



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

**Reference: Review of Auditor-General's reports, first and second quarters 2004-05**

THURSDAY, 28 APRIL 2005

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

**Thursday, 28 April 2005**

**Members:** Mr Baldwin (*Chair*), Ms Grierson (*Deputy Chair*), Senators Hogg, Humphries, Moore, Murray, Scullion and Watson and Mr Broadbent, Ms Burke, Miss Jackie Kelly, Ms King, Dr Laming, Mr Somlyay, Mr Tanner and Mr Ticehurst

**Members in attendance:** Senators Hogg and Watson and Mr Baldwin, Ms Grierson and Mr Laming

**Terms of reference for the inquiry:**

To inquire into and report on:

Review of Auditor-General's reports, first and second quarters 2004-05.

**WITNESSES**

|  |           |
|--|-----------|
| <b>BATMAN, Ms Gail Jennifer, National Director Border Intelligence and Passengers, Australian Customs Service .....</b>                    | <b>1</b>  |
| <b>CASS, Ms Barbara, Senior Director, Australian National Audit Office.....</b>  | <b>1</b>  |
| <b>COCHRANE, Mr Warren, Acting Deputy Auditor-General, Australian National Audit Office .....</b>  | <b>1</b>  |
| <b>.....</b>   | <b>17</b> |
| <b>COONAN, Mr Darren, Audit Manager, Australian National Audit Office .....</b>  | <b>17</b> |
| <b>CRONIN, Mr Colin Douglas, Executive Director, Australian National Audit Office .....</b>  | <b>17</b> |
| <b>EDWARDS, Brigadier Phillip, Project Director, Stocktaking Remediation Project, Joint Logistics Command, Department of Defence .....</b> | <b>17</b> |
| <b>GOODWIN, Mr Ian Philip, Group Executive Director, Assurance Audit Services Group, Australian National Audit Office.....</b>             | <b>17</b> |
| <b>GRANT, Mrs Marion Estelle, National Director Border Compliance and Enforcement, Australian Customs Service .....</b>                    | <b>1</b>  |
| <b>GUMLEY, Dr Stephen John, Chief Executive Officer, Defence Materiel Organisation, Department of Defence .....</b>                        | <b>17</b> |
| <b>HENDERSON, Mr Alan, Deputy Secretary, Corporate Services, Corporate Services and Infrastructure Group, Department of Defence .....</b>  | <b>17</b> |
| <b>KELLEY, Ms Roxanne Louise, National Manager Research and Development, Australian Customs Service .....</b>                              | <b>1</b>  |
| <b>McGAHEY, Brigadier David Francis, Director-General, Materiel Information Systems, Department of Defence .....</b>                       | <b>17</b> |
| <b>McPHEE, Mr Ian, Auditor-General, Australian National Audit Office.....</b>  | <b>17</b> |
| <b>MOORE, Mr Ken, Acting Chief Finance Officer, Department of Defence .....</b>  | <b>17</b> |
| <b>SMITH, Mr Ric, AO, PSM, Secretary, Department of Defence .....</b>  | <b>17</b> |
| <b>SMITH, Ms Dianna, Director, Australian National Audit Office.....</b>   | <b>1</b>  |
| <b>SPENCE, Air Vice Marshal Christopher Geoffrey, Commander, Joint Logistics, Department of Defence .....</b>                              | <b>17</b> |
| <b>WHITE, Mr Peter, Acting Group Executive Director, Australian National Audit Office.....</b>   | <b>1</b>  |
| <b>WILLIAMS, Dr Ian Sidney, Chief Finance Officer, Defence Materiel Organisation, Department of Defence.....</b>                           | <b>17</b> |



**Committee met at 9.54 a.m.**

**BATMAN, Ms Gail Jennifer, National Director Border Intelligence and Passengers, Australian Customs Service**

**GRANT, Mrs Marion Estelle, National Director Border Compliance and Enforcement, Australian Customs Service**

**KELLEY, Ms Roxanne Louise, National Manager Research and Development, Australian Customs Service**

**CASS, Ms Barbara, Senior Director, Australian National Audit Office**

**COCHRANE, Mr Warren, Acting Deputy Auditor-General, Australian National Audit Office**

**SMITH, Ms Dianna, Director, Australian National Audit Office**

**WHITE, Mr Peter, Acting Group Executive Director, Australian National Audit Office**

**CHAIR**—I open today's public hearing, which is one of a series of hearings to examine a report tabled by the Auditor-General in the second quarter of the financial year 2004-05. This morning we are taking evidence on Audit report No.16: *Container examination facilities*. Today, I welcome witnesses from the Australian National Audit Office and the Australian Customs Service to provide evidence on Audit report No.16. I remind witnesses that the hearings today are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of the parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege. Today's proceedings are being broadcast publicly and if witnesses or my colleagues wish to ask or answer questions which are sensitive in nature then we can defer those questions or answers and move to an in camera session—not for public broadcast—towards the end of the session.

I will be running today's session using a roundtable format, with witnesses from both agencies appearing together. However, I ask firstly that participants remember that only members of the committee can put questions to witnesses if this hearing is to constitute formal proceedings of the parliament and attract parliamentary privilege. If other participants wish to raise issues for discussion, I ask them to direct their comments to members of the committee. It will not be possible for participants to directly respond to each other. Secondly, given the short time available today, statements and comments by witnesses and members of the committee should be relevant and succinct. Would each of you like to make a brief opening statement for the committee?

**Mr Cochrane**—I am going to let the report talk for itself, but I will say one thing: the Audit Office was very grateful for the cooperation and assistance we had from Customs during this audit.

**CHAIR**—It is so noted.

**Mrs Grant**—I will make a brief opening statement. The introduction of the container examination facilities in Melbourne, Sydney, Brisbane and Fremantle has significantly increased Customs' ability to inspect and examine sea cargo containers arriving in Australia. Our submission provided information on the operation of those facilities. Prior to the introduction of the container examination facilities, Customs examined approximately 11,000 containers per annum. From 1 July 2004, Customs has inspected over 65,000 containers, which is roughly 91,000 20-foot equivalent units.

In order to increase the inspection rate so drastically, Customs needed to implement major changes to the business processes across a range of Customs work areas. During the ramp-up period at each facility, Customs made a number of refinements to the processes in order to accommodate fluctuations in container arrivals and deliver the desired volumes of containers to the facilities. The facilities have proven to be an effective tool in the protection of the Australian community and industry, which is evidenced by substantial finds of illicit drugs, illegal tobacco and alcohol, and counterfeit and copyright protected goods. Illicit drugs with a street value of more than \$1 billion have been seized, and over \$35 million in revenue evasion has been prevented.

The CEFs also represent a considerable deterrent barrier. Customs has defeated several attempts specifically designed to evade X-ray detection and through intelligence is aware of a number of intended importations that have been abandoned due to the perceived risk of detection at the CEFs. The ANAO report was released in December 2005, only four months prior to this hearing. Customs has welcomed the report, and we agreed with all of the recommendations. Even though the time frame from the release of the report to now has been quite short, Customs has made significant progress towards implementing all of the recommendations, which we will discuss with you today.

**CHAIR**—Perhaps you would like to elaborate on the progress that you have made in relation to the recommendations. Following that, I will be seeking comment from the Audit Office on their views on the progress.

**Mrs Grant**—I will ask Ms Kelley if she would like to run through the progress on the recommendations, as the CEFs report directly to her area.

**Ms Kelley**—In relation to recommendation 1, which is around the effective management of the logistics coordination, we have employed a consultant to assist us with looking at EXAMS 2, the information technology system for recording the results at the CEFs. They will look at the feasibility and practicality of using EXAMS 2 to monitor and track the containers, which was one of the issues raised in the report. That work has commenced. We also have a consultant working with us on the logistics coordination position—I think in the report it is referred to as the target selection officer. With that consultant, we are looking at the business process. We are also looking at making sure that there is a training process and a manual for that position, so we are clarifying the role of that position and how they will work. We expect that this work will be completed by the end of June.

In relation to recommendation 2, which is around the target development and target selection processes, there is a national project currently under way to support match evaluation and profile development with reference material regarding patterns of trade. This will be complemented by



some specific work undertaken in each of the regions. Mechanisms for review and updating of the data will be included in this project. The implementation of this recommendation has commenced, and we anticipate that it will be progressed over the next 12 months. The review and the update of that information are ongoing. While this is an ongoing recommendation, it is something we will continue to work on.

In relation to recommendation 3, which is around the strengthening high-risk country identification and target selection practices, in order to re-evaluate the risk rating for all major countries, Customs has completed an assessment focusing on illicit drug importation and sea cargo. A program of work to extend this to other areas of risk is in progress. Again, we have commenced the implementation of this recommendation. It is expected that the evaluations of other risks will be completed in the next 12 months. They will then occur periodically after that.

In relation to recommendation 4, which is around the accurate reporting of inspections and examinations, we are currently completing the development of EXAMS 2, which is an upgrade of the existing IT system. This system should facilitate the collection of data at the work group level and will address most of the business rule issues that were raised in the audit report. We are also refining the reporting specifications for the container examination facilities. The business analyst who is working with us on EXAMS in total is also looking at a standardised reporting template that will be used. Again, we have started the implementation of this recommendation. We are expecting that EXAMS 2 will be released by the end of May 2005. The business rules and the reporting parameters will be completed prior to that release, so we expect that the standardised report templates will be completed by the end of June 2005.

In relation to recommendation 5, which is around examination data, consistency of reporting and consistency of finds, we are addressing that as part of EXAMS 2 and the upgrade that I just talked about. The business rules are being developed around what is a positive find, so there is consistency of recording across the container examination facilities. Again, we expect that this will be completed in time for when EXAMS 2 is released at the end of May. In relation to recommendation 6, the operational effectiveness of the CEFs to be assessed, it was recommended that we look at the development of performance measures. Customs has identified three specific performance measures for the CEFs. They are the number of containers inspected or X-rayed, the number of containers physically examined and the number of complaints about the CEF operations. We are also considering a fourth performance indicator for the number of positive finds, but we would like to include that once we have finished the definition of what is a positive find.

These measures have been recommended as part of the development of Customs outcomes and outputs frameworks for 2005-06. Again, the implementation of this recommendation has commenced. We have identified the specific measures, and we will start to report on those as well. In relation to recommendation 7, which was around the development of logistics plans, the four CEFs—in Melbourne, Sydney, Brisbane and Fremantle—have developed a logistics plan based on a national framework that we released. So that recommendation is complete.

In relation to recommendation 8, which is around improving the contract management, we analysed the key performance indicators and service level standards within our existing contracts and sought to revise some of those in advance of our next round of contract negotiations, which are due in 2006. The stevedores have agreed to a revised key performance indicator for the

delivery of containers. That revised indicator is that all containers should be delivered to the CEFs with at least 24 hours of free storage still on them. They have also agreed to a new reporting mechanism which provides more transparency and enables customers to measure KPIs more easily. We have also engaged a consultant to work with us on a detailed review of the current contracts and to provide us with the range of options that we have for renegotiating those in the next calendar year.

