	Establish better linkages between the needs of our people and what Defence offers in terms of being an employer of choice.
Responsibility	Office of First Assistant Secretary Personnel / DGWPRR	DGWPRR
Timeframe (Status)	Under way	Ongoing
Indicative cost effectiveness	Medium / low	Medium
Monitoring and Review	DGWPRR / First Assistant Secretary Personnel to Head Defence Personnel Executive to Defence People Committee and Defence Committee (and through Organisational Performance Agreement reports).	DGWPRR to Head Defence Personnel Executive.

Source: 2003–04 DPE Risk Treatment Plan.

Note: Organisational Performance Agreements are made between one group within Defence and the Secretary, Chief of the Defence Force and/or other groups. These agreements specify the services to be provided and at what level of quality.

Risk management for outsourcing ADF recruiting

5.9 The ANAO better practice guide, *Contract Management*, identifies two levels of risk associated with contracted service delivery:

- contract risk—the risk associated with the delivery of the service; and
- contract management risk—the risk associated with the management of the contract.¹⁵⁶

The principal contract risk to be managed is that the services will not be delivered in accordance with the requirements of the contract in terms of time, cost, quality and quantity. Although many contract risks may arise externally, contract managers can establish an appropriate management framework that contributes to delivery standards being maintained and contingency arrangements to deal with unexpected problems as they arise. Contract management risks are generally lower and arise from within the organisation; that is, they are less likely to threaten delivery of service on which a key business process relies.¹⁵⁷

¹⁵⁶ ANAO, *Contract Management*, Better Practice Guide, February 2001, p. 15.

¹⁵⁷ *ibid.*

5.10 During the audit, the ANAO observed the DFRO risk management plan, the Manpower business plan and Board of Management risk consideration. These are discussed below.

DFRO risk management plan

5.11 A risk management plan developed by DFRO in September 2000 articulated a risk management process for provision of recruiting services.¹⁵⁸ Primary risks in the plan were in the areas of:

- contractual risks;
- interface (with Defence) risks;
- DFRO service delivery risks;
- Defence Force Psychology Organisation service delivery risks; and
- schedule risk.¹⁵⁹

5.12 The risk management plan identified an approach to deal with each risk in these areas, who 'owned' the risk, and warning flags of emerging risks. Warning flags were to be monitored by Manpower, DFRO and the relevant risk owner. On recognition of a warning flag, risk owners were responsible for initiating steps to mitigate the risk. Timing for the majority of the risks identified was during, or at the conclusion of, Phase 1.

Manpower business plan

5.13 A business plan developed by Manpower in June 2002 identified several major risks and mitigation strategies. The risks to Manpower were identified as relating to enlistment volumes and throughput, and changes to embedded personnel.^{160 161}

5.14 The plan identified three major risks to Defence:

- non-performance by Manpower (mitigation strategy entails weekly and monthly reports);

¹⁵⁸ *Defence Force Recruiting Organisation—Provision of Recruiting Services Project—Risk Management Plan, 2000.*

¹⁵⁹ This risk was identified as 'final decision maker (HDPE [Head Defence Personnel Executive] or Defence Executive) not happy with procurement process and/or final recommendation to proceed to Phase Two'.

ibid. p. A-25.

¹⁶⁰ Business Plan, June 2002, pp. 61–2.

¹⁶¹ The throughput plan, also referred to as the enlistment intake schedule, and the number of enlistees required by the ADF, can vary as the result of influences beyond the control of Defence or Manpower, such as commitments to overseas deployments.

As embedded personnel are subject to the Defence posting cycle, Manpower has identified risks occurring from the resultant loss of expertise and intellectual capital.

- intellectual property and capital (contractual requirement for Manpower to provide Defence with all intellectual property); and
- transition-in period (strategies and plans to minimise risk during this period are in the transition plan).¹⁶²

Board of Management risk consideration

5.15 Risk is discussed at each Board of Management meeting. After each meeting, DGWPRR provides a brief to Head Defence Personnel Executive on the assessed risks and mitigation strategies as determined by the Board.

ANAO comment

5.16 It is evident that Defence is aware of the risks associated with outsourcing the provision of recruiting services. For example, Defence decided to adopt a Manpower IT system rather than the recruiting module of Defence's PMKeys, as problems with functionality of the latter system could result in a loss of information about potential recruits as they progressed through selection procedures. PowerForce, an IT system introduced by Manpower, was rolled out during the transition period after successful data migration nationally, which was the standard to be achieved prior to national roll-out of the system.

5.17 A risk awareness approach is evident, but is not always formally documented, as was observed with the invoice checking process noted in paragraph 3.12. Better management practice requires that risks are systematically identified, assessed, treated, monitored and reviewed. As such, a risk plan should be developed which identifies risks and management measures to reduce and control risks and establishes ongoing monitoring and reporting arrangements.

5.18 Although the DFRO risk management plan developed in 2000 does satisfy such requirements of better practice, the ANAO notes that it has not been updated to reflect the fact that the provision of ADF recruiting services by Manpower has progressed beyond a trial. The ANAO considers that DFR would benefit from updating its risk management plan and may find it useful to identify risks associated with outsourcing ADF recruiting services, as well as the risks specifically associated with being in collaboration with Manpower.

