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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

**Reference: Financial management and equipment acquisition at the Department of
Defence and Defence Materiel Organisation**

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**JOINT STATUTORY COMMITTEE OF
PUBLIC ACCOUNTS AND AUDIT**

Wednesday, 20 June 2007

Members: Mr Barresi (*Chair*), Ms Grierson (*Deputy Chair*), Senators Mark Bishop, Chapman, Hogg, Humphries, Murray and Watson and Mrs Bronwyn Bishop, Mr Broadbent, Dr Emerson, Dr Jensen, Miss Jackie Kelly, Ms King, Mr Laming and Mr Tanner

Members in attendance: Senators Mark Bishop, Chapman and Hogg and Mr Barresi, Mrs Bronwyn Bishop, Ms Grierson and Miss Jackie Kelly

Terms of reference for the inquiry:

To inquire into and report on:

Progress in implementing systematic reforms in the areas of financial reporting and equipment acquisition at the Department of Defence and the Defence Materiel Organisation (DMO), as identified in ANAO financial and performance audits, the Defence Procurement Review 2003 (the Kinnaird Review) and the Senate Foreign Affairs, Defence and Trade References Committee's 2003 Report on the Inquiry into Materiel Acquisition and Management in Defence, including the following:

- Progress in implementing Defence's financial remediation plans, relative to international best practice in these areas, and recommend any further measures that can be adopted;
- Progress in implementing the Kinnaird Reforms, relative to international best practice in these areas, and recommend any further measures that can be adopted;
- Review Australia's relative achievements in procurement and financial reform relative to international best practice in these areas of defence administration; and
- Assess progress in Defence's adoption of international business accounting standards relative to international best practice in this area of defence administration.

WITNESSES

BANFIELD, Mr Timothy Augustus, Director, United Kingdom National Audit Office..... 1

Committee met at 11.58 am**BANFIELD, Mr Timothy Augustus, Director, United Kingdom National Audit Office**

CHAIR (Mr Barresi)—I declare open this committee inquiry into financial management and equipment acquisition for the Department of Defence and Defence Material Organisation. The purpose of this hearing is to learn more about the role of the National Audit Office of the United Kingdom in terms of how it monitors the UK Ministry of Defence major projects. I would like to extend a warm welcome to Mr Tim Banfield, who has given up his time to speak to the committee today and travelled all the way from the UK to do so. The evidence given today will be recorded by Hansard and will attract parliamentary privilege. I know this has been a much anticipated meeting. At one stage I think we were going to do it via telephone conference but it is much better to do this face to face.

Mr Banfield—I am a Director at the United Kingdom National Audit Office responsible for our work on defence acquisition, which includes the major projects report.

CHAIR—I am not sure what kind of procedures are in place in the House of Commons for when someone attends parliamentary committees. While there is an element of formality here, there is also the usual Australian informality which takes place every now and then.

Mr Banfield—Thank you very much. I thought it might be worth explaining the origins of the major projects report as we have it in the UK, because I think that does condition an awful lot of the way that we have approached it. It all started off back in the late 1970s when the UK Ministry of Defence was upgrading our nuclear deterrent. It was at a time when there was a fairly significant antinuclear lobby in parliament. Because of the way that parliament votes funds to the ministry, it did not have visibility of the individual projects that the money would be spent on. When they found out that what was then a very significant amount of money, about £300 million in then-year figures, was being spent upgrading a deterrent without a debate in parliament, they asked the Ministry of Defence in future to report about its major projects so that this would not happen again. That was the origin of it. It was very much about the fact that it is the Ministry of Defence's report to parliament. That is a really key part in all of this.

Parliament then asked us to have a look at these reports as they came out each year and to do some analysis of them so that they had a basis on which they could question the Ministry of Defence. That is what we have done. For the first few years that was all that we did. What then became apparent was that the accuracy of a lot of the data that the Ministry of Defence was reporting was questionable. They were having to go year on year and correct more and more of it. We progressively started to give more assurance to parliament about the data being presented to them—to the point now where we validate the information. We do not audit it. By validating what we mean is that for each project the Ministry of Defence will be able to explain to us and provide an audit trail for why they have put the cost, timescale numbers and explanations for variances in that they have. We will look at that audit trail. But, for example, if it goes back to the 10-year equipment plan, we will not look at that equipment plan and say, 'Are all the numbers in that robust?'. All we are doing is taking a fairly high-level perspective on what is happening. That costs us something like £100,000 per year now. Most of that cost goes to fairly low-level staff. We use a lot of our accountancy trainees to do it. It is a pretty considerable resource input, even to do that validation.

Ms GRIERSON—Do you do that on every project or just the top projects?

Mr Banfield—We do it just on the top 30. So it is only the ones that the Ministry of Defence are reporting to parliament. On that, our validation can give some assurance to parliament but it is not absolute because we will not go in and audit it. If we tried to do that, the cost would be exorbitant for us. We would never be able to do it in a single year, and it would probably mean that the Ministry of Defence would not actually be able to actually progress any of the projects because they would spend all their time preparing things. One of the other important aspects that I would emphasise is that the major projects report is just part of the way that parliament scrutinises the Ministry of Defence. It gives it a really good overview of trends over time and a snapshot of what is happening now. We also produce reports looking at individual projects in much more detail and at some of the systemic issues. We recognise that, for the 24 years now that we have had major projects reports, there has been no appreciable change in performance despite lots of sensible initiatives. We also do some work jointly with the Ministry of Defence and with our UK defence industry to try and understand what the drivers of success are. We go out and look at how others—both in other countries and in good UK defence projects—address some of those drivers to try and learn lessons from that so that UK defence can then apply some of those and hopefully improve performance in the future. The major projects report is just part of that overall scenario there.