**CHAIR**—Mr Cochrane, do you or other members of the Audit Office have any comments on the progress of implementation of recommendations from the audit report by the Australian Customs Service?

**Mr Cochrane**—I will ask the team to comment in a moment if they can. We have not been back to have a look, but the important thing for us was that Customs were very receptive in the first instance and it sounds like for a period of four months they have made a fairly good attempt at progressing the recommendations through to completion. On what I am hearing, I am very happy with it.

**Mr White**—I think we would agree that they have made good progress.

**CHAIR**—As I understand it, there are now five CEF ports: Sydney, Brisbane, Melbourne and Perth, and Adelaide has come online now. Is that correct?

**Mrs Grant**—Adelaide will be officially opened on 3 May.

**CHAIR**—How many container ports are there in Australia?

**Mrs Grant**—Containers arrive at all of the capital cities in Australia. Containers also arrive in ports like Townsville, Cairns and Newcastle. Off the top of my head I cannot tell you the exact number, but very small numbers of containers do come in at some of the regional ports.

**CHAIR**—I will ask you take a question on notice and provide an answer to the committee: how many, and which, ports, in Australia and which containers are unloaded direct from sea?

**Mrs Grant**—Certainly.

**CHAIR**—Whilst the audit report was on the container examination facilities, I would like to inquire what proactive measures you take in ports where there are no container examination facilities and, where containers are assessed as priority 1 or 2, what inspection facilities or regimes you have in those ports.

**Mrs Grant**—All cargo coming to Australia is reported to us and we screen and risk assess all of it. If the cargo, after it has been risk assessed, has been identified as high risk and needing inspection by Customs, in those ports that do not have the container examination X-ray facilities we will put a hold on that cargo and we will examine it physically. We can take the container to a facility where we can unpack it and do an old-fashioned physical examination.

**CHAIR**—If a person from overseas had an intention to bring some contraband into Australia, it would be logical for them to send it to a port other than the five ports where there is a CEF.

The number of ports where there is an ability to physically inspect containers, other than ports where there is a CEF, would be fairly limited in number, I would assume, because of land space for inspection facilities. What percentage of containers that are priority 1 would be inspected in those areas that do not have CEFs?

**Mrs Grant**—One hundred per cent of containers that would be considered high risk or priority 1 in a non-CEF port will be inspected, because we will have targeted those containers.

**CHAIR**—You have satisfied my questions on that.

**Ms GRIERSON**—Are there any roll-out plans for additional ports?

**Mrs Grant**—Customs has not been funded to roll out container examination facilities to any further ports. We would not be proposing that that would be an appropriate solution for some of the ports, because the volumes of containers coming through those ports do not justify a container examination facility.

**Ms GRIERSON**—Has the volume in Darwin increased with the train particularly?

**Mrs Grant**—We have not seen any noticeable increase in Darwin volumes at this stage. We take a layered approach to the technological solutions we put in place. So our container examination facilities in the four larger ports—Sydney, Melbourne, Brisbane and Fremantle—have the ability to examine completely-laden sea containers and they are backed up with pallet X-rays and smaller static units. The Fremantle system is actually a different system from the Sydney, Melbourne and Brisbane systems because the volumes there are a bit smaller. So a slightly different container examination technology was put in place. The Adelaide container examination facility will actually have the pallet X-rays so we will not be able to X-ray completely laden sea containers. We will examine at the pallet level there. At Darwin we have our own container examination building, which is one step down again in volume terms. We will have the large static X-rays where you can put the box level stuff through rather than pallet level. So you can see that as the volumes go down the technology is matched to the volumes we face. Then of course in the very small ports the volumes are such that physical examination is sufficient.

**CHAIR**—For the benefit of the members of the community, perhaps you could describe what is a priority 1, priority 2, priority 3 and priority 4 profile.

**Ms Batman**—I can assist with that. We use the priority system predominantly around the major container exam facilities. For other cargo that is coming into the other ports that Mrs Grant was describing, it is just indicating that it is a high-risk container to be examined. The priority system is really used around the facilities where we have large numbers going through, where we are looking at 100 a day or 60 a day, depending on the facility. The priority is a guide that the examiners at the facility use to give them some categorisation of the volume that is going through the facility. Priority 1 are targets that have been selected as having probably the most risk indicators. They have to be not only X-rayed but also unpacked and fully examined, which is quite labour intensive. The priority 2—

**CHAIR**—How do you determine a priority 1? Could you give an example of what country it might come from or a certain shipper or certain materials?

**Ms Batman**—It comes from quite a range of indicators, from quite specific intelligence that we have put together over a number of years, such as information from the Australian Federal Police, from other customs services—

**CHAIR**—What are those indicators?

**Ms Batman**—One indicator could be direct information that has been given to the police or to us that a crime syndicate is attempting an importation and they are using a cover load of furniture from the Netherlands which is coming in in March. It could be something like that, which means that we would take all of that and look very hard at anything that meets that criterion. Other priority 1s may be a bit less definite. They could be connections with importers, consignees or consignors that we have a history with, that have been part of a previous importation. Perhaps I will talk about this in general terms in the public session—

**CHAIR**—If you wish to answer the question in more detail in the in camera session, we can make note of it and then close the public hearing and take that evidence.

**Ms Batman**—It might assist if we did not give too much away.

**Senator HOGG**—I think that is a very good idea indeed. Chair, could I pursue this priority issue for a moment?

**CHAIR**—Yes.

**Senator HOGG**—I note—and I asked the ANAO about this before—that in paragraph 18 of the summary of the report the ANAO say:

We found that none of the regions examined all priority one containers.

Then at paragraph 1.19 in the full body of the report, at page 32, they say:

All priority one containers, and those where an anomaly has been found, are physically examined.

It seems to me that, after having had a brief look at appendix 4, one could assume that all priority 1 containers were at least put through the CEF. That does not appear to be the case here. Can you explain to the committee: are all priority 1 containers put through the CEF; and, if not, why not? I think even you said that they are all physically examined, yet if we look at appendix 4—and I am using that as the example—out of the 1,647 selected, 1,625 were X-rayed and only 1,171 were subject to any physical examination.

**CHAIR**—I am sorry to interrupt you, Senator Hogg. We have a request from Channel 9 to take some film. There being no objection, it is so ordered.

**Senator HOGG**—Can you just enlighten us, because it seems to me that priority 1 is the high-risk area?

**Ms Kelley**—I will commence the answer, and then others may like to come in.

**Senator HOGG**—By the way, I understand that this is in the early stage of your operation, so that has been taken into account in my question.

**Ms Kelley**—That was going to be one of my points—that each of the container examination facilities had a ramp-up period before being able to get to the point of X-raying and examining their targeted number of containers. All priority 1 containers are X-rayed at the CEFs. It is an expectation that all priority 1 containers will be physically examined. That means that they will be offloaded from the trucks, opened and examined. At the moment, I think we are running at around 92 per cent of priority 1s being—

**CHAIR**—According to figures in the report, it is 72 per cent in Melbourne, 87 per cent in Sydney, 60 per cent in Brisbane and 92 per cent in Fremantle.

**Ms Kelley**—Yes. Our current figures for the last six months are 92 per cent.

**CHAIR**—Across the board?

**Ms Kelley**—Yes, that is the national figure. I do not have the individual figures.

**CHAIR**—If you could provide those to the committee, that would be appreciated.

**Ms Kelley**—Sure. Across the board nationally, we are now physically examining 92 per cent of the priority 1s. When a priority 1 is not examined at the CEF, it is not a decision that is taken lightly. It is normally the case that the X-ray image is particularly clear and people are able to make a decision based on the image and the information in the paperwork that they have. The CEF officers will talk with the targeting officers, and it will be a joint decision when they do not physically examine a priority 1. In essence, that decision is made only when they have good information in terms of the X-ray image as well.

**Senator HOGG**—So in the future, when your system is operating at full strength, it will be quite possible for a determination to be made that, based upon the CEF examination, you will not proceed to a physical examination?

**Ms Kelley**—I probably would not go that far.

**Senator HOGG**—You would not go that far?

**Ms Kelley**—Yes. We are very clear that, although the X-ray technology we have is very good and is state of the art, it is still a tool. It is a tool that gives indications to the officers as to whether further physical inspection is required. We have made it the business rule that priority 1s, because of the intelligence and information behind them, should be physically examined, but if the X-ray image is clear enough and good enough, and the officers have had that discussion, we will not proceed to a physical examination. On other occasions, there will be priority 2s and 3s that, because of the X-ray image, we will want to physically examine. It is about operational flexibility and remembering that the X-ray is a tool that we use.

**Senator HOGG**—I note that the focus of this report is on containers coming into the country. Is there any program for CEF inspections of containers that are going out of the country?

**Ms Kelley**—Yes, there is. Since the CEFs have commenced operation, they have inspected around 2,300 export containers. In the next financial year we want to increase the number of export containers that the CEFs are looking at. So we have a program where we are gradually increasing the number of export containers we inspect.

**CHAIR**—What are you particularly looking for in export containers? Is it things like wildlife and drugs?

**Ms Kelley**—We are looking probably for a whole range of factors similar to the ones that we also look for in imports. Exports is a bit more complicated because of the timeliness issues. Interventions need to be a lot more timely for exports.

**CHAIR**—I notice the number of finds you have on drugs, tobacco and other contraband. Are you finding much in the way of explosive devices or firearms in both exports and imports—that is, in the 2,300 export containers or in the imported containers?

**Ms GRIERSON**—I assume they come under the prohibited items of the audit.

**Ms Kelley**—Not on the export containers.

**Ms GRIERSON**—Are they under the prohibited items in the audit?

**Ms Kelley**—Yes.

**Mrs Grant**—Are you talking about explosives?

**CHAIR**—I am not talking about where people are bringing in explosives with a declaration and approval, such as plastic explosive for industrial use; I am talking about where people might be bringing in firearms, bullets, weapons or, indeed, explosive devices in containers for less than legal purposes.

**Mrs Grant**—I can answer your question in relation to exports. We have not had any such finds in the export containers that we have X-rayed through the CEFs to date. On the import side, they fall under the prohibited imports category. Ms Batman, do we have any more stats on that?

**Ms Batman**—I do not think we have the information here. My memory is that there have been some but not in very large numbers.

**CHAIR**—So the incident rate is not high?

**Ms Batman**—It is not high.

**Ms GRIERSON**—Could we have a breakdown of the prohibited items? When we started this process three years ago, it was very much about the risk of terrorism. It has certainly shifted now

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into a different operation. In relation to the prohibited items, it would be interesting to see just what is coming in in terms of weapons and substances that are used in weapons.