5.19 The second amendment deed requires Manpower, prior to the transition-in period,¹⁶³ to develop a risk management plan to manage the risks associated with the performance of the recruiting services.¹⁶⁴ DFR has indicated that

¹⁶² Business Plan, op. cit., pp. 62–3.

¹⁶³ See Table 1.

¹⁶⁴ *Second Amendment Deed*, op. cit., Part H: Statement of Work, cl. 1.10.

Manpower is yet to meet this contractual requirement, but has advised that a joint risk plan with Manpower is to be developed during the second half of 2003. Following its completion, the DFR Risk Management Plan will be passed to the Operational Management Group for approval and ongoing management. If deemed necessary, the results of Operational Management Group discussions on risk management will be reported to the Board of Management.

5.20 The ANAO also notes that a disaster recovery and business continuity plan is in the process of being developed by Manpower.¹⁶⁵

Conclusion

5.21 A risk management approach is apparent in Defence's approach to ADF recruiting, although this approach is not always evident in formal documentation. The ANAO notes that this issue is starting to be addressed and considers that, in doing so, Defence would benefit from identifying, and developing a plan to address, the risks associated with outsourcing ADF recruiting services and the specific risks associated with being in collaboration with Manpower.

5.22 The ANAO considers that Defence would also benefit from ensuring that the risk management plan developed by Manpower identifies risks and that Manpower provides regular reports against this plan, with such reports containing an assessment of emerging issues and strategies to deal with them.

Defence comment

5.23 Defence commented that it has had a risk management plan in place since the pre-tender stage. The plan has been periodically updated and there has been considerable effort by Defence to ensure Manpower's compliance in relation to this contractual requirement. DGWPRR accepts that the current plan may require updating, which will be progressed via the risk management process adopted by the Board of Management.

Canberra ACT
27 October 2003



P. J. Barrett
Auditor-General

¹⁶⁵ Minutes of the Board of Management Meeting 3 April 2003.

Appendices

Appendix 1

Defence response to proposed report

The proposed audit report was provided to Defence on 27 August 2003. The response received by the ANAO on 3 October 2003 is reproduced below.

ANAO SECTION 19 DRAFT REPORT ON ADF RECRUITMENT CONTRACT COMMENTS ON RECOMMENDATIONS

Recommendation No 1, para.2.57

The ANAO recommends that, as a matter of priority, Defence complete the documentation of performance against the Australian Defence Force recruitment contract objectives, specified in the second amendment deed, for use in evaluating the performance of Defence Force Recruiting.

Defence response: Defence agrees with the recommendation. Defence is currently undertaking the benchmarking exercise and will develop, as part of the benchmarks, a set of criteria that will be used to evaluate the performance of the recruiting services by Manpower. The benchmarks and criteria will be forwarded to the ANAO for comment by the end of November 2003.

Recommendation No 2, para.3.15

The ANAO recommends that Defence Force Recruiting continue to document the processes utilised in the management of the contract and establish a firm timetable for the completion of this task.

Defence response: Defence agrees with the recommendation. Defence Force Recruiting is continuing to document the process used to manage the Contract. This also includes the population of the specifically designed Contract Management System that will be used to monitor financial, target achievement and contract compliance requirements of the Contract. Although the documentation process will be ongoing as process and policy matters change, it is anticipated that the majority of this task will be completed by the end of November 2003.

Appendix 2

Media releases

Media Release

The Hon Danna Vale MP

Minister Assisting the Minister for Defence

MIN 521/02 Thursday, 26 September 2002

BOOST FOR DEFENCE FORCE RECRUITING

The Australian Defence Force had generated an increase of almost 50 per cent in full-time recruitment enlistments in the past three years, Minister Assisting the Minister for Defence, Danna Vale said today.

“This exceptional performance is in addition to an increase of more than 70 per cent in Reserve Force enlistments. These results are even more impressive when set against a reduction in marketing and advertising spending of 35 per cent over the same period.

“Defence will continue to build upon this success in a national collaborative arrangement with recruitment agency, Manpower Services Australia.

“The expertise in marketing and innovative recruitment technology brought to the partnership by Manpower Services, particularly in the IT arena, will augment Defence’s experience in recruiting at the coalface in the community, as well as assisting to target potential recruits in difficult-to-recruit job categories,” Minister Vale said.

The four-year agreement follows a two-year trial in Victoria, Tasmania and southern New South Wales, with the enhanced services to be introduced across Australia from 1 July 2003.

Minister Vale said an independent evaluation of the trial, conducted by Deloitte Touche Tohmatsu, concluded that the collaborative strategy developed by Defence and Manpower Services would provide excellent opportunities to further improve recruiting performance. The strategy would enhance performance with new technology, improved alignment of responsibility and accountability, as well as better control of costs.