I guess the only other thing that I would say in my opening statement is that the report as we now have it has not changed that much since the early 1980s. Since that time the nature of defence acquisition has changed pretty radically in terms of the complexity of the things you are trying to buy, the numbers of them, the costs, the operational imperatives and the like, and the methods of procurement. So what we are doing with the Ministry of Defence at the moment is looking at how we revise the major projects report so that it gives a much better indication of their real performance in buying and then supporting defence equipment because, at the moment, what it is trying to do is to measure them against a decision that might be made that says, ‘In 15 years time, I will buy exactly this piece of equipment for exactly this amount of money,’ which means that they always fail.

Actually their acquisition performance is a lot better than that so we have to find a better way of looking at how much capability they are actually delivering and whether they are delivering that sensibly. There will be a proposal from the Ministry of Defence to parliament later this year, which we will agree with them, about how we will look at that. That is going to lead, I suspect, to a very substantial change in the nature of the information that is reported to parliament.

CHAIR—At this stage are you able to tell us what may be in that report to parliament?

Mr Banfield—I can share with you some of the thoughts, but as I say we are still talking about it with our minister of defence. What we are looking at is a report in three parts. The first part is looking at how you get to make the main investment decision. At the moment the information that is reported around that is very much around time and cost. That is not really the most important thing at that stage; it is whether you get to a mature understanding of what you are committing to that is likely to lead to success. What we want to do is to develop a set of matrixes with the Ministry of Defence that enable us to measure that rather better. For that to happen we cannot create those matrixes in isolation for the major projects report, because again it becomes an untenable burden on us and the Ministry of Defence. We have to look at ways of

utilising the information that they hold, or for them to start to gather new management information because they are seeing benefit out of it. The precise measures we still have to decide.

We then have the second part, which is an evolution of the main 20-project part that we have now. That we would try and preface with a broader overview of defence acquisition. We would probably take all of their biggest projects—there is about 70 of them that fall into their top category bands—and give an overview of performance across all of those. By and large these are still very big projects and the cost and time performance of them is considerably better. I think it is important that you get the context of that in there rather than just taking very, very big difficult things which are bound to be challenging.

Ms GRIERSON—So this is to help identify trends and systemic problems or flaws.

Mr Banfield—Yes, absolutely. It is to identify trends, but it is also to be able to contextualise the much more detailed analysis of the biggest projects that we have got. We would then take—and there is not a definite number for it yet—probably the biggest 15 projects and look at the procurement performance on those. The reason we are saying we should reduce that from 20 is that the ministry has actually got fewer very, very large projects. So, what you tend to see each year—because what we are doing is looking at forward spend as a way of selecting the project—is that the bottom four or five tend to fall in and out and come around. So the consistent population is probably about 15. So we would try and look at that. We would look at that, as we do now, against the cost and time that they originally had approved; so what their business decision was made on. We would then try and build on that to recognize that, for time, having a single point measure of a definition of when a piece of equipment enters service is not very helpful.

If you are buying something incrementally, the important thing is that you get the increments right and you are delivering against those. Actually having a piece of equipment delivered from industry does not mean that you can use it. So there is something about how you get to an operational capability level. I can give you an example of that which we looked at a couple of years ago—that is, our Apache attack helicopters. That were a very complicated procurement that was very successful. But they did not have trained pilots so they sat in sheds for two years until the pilots were trained. From the traditional MPR perspective that was success; but clearly in practice it was not. What we want to do is come up with a number of points that we can measure and a better understanding, therefore, of not just how you deliver equipment capability but how you deliver capability in the round at the end of that. So there are all those other things that come into play.

In cost terms, what we are seeing is a much flexible environment where the capability you are trying to buy on a long program is going to change to an extent and the numbers that you are buying will change. At the moment, if you measure against what you first thought of, you come up with some very strange figures that can either look very good or very bad on individual projects so what we are were trying to develop is a measure that gives you a better current capability for a pounds spent kind of measure from it so that we can get a better indication of just how good the value that they are getting out of the project is.

At the same time, because we are looking at through-life performance and the Ministry of Defence is starting to think through life right from when it makes the initial investment decision, we will track how they mature the support solution and how they start to deliver some of that as well, which will be a new aspect on those projects. We will also probably pick up—

Mrs BRONWYN BISHOP—How are you going to do that through life? Are you going to pick benchmarks or when remedial work needs to be done? How are you going to do that?

Mr Banfield—We are going to try and do it in two ways. We are going to look at how they mature the solution that they propose to deliver and, again, it is very much the same kind of metrics that we would use for the original procurement. Then as the equipment starts to come into service and is being actively used, we can see whether they are achieving the cost performance and the availability levels and the like that the business decision was based on. Then, as the equipment is more mature—and this is a completely new part of the report—we can look at how much it is costing to support the equipment when it has been in service for a number of years, how much it costs to upgrade it, how much urgent operational requirement activity there is going on with it and look at the capability it has delivered from that. Some of that could well be metrics around availability. There are some issues there about what we do with the classification of some of that information and I think it is fair to say that our ministry is very wary about what we can do with that. It is not a problem in terms of reporting to parliament, because the ministry will report completely to parliament. Then what is made public will just have the classified elements taken out of it. We do that now so that is not an issue for us.

