

**Department
of Defence**

Independent Audit:

**Re: the Implementation
of the DFRT Determinations
for Special Forces Pay**

FINAL REPORT

31 March 2009

GOVERNMENT ADVISORY



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31 March 2009

The Hon Joel Fitzgibbon MP
Minister for Defence
Parliament House
CANBERRA

Dear Minister,

*Independent Audit of the Implementation of the
Defence Force Remuneration Tribunal (DFRT) Determinations
for Special Forces Pay*

Thank you for the opportunity to undertake this Audit of the abovementioned matter concerning the implementation of the DFRT determination(s) impacting Special Forces Pay.

The accompanying report addresses each aspect of your Terms of Reference (ToR) and, where appropriate, provides a context for the answers provided.

In a couple of instances some aspects of the ToR have been combined but only where the presentation of the answers has afforded an appropriate reporting economy to the questions being asked.

In summary, and as a somewhat broader perspective to the specific matters addressed in this Report, the review has noted:

- *A complex and detailed Determination process* reminiscent of the industrial award arrangements of some decades ago (this is not to suggest that the processes are anything other than well executed and in accordance with current legislation);
- *A complex pay and allowance structure*, which despite strategic intent and continuing endeavours to simplify arrangements over a number of years, still remains difficult to maintain;
- *Aging systems*, whilst working well at managing the complexity of Defence's payroll arrangements, are none-the-less facing vendor support issues¹;
- *A change management and accountability environment which is complex and at times lacking in end to end control*, involving numerous areas throughout Defence and which occasionally may lack central co-ordination and control such that issues identified by one area may not be fully communicated, resolved and ultimately reported (centrally) to ensure cohesive and timely remediation / resolution.

¹ **Explanation of “vendor support issues”:** Software vendors will often reduce and / or remove maintenance support for products where version / releases of *software in use* are either heavily modified with in-house modifications or lag too far behind current version / releases.

In response to these issues I have recommended that Defence consider:

- The development of a remuneration strategy that clearly articulates the vision for both the PMKeyS and the ADFPay system whereby simplification of the allowance structures and pay systems can be achieved over a period of 3-5 years along with IT systems reform and simplified administration; and
- The initiation of a Controls Framework project to fully document and deliver a comprehensive centralised controls framework which, inter alia, identifies end to end business process owners and ensures clear accountabilities are allocated such that implementation issues identified by one area of Defence are communicated, remediated, reported and ultimately overseen by a single point or area of responsibility and accountability. (Timeframe: 12 months).

Once these two complementary activities are completed, it would be my view that Defence would be much better placed in regard to aligning remuneration goals to:

- deliver an effective workforce;
- implement IT and process reform to integrate shared service delivery; and
- implement a control and accountability model that delivers an effective oversight and governance regime.

These activities would be a significant step in the holistic strategic reform agenda and, importantly, they represent an approach that is considered to be aligned with broader Defence initiatives.

Appreciably, this has been only a brief Audit process lasting three weeks and in this context some of these broader recommendations are provided in the spirit of being proactive and forward looking – and they may indeed need to be subject to extended timeframes, appropriate costing and adequate resourcing within Defence’s overall budget context.

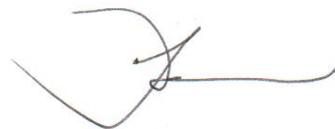
Finally, as you would have expected, it is appropriate for me to note that I have been provided the fullest co-operation from your own Office and also the Military and the Civilian sides of Defence. The contribution from all discussions has been frank, honest and direct in regards to the matters of this Audit.

Should you wish to discuss any aspect of this report with me then please feel free to contact me on +61 2 6248-1111.

Yours sincerely,



Nick Baker
Partner
KPMG



Ken Drover
Partner (Concurring)
KPMG



Disclaimer

Notifications of conditions applying to the submission of this report

Third Party Reliance

This review report has been prepared at the request of Department of Defence (Defence), for and on behalf of the Minister for Defence, in connection with our engagement to perform an *Independent Audit of the implementation of Defence Force Remuneration Tribunal (DFRT) Determinations for Special Forces Pay*.

Conclusions and observations presented in this report have been based upon data and information provided to us by Defence. Whilst KPMG has relied upon this information for the purposes of this review - we have not subjected this data to any additional KPMG assurance procedures beyond those assertions necessary in order to address the Terms of Reference.

Consequently, other than our responsibility to the Department of Defence, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

We believe that the statements made in this report are accurate, but no warranty of accuracy or reliability is given in relation to information and documentation provided by the Department's Management and personnel.

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1.0 Executive Summary

1.1 Introduction

This Report focuses on the implementation of the Defence Force Remuneration Tribunal (DFRT) Determinations for Special Forces Pay – in particular determinations 22/2006 (*signed 29 March 2007*) and 2/2008 (*signed 5 March 2008*). **These two determinations had overlapping impacts and whilst this report provides greater discussion around determination 22/2006 – it should be recognized that determination 2/2008 is simultaneously in view.**

The following table provides some relevant dates of these two determinations as well as some other determinations which also impacted upon Special Forces (SF) pay.

Determination #	Description	Date Signed	Date of Effect	Date of Implementation
22/2006	Remuneration Reform Program – salary rates for other ranks	29 March 2007	9 August 2007	21 August 2008
02/2008	Special forces pay group and pay grade placements	5 March 2008	9 August 2007	7 August 2008
04/2008	Allowance for Specialist Operations	6 March 2008	13 December 2007	7 August 2008
05/2008	Special forces disability allowance	12 March 2008	13 December 2007	7 August 2008

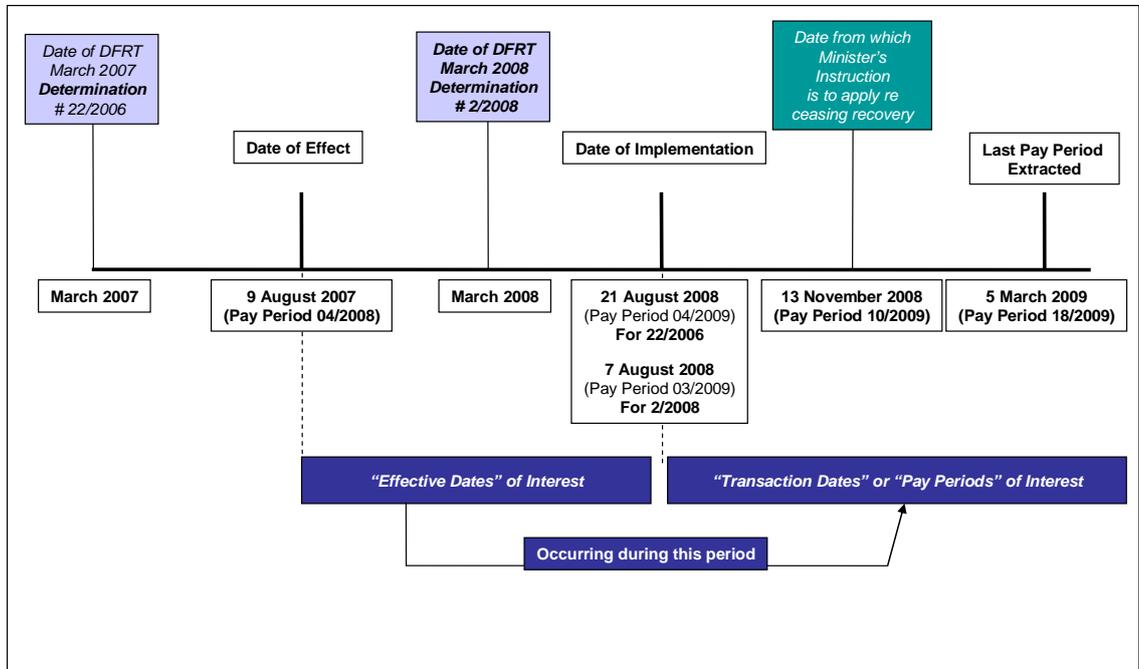
The table clearly shows that a number of overlapping determinations, with common dates of effect, were impacting SF soldiers and officers within a common timeframe – ie from pay 4/2009 (21 August 2008) through to pay 18/2009 (5 March 2009). Moreover, in many instances the impacts of these determinations on SF pays were combined in their effect.

1.2 Determination 22/2006 and the Problem in Brief

Relevant details specifically concerning **Determination 22/2006** and its implementation are outlined below:

- (1) The key intent of the DFRT's Determination of March 2007 was to shift the sizeable proportion of "qualification and skills allowances" paid to Special Forces (SF) into "salary" thereby improving superannuation outcomes.
- (2) The Determination was specified with an *Effective Date* of 9 August 2007. The *Implementation Date* was 21 August 2008. Moreover, "grandfathering" or provisioning the Determination with a requirement that no person would be adversely impacted was not sought at the time in the understanding that existing allowances for all personnel would readily convert to salary equivalents. The impact of these dates is illustrated in the following diagram.

Relevant Dates and Timeline



- (3) Defence Force Pay (for Army) relies on two main Pay Systems:
- **PMKeyS**, responsible amongst other things for generating the “salary” component of Pays; and
 - **ADFPay**, responsible amongst other things for generating the “allowance” component of Pays.

The changes required as a consequence of the Determination were to move “allowances” for Qualifications and Skills (Q&S) into a structure that could be reflected in revised remuneration. *(Refer conceptual diagram Attachment A.1)*

- (4) PMKeyS was set up to drive the new structure based on the specification of an individual’s Q&S information. At the date of implementation – 21 August 2008 – a number of SF personnel did not have their Q&S information specified such that their new “skills grades” would align with their old remuneration levels.