“About 250 ADF uniformed personnel in metropolitan and regional centres around Australia will spearhead the new national recruiting arrangements. They will provide field-recruiting activities and selection interviews for all potential applicants. Manpower Services will provide both high-level recruiting strategic advice and technology, and administrative support that will free-up about 150 ADF personnel for more critical roles in the ADF Combat Force.

“Defence will retain control of entry standards and decide which applicants are accepted into the ADF as well as remaining accountable for overall results, while Manpower Services will be responsible for service delivery,” the Minister said.

Minister Vale said Australian Business Woman of the Year in 1999, Sheryle Moon had been appointed as the General Manager of the new-look “Defence Force Recruiting” and Director of Defence Force Recruiting, Colonel Mark Bornholt will continue to lead the organisation for Defence in partnership with Ms Moon.

Media Release

Senator Chris Evans

Labor Senator for Western Australia

Shadow Minister for Defence

3 October 2002

MAJOR CONCERNS ABOUT \$250 MILLION DEFENCE CONTRACT

Defence has decided to outsource ADF recruiting at a cost of \$250 million, despite the fact that it has no information on key performance aspects of the current recruitment arrangement.

In a leaked copy of the evaluation by Deloitte’s into the outsourcing trial, Defence is severely criticised for failing to provide the data that was necessary for the assessment to be either thorough or accurate.

The evaluation report notes that Defence was “unable” to provide crucial data to Deloitte’s for the purposes of evaluating the relative merits of in-house versus private recruitment by the employment firm Manpower, a contract worth \$250 million.

It comes hot on the heels of an Audit Office report into defence property sales, which similarly found that the Government had decided to sell Defence-owned buildings, without knowing what they cost to operate.

The Deloitte’s report reveals that Defence did not supply tri-service data on retention rates for ADF personnel after 1 year of service, “despite the measure being a Key Performance Indicator identified in the Contract.”

Curiously, however, in a recent answer to a question on notice Labor was given this very information that Deloitte’s was told did not exist.

Deloitte’s was also given completely different figures on the numbers recruited to the ADF since 1998 than the Government has provided to Parliament.

Senator Evans said today that this report raises serious concerns about the basis of the Government's decision to proceed with the \$250 million contract, as well as about the reliability of ADF recruitment data issued by the Government.

The report highlights many inconsistencies regarding information the Government actually has on ADF recruitment, and how it treats this information.

Senator Evans also noted that it is a matter of great concern that the evaluators of a \$250 million contract appear to have been given both less and different information by the Government than that given to the Opposition on enlistment and retention figures for the ADF.

Appendix 3

Fees payable to Manpower

1. As discussed in paragraph 1.21, fees payable to Manpower for provision of ADF recruiting services consist of a fixed fee component and a recruitment fee component.

Fixed fee

2. The fixed fee covers amortisation of set up costs, depreciation of capital expenditure and construction and maintenance of the information technology network. It does not become payable until full national transition of the recruiting services to Manpower is complete in all regions to the satisfaction of Defence's contract administrator. The fee is fixed for the term of the contract and, although it cannot be increased, any cost savings are to be passed to Defence through reductions in this fee.¹⁶⁶

Recruitment fee

3. The recruitment fee is calculated based on Manpower's level of achievement against the enlistment targets set for the different categories each year. The rates payable are the same regardless of the Service being joined but differ according to the category an individual is joining and Manpower's achievement against the enlistment target. The variation in fees between categories reflects the degree of difficulty in recruiting to the category (i.e. categories which are hard to recruit to attract higher payment rates) and the costs associated with recruitment, as categories differ with respect to testing and assessment requirements. Table 11 shows the different categories and the applicable per candidate rates that apply for 2003–04.¹⁶⁷

¹⁶⁶ *Second Amendment Deed, op. cit.*, Part F: Pricing Schedule, cl. 2.

¹⁶⁷ On 14 January 2003, Senator Evans asked a question on notice seeking information as to whether the amount paid to Manpower was the same for each recruit to the ADF regardless of the rank or job performed by the new recruit and, if not, what amount was paid to Manpower for recruits to each different rank, job, geographical location etc. In his response on 14 May 2003, Senator Hill stated that the rate applicable for full time officers was \$9000.

Senator the Hon. Robert Hill, Answer to Defence: Manpower Call Centre (Question No. 1083), *Senate Official Hansard*, DPRS, Canberra, 14 May 2003, p. 10 962.

Table 11**Per candidate rates for 2003–04**

	Per candidate rate where number of enlisted candidates is less than or equal to 85% of enlistment target (\$)	Per candidate rate where number of enlisted candidates is greater than 85% of enlistment target (\$)
Permanent force		
Officer—Aircrew	10 000	8 000
Officer	7 000	6 000
Other rank	5 000	4 000
Other rank—technical trade	6 000	5 000
Reserve force		
Officer	5 000	4 000
Other rank	3 500	3 000

Source: *Second Amendment Deed to the Contract for the Provision of Recruiting Services to the Australian Defence Force*, Part F: Pricing Schedule, Attachment 2: Per Candidate Rates.