CHAIR—There will be a number of the members that have got specific questions to try and get to some of the nub of the issue that we are dealing with. Listening to you talk about the Apache helicopters is almost like *deja vu* here and we are thinking that we know some of these issues. No matter where you are in the world there seem to be similar sorts of concerns and issues when dealing between parliaments and the strange world of defence.

You mentioned in your opening statement that the performance of the Ministry of Defence itself perhaps has not changed that much over the years. What do you mean by that? Is that in terms of their ability to meet the targets or the relationship they have with you in the Audit Office or is it that the culture of the organisation itself has not changed? We hear in Australia that a lot of these things are cultural issues and systemic within defence, so can you just narrow that particular observation down a bit more?

Mr Banfield—If you take the trends that the major projects report shows year on year then you get fluctuations—you get a few bad years and a few good years—but overall there is no appreciable improvement in cost performance or time performance. That actually is a really unfair measure because from all of the other work that we do our Ministry of Defence is getting better. The challenge of those projects is increasing as well so it is an example of why the major projects report, as it is now, is not a particularly fair way of gauging performance with some of those things.

Senator MARK BISHOP—The projects are just getting so much more complex that it outweighs the time and cost, otherwise time and cost improvements.

Mr Banfield—Yes, absolutely. When you look at what our Ministry of Defence has done and the major initiatives that they have had and the major initiatives that the big industrial partners have had, they are all doing exactly the right logical things and they are all improving. But you are not seeing that working through because the challenge is escalating at at least the same rate.

Mrs BRONWYN BISHOP—Do you estimate risk anyway?

Mr Banfield—Not in the major projects report. We will look at it when we look in detail at projects at how risk is being managed in it but we have not done it in the major projects' work.

CHAIR—What about the relationship between your Audit Office and the defence ministry? How would you characterise that? In the early days, I would imagine, when you were looking at these major projects and reviewing them, there might have been some level of resistance. Has there been an appreciable change in terms of access, the quality of data that you are getting and the resources that are available to you and to them in order to service your needs?

Mr Banfield—I have been involved with the major projects report in one way or another for about 20 years now, and over that period of time the relationship has improved hugely. That is not just for the major projects report; it is across the whole piece. I think that part of the reason is that we have grown some trust between one another. The major projects report is an MOD report to parliament, so it is for them to produce and us to validate. How we do that has really changed a lot. My team will be sat with the MOD in their offices for about nine weeks while we do the validation.

Ms GRIERSON—What is MOD?

Mr Banfield—It is Ministry of Defence. They will be sat with the central team in the ministry that is responsible for coordinating the report. That means that when you have difficulties coming through in validation, when there are difficulties trying to get numbers, we can resolve those quickly and we can do it together. So the relationship now is very, very close. One of the examples of the effect that has had is that it used to take us 14 or 15 months from the date the report was meant to be covering before we published. We have now got that down to seven, and we have done that because we work closely. All of the analysis we do we do with them; we will sit down around a table and look at what the numbers say. It is our report; we are independent. But they have a perspective and they usually have some pretty good views on things. They have realised that they cannot pull the wool over our eyes, so there is some respect both ways round. But that has taken a while to get to.

CHAIR—Senator Hogg needs to leave soon, so I will hand over to him.

Senator HOGG—I am sorry about that, because I would like to stay longer. In terms of the major projects report that you do, do you then drill down and do individual performance audits? Do you then try to relate individual performance audits back to the broader project report that you receive? Is there any correlation between what you find in your drill down, if you do one, and what appears in the major projects report?

Mr Banfield—There is a very strong correlation. We deal with that in two ways. If we have developments on individual projects or they illustrate trends we are seeing more generally in the

major projects report, we will do a mini audit around that project that we will then publish with our analysis. That is one way of doing it. Typically there would be four or five projects a year that you might do a little bit of extra work on. If it costs us £100,000 to validate it we will spend another £50,000 doing the analysis and a bit of extra audit work. We then produce separate reports looking in much greater detail and lasting about a year as an investigation into individual projects. I think every time we have done that, virtually, we have found that the information that the ministry is providing and that we validate is then borne out by the audit work that we do. We are not seeing any kind of real difference in the findings there. What you tend to find with most of the projects is that they are illustrating in much more detail the same kind of general trends that you see from the major projects report work that we have. It is a pretty consistent picture.

Senator HOGG—I gather from what you said that in spite of the longevity of what you have been doing, you have not necessarily been able to change the culture all that much. Is that a reasonable assessment of what you said?

Mr Banfield—We as an audit office cannot change culture by ourselves. We can change the culture of the people working with us and how we work, and that has happened, I think, incredibly successfully. If you ask the Ministry of Defence I think they would say the same thing about it. How do you change the culture of the ministry more broadly in the way it delivers? Probably the key way we do that is the work we do trying to learn from good practice—what we call ‘gold standard work’, which is something we do jointly with UK Ministry of Defence and UK industry, recognising that if one half fails then both halves have failed typically with that. What that has highlighted is what works, and what it has highlighted consistently is that process is fine but everybody does the same process. It is the relationships and the culture that make a difference. So we spend a lot of time going out and spreading those messages and talking to people about that, rather than just producing reports. That is, if you like—along with the other bits I have described—the third part of what we do. You put the three of them together and you can have some good effect because you are seen as being helpful and constructive in what is happening. It is a bit different to normal audit work. That is what I would say.

Senator MARK BISHOP—We have been having a bit of an internal discussion as to the utility or otherwise of uniform reporting guidelines on major procurement projects, or indeed all capital acquisition projects. Without going into the detail of that discussion, do you have any comment to make from your experience as to their desirability, their utility or lack thereof? Do they make a contribution to your work? Finally, do you see uniform reporting guidelines as being beneficial to persons like us in carrying out our oversight job?