The reason for this non-alignment was primarily due to the fact that the individuals concerned had either:

- never done the appropriate courses, or
 - never registered course completion.
- (5) The result of this non-alignment was that a number of SF personnel had significant debts incurred as a result of being aligned to a lower “pay group” / “skills grade”.

In summary, the problems associated with the implementation of this Determination would have been avoided if either “retrospectivity” had not been applied or “grandfathering” of existing arrangements had been pursued.

Notwithstanding this overarching driver of difficulty, the findings of this Audit would suggest that disparate processes and incompletely executed procedures more fully explain the implementation difficulties associated with the Determination – and its subsequent remediation - rather than system problems per se.

Key evidences supporting this view are that while issues of alignment were flagged by areas such as Army, DSG and CIO in the weeks prior to implementation – the areas responsible for actioning / remediating the situation were not able to address the underlying causes of mis-alignment of pay grades (qualification and skills) within the remaining timeframe to implementation.

This rendered remediation to post-implementation processes and the consequential impact upon SF members with system-generated debts and commensurate recoveries being automatically instigated. Appreciably, where issues were identified there is clear evidence that SF members were at least informed – albeit that resolution proved a more difficult task!

In regards to the question as to why qualifications and skills were not in place in the first instance – I believe Army’s own assessment is self explanatory “...it has become apparent that a lack of administrative control and command governance in formally recording personal competencies within PMKeyS has created significant ambiguity in identifying the correct pay grades for all SF personnel”.

An adjunct to this issue is the extent to which Q&S allowances previously paid (ie prior to recent DFRT determination implementations) were done in accordance with appropriate authorisation mechanisms existing at that time – ie via Command delegation. (This is an area that has not been specifically reviewed in this audit nor have any indications come to light to indicate that this is an issue requiring audit per se).

1.3 Why was resolution Difficult ?

The problems associated with adequately identifying all affected SF members in a timely manner are various but include, inter alia:

- (1) Lack of an initial co-ordinated response to the issue;
- (2) Lack of an ability within the Pay System to routinely report on all SF members impacted by an individual determination;
- (3) Lack of skills and deep knowledge amongst those initially tasked with remediation as to how to best resolve the issue;
- (4) The compounding impact of other subsequent issues associated with the initial down grading of pay grades; (For example, some SF members incurred further disability allowance (DA) debts when existing DAs did not align to their lower pay grades); and
- (5) The general impact of other adjustments on SF members' pay as other determinations and pay-related issues were effecting their fortnightly pay. (All of which added further frustration and confusion for some SF members).

1.4 What is the current status of Resolution ?

On 18 February 2009 the Chief of Army issued a directive in relation to addressing issues with Special Forces pays. This directive was updated on 11 March 2009. It involves: the identification of affected personnel; taking steps to record competencies held; granting competencies based upon past performance and experience where appropriate; and the training of personnel where competencies cannot otherwise be determined. The Chief of Army has directed that no member of SF should be disadvantaged during the period of resolution.

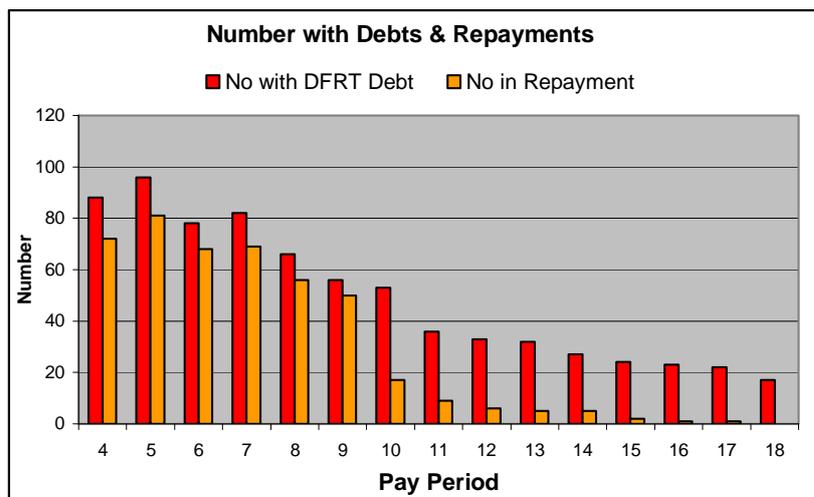
Whilst it needs to be noted that completion dates specified in the directive have not yet been reached, we have received verbal advice that appropriate action is taking place. Moreover, from the examination of data made available through this audit we are able to see the clear results of remedial action as it effects the pay of individual SF members.

So whilst we are not able to assert that the timelines specified will be met, we have no reason to doubt that they will be achieved.

1.5 Audit Findings – SF Members, Debts & Recoveries

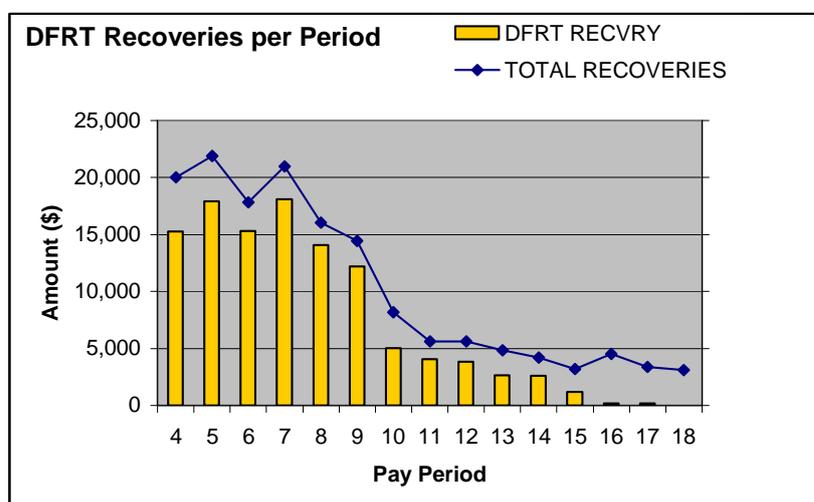
The number of SF members with debts and recoveries over the Pay Periods 04/2009 (21 August 2008) through to 18/2009 (5 March 2009) is shown in the following chart.

Notably, the number of individuals with recovery action peaked at 81 during pay period 05/2009 and zero in pay period 18/2009. (For a table showing the dates accompanying each pay period refer section 3.7.2).



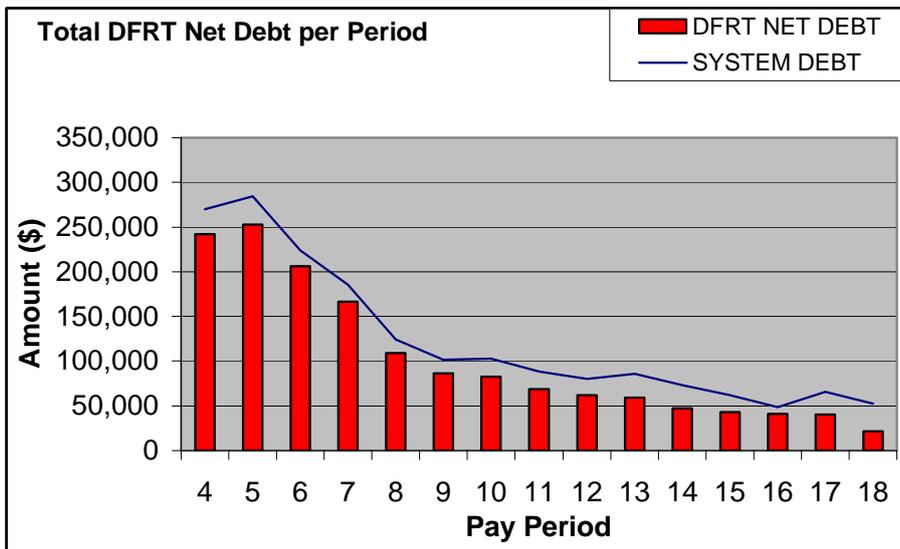
In terms of the monetary value of DFRT implementation related recoveries being extracted from SF member pays – this peaked at approximately \$18,094 in pay period 07/2009 and had been reduced to zero in pay period 18/2009.

The total recovery line shows that recoveries are an ever present feature of the Pay System for a variety of reasons such as kit, meals, recoveries of advances paid and recoveries for accommodation, utilities etc.

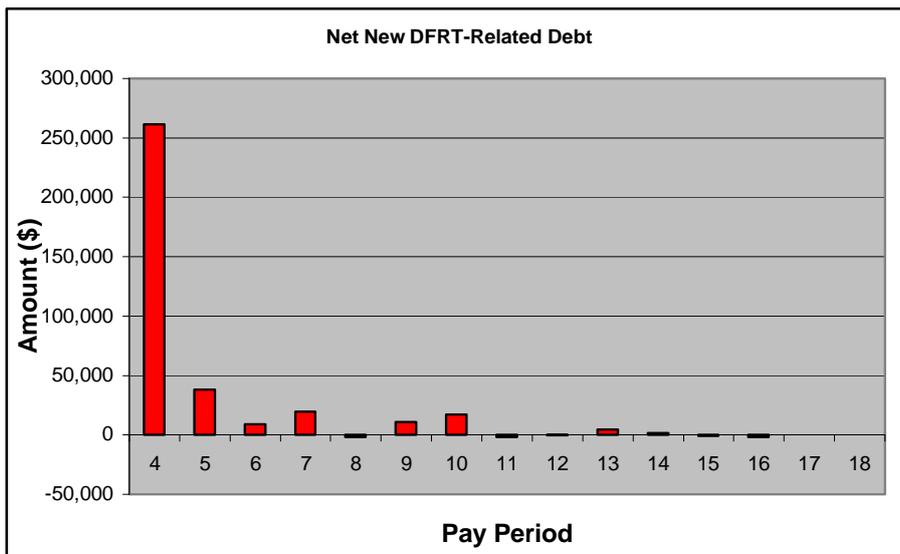


In terms of the monetary value of debts raised against SF members – this peaked at \$252,929 in pay period 05/2009 and had been reduced to \$21,140 in pay period 18/2009.