- Note:
- 1) A candidate is deemed to be 'enlisted' at the point in time when he or she has signed the Oath and Attestation Form. The term 'enlisted' has been used in the second amendment deed to refer to all those who enter the ADF through the recruiting process and thus also includes those appointed to the rank of officer.
 - 2) 'Aircrew' includes pilots, navigators and observers.
 - 3) 'Other rank' is also referred to as 'general entry'.
 - 4) 'Technical trades' differ by Service but can include occupations such as avionics technician, plumber and marine technician.
 - 5) The per candidate rates decrease by 2.5 per cent a year for each year of the term of the contract. *Second Amendment Deed to the Contract for the Provision of Recruiting Services to the Australian Defence Force*, Part F: Pricing Schedule, Attachment 2: Per Candidate Rates.
 - 6) The per candidate rates differ according to the aggregate number of candidates to be enlisted. The rates presented in Table 11 apply when the aggregate number of candidates is in the range of 8500 and 10 000. When the number of candidates is between 7500 and 8499, the candidate rates are increased by five per cent. The rates are decreased by two per cent when the number of candidates required is between 10 001 and 11 000. *Second Amendment Deed to the Contract for the Provision of Recruiting Services to the Australian Defence Force*, Part F: Pricing Schedule, cl. 3.3.

4. This division of categories was developed as part of the original request for tender documentation. The methodology used entailed:

- defining a set of comparative criteria:
 - cost of training;
 - risk of training failure;
 - length of training;

- risk to overall operational effectiveness due to failure to achieve recruitment targets;
- difficulty to recruit; and
- work value;
- grading each job type against those criteria; and
- grouping job types into specific bands.

Fees for recruitment to ‘critical trades’

5. An additional amount is payable to Manpower for the recruitment of candidates to what are designated as ‘critical trades’.¹⁶⁸ These amounts, which are payable in the year following enlistment, depend on the number of candidates enlisted relative to the enlistment target for the trade.¹⁶⁹ Table 12 indicates that the per candidate rate for critical trades is by way of an additional amount dependent on the target achieved.

Table 12

Per candidate rates for critical trades

Critical Trade Achievement	Per candidate rate
Less than or equal to 80% of enlistment target	Per candidate rate
Greater than 80% and less than or equal to 90% of enlistment target	Per candidate rate plus 10%
Greater than 90% of enlistment target	Per candidate rate plus 20%

Source: *Second Amendment Deed to the Contract for the Provision of Recruiting Services to the Australian Defence Force*, Part F: Pricing Schedule, Attachment 3: Per Candidate Rates for Critical Trades.

6. Table 13 presents an example of how the critical trade clause of the deed works.

¹⁶⁸ ‘Critical trades’ differ according to the individual Service. Factors which are used to measure and rate trade status are: current personnel numbers, recruiting achievement, training capacity and separation rates. Navy regards a trade as critical if the target numbers cannot be achieved within five years, even with maximum training throughput. For Army, a critical trade category is one in which the current level of personnel and Army’s inability to recruit, train or retain personnel in the category significantly impacts on Army’s ability to deliver capability. Air Force prefers the term ‘employment categories of concern’ and determines such categories as being those where recruiting, separation and training numbers, either individually or in combination, adversely affect capability.

ANAO, *Management of Specialist Information System Skills*, Audit Report No.56 2002–03, pp. 42–3.

¹⁶⁹ *Second Amendment Deed, op. cit.*, Part F: Pricing Schedule, cl. 4.

Table 13**Example of amounts payable for recruiting a candidate to a critical trade**

	Payment per candidate (\$)
Payment made during the year	
For each candidate recruited up to and including the 85% level of target achievement	5000
For each candidate recruited above the 85% level of target achievement	4000
Bonus payment at start of next financial year	
For each candidate recruited to the 80% level of target achievement	0
For each candidate recruited between the 81% and 84% level of target achievement	500
For each candidate recruited between the 85% and 90% level of target achievement	400
For each candidate recruited above the 90% level of target achievement	800

Source: ANAO analysis.

Note: This example is based on recruiting to a critical trade which is in the category of 'other rank' (non-officer) in the permanent force.

7. Defence advised the ANAO that the critical trades for 2003–04 should be tabled at the Board of Management meeting in August 2003. Critical trades are determined by the individual Services and will be advised annually.

Fees for recruitment to the Regional Force Surveillance Unit

8. The recruitment fees discussed above are not applicable to the recruitment of candidates to the Regional Force Surveillance Unit (RFSU).¹⁷⁰ Where Manpower is required to perform medical and psychological testing and assessment of candidates for the RFSU, the second amendment deed establishes daily rates to be paid for this testing and assessment.¹⁷¹ A Memorandum of Understanding between Army and DFR regarding the conduct of recruiting for RFSU was signed on 8 May 2003. It sets out the tasks and responsibilities for the recruitment, testing and enlistment of Army Reserve soldiers into the RFSU

¹⁷⁰ The RFSU are responsible for conducting reconnaissance and surveillance operations in Far North Queensland, the Gulf Country and the west coast of Australia. There are three RFSUs: NORFORCE (North West Mobile Force), the 51st Battalion Far North Queensland Regiment and the Pilbara Regiment. Given the nature of their operations, which demand a high level of local knowledge and skills, RFSU personnel are drawn heavily from Aboriginal and Torres Strait Islander populations in the locality of their operations. In recognising the disadvantages in health, literacy and numeracy standards facing people living in remote areas of Australia, the criteria for the enlistment of personnel to RFSUs differs to that of the general ADF.