Mr Banfield—I think, from a defence perspective, that every project always argues that it is unique. When you distil it down, they are not. They are all trying to do the same things, and you are making business decisions to deliver benefit. An element of uniform reporting that enables you to look at how well those business decisions are being executed and whether the benefits are being delivered is really important. I think that is helpful to us. It is actually helpful to the Ministry of Defence. It is interesting that their own internal target setting and the targets they agree with our Treasury include the information from the major projects report because that is the best information they have about long-term performance. I think it is important to everybody. What is important is that you gather the right information so that you do not get the kind of mismatches that I was describing earlier simply because the world in which you operate is changed.

Senator MARK BISHOP—You made the comment that cost and time were still problems and that was because of the complexity of the new projects, and we are aware of that here. How do you know now, if you are developing uniform guidelines or a matrix whereby you do all the different assessments of a project? Is there any objective test of the right information, or does that evolve from experience over time?

Mr Banfield—Let me give you an example, maybe, from the work before you make the main investment decision. All of the analysis that we have done—in particular, about four years ago, now we did a really big piece of modelling to try and understand what drove success on projects, which tended to show that just about everything that drove success was not the things the projects did; it was the things in the environment around them. Do you have enough money to do this? Are you consistent in what you need? Are you an industry between you? Do you have the project competence to deliver? All of that showed that it is the investment decision that matters, and actually it is what the MOD does around that investment decision that matters, more than industry, because it is MOD that makes the final decision.

It started to point towards the things that you had to get right and understand. It was things like the technical solution, which you would expect. It was the maturity of the understanding of the requirement—whether you have a mature commercial solution. An awful lot of what the Ministry of Defence does is focused around the technology and the requirement. It is whether you have the right project delivery skills in MOD and industry and whether you have a mature financial solution. Do you have a program that has so much equipment being procured in it that it is hugely overheated? That means, if you get cost problems, how do you deal with those? You spread other projects out, for example.

If you can understand that maturity when you make the main investment decision, you get more assurance that that decision is robust. So what we are saying with our Ministry of Defence is, ‘Let’s start to find ways of measuring some of those things.’ If we can get that right, that gives us a much better assurance. That has come in part from experience, but a lot of it is because we went out and did some specific modelling work to understand that.

Mrs BRONWYN BISHOP—I wonder if I could ask you about contracts.

CHAIR—Sorry, Bronwyn, before you start: we have just been joined by Miss Jackie Kelly, the member for Lindsay in Sydney.

Mrs BRONWYN BISHOP—One of the things that has concerned me for some time—and I have to say I was a minister in the defence industry, so there are problems that I am certainly aware of—is the nature of the contract. We went through a period of time where we had contracts that would deliver 80 per cent of the money for 20 per cent of the work, versus a milestone type of contract, and we seemed to swing between those styles of contracts. There has got to be a smarter way of Defence being able to negotiate contracts than the way it is presently done here. I wonder if you would like to comment? I did ask our Auditor-General at one stage if he would like to give some advice about the actual method of contracting and the ideal type of contract. With your experience, would you like to comment on that?

Mr Banfield—I think you are absolutely right in that it is a key aspect, and it is one of the things that come out from our modelling. The last report that we did around the gold standards,

around that learning from good experience, was around how you used the contracting commercial arrangements to drive success. The message that came through from that very strongly was that it is not actually the contract itself; it is the commercial acumen of the people around and the ability to design solutions that fit specific purposes. Our Ministry of Defence was very good at having people who knew exactly which clause went where and how but were not very good at understanding what was going to motivate good performance.

There was a huge variety of motivations, both within the Ministry of Defence and within industry from project to project, so it was a case of understanding some of those things and then designing a solution that motivated people to deliver. Most of the solutions that were being designed commercially were there to protect when things went wrong, and it is that kind of assumption that is bound to lead to the wrong behaviours. If you can incentivise people whilst giving a level of protection, the good experience that we have seen suggests that you are much more likely to deliver a good solution.

Mrs BRONWYN BISHOP—Is that finance incentives?

Mr Banfield—Yes, a mixture of it. When we went out and we started trying to look at some of the ways people understood this, the Ministry of Defence would largely say, ‘Well, industry is there to make a profit.’ When you went out and started talking to parts of the supply chain on individual projects, some of them were there to make short-term profit. But some of them were very much there because they wanted long-term market entry or because they were trying to grow capability. If you try and give them all the same commercial terms, you will not motivate them.

The other thing that came through was that there are actually more stakeholders within our Ministry of Defence than there are in industry on most projects, and yet you only have a commercial relationship and a contract with one half. You have got to get the arrangements right to motivate both parties there, and there are some fantastic examples of that happening around the place, but it does not happen regularly enough, so it is the broader conceptual thinking that is driving success in that case. I have got copies of these kinds of reports, and I am very happy to leave them with you so that you can see the things that we have got.

Senator WATSON—Does your government enter into contracts like the ones that Mrs Bishop referred to, where you deliver 80 per cent of the price for 20 per cent of the work? That in itself creates an enormous number of problems.

Mr Banfield—I would have to say the theoretical answer is no. The practical answer is that there is an element of that that happens and what I think we see as a real diversity of reasons for that. It goes from just a genuine misunderstanding on people’s parts of the requirement, the need and the complexity of what you are delivering to some things where the commercial arrangements are not structured well enough. Again, you come back to the work that we did trying to learn from success, and the good projects were where there was a common understanding of the need and a common understanding of the solution.