**Ms Batman**—We can provide that.

**CHAIR**—You have provided in your supplementary report the overview of Customs container examination facilities, where you have broken down the drugs by type, and alcohol and tobacco are also there. Could you provide to the committee information on the other areas of contraband, or illegal or non-declared matters, whether that be weapons, explosives or other such things? Could you take that on notice and provide that to the committee.

**Mrs Grant**—Yes.

**Ms GRIERSON**—In your opening statement you mentioned you had some issues about what is a positive find. Is that not clearly understood?

**Mrs Grant**—It has become a matter of interpretation. What is a positive find is clearly understood, but people are very proud of the work they do—

**Ms GRIERSON**—They want to register everything.

**Mrs Grant**—That is right. We might have a single shipment and, for the sake of the argument, let us say that when we examine it it has some counterfeit DVDs, some quarantine items and a firearm. Is that one find or is that three finds? Those are the sorts of issues.

**Ms GRIERSON**—That is important if you are going to collect data and set benchmarks that are acceptable, or see whether there are trends occurring in certain ports or whatever. They may be registering that as one positive find or as three finds, or they may not be registering it under the right category. Is that what you are implying?

**Mrs Grant**—It is all of those sorts of issues happening differently around the container examination facility.

**Ms GRIERSON**—Does their data registering system give enough indication of how to register that? Is it training, or is it the system?

**Mrs Grant**—I think it has become officer interpretation of the business rules that exist. We are now streamlining those business rules to make it less open to interpretation.

**Ms GRIERSON**—If there is too much leeway you will get contamination of your data.

**Mrs Grant**—We do want to recognise these multiple goods type finds by recording each category of products. We do not want to say, ‘Whichever is the most in that find we will record,’ because we do need to keep the stats clean. We are working on a bit of a dual system at the moment by saying that that is one consignment with X number of prohibited commodities that we have found.

**Ms GRIERSON**—Of the whole operation in CEFs, how much is outsourced and how much is in house?

**Mrs Grant**—The logistics is outsourced in that we have a contract with the stevedores for container lifts. We have transport contracts with truck companies to pick up the containers from the wharves, bring them to the CEFs and return them to the wharves, and we have contract labour for the unpacking and repacking of the containers. Customs officers do all the examination work.

**Ms GRIERSON**—Are target officers always Customs officers?

**Mrs Grant**—They are Customs officers.

**Ms GRIERSON**—You talked about the performance measures for CEFs, and perhaps you are developing different ones. Is timeliness a problem? If we are not reaching targets in the CEFs, is it because of time pressures? I assume it is time pressures, and everyone would like to reach the targets. Time pressures would be something. It is a business and you are trying to get that cargo through very quickly. You do not want to delay your operators, the logistics companies et cetera. Is timeliness an important indicator for CEFs?

**Ms Kelley**—In the last six months our inspection rates have improved dramatically on what was in the audit report. In the last few months we have actually inspected 101 per cent of our targets. We are actually inspecting more than the target at the moment. Some of that goes back to the fact we have renegotiated a significant KPI with the stevedores. We want all the CEF boxes delivered to us with at least 24 hours of free storage. The stevedores have certainly improved their performance, and we have been closely monitoring them. The management of that contract has improved.

**Ms GRIERSON**—When you develop logistics contracts, those would be some of the issues?

**Ms Kelley**—Yes.

**Ms GRIERSON**—They are all done with the industry?

**Ms Kelley**—They are all done with the industry. We have also agreed some truck turnaround times for the transport providers and the stevedores in terms of how long we want the trucks to be in the port areas picking up and dropping off. That has improved. With the additional funding we got in July, the CEFs are now working one shift on Saturdays. On Saturdays, as a lot of others in the industry are not working that day, we get a lot freer access to the containers at the wharf. I think those changes have improved the timeliness factor.

**Ms GRIERSON**—In your opening statement, you mentioned that you are trying to overcome efforts that are being made to avoid detection through X-ray systems. Is that being stepped up? Are people now actively trying not to be detected through the X-ray system? How easy or difficult is it to avoid detection? You have a good chance if you are not inspected, if you do not get a priority rating.

**CHAIR**—We might take that question in an in camera session.



**Ms GRIERSON**—That is fine.

**Mr TANNER**—I apologise if this question covers ground that has been covered prior to my unfortunate late arrival. It follows on from Ms Grierson's line of questioning. I am interested in the impact on the efficiency of stevedoring with the greater degree of surveillance of containers. Could you explain to me at precisely what stage in the process, from being on a ship to being on a truck heading off down the road, the interception essentially occurs? Secondly, to what extent do you have problems in the selection of containers? One of the problems in the stevedoring process is if you have to move other containers to get to a particular container. That can cause efficiency problems in the ordinary course of stevedoring, so I wonder whether any of that arises as a result of your activities. Thirdly, what kind of measurement do you undertake in order to ensure that you have a minimal impact on the efficiency of the stevedoring process? That has been a matter of major concern, as we all know, in the last 10 or 15 years in Australia, and significant changes have occurred. Obviously, greater surveillance of potential illicit material coming through containers is a good thing, but it is also important to ensure that it has minimal impact on the efficiency operation of the port process and stevedoring, so I am interested to follow that angle a bit further.

**Mrs Grant**—I will start at the beginning of the process. It requires a cargo report to be lodged with Customs. The Customs Act requires cargo to be reported 48 hours prior to the arrival of the vessel in Australia, or 24 hours if the journey is less than 48 hours. That is the key to our whole process—getting that cargo report in on time. Cargo reports are then risk assessed. We make our selections of which containers we want to go to the CEFs on the basis of those cargo reports. If a cargo report has arrived in the appropriate time frame, the target selections are made so that when the vessel arrives and stevedores are discharging the containers from that vessel they will know at that point which containers Customs has selected. They can then stack them in the Customs stack, which is part of our agreement. They can put containers aside for collection by Customs.

**Mr TANNER**—At precisely what point do either the shippers or the stevedores find out that a particular container is going to be examined?

**Mrs Grant**—Once the cargo report is lodged in our sea cargo automation system, targeting is done and an electronic message goes back into that sea cargo automation system so that the stevedore will know that that container has been held. So that message can go any time from 48 hours prior to the ship's arrival to when the cargo is reported.

**Mr TANNER**—But not the captain of the ship?

**Mrs Grant**—No. The captain of the ship would not know, but it is not relevant to the captain of the ship to know.

**Mr TANNER**—It is if the captain of the ship is in on something bad going on and knows in advance that their container is going to be checked and therefore decides that they better dump it. That is why I am asking the question. It strikes me that it would be highly inadvisable to have the captain of the ship knowing prior to docking that a particular container was going to be examined.

**Mrs Grant**—That is a good point, especially when there is what we call an internal conspiracy involved. Perhaps we could talk a little bit more about that point if we go in camera later.

**CHAIR**—I will make a note of your question, Mr Tanner.

**Mrs Grant**—When we have timely cargo reporting, the stevedores know which containers need to be put aside for Customs. Part of the contract with us is that, as the trucks arrive for collection, they manage the presentation of those containers to the container examination facilities. In that situation, of course, it has minimal impact on their operations and is quite streamlined. Where we do have problems is in late cargo reporting. So, if the stevedores have already discharged that cargo—put it in a stack, not realising that Customs is going to come along sometime later and say, ‘We want that one’—there is of course the issue of—

**CHAIR**—It is messy. If a container has gone to an LCL yard, do you follow it up where they are doing the unpacking or at the actual point of disbursement of the container to check if it happens to have slipped through the system?

**Mrs Grant**—All LCL cargo must be reported to us prior to its arrival in Australia. We can either select the whole container—and that includes LCL containers—for examination at the container examination facility or choose to put a hold on it and then go and inspect at the depot where they are unpacking it.

**CHAIR**—The question I am asking is: if a container that should have been examined has slipped through and left the terminal—

**Ms Batman**—Even if it is late reported, cargo cannot be cleared until we clear it. So the fact that they are late in reporting it—

**CHAIR**—None of the containers leave the terminal area until you have signed off on them?

**Ms Batman**—That is right. It is just that they are not put in the right stack at the right time.

**Mr LAMING**—My first question is to do with the presentation of data in this table. I am still finding it very difficult to understand the tables on pages 98 and 99, and that is reflected in how much discussion we have had in trying to understand those tables. Only from speaking to you now have I understood that, in each of these priority categories, containers can be either physically examined and not X-rayed, X-rayed and possibly not physically examined, both physically examined and X-rayed, or neither physically examined nor X-rayed. I still find that table quite difficult to understand. There should be at the top of that table a row that shows the total number of containers in each category. I think that is a pretty important denominator.

**Mr Cochrane**—We will take that suggestion on board.

**Mr LAMING**—If my main question has to be in camera, that is fine. I am concerned about the obvious improvement to seven per cent of all containers being checked, but I am looking for a more rigorous level of analysis—

**CHAIR**—We will move to that in camera. I know what you are going to ask, and you can ask the question when we go to an in camera session shortly. Are there any other questions that people wish to ask in this open session position before we go to an in camera session?

**Ms GRIERSON**—I have just a few. The interaction between the tactical analyst and the targeting selection officer would, I think, be fairly important because you need to keep current with what is happening. How is that done? How do they interact? How do they feed information to each other?

**Ms Batman**—They work together, by and large. The work that the target selection officers do is informed by a whole range of reports and analytical material, ranging from strategic analysis of the industry to market-specific tactical work. So day-to-day interaction goes on, and it is quite constant.

**Ms GRIERSON**—So they are on site together?

**Ms Batman**—Yes, by and large.

**Ms GRIERSON**—One thing that the stevedoring industry has always raised as a major issue is that there are so many empty containers sitting around that they can be contaminated very easily before being put back into the chain. Has Customs taken that challenge on at all?

**Ms Kelley**—Yes. We have done a number of exercises looking at empty containers. Again, empty containers are reported to Customs and electronically profiled as well. We have done repeated checks, over the years, to assess the risk they present, and they are still viewed by Customs as a low risk.

**Ms GRIERSON**—And that is current—you have responded to it currently?

**Ms Kelley**—That is current, yes. All operations involving empties over the last five years have not resulted in any significant finds. Also, there are some other checks and balances in the system. For example, the Australian quarantine service examines all empties externally as they leave the port. Empty containers are inspected and then cleaned at container parks under arrangements with AQIS. AQIS also do post-arrival audits. If they find anything that is of interest they report that to us. We also have arrangements with industry members where they will report issues to Customs in relation to empties.

**Ms GRIERSON**—I am pleased to hear that. Have the target selection officers all been trained now?

**Ms Batman**—It is an ongoing process because there is continual movement in people who are target selection officers. They all of course get training on the job. They are working with other experienced ones, but there would still be some that are not trained.