The total system debt line shows that debts (as with recoveries) are an ever present feature of the Pay System for the same reasons as previously stated.



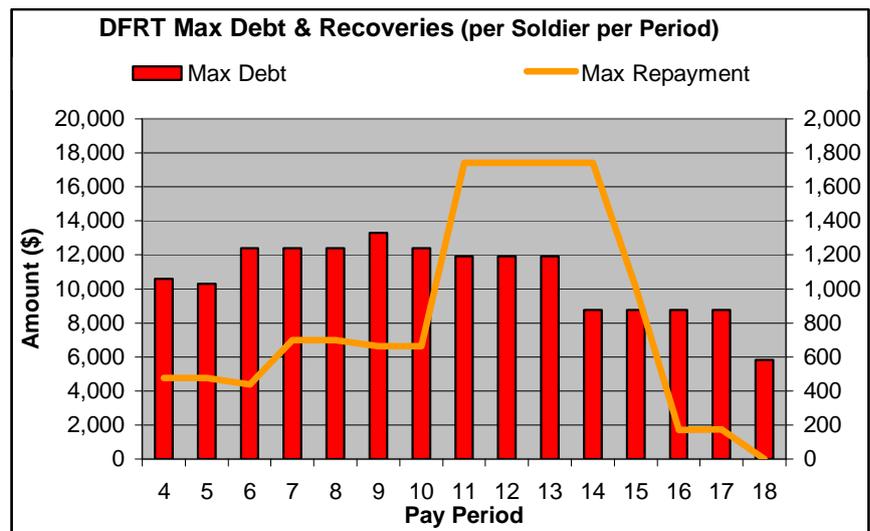
The following chart highlights the fact that DFRT implementation related debts were predominantly raised in pay 04/2009 with very few new debts being raised after pay period 10/2009.



The following chart highlights the maximum DFRT-related debt incurred by any individual SF member for each of the periods 04/2009 to 18/2009. The maximum debt of any one SF member for any of the periods in view was \$13,298 in period 09/2009.

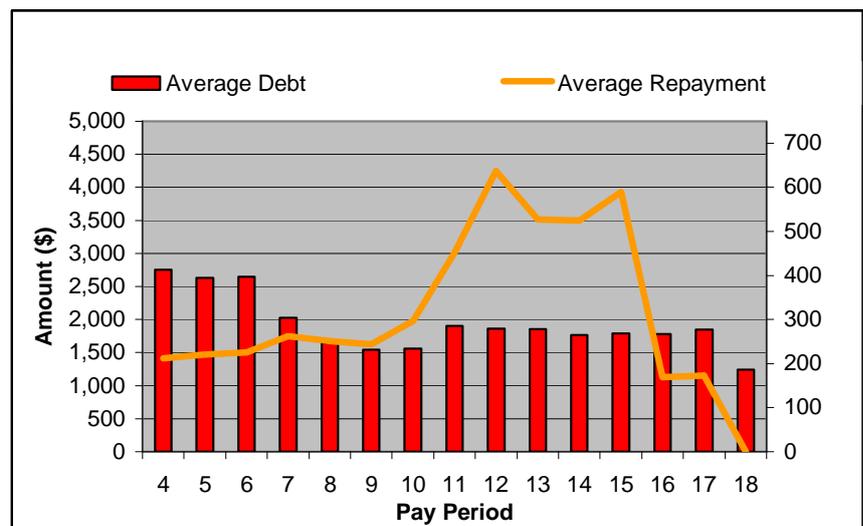
(Note: some SF members may have had a higher overall period debt than these figures show but it was not solely due to DFRT related issues).

The maximum recovery payment made by any individual SF member was \$1,743.29 paid over the periods 11/2009 to 14/2009.



The following chart highlights the average debts incurred by adversely impacted SF members. The highest average occurred in period 04/2009 - approximately \$2,753.

The average repayment peaked at \$636.65 in period 12/2009.



1.6 Audit Findings – Other Issues

The audit has also raised a number of other issues which warrant some consideration.

The policy and processing value-chain for Remuneration and Pay is characterised by:

- A determination process which remains both complex and detailed and has resulted in an increasing workload for DSG and CIO over recent years as simplification of pay structures has been pursued by PSP – there is still some way to go!;
- A pay grade and allowance structure which still remains complex and is service / corps specific; and
- Aging computer systems, which whilst working well at managing the complexity of Defence's payroll arrangements, are none-the-less facing vendor support issues.

To this end we have recommended that Defence should consider the development of a remuneration strategy that clearly articulates the vision for both the PMKeyS and the ADF pay system whereby simplification of the allowance structures and pay systems can be achieved over a period of 3-5 years along with IT systems reform and simplified administration.

The change management in certain areas of Defence was found to be well considered and managed. Notwithstanding this observation, the overall change environment is complex, devolved and involves many stakeholders.

Stakeholders are not always sufficiently committed and at times the change process is lacking in end to end control. For example, despite the intent to establish appropriate implementation teams and steering groups in order to engage the numerous areas throughout Defence who might be associated with a change request – the process may still lack central co-ordination and control. As was the circumstances in this matter - issues identified by one area may not be fully communicated, resolved and ultimately reported (centrally) to ensure their cohesive and timely remediation / resolution.

Change management also invokes the nexus to problem management - *a poorly executed and managed change becomes a problem!* - and the capacity to clearly identify and corral an issue in a timely manner also reflects poor processes of governance, risk and control.

As a consequence we would recommend that Defence initiate a Controls Framework project to fully document and deliver a comprehensive, centralised, governance framework. This would help ensure that implementation issues identified by one area of Defence are communicated, remediated and ultimately reported by a single point or area of responsibility and accountability. (Indicative Timeframe: 12 months).



2.0 Audit Approach

2.1 Introduction

This section of the report provides a quick summary of the overall approach adopted for this Audit:

- Audit Terms of Reference;
- Audit Limitations of Scope; and
- Audit Approach;

2.2 Audit Terms of Reference

- The effect of the DFRT's determination on Special Force soldiers and the reasons for any adverse consequences;*
- How many Special Forces soldiers had money deducted from their salaries as a result of Defence's implementation of the DFRT's determination;*
- What amounts were taken from each and what was the total amount recovered;*
- How many had recovery action taken against them prior to October 27;*
- How many had action taken against them between October 27 and the present;*
- How many who had money recovered in each period have been recompensed and by how much;*
- What was the total amount recovered;*
- What amount has been re-paid;*
- What was the effect of the Chief of Army's 18 February 2008 Directive;*
- What action should be taken to remedy any outstanding pay issues;*
- What action should be taken to avoid similar events occurring in the future;*
- Did any Special Forces soldier at any time during this period receive a zero pay resulting in him not being paid; and*
- Any other matters as determined during the audit.*

2.3 Limitations of Scope

In undertaking this work, we have only utilised those procedures necessary to provide assurance as to the **completeness** of the information provided pursuant to any specific enquiry. All such procedures were based on available Defence Pay records for the Australian Army Special Forces personnel.

In this context, we have not sought to provide any further assurance over the accuracy of the calculations implicit in the pay records held by the Department.

Notwithstanding this, we have performed relevant calculations (additions and summations) where required in order to answer the questions outlined in the Terms of Reference.

Limitations of Scope and other Assumptions and Definitions

We have performed this engagement with the following Limitations of Scope:

- We are not able to audit pay-related information beyond the records held and provided to us by the Department; and
- In accordance with the Terms of Reference - we have limited our enquiries to Australian Army Special Forces (SF) personnel.

We have also performed this engagement under the following Assumptions and Definitions:

- Our answers to enquiries are based around an identification of the total population of SF personnel who could have been impacted over a specified period of time.
- The population of SF personnel potentially impacted by the determinations implemented during August 2008 (and in particular by determinations 22/2006 & 2/2008) was chosen to be all SF persons who were recorded as belonging to specified SF pay points during the period:
 - 9 August 2007 – the date of effect of the determinations – to
 - 21 August 2008 – the date of implementation of 22/2006;

The pay points (in no particular order) from where the population of SF personnel were collated are as follows:

- 66141 – (SASR);
- 65072 – (4 RAR CDO);
- 64874 – (1 CDO Regt);
- 55077 – (IRR);
- 93742 – (SFTC);
- 51330 – (Special Ops – CSSC); and
- 76600 – (Special Ops – CSSC).

2.4 Audit Approach

The following activities have been undertaken as part of this audit.

- Establishing background facts and understanding of the issues pertaining to the matters in view.
- Conducting briefing meetings with Army, CIOG, CFO etc to assess issues, system structure, data structures, data access and exploring methods to obtain data.
- Visiting SASR (Perth) and engaging in meetings with CO SO Command, CO SASR, "Tiger Team" and other SASR personnel.
- Developing specifications for data extraction and analysis, including the preparation of a pool of "Possible" persons. *(Refer diagram A.2).*
- Conducting data mining and analysis of ADF Pay records in order to facilitate the development of target data sets for review. *(Refer diagram A.3)*
- Detailed review of 543 selected records for assessment of potential debt and recovery action – as caused by the implementation of DFRT determinations impacting SF members.
- Conducting interviews with key personnel from Army, CIO, DSG and PSP.
- Preparing Draft and Final Reports of work undertaken.
- Briefing Secretary, Chief of Army and others regarding progress / findings / observations.



3.0 Audit Results

3.1 Background

The initial identifying problem of SF pay matters concerned a particular determination (22/ 2006) targeted at the assimilation of existing *qualification and skills allowances* (Q&S) into the salary-based Pay Group structure.