Senator WATSON—Don’t you come down very hard on those sections of defence which do not construct a proper commercial contractual arrangement?

Mr Banfield—Yes, we do. As we see those, we will report on them and we will report in negative terms.

CHAIR—Are you able to provide us with—assuming there is no commercial-in-confidence issue—an example of one of these contracts that you are talking about?

Mr Banfield—What I can probably do best is leave you with the reports that cover the general issues.

CHAIR—Not the actual contract itself.

Mr Banfield—No, because I would have to go back to our ministry to do any of that.

Mrs BRONWYN BISHOP—But if they thought it was okay, if a template of one were available, it could be quite interesting.

Mr Banfield—I think the problem is that there is no template. Where people have templates, they tend to apply them without thinking. Everything that we are seeing driving success is where people do the thinking first and then look at how they apply what is available.

Mrs BRONWYN BISHOP—I had more in mind the sorts of incentives you might build in.

Mr Banfield—The report we have talks about some of the projects and some of the specific incentives from that. There is a website linked to this that has more of those examples, both from our Ministry of Defence and from commercial organisations. And I have to say we saw some from Australia as well that were pretty good.

Ms GRIERSON—You mentioned that you are looking at a system to measure whether these projects et cetera are being handled in a holistic way to make sure capability is achieved. You mentioned things like not just the equipment itself but also the operational implementation and whether they will have the skill set that they need to implement it properly—the through-life things. Are you seeing better delivery of projects in a holistic way?

Mr Banfield—I am more confident now that the Ministry of Defence is starting to get its act together with that than I have been for a long while. It is a very variable picture. Why do I say I am more confident? Before, we had separate organisations for supporting equipment and for buying it. They have now put that together. The way they have then structured that organisation is to put like projects together. You can start then to make some trades about what you are doing when you are buying equipment to make it more supportable. You can take a much more holistic view of some of those things. I think that is potentially a really positive step forward.

Ms GRIERSON—If I want to escape audit office scrutiny, can I break my project up to get under the 20 projects?

Mr Banfield—No.

Ms GRIERSON—Does that happen?

Mr Banfield—No; you cannot, because of the way that our Ministry of Defence approves projects. There are elements of some projects that you might be able to see that you could break up with it, but it does not happen in practice—that we are aware of at any rate. We looked at this in some detail.

Ms GRIERSON—You have an organisation similar to our Defence Materiel Organisation, don't you?

Mr Banfield—Yes.

Ms GRIERSON—We have an example that our DMO have just taken to government for their decision all the probity and all the testing for a major procurement of ships. How transparent would your process be? If there is a mismatch between the DMO recommendation and the government decision, would you know that? Would your system give you that sort of information? Would the government have to give you the evidence of the decision making process?

Mr Banfield—We have statutory access rights to look at all the papers our Ministry of Defence holds unless they are questioning policy. That is important because that is our independence safeguarded. We will see all of the approvals papers and we will see all the papers that underlie those. We will then understand the final decision as it is taken. If that decision is not the best solution then there is the option for the head of our Ministry of Defence to ask his minister for a direction to do that, because that is breaking his duty as an accounting officer. If that happens, we see the advice he offers the minister, we see the response from the minister setting that out and we have to report that to parliament.

Ms GRIERSON—I am happy to come back to that, but I want to pursue the reporting to parliament.

CHAIR—There will be recognition, though, that, while it is great theoretically to have all that transparency, some of these decisions will have political considerations. In fact, maybe going to choice B means that you are able to keep a particular shipyard operating which may otherwise close; whereas if you go to option A, that shipyard could very well find itself in stress.

Ms GRIERSON—But that is not about capability, is it?

CHAIR—Those sorts of considerations will be outside the parameters of what an audit office would look at.

Mr Banfield—Not necessarily. Our Ministry of Defence has a defence industrial strategy which is meant to inform decisions because it is looking at broader capability and what you need to sustain and how. They are working up plans for individual sectors and areas within that at the moment. But you would take some of those factors into account. In that case, the Minister of Defence can say, 'If this sustains a capability that we need for defence then going for it is justifiable.' If it is just to sustain jobs simply because that is politically expedient then they have got the option of asking for direction from the minister. There are occasional examples of that.

Ms GRIERSON—That has happened?

Mr Banfield—Yes, that has happened. We had one that was affecting a shipyard some years back.

Ms GRIERSON—And how does the parliament get access to that? Do you just table the report or what?

Mr Banfield—If there is a direction issue, we report to parliament on that direction.

Ms GRIERSON—What do you mean by ‘report to parliament’?

Mr Banfield—We write to the chairman of our committee of public accounts, or your broad equivalent, explaining what is there, and that letter is laid in the library of the House. It is not published in terms of being one of these kinds of reports, but it is there for parliament to know about and understand.

Miss JACKIE KELLY—Sorry, what is the report that is on the floor of the parliament?

Mr Banfield—That would be the letter that my boss would write to the chairman of our committee of public accounts saying, ‘There has been a direction, we have seen it and these are the facts around it’. That letter is then put into the library of the House so that it is available to other members of the House to see.

Miss JACKIE KELLY—Forgive me if you have answered these questions previously. How long have you been doing the reporting on your major projects?

Mr Banfield—The first report was in 1984. I have been involved with it since 1988, I am sad to say!

Miss JACKIE KELLY—So was the reason for moving that direction in 1984 a series of clusters?