**Ms GRIERSON**—To save us some time could you give us current data on that?

**Ms Batman**—I will take that on notice.

**Ms GRIERSON**—It is a little bit early to know whether you are going to retain them, but retention would be very important because their knowledge and experience would be too good to lose and certainly bad to have out in the community being applied in different ways. Could you give us any data later on whether you are keeping them?

**Ms Batman**—I am not sure that we have specific data around that group of officers.

**Ms GRIERSON**—They are fairly key people in your organisation, aren't they?

**Ms Batman**—I will do the best I can to provide you with that information.

**Ms GRIERSON**—I have one last question regarding the KPIs that we talked about. No-one is arriving at the number of targets that are being set, at this stage. We are approaching that target, but the target has been set. How do you benchmark that? Are you happy that that target is the right one, given risks, numbers, volumes? How do you get benchmark data when this is a new process to Australia?

**Ms Kelley**—At the beginning of the project some international comparisons were undertaken.

**Ms GRIERSON**—Good. Have you measured us against international comparisons, even though it is hard to find similar—

**Ms Kelley**—It is hard to find and there is always the risk of apples and oranges in the measurement, but the intervention rate that we are currently sitting at is comparable with the US, and is higher than probably most other Western nations.

**Ms GRIERSON**—Is the breakdown of positive finds fairly consistent, too, with the proportions for drugs, quarantine and so on? Do we have a different profile from other nations in that?

**Ms Kelley**—That is really hard to benchmark in terms of other countries, and we have not gone down that road.

**Ms GRIERSON**—No. It is probably best to get it right here first and then do the comparisons.

**Ms Batman**—What is prohibited in each country is very variable; it is not consistent. Some things that we have prohibited have not been in other countries.

**Ms GRIERSON**—It would be nice to say that our percentage of finds in drugs is higher than in comparable nations, or lower. It would be interesting to be able to say those things.

**Mr LAMING**—I would like to build upon what you have just said. While it is an early process—apart from the dissuasive effect of having X-ray facilities in these major ports, which obviously has a deterrent effect—are we collecting data on the cost effectiveness of running that system? Do we know the true positives, false negatives and those sorts of things? Do we know the positive predictive ratio of if you turn this X-ray machine on are we finding anything that we do not find from physical examination? Are we doing that cost effectiveness analysis? Because

in the end we are going to have to say: 'In priority 1 it is absolutely vital that we open up every single container. In priority 2 it could be quite different. It could be a complete waste of time to X-ray priority 4.' We will only know that if we are collecting that data and randomly examining containers that we would choose not to X-ray or vice versa.

Someone has to be collecting the data so we can say: 'Seven per cent is still too low. It is still good use of resources to be doing more X-raying, to be doing it three shifts a day, because we know that in priority 1 the cost benefit is there—that is, the cost of staffing the facility, doing the X-rays, delaying the stevedores and whatever other costs are built into it, and the capital cost of the whole system is less than the benefits from the finds.' We have to attribute a value to these finds, whatever they are. If it is an aspirin, that is a positive find, and so is a hand gun. But there has to be a value attributed to your finds. Only then can we make the case for more or less screening in each of those priority categories. I would have hoped that that might have come out in the next year or so once you collect the data. You cannot approve a test in medicine without doing this very analysis. So can we make that same defence of X-raying and ultimately put that argument to government for even more X-raying, or perhaps less?

**Ms Kelley**—You are right; that is something that we need to get more sophisticated at. We have some general information at the moment about the number of drug fines, particularly for narcotics. There is a methodology for extrapolating the future costs that you have saved general society from by preventing those drugs from getting into society. We do use that sort of methodology, but that is probably fairly simplistic and we still need to do more work on that. But the way that we do the container examination facility process here in Australia is much more cost effective than some of the other Western nations. For example, we estimate that logistics arrangements probably cost around \$285 per container. In other countries you have to pay for the X-raying and then you pay if Customs examines it, which can turn into thousands and thousands of dollars for the importer. So for the importer our system is extremely cost effective.

**Mr LAMING**—Can we hope for that sort of data over the next 12 months? We can only have that if we are actually randomly X-raying stuff that we otherwise would not X-ray. You have to be measuring your false negatives as well. You cannot just be continually honing your priority categories by the positives that you find; you have to be looking at stuff you would not normally be looking at. Is that sort of data being collected?

**CHAIR**—That might be a point for the Audit Office to take on board for the next follow-up audit in relation to this.

**Ms GRIERSON**—Related to that, there was a national cargo targeting strategy to be put in place which was to have an expert panel. What is the progress regarding that expert panel that would obviously give guidance on some of that strategy?

**Ms Batman**—I think the recommendation was that a previous expert panel be reconvened, but we have a standing group now that looks at targeting and profiling. All of the regions contribute to that. They have reviewed all of the profiles several times in the lead-up to the integrated cargo system that is about to come into play. We have risk assessed 195 countries for drugs and given them all a rating. We are starting down the path of risk assessing for other risks, such as tobacco, firearms and wildlife. There is a very wide range of risks, and countries vary across them.

**CHAIR**—There would be an issue with transshipment if it originated in port A, went to port B, was unpacked, repacked and then sent to Australia.

**Ms Batman**—It is taken account of to the extent that it is part of the data, but the source countries are only one of the indicators that we use. They are not the whole deal, in effect.

**Ms GRIERSON**—Could you provide us with a list of the people who are on that standing group at the moment.

**Ms Batman**—Yes. They are all Customs officers. I could give you numbers and the positions that they occupy, which would be informative for you.

**CHAIR**—Thank you very much. There are a series of questions which we will provide to you on notice, and we would appreciate a fairly rapid response to those questions that we have not been able to get to today.

*Evidence was then taken in camera but later resumed in public—*

[11.56 a.m.]

**COCHRANE, Mr Warren, Acting Deputy Auditor-General, Australian National Audit Office**

**COONAN, Mr Darren, Audit Manager, Australian National Audit Office**

**CRONIN, Mr Colin Douglas, Executive Director, Australian National Audit Office**

**GOODWIN, Mr Ian Philip, Group Executive Director, Assurance Audit Services Group, Australian National Audit Office**

**McPHEE, Mr Ian, Auditor-General, Australian National Audit Office**

**EDWARDS, Brigadier Phillip, Project Director, Stocktaking Remediation Project, Joint Logistics Command, Department of Defence**

**GUMLEY, Dr Stephen John, Chief Executive Officer, Defence Materiel Organisation, Department of Defence**

**HENDERSON, Mr Alan, Deputy Secretary, Corporate Services, Corporate Services and Infrastructure Group, Department of Defence**

**McGAHEY, Brigadier David Francis, Director-General, Materiel Information Systems, Department of Defence**

**MOORE, Mr Ken, Acting Chief Finance Officer, Department of Defence**

**SMITH, Mr Ric, AO, PSM, Secretary, Department of Defence**

**SPENCE, Air Vice Marshal Christopher Geoffrey, Commander, Joint Logistics, Department of Defence**

**WILLIAMS, Dr Ian Sidney, Chief Finance Officer, Defence Materiel Organisation, Department of Defence**

**CHAIR**—I open today's public hearing, which follows on from a hearing held on 16 March 2005 on two reports: Audit report No.5: *Management of standard defence supply systems upgrade* and Audit report No.21: *Audits of financial statements of Australian government entities for the period ending 30 June 2004*. I welcome witnesses from the Australian National Audit Office and the Department of Defence to provide evidence on audit reports Nos 5 and 21. I remind witnesses that hearings today are legal proceedings of the parliament and warrant the same respect as proceedings of the House itself. The giving of false or misleading evidence is a serious matter and may be regarded as a contempt of the parliament. The evidence given today will be recorded by Hansard and will attract parliamentary privilege.

Today I will be running the session using a roundtable format with witnesses from the agencies appearing together. However, I ask firstly that participants remember that only members of the committee can put questions to witnesses if this hearing is to constitute formal proceedings of the parliament and attract parliamentary privilege. If other participants wish to raise issues for discussion I would ask them to direct their comments to the committee. It will not be possible for participants to respond directly to each other. Secondly, given the short time available today, statements and comments by witnesses should be relevant and succinct. Would ANAO like to make an opening statement?

**Mr Cochrane**—We have no further remarks.

**CHAIR**—Mr Smith, I know that you gave the opening remarks when we met last time, but perhaps for the benefit of the committee members you might wish to recap on what you have already said or present new evidence.

**Mr Smith**—I was content with the statement we made in the beginning. We did present the slides. When we come to the financial statements I have a new summary of those remediation plans that I would be very happy to table. But if you wish to proceed straight into questioning on the SDSS report—Audit report No.5—then that would be fine by us.

**CHAIR**—Thank you very much. Before we start today, on behalf of our committee we express our condolences to Defence and defence families on the recent loss of the nine lives in serving this country. If you could pass that on to the relevant people it would be very much appreciated.

**Mr Smith**—Thank you, Chair, I will do that.

**CHAIR**—To start off on the SDSS system, I have grave concerns about this. I am looking at a timeline which goes back to 1975. Then in 1986 this committee reviewed the proposal for the SSRP project. Then in 1998 there was again an investigation into this, on the JCPA report 317 of 1992, and findings were tabled. And here we are again today in 2005 doing exactly the same thing. I would really hate to think, and need reassurance on this from Defence, that in another two or three years we will be sitting here revisiting exactly the same thing, going over exactly the same problems, the exact same financial mismanagement in the project. With the SDSS Get Well Program to be implemented, can you assure this committee that this will be the final fix?

**Mr Smith**—Let me say with regard to the history of all of that that I am dealing with this situation as I found it when I came to this position two years ago. There is much about it that does not satisfy us, or you obviously, as to the SDSS Get Well Program. I cannot guarantee that that will be the end of work on that. These systems are, by their nature, dynamic. My preference would be not to have to invest any more in SDSS. We have spent a great deal on it. I would like to think that our efforts now could be directed towards maximising the effectiveness of the functionality that that now has. I would prefer not to have to spend new money on more functionality. I think that the future for us lies in transitioning to a new logistics system which is a project called JP 2077 and for which we will be seeking government approval later this year.

**CHAIR**—Has the introduction of private logistics people TenixToll delivered an improvement in management of stock and assets?



**Mr Smith**—I think it is beginning to have some benefits. I think the combination of that and the greater functionality that we have in some of our systems together with better training and discipline within the management of our own warehouses will start to have some effect. I was at Moorebank last week, and some of the steps they are taking are encouraging.

**CHAIR**—One of the issues that has been highlighted in committee discussions is that part of the problem may stem from the fact that people have relatively short-term postings and therefore do not have the necessary ongoing commitment, knowing that they may be moved in two or three years to another area, to another base, to seek to remedy or introduce greater quality control in what they are doing—not the fault of the operator but a fault of the system in the fact that people are moved on. Do you think that is part of the problem? Do you think that part of the resolution of that problem is giving people a longer posting in that particular job so that you have greater continuity of staff in addressing the issues?