¹⁷¹ *Second Amendment Deed, op. cit.*, Part F: Pricing Schedule, cl. 7.

and establishes the funding framework for the conduct of remote locality applicant testing in RFSU locations.¹⁷²

Liquidated damages

9. The second amendment deed provides for Defence to recover liquidated damages from Manpower where an enlisted candidate does not complete initial recruit training for reasons other than:

- where a candidate has suffered injuries caused by participation in initial recruit training and which result in discharge from the ADF;
- where a candidate failed to disclose information prior to enlistment which then results in discharge from the ADF during initial recruit training; or
- an act or omission by Defence or its contract administrator.¹⁷³

10. Liquidated damages of \$1000 per candidate are payable only where the Board of Management (see Chapter 3) elects to pursue this course of action and the number of enlisted candidates who do not complete initial recruit training exceeds 15 per cent of the total number of candidates enlisted for the year.¹⁷⁴ At the first meeting of the financial year, the Board of Management will consider the discharges that occurred in the previous year and decide whether to proceed with a claim for liquidated damages.¹⁷⁵

11. Fifteen per cent was selected for the discharge rate on the basis of historical experience. Table 14 displays the separation rates for the ADF training force and the ADF and highlights those years where this rate exceeded 15 per cent.¹⁷⁶

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¹⁷² *Memorandum of Understanding between Army and Defence Force Recruiting regarding the conduct of recruiting for Regional Force Surveillance Units (RFSU)*, 8 May 2003, p. 1 and 3.

¹⁷³ *ibid.*, Part C: Contract Conditions, cl. 12.14.

¹⁷⁴ *ibid.*, Part C: Contract Conditions, cl. 12.14.

¹⁷⁵ *Defence Force Recruiting: Discharge Tracking Process: Contract for the Provision of Recruiting Services*, draft as at 17 June 2003, p. 3.

¹⁷⁶ The separation rate is the number of separations in a particular category expressed as a percentage of the total number of personnel in that category.

¹⁷⁷ The ADF training force consists of those members of the ADF undertaking initial recruit training and initial employment training prior to joining a unit or formation. This population is larger than that to be used to decide whether there is recourse to liquidated damages. Separation rates in Table 14 and Figure 5 are intended to provide only an indication of separation rates for personnel who are new to the ADF.

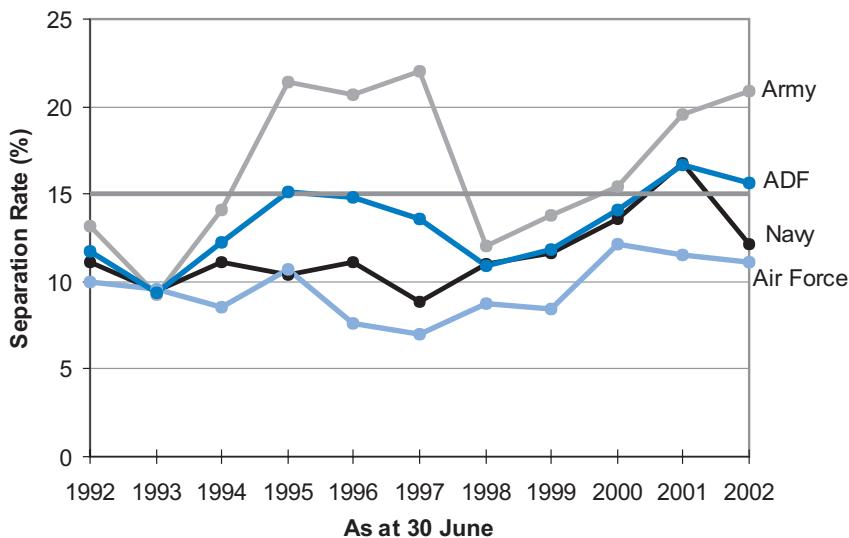
Table 14**Separation rates for ADF training force and ADF, 30 June 1992 to 30 June 2002**

Year at 30 June	ADF training force (%)	ADF (%)
1992	11.72	7.38
1993	9.38	10.79
1994	12.22	11.42
1995	15.10	11.88
1996	14.79	11.79
1997	13.63	10.20
1998	10.93	10.87
1999	11.87	12.53
2000	14.09	12.60
2001	16.66	14.08
2002	15.66	11.43

Source: Directorate of Workforce Planning and Establishment, in Defence Personnel Executive.

Note: Shading indicates years for which the separation rate exceeded 15 per cent.

12. Figure 5 displays the separation rates from the training force, both for the ADF as a whole and for the individual Services. It shows that the separation rate from the Navy and Army training forces has exceeded 15 per cent in recent years.