Mr Banfield—The reason for it was the way that our parliament votes money to the Ministry of Defence. They did not have visibility of the projects that were going on. There was one project in particular about upgrading our nuclear deterrent happening, at a time when there was an anti-nuclear lobby in parliament, that they were not aware of. When they did become aware of it, the solution was to say, ‘If you do not get that in the way that we would vote money to you, we want you MODs to report to us on your biggest projects.’ That is what the report, as we have now got it, has evolved from.

Miss JACKIE KELLY—How do you define a major project?

Mr Banfield—At the moment, we look at the 20 biggest projects in terms of forward spend. All we say is that they have got to have spent £10 million so far. But, after that, it is forward spend in procurement.

Miss JACKIE KELLY—If, in a project, 80 per cent has been spent and there is only 20 per cent to go, does it fall out of your major projects and you think that there is something grossly wrong with that one? How do you stop that happening?

Mr Banfield—If we are in that situation, there is a fair chance that the project has overrun very significantly, so there is still a lot of money to be spent. It might not be very much against the original approval but, in practice, if it is running that late or that badly, the MOD is going to have to put more money into it, so it is going to stay in the report. If it does fall out of the major projects report, we have still got the option of going and doing a full audit—a separate report on that project itself.

Miss JACKIE KELLY—How would you become aware of that?

Mr Banfield—We have visibility of what the Ministry of Defence is doing more generally. A significant part of my job is going out, talking with people and understanding.

CHAIR—Some of this was covered in the introduction, Jackie.

Miss JACKIE KELLY—Okay; sorry. Are you are happy with the accountability of your defence records to parliament? I saw some of your records which were presented to this committee, and I thought it was amazing that you could tell, down to the dollar, what your deployment in Iraq cost. We would be unable to do that.

Mr Banfield—That took us an awful lot of work and effort but, yes, we can get there because we have the access rights and because we have a good relationship with our Ministry of Defence. That works both ways, because you both have to build trust.

Miss JACKIE KELLY—But you have an accounting system that says: ‘These are extant capital costs so, really, after maintenance and everything, there is only this extra bit that really was a deployment cost,’ rather than bundling up entire man hours and people that you would be paying anyway—that sort of thing.

Mr Banfield—It is not as precise as you describe it. We had to do a lot of analysis of some incomplete records to come up with that number, but that is a number that we and the Ministry of Defence were happy with, because the Ministry of Defence agree with every word and every number in each report we produce. In some of the cases, so does the industrial partner that is involved with it. If it mentions a company or their equipment, we make sure they are happy with what we are saying as well.

Miss JACKIE KELLY—I note from the major projects report 2006 that the UK NAO and the Ministry of Defence are developing a proposal for an overhaul of the major projects report with the intention of revising the report from spring 2008. Can you update us on that review process?

Mr Banfield—Yes. We are working with the Ministry of Defence at the moment to come up with a set of principles for that, which are some of the things I have been talking about this morning. I think we have a little slippage ourselves, in that it is not to be spring, clearly, because we have not yet got there. But it will be before they go off for their summer holidays that we should have an agreed paper.

Miss JACKIE KELLY—Radically different?

Mr Banfield—Yes, radically different.

Miss JACKIE KELLY—So if we wanted to take yours as a template now you would say, ‘No, take them in spring’?

Mr Banfield—I think it would be worth waiting and looking at some of what we have coming through. It may not be right for your circumstances, but we are putting a lot of thinking into it.

Miss JACKIE KELLY—I certainly like the template you have at the moment. I think it provides far more transparency than what we currently get.

Ms GRIERSON—Is there industry involvement in that process?

Mr Banfield—In which process?

Ms GRIERSON—In the process of improving the way you track and monitor. Lifting industry performance is part of the goal too. Has there been industry involvement in your work?

Mr Banfield—There is in the work we do around the gold standard. The team that we have at the moment working on the reports we are doing currently has two of my people in it. It has a secondee from MOD and a secondee from industry. We will talk and prepare the entire output on the basis that MOD and industry have got to do it together—so we will get that. For the major projects report, the only thing that industry sees are the summary sheets. The Ministry of Defence will show them the summary sheets and make sure that they are not saying anything in those that industry would violently disagree with as being wrong. The most important thing is that whatever we publish, or in this case whatever the Ministry of Defence submits, is seen as being fair and robust and not challengeable in those terms.

Miss JACKIE KELLY—What does the defence value for money team do?

Mr Banfield—We produce about seven published reports a year and we do a number of other outputs that are not published looking at value for money from the defence spend in the UK.

Miss JACKIE KELLY—So would you be looking at your earned value schedules and things like those to see if those are a good way of making those contract payments or milestones? Are you looking at that type of thing?

Mr Banfield—We have looked at some of those things but we have done it as part of a broader report looking at how you use the contract in commercial arrangements to underpin successful projects.

Miss JACKIE KELLY—So the defence value for money team is more or less the underbidder or the overbidder and it is about satisfying its concerns?

Mr Banfield—We are the defence value for money team in the NAO, so what we are doing is looking. We have the overview kind of thing that the major projects report gives us. We then do much deeper dives into our individual projects or some systemic issues. We will also go out and

look at—and you were referring to some of the work we have done on operations—at personnel issues that are state issues. So it is not just around equipment.

Miss JACKIE KELLY—Does your office have ready access to documents such as contracts and the like?

Mr Banfield—Yes, we have got that.

Miss JACKIE KELLY—So you get all the contract documents, even the classified secret ones?

Mr Banfield—Yes, there is no problem. We have rights and access to all information that the Minister of Defence has.