**Mr Smith**—I think there is something of that in the problem. Much of the work is done by public servants, who on the whole have been a more continuing work force, but where the work is to be done by people who are on rotation, particularly ADF members, this does become an issue. In some areas of our organisation, including at the senior levels of DMO, we have quite deliberately moved to longer terms of posting, for precisely this reason. Whether it is possible to do that at the lower levels in the ADF without jeopardising what else the ADF exists for is, I think, a serious issue which I would not want to address without talking further to CDF about it. Dr Gumley may want to comment further.

**Dr Gumley**—We have an ongoing training demand of about 2,000 people having to be trained into SDSS. About 60 per cent, perhaps 65 per cent, of the people who use SDSS are uniformed military people, so the comment about frequent retraining is a good one. A lot of the core work, though, is also done by civilians. Where we make an investment in training there, it can last a lot longer.

**CHAIR**—Can I interrupt proceedings. Do Defence or ANAO have any objection to film being taken for broadcast by the news?

**Mr Smith**—I have no objection to that.

**CHAIR**—I thought I would pay you that courtesy.

**Dr Gumley**—I would like to pick up on the secretary's comment about the amount of money that is being invested in SDSS. The amount of money that we see reported in the various approvals does not include the staff time that has been involved with training and so on; it is just the amount paid to other suppliers and so on. There is probably in the order of \$40 million a year being invested in SDSS for the training the people and making the network stronger as there are more transactions taking place. It is a very substantial logistics system that is being continually invested in.

**CHAIR**—What do you think drives the nature of the problem in the Defence Force? The argument cannot be that it is such a large organisation that it cannot be done, because organisations like Microsoft and other large multinational private companies seem to have their

stock controls and their payroll management systems under control. Why is it a problem inherent to Defence?

**Mr Smith**—I will make two points. Firstly, the nature of our stock management is utterly different from that of Woolworths and Coles, with which we are sometimes rather facetiously compared. We are not taking stuff from the manufacturer, putting it in a warehouse, putting it on a shelf and selling it. We are sending material in and out for operations and repairs. We are locating it elsewhere for long periods of time, bringing it back and so on. We have a much more complex movement of goods. Secondly, these goods are not like packets of biscuits, which you can manufacture today and know today what the value is. This is military equipment of considerable age that is constantly upgraded and reshaped like grandfather's axe, and putting a value on it, which is a big part of the problem, is very difficult.

Let me make a point underlying all of this. Comparing us with a private company is in my view invidious. Private companies exist for one reason only: to make money. That is good—they provide jobs and they put out products. That is terrific. But if they do not make money they do not exist—and so, understandably, there will be an overwhelming focus on financial management. The Defence Force exists for quite different purposes—and so, understandably, it is the real purpose of our existence that will be the major focus.

**Ms BURKE**—How do you compare with other defence forces around the world? Let us compare apples and apples if we are not going to compare apples and oranges.

**Mr Smith**—This is the very significant point that we made when we were here on, I think, 16 March, and that is that the New Zealand Defence Force has a better record—

**CHAIR**—There is not many of them.

**Mr Smith**—but we compare favourably with the others that I have compared us with—Canada, the UK and the US—in terms of what we are seeking to achieve, and I think in some areas we are better. Interestingly, though, the same issues that we face are the issues which their auditors identify: records, and inventory in particular.

**CHAIR**—I can understand that. I do not think any member of this committee would deny that your primary role and responsibility is the defence and protection of this nation, the people and its assets. We commend you on the work that you do in that sense. But we as the people and the government also have a responsibility to the constituents and taxpayers for the financial management of the money of this country. I will ask the Audit Office this question: is it the issue of pricing the asset that is there or is it actually knowing how much stock they have on the floor?

**Mr Cronin**—The SDSS upgrade audit indicated when we tested that there was a problem in terms of the availability of the stock. That led into the financial statement work and led to a quantitative matter as supposed to a pricing matter.

**Mr Goodwin**—That is right. Historically the issue has been a pricing matter *prima facie*. But in terms of last year's audit it was an issue of pricing, which has been a carry-forward issue, but then an issue of quantities—that is, when you go into a certain bin in a warehouse, you expect to count a certain number, and we ended up getting a different count. It was a quantity variance.

**CHAIR**—The issue of pricing aside—and I accept there can be a massive variance, depending on the age of the stock and whether a product or an asset is becoming redundant—how are we improving our system of quantity control, of stocktakes and reporting those stock levels back to a centralised system?

**Mr Smith**—Perhaps I will get Air Vice Marshal Spence or Brigadier Edwards to address that question, because it is the subject of our first remediation plan, S1, as you will recall. An initial step in that is to get the baseline right again with the 100 per cent stocktakes. I understand that the 100 per cent stocktake does not solve the problem in itself; you then have to have the systems in place and the disciplines and the training so that subsequent movements of stock are accurately recorded.

**CHAIR**—I think you hit it right on the head. It is about the discipline in recording stock movements—that is the issue. From my discussions with various people in Defence at the coalface level, it seems that some people are excellent in knowing where every nut, bolt, screw and engine is, but it may not be recorded—

**Mr Smith**—That is exactly it.

**CHAIR**—whereas others are very accurate in their record keeping but the stock may not actually be there, even though they think it is there. So the major question I am asking is: what is being done to address not just the software program but the accuracy at the point of product for stock control?

**Mr Smith**—Air Vice Marshal Spence, do you want to speak to that?

**Air Vice Marshal Spence**—We have put in place a range of initiatives probably since September of last year. We have the stocktake remediation project under way, and Brigadier Edwards is running that on my behalf. As I said, we have a number of initiatives. We have instigated and completed a 100 per cent stocktake at Moorebank, which is our largest warehousing facility—in fact, I think it is probably the largest warehousing facility in the Southern Hemisphere at this stage of the game. As I mentioned last time, we have 39 warehouses there, occupying over 100 hectares. It is a huge facility. We undertook an independent stocktake there. That was completed at the end of last month and we should have the outcomes of that available to us at the end of this month. For that particular location that should give us a baseline of what our inventory holdings there are, how accurate they are, and that gives us a baseline for moving forward.

We have initiated the same thing at Bandiana. Bandiana is not a DIDS—defence integrated distribution system—site, so it is not TenixToll. It is Tenix. But together those two sites represent about 40 per cent of our stock. So we have initiated a 100 per cent stocktake there as well. That is currently under way. We would expect that to conclude in, I think, September this year. Again, that will baseline our stock at those facilities.

In the vast majority of our other warehouses that are part of the DIDS project, as part of our transition to DIDS there has been a requirement for a 100 per cent stocktake of regulated items—those are the large, expensive items that we absolutely need to track. At the beginning of TTDL, TenixToll Defence Logistics, taking over at that site and within the first year of the

contract at that site there is a requirement for them to do a 100 per cent stocktake of the remaining items. Subsequent to that, they are financially liable for the items. So, taking all those issues into account, I think we are doing a good job of rebaselining where we are with the stock that we have in the warehouses. Obviously that is effectively a snapshot in time and if we do not have the procedures and systems in place to ensure that, from there on, we do not diverge then we need to put other things in place, so we have done that.

We may well be getting onto the next part of the discussion but I will say it anyway: we have devised a new Defence instruction on stocktaking. We have worked in conjunction with ANAO to ensure that we are heading in a direction that is appropriate for stocktaking. We will roll that out shortly, once we have the ability of SDSS to support that. That should assist us in the process. I think that everybody within my command is well aware of the importance of not only delivering support to operations but at the same time meeting the housekeeping requirements of stockkeeping and stocktaking. That emphasis is well and truly out there, not only with my personnel in the business units but also with the contractors who do the majority of the work for us.

**CHAIR**—Have you been assigned enough person power, manpower—

**Air Vice Marshal Spence**—Staffing.

**CHAIR**—That is better—staffing. Have you been assigned enough staffing and budget to be able to conduct the work, to an accurate and satisfactory standard, of on the ground counting and management of the stock?

**Air Vice Marshal Spence**—In the time that I have had the command, which is now five months, I have been very pleased with the support that I have received from the secretary and from the chief finance officer to provide us the resources that we need to pay for, for example, the independent stocktaking activity at those two major sites. I have also come to the CFO and the secretary seeking additional personnel to assist me in the corporate governance requirements that my business units have to enact to assure ourselves that the contractor is doing the job on our behalf to the standard that we require. So I think for the moment that the answer is yes, but in terms of the future I have some additional requests for staffing coming up—and those will be put through the appropriate processes in Defence.

**CHAIR**—Before I hand over to the rest of the committee members to ask questions—and I am only setting here a framework of concern that others may add to—I refer you to page 31 of Audit report No. 5 and paragraph 1.3 which refers to the roll out of the initial SDSS product in the early 1992. It says that Defence:

... lacked a joint ADF logistics business management process. The Joint Committee of Public Accounts (JCPA) reported in 1992 that, throughout the life of the Supply System Redevelopment Project, which was initiated to roll out the first SDSS product, the sub-elements of the project continuously fell behind schedule.

It would appear to members of this committee looking at the chronology of events that again that has happened. Interestingly enough, footnote 21 on page 31 of the report says:

The primary causes of the slippages reported by the JCPA in the 1992 report (page xvi) were:

- difficulties in staffing the Project;
- a scarcity of funds;
- overly optimistic assessments of what sub-project deadlines should be;
- delays in the establishment of the Defence Electronic Data processing Systems Integrated Network Contract and continuing doubt as to the products available via the Contract;
- delays in the evaluation of the supply/inventory applications package caused by the Defence committee process; and
- the complexity of simultaneously meeting the requirements of both the Department and the three Services.

The committee's assessment was that these and other slippages were, to a large extent, the result of poor administration and management of the Project at a global level.

Can you or anyone from Defence assure us that in this current process, the SDSS Get Well Program, these things have been addressed—that is, that our expectations are not unrealistic, that the time frames for implementation and the accuracy of that are realistic, that it is being adequately funded and staffed and that the training level of the people carrying out this project is suitable? I would rather address this now than come back in another two or three years and say: 'In 1992 we said this. In 2004 we said this.' I do not like seeing history repeat itself.

**Mr Smith**—I think we can answer in the positive with regard to the SDSS Get Well Program, which was a defined program of management activity. I will ask Dr Gumley to speak to it.

**Dr Gumley**—Yes, the Get Well Program was adequately staffed and it had enough money. It achieved its results, perhaps with a one or two month delay but it got there. I am fairly pleased with the outcomes. I would like to pick up on what the secretary said earlier. It is no more than a bandaid. We needed the new logistics systems to come in, which is JP 2077, because these logistics systems are very expensive. The report commented on the scarcity of funds. These systems compete with everything else we do in Defence for funding. One of the other recommendations of the Audit Office's report was that it should be handled as a major project. Of course a major project competes for funding with all the other major projects, whether they be ships, planes, tanks or anything else we do. So it all becomes a matter of setting priorities. It does not mean that we do not think it is vitally important—of course it is—but there is a certain rationing of funds that are needed. We just have to go as far as we can with the funds that are provided.