As outlined earlier in this report, there were a number of determinations whose implementation “crossed over” this specific problem of Pay Group changes including the implementation of disability allowance changes.

In preparing and summarising the impact on SF members in terms of debts raised and recoveries undertaken by the Pay System we have adopted a conservative view such that:

- Debts and recoveries have been included when there has been a **direct linkage** to a “pay grade” issue; and
- Debts and recoveries have been included when there has been an **indirect linkage** to a “pay grade” issue eg to consequential disability allowance issues.

When debts and recoveries are clearly related to other matters – they have been removed from our analysis.

Moreover, when debts have been “suspended” such that they no longer appear on a SF member’s pay advice, we have chosen not to show them. In this way our results, as reported, will more closely reflect the view as seen by the SF member.

(It is appropriate to note that suspended debts are ultimately acquitted once full remediation of pay grades etc has been undertaken).

3.2 Reasons for Adverse Consequences on SF Members

Terms of Reference (a):

The effect of the DFRT’s determination on Special Forces soldiers and the reasons for any adverse consequences?

3.2.1 Question in Context:

This question focuses on the implementation of the Defence Force Remuneration Tribunal (DFRT) Determinations for Special Forces Pay – in particular determinations 22/2006 and 2/2008.

The following table provides some relevant dates of these two determinations as well as some other determinations which also impacted upon Special Forces (SF) pay.

Determination #	Description	Date Signed	Date of Effect	Date of Implementation
22/2006	Remuneration Reform Program – salary rates for other ranks	29 March 2007	9 August 2007	21 August 2008
02/2008	Special forces pay group and pay grade placements	5 March 2008	9 August 2007	7 August 2008
04/2008	Allowance for Specialist Operations	6 March 2008	13 December 2007	7 August 2008
05/2008	Special forces disability allowance	12 March 2008	13 December 2007	7 August 2008

The above table clearly shows that a number of overlapping determinations, with common dates of effect, were impacting SF soldiers and officers within a common timeframe:

From: pay 4/2009 (21 August 2008) through
To: pay 18/2009 (5 March 2009).

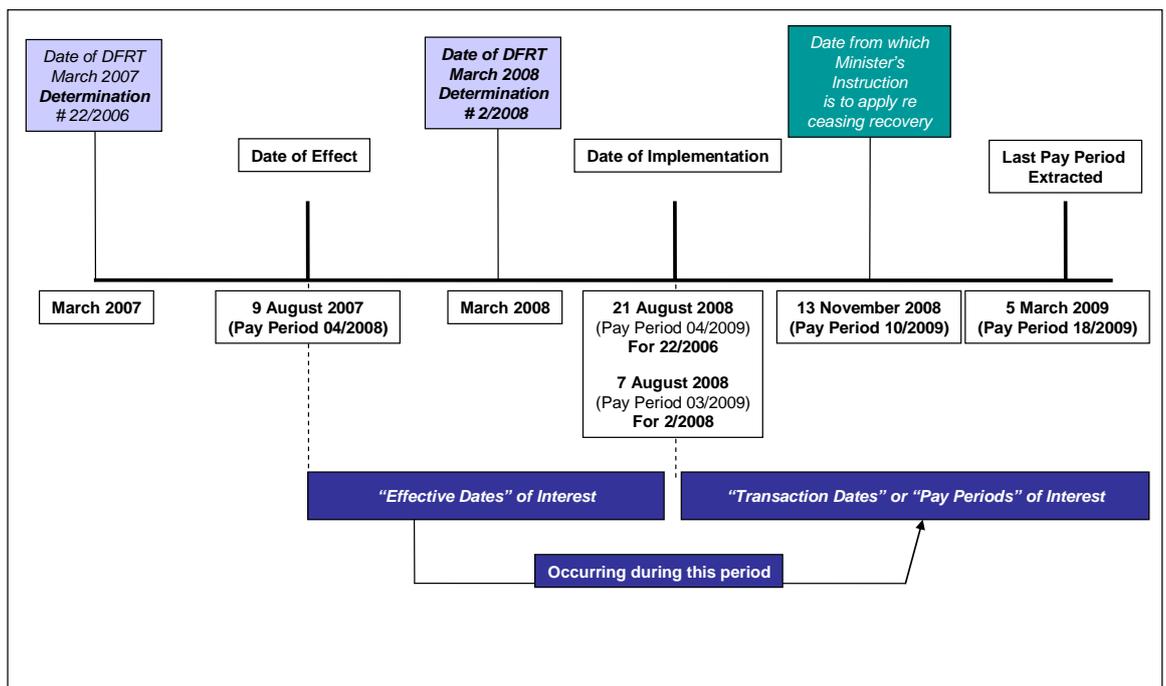
Moreover, in many instances the impacts of these determinations on SF pays were combined in their effect.

3.2.2 Answer:

Relevant details specifically concerning **Determination 22/2006** and its implementation are outlined below:

- (1) The key intent of the DFRT’s Determination of March 2007 was to shift the sizeable proportion of “qualification and skills allowances” paid to Special Forces (SF) into “salary” thereby improving superannuation outcomes.
- (2) The Determination was specified with an *Effective Date* of 9 August 2007. The *Implementation Date* was 21 August 2008. Moreover, “grandfathering” or provisioning the Determination with a requirement that no person would be adversely impacted was not sought at the time in the understanding that existing allowances for all personnel would readily convert to salary equivalents. The impact of these dates is illustrated in the following diagram.

Relevant Dates and Timeline



- (3) Defence Force Pay (for Army) relies on two main Pay Systems:
- **PMKeyS**, responsible amongst other things for generating the “salary” component of Pays; and
 - **ADFPay**, responsible amongst other things for generating the “allowance” component of Pays.

The changes required as a consequence of the Determination were to move “allowances” for Qualifications and Skills (Q&S) into a structure that could be reflected in revised remuneration. (*Refer conceptual diagram Attachment A.1*)

- (4) PMKeyS was set up to drive the new structure based on the specification of an individual’s Q&S information. At the date of implementation – 21 August 2008 – a number of SF personnel did not have their Q&S information specified such that their new “skills grades” would align with their old remuneration levels.

The reason for this non-alignment was primarily due to the fact that the individuals concerned had either:

- never done the appropriate courses, or
 - never registered course completion.
- (5) The result of this non-alignment was that a number of SF personnel had significant debts incurred as a result of being aligned to a lower “pay group” / “skills grade”.

In summary, the problems associated with the implementation of this Determination would have been avoided if either “retrospectivity” had not been applied or “grandfathering” of existing arrangements had been pursued.

Notwithstanding this overarching driver of difficulty, the findings of this Audit would suggest that disparate processes and incompletely executed procedures more fully explain the implementation difficulties associated with the Determination – and its subsequent remediation - rather than system problems per se.

In regards to the question as to why qualifications and skills were not in place in the first instance –Army’s own assessment is self explanatory “...it has become apparent that a lack of administrative control and command governance in formally recording personal competencies within PMKeyS has created significant ambiguity in identifying the correct pay grades for all SF personnel”.

3.3 How many soldiers had money Deducted ?

Terms of Reference (b):

How many Special Forces soldiers had money deducted from their salaries as a result of Defence's implementation of the DFRT's determination?

3.3.1 Question in Context:

For money to be “deducted from their salaries” the Pay System first needs to create a debt and then seek to recover a proportion of that debt via (typically) a “system initiated” recovery.

Of the total population of 117 soldiers and officers who had been adversely impacted by the implementation of the March 2008 determination(s) - relating to either qualification and skill allowances for special forces soldiers or disability allowances – not all had system recoveries initiated.

There are a number of reasons for this. For example:

- Some soldiers and officers had pre-existing recoveries which were taking precedence over new debts raised – *the debt recovery system, inter alia, will routinely apply recovery monies to the oldest outstanding debt first before recovering monies from new debts;* and
- Some debts were identified in a timely manner such that system recovery action was avoided via manual intervention.

3.3.2 Answer:

Our analysis of ADF Pay System data for the pay periods 04/2009 (21 August 2008) to 18/2009 (5 March 2009) revealed that **out of a total of 117 soldiers and officers who had an adverse pay adjustment effect – some 102 actually had monies deducted from their pay.**

(Note: *It needs to be appreciated that when these particular determination-related system debts were raised - mainly around pay 4/2009 (21 August 2008) - they involved a long period of retrospective adjustment back to 9 August 2007. During such a long period of time it is inevitable that soldiers / officers had promotions, changes of various allowances, higher duties allowances etc.*

We have deliberately not attempted to separate out precise Q&S allowance or disability allowance components of these debts but rather to report on the debt as an overall impacting event for the person concerned. We have taken the view that it is the overall quantum of the debt being raised in the eyes of the soldier / officer that is really the information being sought in this Audit.

Finally, it should also be noted that KPMG's audit information and Army's remediation information has been cross-checked for consistency noting that there are slightly different audit / remediation objectives being pursued. The very few differences existing are readily explainable whilst the overlapping information has confirmed information “completeness”).

3.4 What amounts (totals) were taken / recovered?

Terms of Reference (c):

What amounts were taken from each and what was the total amount recovered?

Terms of Reference (g):

What was the total amount recovered?

3.4.1 Questions in Context:

Recovery of monies routinely occurs each pay period for any person who has outstanding debts.

System debts are a particular type of debt² that is normally subject to a *system recovery*. As a *system recovery* amount is taken out of pay each fortnight - the *system debt* outstanding is duly reduced.

A *system recovery* can be turned off or varied and a *system debt* can be made inactive by suspending / cancelling the debt. Recoveries can be also initiated manually (eg *DEFPAC Recoveries*)

This question specifically focuses on both *DEFPAC* and *system recoveries*. (Ie it does not focus on *system debts* per se).