Figure 5**Separation rates for the ADF training force and Service training forces, 30 June 1992 to 30 June 2002**

Source: Directorate of Workforce Planning and Establishment, in Defence Personnel Executive.

Appendix 4

Defence Service Centre at Cooma

1. Under the second amendment deed, call centre functions for ADF recruiting are to be provided by the Defence Service Centre (DSC) in Cooma,¹⁷⁸ which is operated by Defence. Some 80 Defence APS employees provide call centre functions for DFR. The DSC also provides general Defence services relating to Defence civilian personnel administration, Defence APS recruitment and safety management incident reporting. Additional Defence business in the areas of honours and awards and equity is to be undertaken by the DSC in the second half of 2003.

2. To the end of 2002–03, the provision of call centre functions for ADF recruiting by the DSC was funded by the Defence Personnel Executive. From 2003–04, the Corporate Services Infrastructure Group in Defence will fund the provision of DSC services to DFR. Although the DSC provides call centre functions related to recruiting at no cost to Manpower,¹⁷⁹ the second amendment deed allows for the DSC to recover costs where Manpower requests call centre operations to extend outside normal operating hours.¹⁸⁰ In addition, Manpower is responsible for various costs associated with the delivery and maintenance of the information technology system and training of DSC staff on the PowerForce system,¹⁸¹ which is used to track applicants from their first point of contact to enlistment date.

3. A service level agreement between DFR and the DSC specifies that the DSC is to provide the initial point of contact and, as required, first level screening services for individuals seeking information about ADF careers in either the permanent or Reserve forces.¹⁸² The services provided by the DSC for DFR account for some 85 per cent of the DSC's business and include:

¹⁷⁸ *Second Amendment Deed*, op. cit., Part C: Contract Conditions, cl. 23.1(a).

¹⁷⁹ *ibid.*, Part C: Contract Conditions, cl. 23.2.

¹⁸⁰ *ibid.*, Part H: Statement of Work, cl. 4.13(a)(i) and (v).

The Service Level Agreement between DFR and the DSC specifies that DFR is to meet the costs of such services.

Service Level Agreement Between Defence Force Recruiting and Defence Services Centre, draft as at 28 July 2003, cl. 10.

These costs are to be met by Manpower due to the nature of the agreement between DFR and the DSC.

¹⁸¹ PowerForce is the technology platform specifically developed by Manpower to meet ADF recruiting requirements. The system is used by the DSC and by ADF recruiting units.

¹⁸² *Service Level Agreement Between Defence Force Recruiting and Defence Services Centre*, op. cit., Schedule 2—Call Centre Functions ('Services').

- determining candidates' suitability for the ADF on the basis of screening standards defined by DFR;
- booking candidates to information, testing or evaluation sessions; and
- providing candidates with ADF career information suited to their age, education and requirements.¹⁸³

In addition, the DSC receives calls from candidates who have forgotten appointment times or who are checking where they are in the recruiting process.

4. Defence records indicate that the DSC was located in Cooma as part of the Government's commitment to provide employment in regional Australia and that, although the decision to require the DSC to continue to be used for recruiting purposes could be based on financial reasons, there were other considerations from a portfolio perspective. These considerations included that the loss of recruiting business would bring into question the long-term viability of the DSC. The records indicate that, as Defence Personnel Executive had invested substantial funds in establishing the centre, the loss of recruiting business would jeopardise Defence's achievement of a return from the investment into the DSC.¹⁸⁴

¹⁸³ *ibid.*, Schedule 3—Performance and Reporting Requirements.

¹⁸⁴ *Defence Service Centre (DSC) Support to Recruiting*, Defence Minute, 10 September 2002.

Appendix 5

Previous audit coverage

Audit Report No.31 2002–03 *Retention of Military Personnel Follow-up Audit*

1. In Audit Report No.31 2002–03 *Retention of Military Personnel Follow-up Audit*, the ANAO assessed the extent to which Defence had implemented the recommendations of Audit Report No.35 1999–2000 *Retention of Military Personnel*, two of which concerned recruiting issues.
2. Recommendation No.6 of the original audit report concerned the establishment of performance indicators to measure the extent to which the Defence Personnel Executive ‘recruits and retains the right people’. The ANAO reported that implementation of this recommendation should be completed as part of the implementation of Recommendation No.2, which was for the establishment of a criteria-based management framework, including performance indicators. This is expected to be completed by July 2004. The audit report noted that, in light of the decision to outsource the recruiting function, it was particularly important that the suite of indicators developed assist Defence to assess the extent to which the right people are being recruited and retained.
3. In Recommendation No.9 of the original audit report, the ANAO recommended that Defence endeavour to make its recruitment strategies more effective in retaining recruits for a cost effective period by studying the effectiveness of its recruiting strategies and the perceptions held by recruits on the accuracy of recruitment information provided to them. The ANAO found that Defence has undertaken action to address the latter by administering the ADF Entrant Opinion Survey. Defence indicated it is using the results of the survey to refine business practices and modify staff training. The ANAO also found that a range of activities to address specific recruiting issues were being undertaken.
4. The ANAO did not consider whether Defence was successfully implementing this recommendation or not, as a new recruiting organisation was to become operational from 1 July 2003. The ANAO noted, however, that with the outsourcing of the recruitment function, Defence will need to monitor the recruitment firm’s performance to ensure that recruitment strategies provide Defence with recruits that are likely to be retained for a cost-effective period.
5. Defence agreed with the ANAO’s findings on the implementation status of these recommendations.