**CHAIR**—I do not think there is any member of this committee or indeed the parliament who would want to deny any member of our Defence Force the assets and tools they need to be able to do their job at the sharp end of operations, so please do not misunderstand it in that direction. We are all very supportive of our fine men and women who serve this country in theatres of operation. That being said, you cannot let this grow like a cancer or bleed forever without taking appropriate steps and measures. If I look at the hundreds of millions of dollars that have been spent since 1975 trying to bring this to some level of performance and account, there would be many who are at the sharp end of the Defence Force who would say, 'Perhaps that could have been better spent on providing better tools and assets for us to be able to conduct our job, rather than wasting it on what were, in essence, unsuccessful, very complicated and very poor programs of implementation in the management of assets.'

**Mr Smith**—Probably the men and women at the sharp end would prefer that we spend all our money on the tools of their trade rather than on management systems. The other way to look at it is that relative to private sector enterprises we probably underspend on management systems and corporate systems. I remarked last time that one of our major banks had committed \$120 million

to system upgrades to respond to the International Financial Reporting Standards requirements. We tend to still be judged by inputs to effort, and an input of \$120 million on an upgrade in that area, I think, would not attract a lot of favour with government.

**CHAIR**—I do not think it is the amount of money that so much concerns members of the committee. The fact that the investment of the money has not delivered the results is what concerns the members of our committee.

**Air Vice Marshal Spence**—Yes, from a financial perspective, there are some shortcomings. We are well aware of that, and we are working to resolve those. Part of my responsibility is logistic support to operations. From an operational perspective, I think you will find that the forces out there doing the work in Iraq, in the Solomons and in Timor are actually very happy with the logistic support they are getting. The demands for items that we are getting and returning to them are being returned in a timely manner and meeting their requirements and, in a percentage sense, we have probably approached a 90 per cent satisfaction rate.

**CHAIR**—If the issue is not just the financial value of the asset but an understanding of what your stock levels are, if a request came through for a piece of equipment which was not in stock yet the records told us was in stock, doesn't that affect the people at the front end?

**Air Vice Marshal Spence**—That affects the efficiency aspect of it, certainly.

**CHAIR**—It would affect their ability to operate. If they did not have a piece of equipment that they had requested to take into theatre—

**Mr Smith**—If that were so, it would certainly be a matter of concern, but I am not aware that it is or that it often is.

**CHAIR**—That brings me to the second point—having perhaps too much stock because of our inaccurate supporting standards. Personally I do not believe that Defence should necessarily be on a just-in-time acquisition program, but nor do we need to excessively stock and have more stock than we need to conduct the business of defending this country.

**Mr Smith**—I think that point is very well made. We are a just-in-case organisation, as I said before, so we do carry enormous stocks, but we do not want to carry more than we have to, because that is money that could be directed elsewhere. I take that point. But the point I want to make is that the issue here is not about effectiveness, which is not in question; it is about efficiency, and that is not where we have shone in the past.

**CHAIR**—I think what our committee needs to be reassured about is that steps are being taken to address the shortfalls that have been highlighted by not only the audit office but Defence. Defence has also recognised that there are issues to be addressed, and we commend you for that. As I said, we do not want to see history repeat itself and to sit back down after the next audit report and find that perhaps we have not gone forward but backwards in some areas. I see in the chronology listing that we have got delays because of Operation Falcon and the Gulf War. I accept that, but we need to be reassured, as the committee that holds the parliament and the departments to account, that we are being progressive, that we are making headway into this and that we are not, as I say, going to repeat history yet again.

**Ms GRIERSON**—I guess you have already covered two major points that I think are major and I cannot say that I agree with you totally on those. When we are talking value for money and the SDSS, we are talking more about exceeding budget by 200 per cent. We are talking about a time line that was doubled what was planned and about a system that I think you stated in 2004—DMO stated—was non-performing and for some reason had actually been progressed backwards. I have heard Mr Smith's comments that our new system may be the answer. Having read these reports, many of us here are convinced that this system cannot have any more bandaids and does not warrant any more of the Australian taxpayers' money, and that someone has to have the final courage to say, 'We cannot make this system work.' I would like someone to tell me that by December 2005 more money is being spent on a Get Well system than on a system that has resisted and is inefficient. It has not been of any use and has no accuracy or efficiency. Mr Smith, when can that decision be made, should it be made and who should make it?

**Mr Smith**—As far as I am concerned, the decision has been made. I said earlier that as far as I am concerned—and I am not the decision maker in this in the end—I do not want to put new money into further upgrades of SDSS. However, I will spend money to ensure that we are getting the maximum effect out of the functionalities we now have, and that is what the Get Well Program was about. My view is that SDSS at its best still does not do the job in the way that we and the auditors would like it done, but I will make the point this way: it can be a functional street motor car. It is a car that will get you around and do most of the job.

**Ms GRIERSON**—Be careful.

**Mr Smith**—What we need to do—

**CHAIR**—But is it held together with fencing wire is the question.

**Mr Smith**—to meet ANAO's needs and our own is to move to something more like a Formula One, but before we go there I would like to make sure that we can make the street car work, and that is what Get Well was about.

**Ms GRIERSON**—I accept that you need something—

**Ms BURKE**—Why has Defence persisted for so long against everybody's advice not to persist with this system? This is not a new comment from anybody. Back in 1992 and 2000 ANOA in their reports have commented. Why now? Why has it taken over 12 years to come to a decision to pour more money, good money after bad, into this system? Why has it taken this long?

**Mr Smith**—I do not think that that good money after bad formula was self-evident in 1992. Anyway I should not talk about that because I only came here at the end of 2002 and I am dealing with what was here.

**Ms BURKE**—But there is going to be no accountability for report after report and after Defence being told time and time again that they were putting money—

**Mr Smith**—Defence might have been told but we might not have agreed. I am dealing with the situation for 2002 onwards. If somebody wants to hold me accountable for the previous years then I will cop it.

**Ms GRIERSON**—I suggest that one of the problems we have kept coming across through this whole project—both before your time and in your time—is that it was never a major capital acquisition project. My understanding as a representative of the Australian people is that that gives more accountability, more assurance and more quality control and therefore the outcome will be more considered and has more likelihood of succeeding.

**Mr Smith**—That is exactly right. That is what we said about the new project, 2077. It will be treated as a major capital acquisition program, just like tanks or aircraft or whatever. It will be subject to the same processes of departmental consideration and the two pass approvals through cabinet and so on in accordance with the Kinnaird structure. It will be managed as a project. I envisage that the project capability will be owned by our chief information officer but that it will be managed as a project by DMO, like any other project. Your point is well made.

**Ms GRIERSON**—We will look at things like project management boards and some of the things that have happened—

**Mr Smith**—Governance boards.

**Ms GRIERSON**—because we can only have a good system if we go back and recognise and acknowledge some of the flaws that have made the system so poor.

**Dr Gumley**—This will be managed like a ship or an aeroplane. It will have the same quality of project management. One of the mistakes we made with the SDSS version 4 upgrade was outsourcing project management. My view is that project management is the core business of DMO and it is not something that we should be outsourcing.

**Ms GRIERSON**—We will visit in more detail as we go on this afternoon some of the project management strategies that have been applied. I want to take up the point that you were raising: that in remediation you are doing physical counts and stocktaking. It is easy for us to say the man on the ground has his own system and will not integrate it. That is a real trap for us to fall into. The best system is going to deliver the best outcomes, and it is management's responsibility to have systems that work on the ground. It does not come from the bottom up; it really has to flow from the top down. What is the discrepancy rate at the moment at Moorebank in terms of the stocktake count?

**Air Vice Marshal Spence**—I do not have the results of that 100 per cent stocktake yet. I will have them at the end of the month. But the initial advice that I have seen up to now would suggest that it would be less than five per cent.

**CHAIR**—Can you take on notice to provide that information to this committee?

**Air Vice Marshal Spence**—Absolutely. SDSS did have a long gestation period; that is true. My recollection is that it actually came into operation in 1993. Since then, there have been a lot of changes to it. It has been improved over time, although I accept that there are some



shortcomings. I have been around to all of the business units in my command—there are seven all around Australia—and, in terms of the SDSS Get Well Program, all of the people that I talk to out there are comfortable with how SDSS is operating at this time. Accepting that through JP 2077 there are other capabilities we need, for the moment they believe that they are able to do the job as it stands. In terms of training, I am providing training both for my military people and to an extent for the contractor staff. That is part of what we need to do to ensure that, having done the stocktake and taken the snapshot, from there on in the people—and in the end it comes down to people—are using the tools that they have appropriately.

**Ms GRIERSON**—It does come down to people. There is not one member of this committee who does not have an absolute commitment to the people of the defence forces. I find it very difficult when Mr Smith and others here today say to us that the inefficiencies that we are dealing with do not impact on operations. I find that the most difficult thing to reconcile in these hearings. We would all praise the efforts of our defence forces in the period since 2003—a very difficult and demanding period.

However, and I am so reluctant to say this and I mean no disrespect and no insensitivity, should we have an accident that causes the death of nine people and we find that a part was not available or no-one could get that into the system in time for those people to have it—and I realise how insensitive and difficult that is to say—then we would be appalled. We would have let the Australian people and the defence forces down terribly. When we pursue questions today, we pursue them in that framework. In my own area, I am aware of a footwear problem at a base, and to think that they might be sitting on a shelf in Moorebank when they could be used by troops in training is distressing. So let us separate the issues. Let us not talk about it not affecting operations; let us talk about how efficient we can make it.

**Mr Smith**—I do not think that there is not a connection. You have lost me on this, but Air Vice Marshal Spence is the commander of the joint logistics organisation. He can comment on the effectiveness of logistics delivery.

**Air Vice Marshal Spence**—As I said earlier, our logistics support to operations is of a particularly high standard. It is approaching 90 per cent satisfaction rates. I would be interested to know the details of the concern you have, and I could probably get you an answer on that. I would certainly agree with you that there are two elements here. There is the effectiveness part, which is support to operations, and we are doing that very well. I agree with you that there is also an efficiency part. That is the business of Defence, and clearly if we do not get the business of Defence right then we are not going to be able to take the appropriate resources and apply them to operations. Clearly there are two parts of the game, and we are trying to address both sides of that. We are working with the ANAO to improve how we do our business and to improve our financial accountability and the effectiveness and the efficiency of how we apply the resources that the government gives us.

**Dr Gumley**—Part of ensuring effectiveness is having redundancy in the system. Redundancy in the system is another way of expressing inefficiency. We actually need to have an oversupply of material rather than an undersupply if we are going to give the sharp end people the tools they need. I do not resile away from the fact we are overstocked in some areas. That is actually goodness, it is not badness, because it gives us the redundancy we need to do the operations.