3.4.2 Answer:

Our analysis of ADF Pay System data for the pay periods 04/2009 (21 August 2008) to 18/2009 (5 March 2009) revealed that out of a total of 117 soldiers / officers who had an adverse pay adjustment effect – some 102 actually had monies deducted from their pay.

The recovery amounts that were taken from these SF soldiers' / officers' pay has been summarised below:

RECOVERY TABLE Pay Period 04/2009 to Pay Period 18/2009	Maximum Recovered (In any 1 Payment)	Average Size of each Payment Made	Total (For the Whole Period)
<i>SF Soldiers (\$)</i>	\$1,743.29	\$254.58	\$112,524.08
<i>SF Soldiers (#)</i>			102
<i>Average Recovery / SF Soldier</i>			\$1,103.18

² Debts can be raised in a number of ways eg kit, meals, recoveries of advances paid and recoveries for accommodation, utilities etc.

3.5 Recoveries Before October 27 2009

Terms of Reference (d):

How many had recovery action taken against them prior to October 27?

3.5.1 Question in Context:

For background / context in regards system recoveries and system debt – refer previous section.

This question specifically focuses on *recoveries* and not *system debts* per se. It is also focussed on only those **recoveries taken during the period 04/2009 (21 August 2008) through to 10/2009 (13 November 2008)³**.

3.5.2 Answer:

Our analysis of ADF Pay System data for the pay periods 04/2009 (21 August 2008) to 18/2009 (5 March 2009) revealed that out of a total of 117 soldiers who had an adverse pay adjustment effect – some 102 actually had monies deducted from their pay.

The *recovery* amounts that were taken from SF soldiers’ pay for the period 04/2009 (21 August 2008) through to 10/2009 (13 November 2008) have been summarised below:

RECOVERY TABLE Pay Period 04/2009 to Pay Period 10/2009	Maximum Recovered (In any 1 PP)	Average (For the Whole Period)	Total (For the Whole Period)
<i>SF Soldiers (\$)</i>	\$700.00	\$236.95	\$97,860.58
<i>Average SF Soldiers (#) per Pay Period having Recoveries taken</i>			59
<i>Total SF Soldiers (#) having some recovery for the Period</i>			102
<i>Average Recovery / SF Soldier</i>			\$959.42

³ The date of 13 November 2008 (10/2009) is the closest practical pay date following the Minister’s instruction.

3.6 Recoveries After October 27 2009

Terms of Reference (e):

How many had action taken against them between October 27 and the present?

3.6.1 Question in Context:

For background / context in regards system recoveries and system debt – refer previous section.

This question specifically focuses on *recoveries* and not *system debts* per se. It is also focussed on only those **recoveries taken during the period 11/2009 (27 November 2008) through to 18/2009 (5 March 2009)**.

3.6.2 Answer:

Our analysis of ADF Pay System data for the pay periods 04/2009 (21 August 2008) to 18/2009 (5 March 2009) revealed that out of a total of 117 soldiers who had an adverse pay adjustment effect – some 11 actually had monies deducted from their pay.

The *recovery* amounts that were taken from SF soldiers' pay for the period 11/2009 (27 November 2008) through to 18/2009 (5 March 2009) have been summarised below:

RECOVERY TABLE Pay Period 11/2009 to Pay Period 18/2009	Maximum Recovered (In any 1 PP)	Average (For the Whole Period)	Total (For the Whole Period)
<i>SF Soldiers (\$)</i>	\$1,743.29	\$505.64	\$14,663.50
<i>Average SF Soldiers (#) per Pay Period having Recoveries taken</i>			4
<i>Total SF Soldiers (#) having some recovery for the Period</i>			11
Average Recovery / SF Soldier			\$1,333.05

3.7 Recoveries by Period

Terms of Reference (f):

How many who had money recovered in each period have been recompensed and by how much?

Terms of Reference (h):

What amount has been re-paid?

3.7.1 Question in Context:

This question specifically focuses on *recoveries* that have occurred **by each period** in the timeframe from 04/2009 (21 August 2008) through to 18/2009 (5 March 2009) – and whether or not those recoveries have been recompensed.

In answering this question, it is important to appreciate the process of debt reduction / repayment in the context of the remediation of Pay Group levels. (As explained elsewhere in this report - Pay Group level changes / mis-alignments essentially created the issue in the first instance).

In brief - a lower pay group, back dated for a year, created a *system debt* against monies previously paid. Similarly, a higher pay group being re-instated, back dated for a year, will remove any debt previously raised.

So as pay group levels were restored for special forces soldiers – which progressively occurred each period from 04/2009 through to 18/2009 - the system reduced the debts outstanding and returned any monies owing / outstanding to the soldier. Consequently, the level of outstanding debts, recoveries in place and monies remediated / returned to SF soldiers – all change each Pay Period.

We have taken the view that by showing both the:

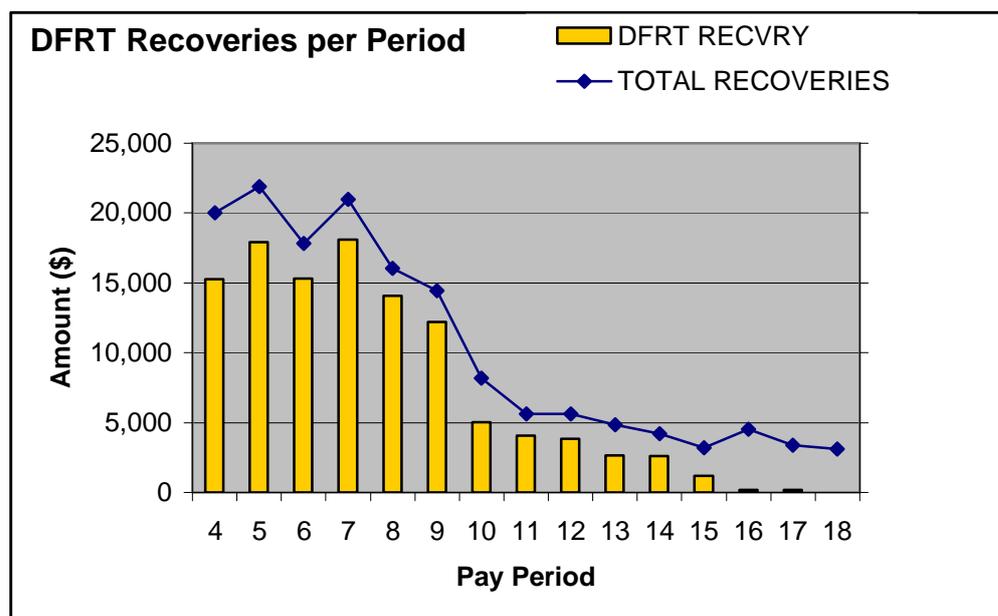
- level of outstanding **system debts by period**; and
- **recovery levels by period**

we can effectively show *the rate of recompense and restitution*.

3.7.2 Answer:

The **per period recovery profile** for SF soldiers / officers impacted by the DFRT March 2008 determinations (re qualification and skills components, disability allowances etc) – has been summarised in the following table and chart:

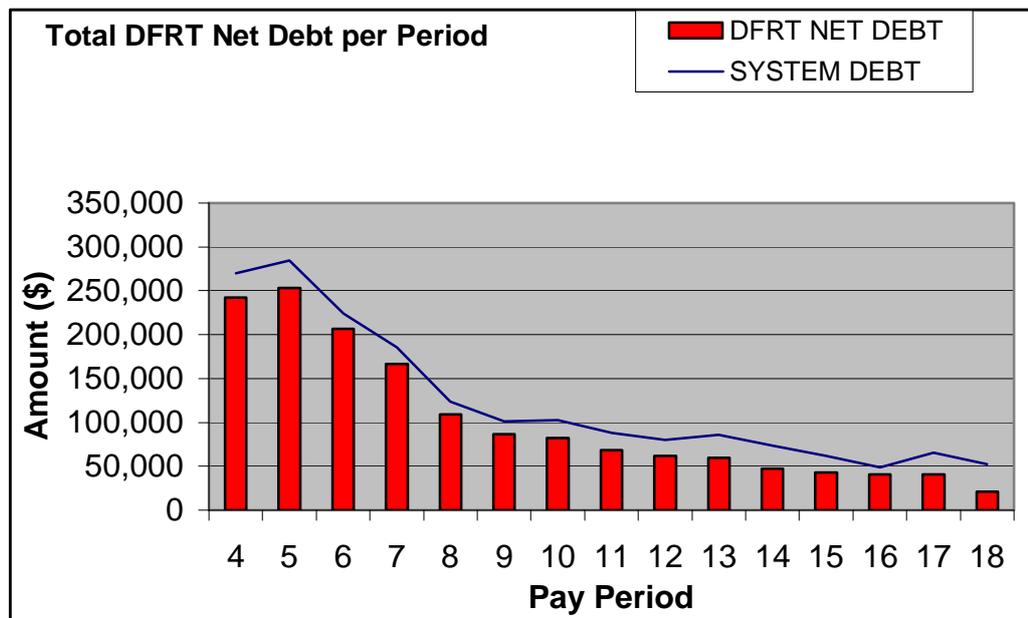
Pay Period	Pay Date	DFRT Recovery			
		SF Personnel (#)	Maximum Payment	Average Payment	Total Payments
4	21-August-2008	72	\$475.55	\$212.33	\$15,287.92
5	04-September-2008	81	\$475.55	\$220.94	\$17,896.43
6	18-September-2008	68	\$438.11	\$224.93	\$15,295.37
7	02-October-2008	69	\$700.00	\$262.24	\$18,094.26
8	16-October-2008	56	\$700.00	\$251.20	\$14,066.98
9	30-October-2008	50	\$664.31	\$243.68	\$12,184.14
10	13-November-2008	17	\$664.31	\$296.20	\$5,035.48
<i>Av Payees / Pay Period</i>		59		\$1,658.65	\$97,860.58
<i>Persons who had 1 or > recoveries</i>		102	\$700.00	\$959.42	\$97,860.58
<i>Total recovery payments made</i>		413		\$236.95	\$97,860.58
11	27-November-2008	9	\$1,743.29	\$452.08	\$4,068.68
12	11-December-2008	6	\$1,743.29	\$636.65	\$3,819.89
13	25-December-2008	5	\$1,743.29	\$526.73	\$2,633.63
14	08-January-2009	5	\$1,743.29	\$524.33	\$2,621.67
15	22-January-2009	2	\$1,008.17	\$588.85	\$1,177.70
16	05-February-2009	1	\$169.53	\$169.53	\$169.53
17	19-February-2009	1	\$172.40	\$172.40	\$172.40
18	05-March-2009	0	\$0.00	\$0.00	\$0.00
<i>Average Per Pay Period</i>		4		\$4,045.10	\$14,663.50
<i>Persons who had 1 or > recoveries</i>		11	\$1,743.29	\$1,333.05	\$14,663.50
<i>Total recovery payments made</i>		29		\$505.64	\$14,663.50
TOTALS	<i>Average Per Pay Period</i>	29		\$3,818.69	\$112,524.08
	<i>Persons who had 1 or > recoveries</i>	102	\$1,743.29	\$1,103.18	\$112,524.08
	<i>Total recovery payments made</i>	442		\$254.58	\$112,524.08