Audit Report No.41 2000–01 *Causes and Consequences of Personnel Postings in the Australian Defence Force*

6. In examining Defence's posting process, in Audit Report No.41 2000–01 *Causes and Consequences of Personnel Postings in the Australian Defence Force*, the ANAO found that a contributing factor to high posting turbulence was relatively low levels of recruitment. Consequently, the ANAO considered recruitment issues as part of the audit and made two recommendations addressing ADF recruitment issues.

7. Recommendation No.2 consisted of two parts. In the first part, the ANAO recommended that Defence continue to take action to improve recruitment rates in the ADF, taking into account the initiatives of the Posting Turbulence Review. The second part of the recommendation involved Defence reviewing its progress in implementing recommendations on ADF personnel recruitment made in previous ANAO reports.

8. In Recommendation No.4, the ANAO recommended that Defence investigate lateral recruitment as a possible means of alleviating staffing difficulties,¹⁸⁵ as well as evaluating the effectiveness of ADF recruitment advertising. The second part of this recommendation arose out of ANAO analysis which indicated that, although significantly increased advertising activity had translated into increased inquiries, these inquiries had not subsequently been converted into actual enlistments.

9. Defence agreed to both recommendations.

Audit Report No.33 2000–01 *Australian Defence Force Reserves*

10. Audit Report No.33 2000–01 *Australian Defence Force Reserves* considered the issue of recruitment within the ADF Reserve Forces as part of its overall objective to assess the efficiency and effectiveness of the ADF's administration of its Reserve Forces. The audit found recruitment rates in the Reserves were well below recruitment targets, especially in the Army Reserve, where recruitment activity was failing to keep pace with the number of separations. The audit acknowledged the steps Army had undertaken to address the shortfalls in recruitment by offering more flexibility in recruit training and establishing unit Recruitment Liaison Officers.

¹⁸⁵ The definition of lateral recruitment used by the ANAO in Audit Report No.41 2000–01 differs from the definition now employed by DFR.

11. To increase the rate of transfer of full-time members on discharge from the permanent forces to the Reserves, the ANAO recommended in Recommendation No.10 that Defence develop a marketing strategy and a package of incentives, including suitable improvements to Reserve conditions of service. Defence agreed to this recommendation in principle, subject to further examination of specific incentives and cost-benefit analyses. Defence commented that the proposals were equally applicable to the recruitment of all Reserves and anticipated that the future development of different types of Reserve service would require different incentives.

12. In Recommendation No.11, the ANAO recommended that, in order to improve recruitment opportunities, Defence examine the feasibility of developing a wider range of recruit training modules to accommodate the different circumstances of Reservists; closely monitor the success of recruiting initiatives by individual units and adopt those measures that prove to be particularly successful; and initiate studies on regional demographic factors which influence recruiting success. Defence agreed to all aspects of this recommendation.

13. As part of Recommendation No.12, the ANAO recommended that, in association with any review of Reserve conditions of service, Defence conduct studies to determine the conditions that are most influential in attracting and retaining Reserve members. The second part of this recommendation concerned assessing whether the costs of any improvements in these conditions is likely to be accompanied by savings arising from an increase in retention and in the transfer of retiring full-time members to the active Reserve. Defence agreed to both parts of this recommendation.

Audit Report No.40 1999–2000 *Tactical Fighter Operations*

14. Audit Report No.40 1999–2000 *Tactical Fighter Operations* considered the issue of recruitment as part of its broader objective of assessing Defence's ability to utilise resources related to tactical fighter force operational capability, in a cost-effective manner. The ANAO found that, although a range of initiatives were addressing the shortfall in the number of fast jet pilots, Defence needed to develop a systematic means of assessing the cost-effectiveness of strategies to improve the recruitment of fast jet pilots. The effectiveness of fast jet pilot recruiting is made more important by the substantial amount of resources invested in training regimes.

15. As part of a systematic endeavour to achieve sufficient numbers of fast jet pilots, the ANAO made Recommendation No.6, which stated that Defence

should monitor the progress of the present and subsequent recruiting campaigns to help identify strategies to improve the cost-effectiveness of fast jet pilot recruiting. Defence agreed to the recommendation.

16. To coordinate efforts to acquire and retain the required number of pilots for the Tactical Fighter Group, Recommendation No.9 of the audit report stated that Defence should formulate and implement a Tactical Fighter Group pilot workforce plan. Aspects of the workforce plan relating to recruitment were the setting of appropriate recruitment targets and selection processes; and the identification of key result areas and suitable measures for fast-jet pilot recruitment. Defence agreed to all aspects of this recommendation.