**Ms GRIERSON**—The term used in business is ‘ordering fat’, and it is oversupply or overordering. You would factor in a certain amount of overordering for sudden escalations of demand. You would have to factor it in. Air Vice Marshal, what have your findings been at Moorebank? Do you set a benchmark for that, and are there excesses to that? Or are you unable to discern that?

**Air Vice Marshal Spence**—This is an ADF logistics manager’s role to determine the quantities of stock that are held in the warehouses. I am responsible for the warehousing of it. But it is not obvious to me that in the warehouses we have excessive stock. We certainly have old stock, and that is because we have a reasonable amount of old equipment, but in my view we certainly are not holding excessive stock. I would make the point, and I think you would appreciate, that we do have peaks and troughs of demand. Take class 8 stock, which is medical stores, for example. Clearly as a result of Sumatra assist 1 and 2, we have dug deeply into those stores and we now have to remediate that. There is an element of swings and roundabouts here, depending on what the operational demands are.

**Mr Smith**—Ms Grierson, one element I acknowledge is that we have not always been good at disposing of stock. We hold quantities of items that have not been used for 20 years and will never be used again. That is a matter of priorities. The logistics and warehouse managers address the needs of the time. They know there is a bunch of stuff over there that should be disposed of; they do not get around to the disposal action. Of course in an efficiency sense that does cost us, because we have to inventory it, we have to audit it, we have to pay for the space, and that is an issue we are certainly trying to address.

**Ms GRIERSON**—Accrual accounting has been in for six or seven years in the audit office and it is based on knowing how many assets you have and what the value of those is. How accurate is the accounting if we are still saying that we have old stock that we are not doing something about.

**Mr Smith**—I have said before—I say it here again—that I do not think the organisation did fully embrace accrual accounting. The issue for us now, of course, is records keeping and controls. The point is sometimes made by ANAO that those are the issues, not accruals. My response is that had we embraced accruals fully and completely then the record keeping and the controls would have come into place. That is what our major remediation program is now about.

**Ms BURKE**—Could I just get a quick outline of this JP 2077. It is news to me, to be honest. Is it building on SDSS? Is it a new product? Is it something you are designing? You are reminding me of RMIT and I feeling very nervous, if you want the honest-to-god truth. What is it? Where are we going? Are you designing it? Is it an off-the-shelf system? What are we dealing with?

**Brig. McGahey**—Joint project 2077 is the improved logistic information system. It looks at using a core commercial off-the-shelf system but identifying those key capability deficiencies that Defence requires to be addressed into the future. That is, it is a system that is deployable anywhere in the world, communications independent, that has a fully integrated in-transit visibility system, that has a full financial framework that addresses the issues of accruals, and that upgrades the system so that we have a web based objects, modern system. Essentially the project has those four core deliverables with a view to a mid-2007 deliverable for the first—that

is, a technical upgrade—then the ongoing delivery of deployables, in-transit visibility and, as part of the technical upgrade, the financials framework.

**CHAIR**—Please excuse my ignorance in relation to IT matters but when you say ‘off the shelf’ is that one of the SAP programs?

**Brig. McGahey**—The decision is not made yet—

**CHAIR**—But it is that type of environment?

**Mr Smith**—SAP have one product. There is another. The government decision will have to be about which of these—

**Ms GRIERSON**—Does it integrate inventory, personnel and finance in the one package?

**Brig. McGahey**—Yes, but at core we would seek to have it as commercial off-the-shelf as is possible.

**Ms BURKE**—So you are proposing to put up now a capital project to the minister to have approved?

**Mr Smith**—It will go to cabinet, yes.

**Ms BURKE**—It would have to. The money you are talking would probably go to cabinet. What time frame are we looking at?

**Brig. McGahey**—May-June.

**Ms BURKE**—In May-June you are it putting up—

**Mr Smith**—For the first pass.

**Ms BURKE**—Saying, ‘This is how we are now going to take this forward.’

**CHAIR**—Is it the view of the Audit Office that perhaps this is the right direction to be going in? Do you think from your detailed analysis of what has been going on over a number of years that this is the right direction to go in?

**Mr Goodwin**—Without getting into commenting on policy—I guess I will just stay to commenting on what we observed—

**CHAIR**—Have you thought of playing football? That was the greatest flick pass I think I ever saw.

**Mr Goodwin**—I guess what we observed is that if you take a system as being both the box and the processes that feed into that system there are a number of issues, and the department has identified some of these. SDSS Get Well has identified in excess of 100 processes and controls

that need to be remediated. In addition to that, we are trying to do a review of the IT environment. I think it would be too early to say where we get to on that but it would be reasonable for us to say that we are cautious about the results of that. At the end of the day, though, the litmus test is in how the system is used. What we observed last year is that when we go to count aspects of that for whatever reason, there are material variances in there.

**Proceedings suspended from 12.44 p.m. to 1.32 p.m.**

**Senator WATSON**—I am a little bit perplexed because we heard this morning how the stores system does cope with strategic needs. For example, Air Vice Marshal Spence indicated that in Iraq there did not seem to be a problem in getting the correct equipment and supplies to our forces where they needed them. On the other hand, we have the summary of the audit conclusions, which say that the delivered system does not satisfy many of the end users' expectations. We can have high expectations or we can have low expectations. The item goes on:

Significantly, the system is ineffective in its ability to manage Defence stock holdings to the extent originally envisaged ...

I suppose we always have utopian dreams, don't we? But then along comes the reality of having, perhaps, a Defence Force committed in more theatres than for many years, and the diversity of that spread. So the question I ask is: can you help me clarify those two positions, particularly in the light of, for example, the physical store discrepancies? I have managed large companies, and you always get discrepancies, even down to the smallest pharmacy. Were any of these items of a material or strategic nature? Did Leopard tanks go missing or things of that nature? I just want to get some sense of balance between the way you have to manage your resources and what may well be a high expectation from some people who are doing an external evaluation.

**Mr Smith**—I will ask Air Vice Marshal Spence to address the detail of that. Broadly, we are not talking here about anybody having evidence of specialised military equipment being lost. The quantities of specialised military equipment and of ordnance are, I think, certified to be true and fair. I will ask Air Vice Marshal Spence to take up the detail of your question.

**Air Vice Marshal Spence**—I am not aware of any particular items that fall into that category. I am not sure whether ANAO or perhaps my colleagues may have a comment on that. I think the issue was more that, in that slice of the inventory that the ANAO looked at, their assessment was that there was an inability on our part to validate that slice of inventory and therefore there was an assumption that that applied across the board. That is where we stand now—to rectify that perception.

**Senator WATSON**—But in terms of the slice that they looked at, were they really significant items? Were they material items of a high value?

**Mr Smith**—The qualifications on quantities relate to the general stores inventory. Air Vice Marshal Spence or Brigadier Edwards can give you examples of those items. Yes, they do matter, of course—they are not just O rings and washers.

**Senator WATSON**—I am not saying that they do not matter. We have to put it in perspective for our benefit as well as for yours.

**Brig. Edwards**—I am the project director for the Defence Stocktake Remediation Project. To give an example of some of the items in a previous audit, at the Air Force base in Townsville in what Defence collectively calls ‘general stores inventory’, some of the items for which discrepancies were found were gauges, screws, bolts, tubes, handles, lamps, light indicators, valves, cover assemblies, seats and battery storages.

**Senator WATSON**—They were not, from your point of view, of a high strategic nature, were they—screws, valves and the like?

**Brig. Edwards**—No. The nature of that set of inventory is not necessarily the high-end stuff. At one extreme there are aeroplanes—they are all there! In this sort of sample, this particular segment shows low-importance items.

**Senator WATSON**—Even the BHPs or WMCs of this world—some of our largest companies—probably have discrepancies of the sorts of items that you have just referred to me.

**Brig. Edwards**—Yes.

**Senator WATSON**—Therefore, do you think the parliament or the Audit Office are building too high an expectation of the reality of the environment in which you work?

**Mr Smith**—The issue here, in fairness to the Auditor’s expectations, is not simply the matter of the quantities of relatively minor but sometimes more important stores; rather it goes to the want of controls around it. That is a bigger issue than just a number of screws and door handles or whatever.

**Senator WATSON**—In terms of meeting the expectations, obviously, according to Air Vice Marshal Spence, the expectations of the people on the ground in emergency, front-line or coalface situations are being met. So where, in your view, are those user expectations not being met and is it really of a significant character?

**Mr Smith**—Do you have examples of that, Chris?

**Air Vice Marshal Spence**—To a degree it depends on what you define as ‘the end user’.

**Senator WATSON**—That is what I am asking. That was in their report. I just want to tease it out to try to get some operational reality before we as a committee come down on one side or the other.

**Brig. Edwards**—I will give you one example. In 1999, we could not really deploy the SDSS capability overseas on an operation. It was a difficult task. Now we take SDSS on every operation. The end user deployed in Iraq has access to SDSS. In 1999 that was an extremely difficult task to perform. In the period since then, through significant efforts, we now have the ability to take the system with us for the end user to be able to integrate direct into the complete supply system. Perhaps Brigadier McGahey could talk about some of the user perceptions, but we have made some big steps forward in our ability to deploy our capabilities.

**Brig. McGahey**—I think one of the issues that needs to be acknowledged is essentially, in terms of the evolution of SDSS, the culture change that has had to occur. As Brigadier Edwards pointed out, in 1999 we essentially had three separate systems for each of the services. We now have a common supply chain system for DMO in the three services, and much of the impact on the users, in terms of culture change and process change, has been about getting onto one common policy, process and procedure for SDSS. When you say ‘expectations’, clearly the expectations of each of the services and within DMO are somewhat different. The journey, particularly within Get Well, has really been about meeting those expectations for the customers and adjusting them to a common set of policy, process and procedure that reflects a defence view of the world.

**Air Vice Marshal Spence**—From my perspective, it gets back to those two elements. One is the operational element and one is the business of defence element. I think that, if your end user expectation is on the operational side, we are meeting those expectations. If you are looking at the business of defence side, in terms of quantity, value and the financials of it, clearly there are some shortcomings and we are working on those to rectify them.

**CHAIR**—But you cannot keep hiding behind Defence as an establishment to protect the nation. It also must comply with the rules and regulations set down by government.

**Air Vice Marshal Spence**—Of course.

**CHAIR**—While your primary objective is the defence of our nation, we cannot do that at any cost, any expense, any direction. There have got to be accurate management processes on the way through, and any other inference is not acceptable by anyone.

**Mr Smith**—And I hope you do not think we are suggesting that, Mr Chair. If we did not care about compliance we would not be doing what we are doing.

**CHAIR**—I did keep picking up that tone in discussions: ‘our focus is the sharp end’. I accept that, but—

**Mr Smith**—The point we are making is this distinction between effectiveness, which we still can refer to, and efficiency in this compliance and recordkeeping sense.