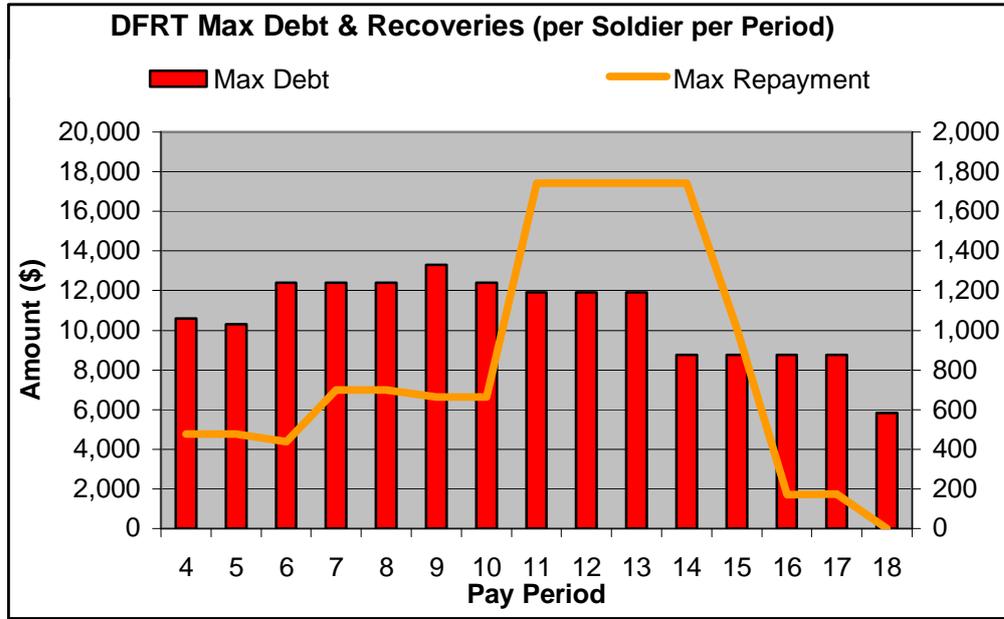
A similar profile of debt reduction (as opposed to recoveries) has been provided in the following tables and charts.

(Note: System debts are raised for a wide variety of legitimate reasons – everything from meal and accommodation charges through to kit charges and recoveries of rental bond advances).

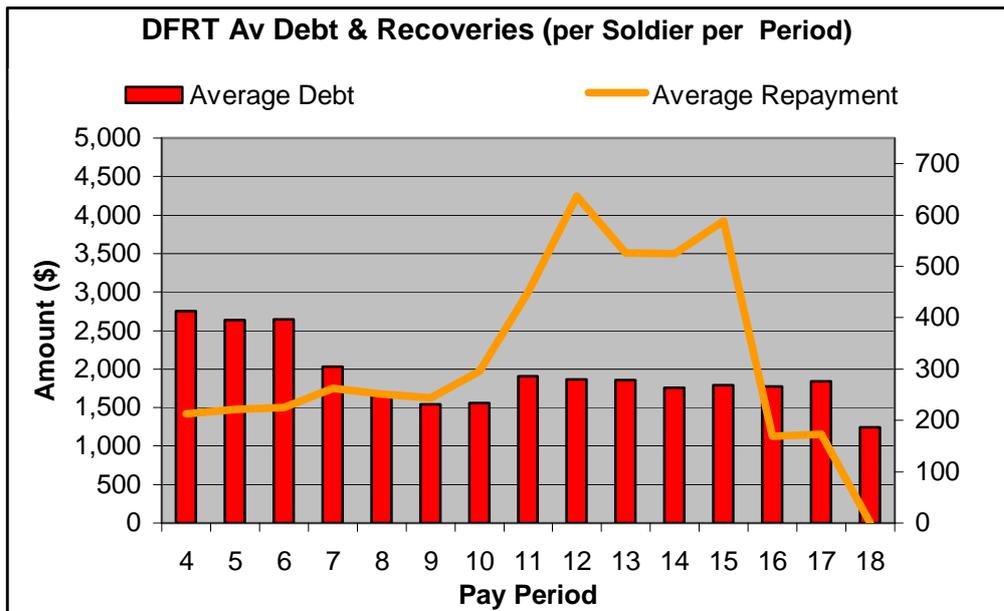
Pay Period	Pay Date	SF Personnel (#)	DFRT Debts		Total Debts
			Maximum Debt	Average Debt	Outstanding (as at ..)
4	21-August-2008	88	\$10,598.17	\$2,753.05	\$242,268.45
5	04-September-2008	96	\$10,314.64	\$2,634.67	\$252,928.67
6	18-September-2008	78	\$12,395.18	\$2,647.28	\$206,488.17
7	02-October-2008	82	\$12,395.18	\$2,028.68	\$166,351.38
8	16-October-2008	66	\$12,395.18	\$1,651.32	\$108,987.08
9	30-October-2008	56	\$13,298.12	\$1,543.77	\$86,451.02
10	13-November-2008	53	\$12,395.18	\$1,556.97	\$82,519.57
Maximum & Average Debt raised			\$13,298.12	\$2,208.08	
11	27-November-2008	36	\$11,905.32	\$1,904.10	\$68,547.77
12	11-December-2008	33	\$11,905.32	\$1,864.00	\$61,512.02
13	25-December-2008	32	\$11,905.32	\$1,853.46	\$59,310.85
14	08-January-2009	27	\$8,751.62	\$1,761.14	\$47,550.75
15	22-January-2009	24	\$8,751.62	\$1,791.38	\$42,993.23
16	05-February-2009	23	\$8,751.62	\$1,777.42	\$40,880.65
17	19-February-2009	22	\$8,751.62	\$1,842.89	\$40,543.49
18	05-March-2009	17	\$5,840.76	\$1,243.52	\$21,139.90
Maximum & Average Debt raised			\$11,905.32	\$1,787.28	
Maximum & Average Debt raised			\$13,298.12	\$2,085.23	



The following chart shows the **maximum active net debt** that any SF soldier had for any given Pay Period in the time frame from 04/2009 to 18/2009. This data is also shown alongside the **maximum payment (recovery)** made by a SF soldier for any given period between 04/2009 and 18/2009.



The chart appearing below shows the **average active net debt and recovery payments** made by SF Soldiers for each period between 04/2009 and 18/2009.



3.8 Effect of Chief of Army's Directive

Terms of Reference (i):

What was the effect of the Chief of Army's 18 February 2009 Directive?

3.8.1 Question in Context:

On 18 February 2009 the Chief of Army issued a directive in relation to addressing issues with Special Forces pays.

This directive was updated on 11 March 2009.

It involves:

- the identification of affected personnel;
- taking steps to record competencies held;
- granting competencies based upon past performance and experience, where appropriate; and
- training where competencies cannot otherwise be determined.

The Chief of Army has directed that no member of SF should be disadvantaged during the period of resolution.

3.8.2 Answer:

The completion dates specified in the directive have not yet been reached.

We have, however, made enquiries and received verbal advice that appropriate action is taking place.

We are also able, from an examination of the data we have extracted, able to confirm that remedial action is having its effects on the pay of individual SF members.

Conclusion:

Whilst we are not able to assert that the timelines specified will be met, we similarly have no reason to doubt that they will be achieved.

3.9 Actions to take to remedy Outstanding Issues

Terms of Reference (j):

What action should be taken to remedy any outstanding pay issues?

3.9.1 Question in Context:

The Chief of Army directive includes initiated action to address the remaining issues.

We have interpreted this question as asking whether **additional** action is required.

3.9.2 Answer:

We note that as of Pay 18/2009 (5 March 2009) there are 17 residual debts related to this matter.

Recommendation: #1

These outstanding residual debts should be given due attention ie monitored and managed for the SF individual until, for example, pay grade restoration is completed (eg due to course or skill completion as per Chief of Army Directive).

The Audit can confirm that these individuals are on a list of SF soldiers with outstanding debts held by Army.

3.10 Actions to avoid Similar Events

Terms of Reference (k):

What action should be taken to avoid similar events occurring in the future?