Miss JACKIE KELLY—What sort of public scrutiny of those documents ever comes to light? Does it come through your court system when there is an argument about something? Are they available to parliamentarians? Are they available on a restricted basis to anyone else?

Mr Banfield—We only look at that information if we are doing a study. We would not routinely go and look at every contract that was placed for a major project unless we were looking in detail at that project.

Miss JACKIE KELLY—I think in a major law firm cutting and pasting old contracts is a common thing. I am just wondering whether within defence there is that ability to look at what went wrong on a contract from a historical perspective although one might have had nothing to do with it: ‘Can I take some lessons out of the FFG or SDSS so as not to repeat what went wrong?’ That is not able to be done in our Defence Force—and I do not know what happens to these documents—because these documents disappear and no-one ever gets to see them again. Do you have some sort of corporate knowledge on prior contracting whereby whoever is responsible for your Astute class submarines can go back and say, ‘Hey, look, we did that with the Trafalgar ones and this was the problem’?

Mr Banfield—I distinguish between us and the Ministry of Defence on that. The Ministry of Defence has processes to learn lessons which are of variable quality and are used to a greater or lesser extent. An awful lot of it is what is in people’s heads and passing on from time to time.

Part of the reason that we do the work we do around the gold standard is because we are trying to pick some of those good lessons out. One of the things that happens—maybe it is a UK trait; I do not know—is that we tend to dwell on the failures and accept successes as doing a day job. Actually, you can learn an awful lot from the successes. That bit does not happen.

Ms GRIERSON—That is fair—and true here too.

Mr Banfield—Very often, as well, the reasons for failures and problems on projects are lost in the mists of time because the projects take so long that, by the time they are finished, it is difficult to distinguish.

Miss JACKIE KELLY—I do not know whether you can answer the next question. In Australia the Department of Defence has a view of the ANAO as being authoritarian, inflexible and not being very cooperative or malleable at the edges. Do you know from the point of view of defence whether they view it that way, or do you think it is nice and cosy?

Mr Banfield—It is not cosy. It is robust, but it is close. We trust one another.

Ms GRIERSON—How did you get the cultural change to build up trust?

Mr Banfield—The simple answer is that we worked incredibly hard at it. I think the Ministry of Defence recognised that the way things worked did not help them at the end of the day and did not help us. We have worked very hard to make sure that there is no surprise from the Ministry of Defence. When we go out and scope a study, we have a defined process called ‘issue analysis’ to do that where we sit around a table. I do not mean just my team. We will have people from the Ministry of Defence there as well so they can understand why we are saying we will look at the things that we will look at. They can contribute because they know stuff as well out of this lot that is useful.

From that process they can see why we are gathering the information. When we have done the field work, we will sit around a table and interpret the evidence we have gathered. That does not stop us being independent; it means that they can see why we are saying the things we are saying and how. We can then agree on a structure that says, ‘This is the logic; these are the conclusions.’ Once you have agreed that, populating that and writing the detailed report is not that difficult because that is just wordsmithing.

CHAIR—You are working very closely—hand in glove—with them. As you said earlier on to a similar question, some of your teams are embedded in there as well.

Mr Banfield—Yes, for the major projects report. That is the only way we will deliver it in that timescale.

Miss JACKIE KELLY—Does the UK defence department maintain commercial leverage in a sole source environment?

Mr Banfield—It seems to; yes. I do not think I can go much further than that from what we have seen from the audit work we have done.

Miss JACKIE KELLY—Given that we are even more geographically isolated than you with smaller buying power, it is just something you have to accept?

Mr Banfield—I think that, in part, it is something you accept. We are seeing some really different behaviours with some of the long-term support agreements we are reaching with industry, where there is very much an emphasis on both parties winning. So there is some long-term gain share and a long-term relationship, where you recognise that there is not really any alternative. It is pointless trying to go down a quasi-competition commercial route when that does not exist. That is really difficult because you have to have a very different mindset in MOD and in industry. Some of the things that are starting to happen with that are very encouraging, but it is early days.

Miss JACKIE KELLY—So you see that, since 1988, your whole contracting process has continually improved? It is on a linear line.

CHAIR—Since 1984, actually.

Miss JACKIE KELLY—You have only been there since 1988, haven't you?

Mr Banfield—Yes. It has changed. I would not say it has evolved as much as it could. There is a big difference between contracting and establishing and managing a commercial solution because the contract is only one bit of it. Actually, all the contract can do is ensure failure if you get it wrong. It cannot ensure success if you get it right. It is part of a broader picture.

Miss JACKIE KELLY—In terms of improvement since the start of this project, would it be 50 per cent, 110 per cent, 300 per cent?

Mr Banfield—It is hugely variable. I am not trying to be evasive in that as an answer.

Ms GRIERSON—But you still have disgraceful contracts that go wrong, do you?

Mr Banfield—And as we have gone out and looked commercially and around the rest of the world, we have got contracts and we have got commercial approaches that are so good that I think they would stand up by comparison favourably with anything anywhere. The problem is the variability.

Miss JACKIE KELLY—What is the ratio of civilian to military personnel in the UK defence department? You can get back to us with the answer for that question.

Mr Banfield—Yes, I think I would have to because I do not know that.

Miss JACKIE KELLY—Can you also get those ratios in the contracting and contract management areas?

Mr Banfield—In contract management specifically, they are civilian; they are not military people.

Miss JACKIE KELLY—And what about longevity of tenure and things like that?

Mr Banfield—I do not honestly think that our Ministry of Defence would have that information.

Miss JACKIE KELLY—Ours tends to churn a fair bit.