Audit Report No.35 1999–2000 *Retention of Military Personnel*

17. Audit Report No.35 1999–2000 *Retention of Military Personnel* examined the management of personnel retention within the ADF and the cost effectiveness of such practices. Within this framework, the ANAO examined a number of aspects of Defence recruiting with a view to assessing whether the ADF had structured its recruiting to recruit personnel likely to remain in the Services for a cost effective period.

18. The audit report considered the types of information used by the Defence Force Recruiting Organisation (DFRO) and found that DFRO utilised the annual recruitment targets supplied by the Defence Personnel Executive as performance indicators. Based on the finding that annual recruitment targets in isolation do not indicate the efficiency and economy of DFRO's resource usage, the ANAO made Recommendation No.6. (Defence's progress in implementing this recommendation is discussed above at paragraph 2.)

19. The ANAO examined DFRO's procedures for recruiting personnel who intend to remain in the ADF for a cost-effective period. The finding that DFRO did not undertake research on the effectiveness of its recruiting strategies led the ANAO to make Recommendation No.9. (Defence's progress in implementing this recommendation is discussed above at paragraph 3.)

20. Defence agreed to both recommendations.

Audit Report No.17 1996–97 *Workforce Planning in the Australian Defence Force*

21. Audit Report No.17 1996–97 *Workforce Planning in the Australian Defence Force* considered the issue of ADF recruitment in light of how recruitment interacts with workforce planning. Although this audit highlighted workforce

planning as a larger scale planning activity focused on the acquisition of the right number and combination of personnel, it emphasised that the processes within recruitment do not comprise an activity in workforce planning. In examining the interdependence of workforce planning and recruitment, the audit established that a closer link between recruitment targets and required strength was required to deal with variations between strength and requirements.

22. In Recommendation No.17, the ANAO recommended that Navy and Army develop a system to prioritise the filling of positions by quantifying demand and strength for each category within the Navy and Army. Defence agreed to the recommendation, noting Army had a system in place and Navy was in the process of developing one.

Appendix 6

Previous performance audits in Defence

Set out below are the titles of ANAO performance audit reports on Defence tabled in the Parliament in the last five financial years.

- Audit Report No.2 1998–99 *Commercial Support Program*
Audit Report No.17 1998–99 *Acquisition of Aerospace Simulators*
Audit Report No.41 1998–99 *General Service Vehicle Fleet*
Audit Report No.44 1998–99 *Naval Aviation Force*
Audit Report No.46 1998–99 *Redress of Grievances in the Australian Defence Force*
- Audit Report No.13 1999–2000 *Management of Major Equipment Acquisition Projects*
Audit Report No.26 1999–2000 *Army Individual Readiness Notice*
Audit Report No.35 1999–2000 *Retention of Military Personnel*
Audit Report No.37 1999–2000 *Defence Estate Project Delivery*
Audit Report No.40 1999–2000 *Tactical Fighter Operations*
Audit Report No.41 1999–2000 *Commonwealth Emergency Management Arrangements*
Audit Report No.45 1999–2000 *Commonwealth Foreign Exchange Risk Management Practices*
Audit Report No.50 1999–2000 *Management Audit Branch—follow-up*
- Audit Report No.3 2000–2001 *Environmental Management of Commonwealth Land—follow-up*
Audit Report No.8 2000–2001 *Amphibious Transport Ship Project*
Audit Report No.11 2000–2001 *Knowledge System Equipment Acquisition Projects in Defence*
Audit Report No.22 2000–2001 *Fraud Control in Defence*
Audit Report No.26 2000–2001 *Defence Estate Facilities Operations*
Audit Report No.32 2000–2001 *Defence Cooperation Program*
Audit Report No.33 2000–2001 *Australian Defence Force Reserves*
Audit Report No.41 2000–2001 *Causes and Consequences of Personnel Postings in the Australian Defence Force*
Audit Report No.51 2000–2001 *Australian Defence Force Health Services—follow-up*
- Audit Report No.16 2001–2002 *Defence Reform Program—Management and Outcomes*
Audit Report No.24 2001–2002 *Status Reporting of Major Defence Equipment Projects*
Audit Report No.30 2001–2002 *Test and Evaluation of Major Defence Equipment Acquisitions*
Audit Report No.38 2001–2002 *Management of ADF Deployments to East Timor*
Audit Report No.44 2001–2002 *Australian Defence Force Fuel Management*
Audit Report No.58 2001–2002 *Defence Property Management*
- Audit Report No.3 2002–2003 *Facilities Management at HMAS Cerberus*
Audit Report No.30 2002–2003 *Defence Ordnance Safety and Suitability for Service*
Audit Report No.31 2002–2003 *Retention of Military Personnel—follow-up*
Audit Report No.39 2002–2003 *Navy Operational Readiness*
Audit Report No.46 2002–2003 *Australian Industry Involvement Program*
Audit Report No.51 2002–2003 *Defence Housing and Relocation Services*
Audit Report No.56 2002–2003 *Management of Specialist Information System Skills—Defence*

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