3.10.1 Question in Context:

This question has been addressed at two levels.

The first level addresses the more immediate operational and tactical issues that have been raised by this matter.

The second level seeks to address broader more strategic issues that inevitably arise when considering underlying systematic policy and process health and the part that poor governance and control may have contributed towards any given problem or failure event.

3.10.2 Answer:

Operational and Tactical Level Improvements:

The following actions should be considered as relevant actions or recommendations following from the learnings of this issue:

The change management environment.

The change management in certain areas of Defence was found to be well considered and managed – it is not all broken!

Notwithstanding this observation, the overall environment is complex, devolved and involves many stakeholders.

Stakeholders are not always sufficiently committed and at times the change process is lacking in end to end control. For example, despite the intent to establish appropriate implementation teams and steering groups in order to engage the numerous areas throughout Defence who might be associated with a change request – the process may still lack central co-ordination and control.

As was the circumstance in this matter - issues identified by one area may not be fully communicated, resolved and ultimately reported (centrally) to ensure their cohesive and timely remediation / resolution.

Full testing of ADFPay payroll changes against a “production-equivalent” test database is not in place in the current environment. There would be instances where such testing would be particularly useful.

Change management also invokes the nexus to problem management - *a poorly executed and managed change becomes a problem!* - and the capacity to clearly identify and corral an issue in a timely manner also reflects poor processes of governance, risk management and control.

Recommendation: #2

As a consequence of the foregoing observations – and in order to drive increased levels of *performance and conformance competency* throughout the Defence Pay System community - we would recommend the initiation of a Controls Framework project to fully document and deliver a comprehensive, centralised control framework which, inter alia, identifies end to end business process owners and ensures clear accountabilities are allocated such that implementation issues identified by one area of Defence are communicated, remediated, reported and ultimately overseen by a single point or area of responsibility and accountability. (Timeframe: 12 months).

This recommendation would complement the existing processes in place with DSG, CIO and the Services and provide a necessary, single point of command and control.

Recommendation: #3

In addition to the above recommendation, Defence should also consider the implementation of a more complete testing environment for ADFFPay such that testing could be applied against the equivalent of a “production level” environment.

Construction of DFRT Determinations.

The lessons learned from the impact and remediation of the implementation of these recent DFRT determinations are self evident:

Recommendation: #4

Determinations should always contain appropriate clauses to ensure that no soldier or officer is adversely impacted due to any retrospective effect.

Fortunately, it would be our observation that this protocol already exists for most DFRT determinations.

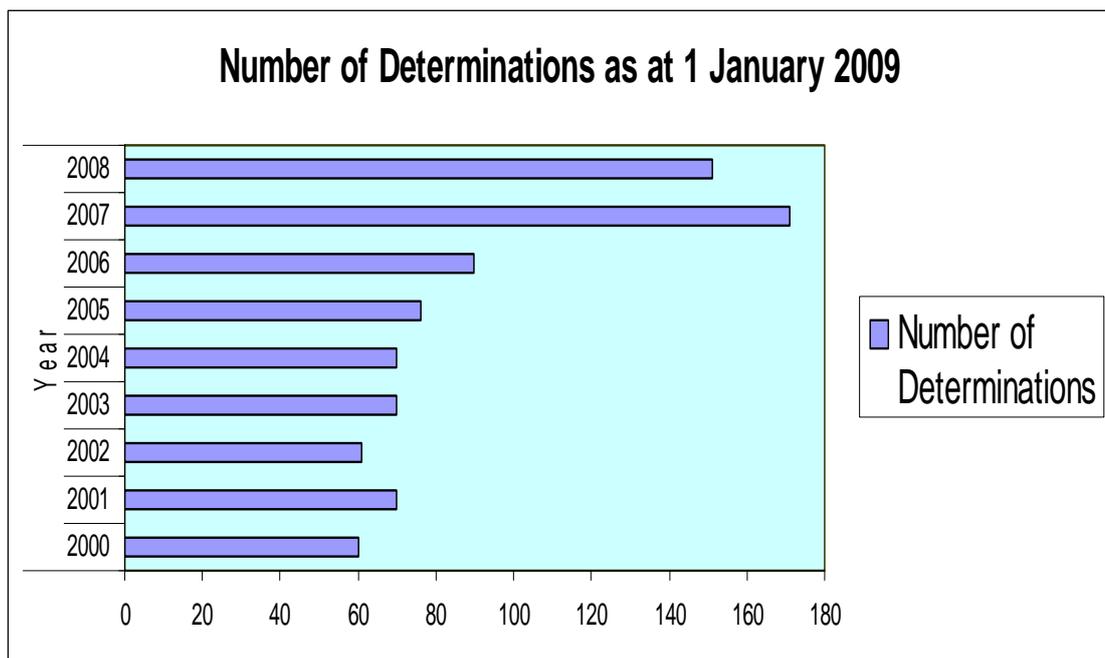
Strategic Level Improvements:

On a broader perspective to the specific matters addressed in this Report, this review has noted:

- *A complex and detailed Determination process* reminiscent of the industrial award arrangements of some decades ago (this is not to suggest that the processes are anything other than well executed and in accordance with current legislation);
- *A complex pay and allowance structure*, which despite strategic intent and continuing endeavours to simplify arrangements over a number of years, still remains difficult to maintain; and
- *Aging systems*, which whilst working well at managing the complexity of Defence’s payroll arrangements, are nonetheless facing vendor support issues.

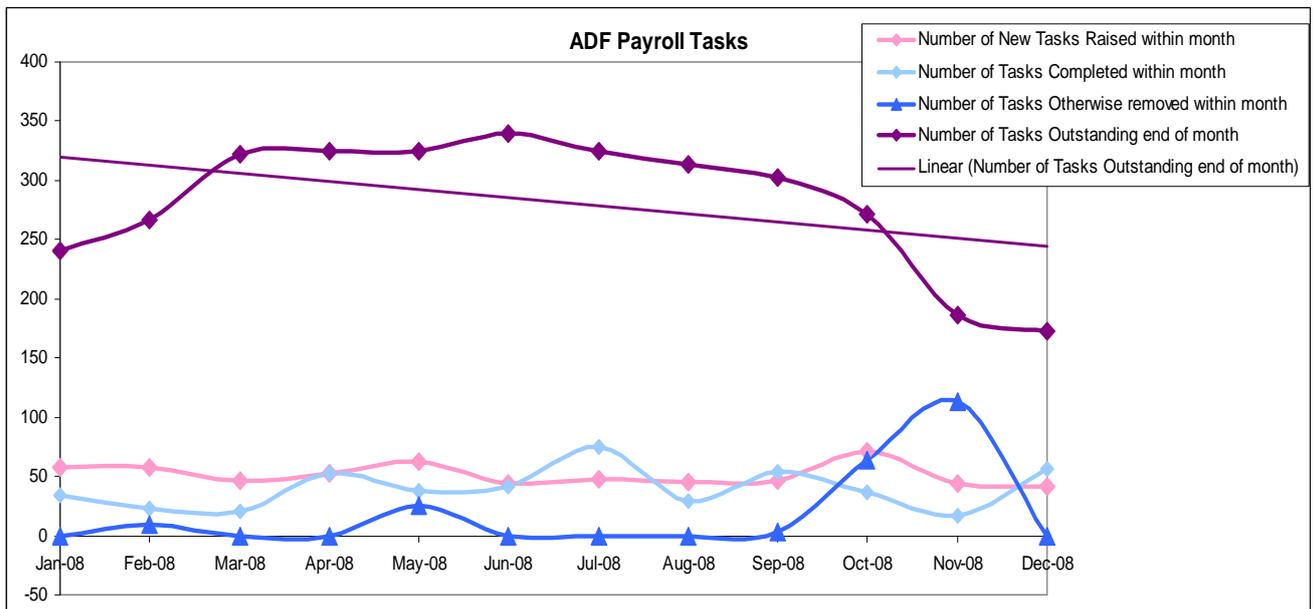
Moreover, despite the strategic attempt to simplify pay structures, allowances and the like over the past few years – the work load arising from the determination process is continuing to grow and is likely to continue for some time.

Whilst some would argue that simplification is being achieved it has to be said that the evidence still reflects a service and corps specific view of the “remuneration world” - somewhat caught between a “pay for the work you do” model and a “pay for the work you are skilled to do” model.



In brief, work loads for the many who are supporting the pay system are not reducing and the process of “simplification” may be achieving nothing more than transferring the complexity of Pay processing from ADFPay to PMKeyS. Certainly, allowances are being reduced in ADFPay as a result of recent determinations but, equally, codes in PMKeyS are becoming more complex.

In summary, from a systems perspective, Defence may be achieving little more than moving complexity from one system (ADFPay) to another (PMKeyS).



Recommendation: #5

In response to these issues we would also recommend that Defence consider the development of a remuneration strategy that clearly articulates the vision for both the PMKeyS and the ADF pay system whereby simplification of the allowance structures and pay systems can be achieved over a period of 3-5 years along with IT systems reform and simplified administration

These activities would be a significant step in the holistic strategic reform agenda and, importantly, they represent an approach that is considered to be aligned with broader Defence initiatives.

It would also facilitate a useful consideration as to what elements of remuneration should be “work type” driven as opposed to “skills type” driven.

Notably, cost and resource commitments to this recommendation would need to be considered against the context of Defence’s overall budget position.

3.11 Soldiers in receipt of “Zero” Pays

Terms of Reference (I):

Did any Special Forces soldier at any time during this period receive a zero pay resulting in him not being paid?

3.11.1 Question in Context:

The term “zero pay” is used to describe the manner whereby the ADFPay System will, each pay period, initially take out taxes and other deductions (to building societies, banks etc) before applying “*other adjustments*”.