Ms GRIERSON—You have said that it has improved practice. But has that led to standardisation and a uniform way of tracking, reporting and acquiring in terms of all projects? Or do you see the big ones getting the emphasis and more quality control and the rest just muddling along? Has it moved to a standardised reporting, accounting or monitoring system?

Mr Banfield—The Ministry of Defence has developed the ‘commercial management information system’, which works in our equivalent to the DMO. The information in that system is becoming more robust and the information covers projects that are getting progressively smaller in value. That is a big step forward. The quality of the information there still is not consistently good, but it is moving in the right direction.

Ms GRIERSON—But how has it been for the Audit Office? You have mentioned the complexity. We all know that these contracts are becoming very complex. The requirements for defence are becoming more complex and the capability requirements are more complex. How hard has it been for your National Audit Office? You said you are moving towards finding new metrics. I imagine that it would be a cultural shift for the Audit Office to get away from financial and performance audit type metrics to new metrics that take on such complexity. Where is the best stuff happening and are you capable of delivering something good that reflects that change?

Mr Banfield—We are looking at where the best stuff is happening now, and we are doing that jointly with the MOD because it has got to be for their major projects report. Part of the way that we do it is that we seek to develop our staff in-house so that we have got people with a fairly wide range of skills and backgrounds. We take people seconded from the Ministry of Defence. We recruit people from the defence or research environment.

Ms GRIERSON—In such a high-paying field, how can you attract them?

Mr Banfield—The people that we have attracted have come to us because the work is interesting.

CHAIR—You have a larger pool of labour that you can call upon, which is just over the Channel, compared with us. We have to have them coming over and it is a big move.

Miss JACKIE KELLY—How much of your budget for the general auditing of your government is spent on defence? How much is specifically set aside to do just your major defence projects? How much do you actually do out of your general budget as a percentage? That question is on notice, so you can get back to me on that.

Mr Banfield—I can tell you that, as a percentage, we produce 60 reports a year and that six of those typically will be on defence. Sometimes we get up to seven in a year, and one of those is a major projects report.

Miss JACKIE KELLY—What about your costs to deliver those reports versus the other reports?

Mr Banfield—It is the same cost. We have got to manage. If we have got big complex reports we have got to have some of them that are shorter and less complex because we have got to bound them within that.

Ms GRIERSON—Can you come back in 12 months time and give us an update?

CHAIR—You do the 30 projects, but I assume there would be other defence projects that you would periodically go into as well which are outside the 30 projects?

Mr Banfield—Yes. If there is something that is there. Typically, if we look at a project in detail it is one of the major ones because we have got a relatively small number of reports to cover a broad area and the risk, both financial and operationally, is likely to come from the biggest projects.

CHAIR—Secondly, I would like to turn to resources. Just this year the Prime Minister authorised \$1½ million for our Audit Office to carry out its work, with the top 30 projects starting next year—that is, the budgetary allocation starts next year. Did you receive an increase in financial and personnel resources in order for you to carry out the major projects work?

Mr Banfield—I would assume we did at the outset, because it was something new. It was not a definite uplift in our resources at the National Audit Office.

CHAIR—The reason I asked this question is that you mentioned that it used to take you 14 months to do a report. Now it takes you seven. That is an incredible reduction in the time line. Yes, you can do that through efficiencies and through better reporting and systems but you must have a lot of personnel dedicated to it as well.

Mr Banfield—We do dedicate significant numbers of people to get it done that quickly. It also saves us money, and the money we save we can apply to doing some of the other work so it gives us a chance to look more broadly at some of the other things that are there. We do not get a specific uplift. So, for example, where we are looking at changing the report with the Ministry of Defence, I will have to find that resource from within my total pool because I will not get anything extra for it.

Ms GRIERSON—Your section only does defence; are you dedicated to the major projects and to other defence ones as well?

Mr Banfield—No, we cover all of the defence reports. The way that we work is that there is me and a colleague. We have four managers working for us, and then we have a pooled system for staff. In theory they could be allocated from anywhere across the office.

Ms GRIERSON—What would be your maximum staff number when you are really into it?

Mr Banfield—It is about 18 in total.

CHAIR—We will call it quits at that point. Unless there is a really pressing question.

Miss JACKIE KELLY—Does the 43-month blow-out on your Astute class submarines still happen?

Mr Banfield—Yes.

CHAIR—We are not auditing that. Of course it does.

Mr Banfield—I think we have covered that now. There is a success story in there, believe it or not. They put it right, belatedly.

Miss JACKIE KELLY—I will read the transcript.

CHAIR—Thank you very much for the time you have given us. It has been very worth while. We have come very close to the end of our inquiry into this issue. We would certainly like to accept any material you have. Is it the wish that the committee accepts as exhibits the publications that will be presented to us? There being no objection, it is so ordered. How long are you in Australia for?

Mr Banfield—We are here until the end of the week; we fly back at the weekend.

CHAIR—Are you spending some time with our Audit Office?

Mr Banfield—Yes, and with the DMO.

CHAIR—Is this for you to impart your knowledge, or for them to give you knowledge?

Miss JACKIE KELLY—Show them it does not hurt.

Mr Banfield—It is a mixture. We are here to share a bit of what we have found from the major projects report, but we are also here to learn from the gold standard of work we are doing around the good things that you do.

CHAIR—Have a most enjoyable remaining time in Australia.

Mr Banfield—Thank you.

Resolved (on motion by **Ms Grierson**):

That this committee authorises publication of the transcript of the evidence given before it at public hearing this day.

Committee adjourned at 12.57 pm