Should the net sum of these *other adjustments* be negative then the system automatically creates an advance to cover the shortfall.

In such circumstances, the reconciliation total of “zero” appears on the bottom of the Pay Slip. This does not, however, mean that a soldier has necessarily received “No Pay” for the fortnight.

In most instances the soldier will have received all monies attributed to deductions as well as any “advances” calculated by ADFPay. Advances paid out in the ordinary course are subsequently recovered.

Importantly, “Zero Pays” routinely occur for a range of reasons.

3.11.2 Answer:

Our analysis of ADF Pay System data for the pay periods 04/2009 (21 August 2008) to 18/2009 (5 March 2009) revealed that out of a total of 117 soldiers who had an adverse pay adjustment effect – ***some 3 SF members had at least 1 pay where the net sum of other adjustments was zero. However, as explained above, this does not mean “no” pay. In fact, all SF members received monies related to their existing deduction arrangements as well as “advances” to cover any calculated short fall in “other adjustments”.***

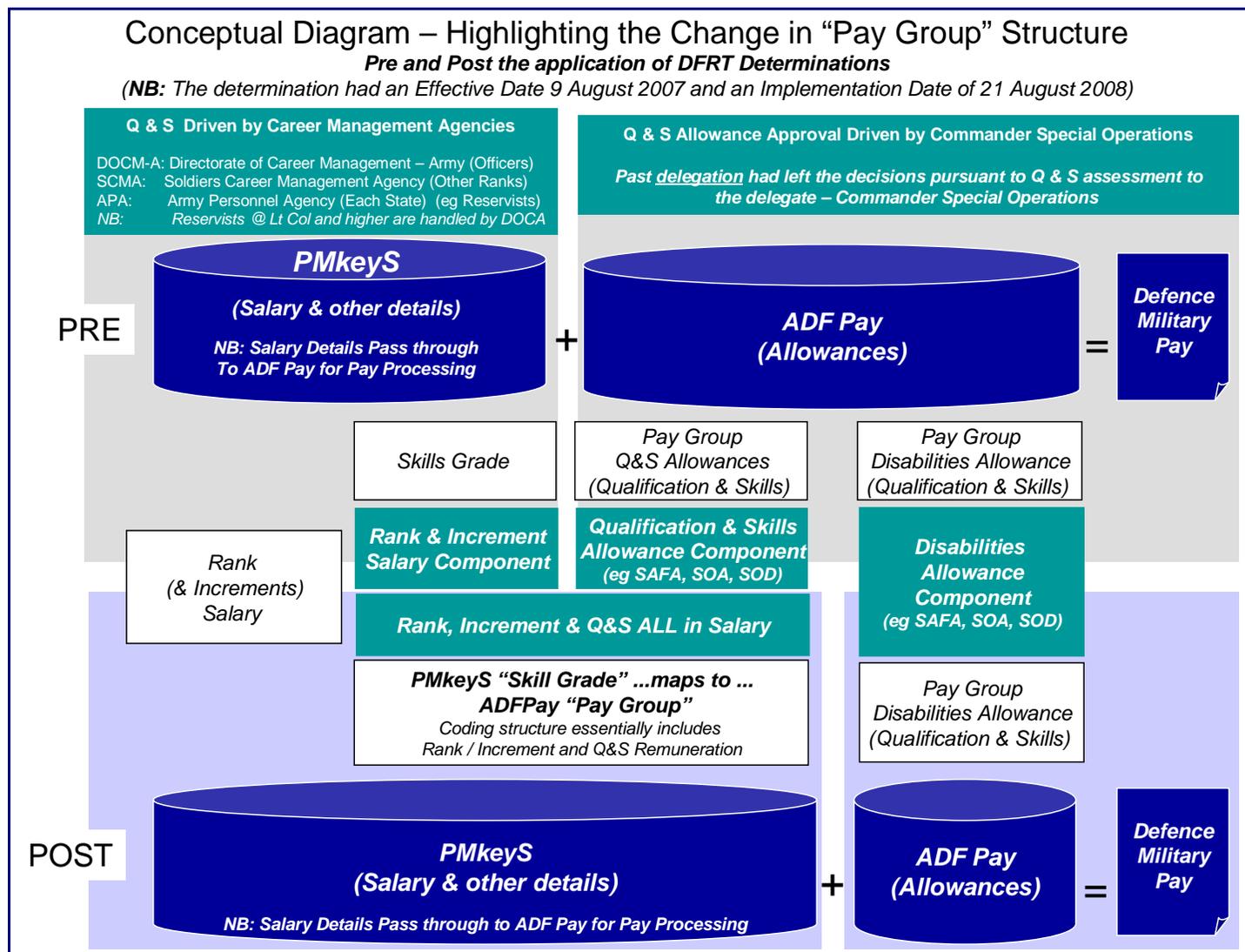
(Note: Persons on leave without pay (LWOP) have been duly ignored).



Attachments

A.1	Overview Diagram of the Pay Group Structure Change
A.2	Establishment of a Pool of Interested Persons
A.3	Approach to Data Analysis and Target Record Selection

A.1



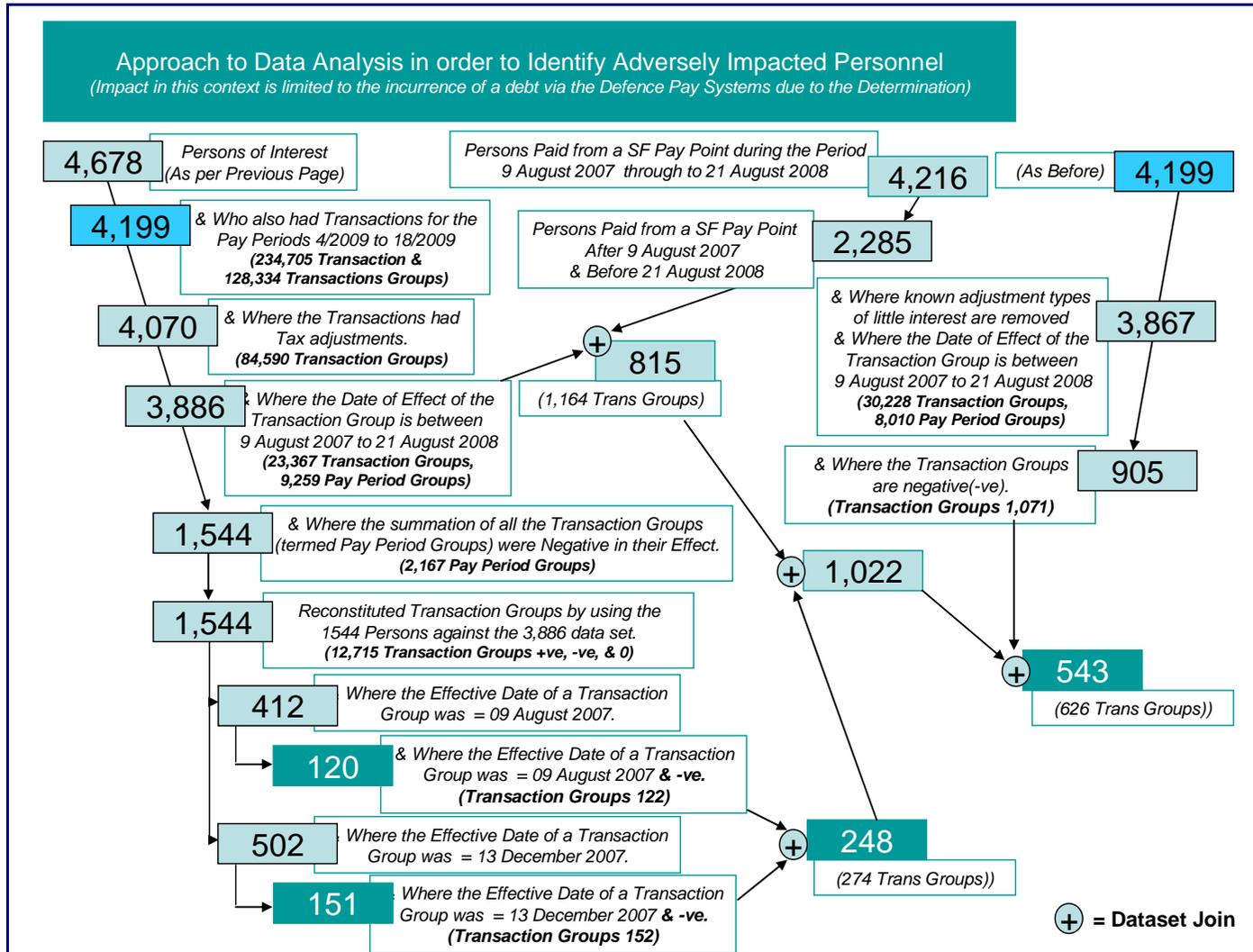
A.2

Establishment of a Potential Pool of "Interested Persons"

Intersection of Sets	Set 1	Set 2	Set 3	Set 4	Set 5
Set 1	1026	<i>Individuals Joined from all Sets</i>			
Set 2	600	1850		4678	
Set 3	828	1798	4216		
Set 4	72	22	56	102	
Set 5	871	682	1000	79	1345

Key:	
Set 1	<i>Individuals at SOCOMD Pay Points with -ve variations in Pay 04 of 2009</i>
Set 2	<i>Individuals with pay variations relating to 9 Aug 2007 in Pays 4, 5, 6 of 2009.</i>
Set 3	<i>Individuals who have been at SOCOMD Pay Points in the Pay Periods: Pay 04/2008 to Pay 04/2009 inclusive.</i>
Set 4	<i>Individuals identified by Army Personnel as having a debt.</i>
Set 5	<i>Individuals Identified by SOCOMD Personnel as having the appropriate skill codes.</i>

A.3



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