**Dr Williams**—It seems to me that we have a fundamental tension, and we need to get the right balance. From the user out in the field, their perception of a good system would be one where there are no delays and plenty of items available. From the financial perspective, we obviously need very tight controls. The users do not like that, because that is more effort for them to draw things. So I think the issue is getting that balance. I suspect we have probably got the balance right at the user end, but we have not done sufficiently on the financial end.

**Ms BURKE**—Do you think you have got it right at the user end? In estimates in February of this year, Mr Smith, you said that SDSS is:

... working where it works—that is, where the management of the warehouse, the work force, is prepared to use the system properly it can do the job, but it is that training and discipline issue that has to back it up.

That is February this year, and we have got other evidence during the reports that certain people in certain warehouses have said, 'We aren't touching it; we are sitting with our old system'. So would you say that it is working and that people are actually using it across the board?

**Mr Smith**—Across the board, yes; but I was making the point earlier in the year that it is working unevenly across the board. That is so, and it is still the case. There are 21 major warehouses and any number of other storage facilities, and the quality of management, leadership, direction and so on varies a lot from one to another. As we have said, there are thousands of users and they turn over a lot. So there is unevenness—there is no question about that—but I do not think that affects the delivery at the front end, which is what Air Vice Marshal Spence is saying.

**CHAIR**—We might let Senator Watson finish his line of questioning and then we will come back to other questions in an orderly fashion.

**Senator WATSON**—I have the view—and it may not be shared by my colleagues—that an external reporting organisation also has to recognise the culture of the entity that it is looking at, the environment in which it operates and the progress that is being made in terms of raising the standards. There does appear, to me at least, to be an improvement. Obviously, in some areas that improvement might be stronger than in others, but when reports come out which basically say, 'That does not satisfy any end user expectations,' they really have not identified who those end users are. Are they people in certain areas who have not got the toothpaste or the toilet rolls because they have run out? How material are those end users? Do some of the end users have occupational health issues? It all depends on who they are. That is what really worries me about the generality of some of these comments. Maybe I have made my point there.

I now come to the valuation issue. I appreciate the difficulty in putting values to old items of equipment that have been upgraded, modified, changed and et cetera, because you just cannot keep adding costs and then saying, 'We have a realistic inventory,' because if the replacement value is so much less then that is the sort of figure that you have really got to come back to—and there appears to be a need for that. In private enterprise they are doing this all the time—they are going through their inventory and saying this is the 'realistic value'. Auditors never really challenge that in a very significant way. But I would have problems with people just adding cost on cost simply because it might be more expedient in the short term to add an improvement rather than buy a new item. The other question comes back to valuation—and I always have worries about valuations. Are defence forces in Britain, Canada and the United States as hung up on valuation as we are because of accrual accounting?

**Dr Gumley**—The answer is that they are required to do valuation for their accrual accounting and, like us, they are failing—for exactly the same reasons.

**Senator WATSON**—Have you had meetings with these sorts of people as a way to try and find a solution?

**Dr Gumley**—I have met with my counterparts in Canada and the United States. They could probably get a solution, a bit like us, provided they throw enough resources at it. In some of the areas I think all the armed forces around the world are just going to have to admit defeat, because we do not have pricing on items that are 20 years old. My view is that there is a chunk

of stuff in Australian defence that we should be declaring defeat on and moving our resources into areas where it really matters. There is no point; it is nugatory work. It is costing the taxpayer money for no reason.

**Senator WATSON**—There is no reason why you cannot just say that you are holding certain inventory for strategic reasons, but for normal operational purposes it is of no value. What would be the problem with that?

**Dr Gumley**—I guess we could move along and just write off a lot of inventory, take it down to zero and keep it in the store, knowing its quantities in case we ever need it.

**Senator WATSON**—Isn't that the way to go? Then you overcome your valuation problems.

**Dr Gumley**—I am not an accountant, so I do not know how much that fits the standards, but there is a certain pragmatism to that approach to it.

**Senator WATSON**—It is normal practice.

**CHAIR**—Can we get a view from Audit: what do you think about having a written-down value but still having it as a stockholding?

**Mr Goodwin**—You simply could not just write off an asset to remove a valuation problem.

**Senator WATSON**—No, I am not saying to do it to remove a valuation problem.

**Mr Goodwin**—We would take the view that if it is an asset, as defined within the accounting standards—it has an economic use—and it is an active use, then it would need to be reflected as part of the financial records.

**CHAIR**—I am sorry to interrupt you, Senator Watson, but I will give an example. An F111 engine has not got much of a shelf-life, given that we are retiring the asset. So how can we put a figure of maybe \$5 million on an F111 when it will have no real commercial value when we get rid of it, other than scrap value, because that engine is not interchangeable with the engine of any other aircraft?

**Mr Goodwin**—That would be the case when you remove the F111 from service, to use your example. There are two questions. Is it an asset—does it have an economic value, an active economic usage? If it does, you would have it on the financial records. Is there an impairment to that asset, in the sense that it is servicing a platform that is no longer in use? If so, you would need to bring that down in value. But, until that point, you would continue to record it as part of your financial records.

**CHAIR**—I know that it is a pretty broad brush, but it is a non-replaceable asset. It is not an upgradeable asset. It is, in essence, a planned redundant asset. How do you figure out a value for it? Whilst it might have cost you \$5 million for an engine—that is just a figure for argument's sake—it might be brand new, but at the end of the day, when the planes are retired off and the spares are disposed of, you might end up paying someone to take it away as scrap. When you look at the accuracy of the bookwork and the figures, how do you account that into it?



**Mr Cochrane**—We basically rely a lot of valuers doing this sort of work for us in terms of coming up with a value. As Ian has already said, it is around economic use more than just market value considerations. I think the main thing for Defence and for us in the Audit Office is that we have been delivered an accounting system that we have to comply with, and the audit is done in accordance with the government's position on these sorts of things, including the valuation of assets. That is what we are working to.

**Mr McPhee**—I would add that obviously we all understand the issues with old inventory. I think there are rational management responses to this issue, one of which would be to stratify inventory but to make sure that, from now on, you are properly recording the cost of inventory as it is coming on board so that in future the old stuff will wash through and become less material. I think the department is looking at some of these considerations. It may be that some of the old stuff should be written off. From an accounting perspective, once a decision is made to get rid of an asset then all the inventory should be written out too if it has no other alternative use, but while it is seen as part of the capability it should be accounted for.

**CHAIR**—Of course. There are two distinct areas, which we mentioned earlier today. One is the value of it and the other is knowing what you actually have and the quantity.

**Mr McPhee**—Indeed.

**Mr Smith**—That is right. To reflect Senator Watson's point, which is a pragmatic point reflecting in itself business experience, we have some pretty thorny problems in this pricing area. It may be that they are unsolvable with regard to old inventory and old explosive ordnance. It may be that we will say, 'We've put two or three years of effort into this; we have come up with a lot of proposals but none of them actually works so we will declare defeat.' We will say, 'That will forever—or until it is washed through—be a scar on our accounts, and we will live with it, because the cost of going on with the work against the likely return is just not worth it.' It may be that this year I will blow the whistle on a couple of items and say, 'Enough.'

**Senator WATSON**—That would seem the best way to proceed.

**CHAIR**—As long as we know the quantity of what we have.

**Mr Smith**—Yes, the quantity remains important. We will still know the number of F111 wings and engines—but if it is going to take further work to prove some acceptable price then what do we achieve by it?

**CHAIR**—I agree—

**Senator WATSON**—It would worry me, however, if the audit department, according to Mr Goodwin's view, thought that while you have it in stock it has the potential to have an economic value or use and it should have a value. I do not know where you get that logic from.

**Mr Goodwin**—It should be recorded on your books.

**Senator WATSON**—Yes, as a physical presence, but trying to pin a value on it just because it might have the potential in a dire emergency to be called into action or use would be an unrealistic expectation of Defence, and I would hope that view is not shared by your colleagues.

**CHAIR**—I think it would be fair to say that this committee and, indeed, the government would hate to see tens of millions of dollars spent trying to establish whether a future redundant F111 wing is worth \$1 million or \$20, which is what its scrap value is, when that money could be better deployed making sure we know exactly what stock we have and that people can operate the systems that identify what we have.

**Mr Smith**—The whole set of those issues would not in themselves take us across the line into a ‘no opinion’ finding. If we sorted out the key bulk items, just carried the scars on these and had an ‘except for’ statement, that is what we would have. In a note we would explain why the ‘except for’ is there.

**Ms BURKE**—Going back to your statements in February about this ad hoc use of the system, Air Vice Marshal Spence was going to say something, I think, about who is using it and whether it is being used or not.

**Mr Smith**—I would say ‘uneven’ rather than ‘ad hoc.’

**Ms BURKE**—Semantics—gotta love ‘em!

**Air Vice Marshal Spence**—I think ‘uneven’ is a reasonable word to use. Partly that is because, as you are probably aware, we are in the middle of transitioning to the DIDS arrangement—the Defence Integrated Distribution System. We are in month 5 of fully rolling out the contract, so we are not even halfway through the first year. Consequently, that is obviously presenting some challenges to transition along the way. We have had to provide, through Brigadier McGahey’s organisation, SDSS training for the contract staff. We have had to get them familiar with the warehouses in which they are operating and the SDSS system. At the same time, we have had the challenges of Sumatra 1 and 2 and all of those sorts of things. It is unfortunate timing that we have these issues being raised by ANAO at the same time as we are undertaking this transition to a contracted arrangement. I think that explains, in part at least, the unevenness.

Another part of it, not unreasonably, is the can-do attitude that exists in both the Defence organisation and the contractor. Because we are supporting operations there is an imperative to get the job done—and it is fair to say that occasionally, in the interests of getting the job done, the system is avoided. That is not what we would wish but, again, it is human nature. So we have got those things to recover and I guess later on we will talk about how we are doing that.

**Ms BURKE**—You would not say that there are some personnel who have actively avoided using the system because they found it so cumbersome to use?

**Air Vice Marshal Spence**—I would not say that, no. As we moved towards the DIDS contract there were probably some people who were less than happy with that intent and perhaps not inclined to fully embrace the system. But, no, I do not think your statement is true.

**Ms BURKE**—You have said that 90 per cent of people are happy with the service provided. Can you guarantee that there has not been an instance where stores, procurement and issuing have not been able to be provided, where equipment necessary on the ground has not been able to be provided because (a) you did not know where it was and (b) you did not know how much of it you had?

**Air Vice Marshal Spence**—I think I said that there was a 90 per cent satisfaction rate—or around that figure—with support to operations. Clearly, we are not always going to get it right. There will be times when we do not have the particular part, spare or item that is required in the field. Whether that is necessarily attributable to the fact that we cannot find it within the system or it is because it simply is not there—a la the class 8 medical supplies, where we have actually exhausted them because of the operational tempo—remains to be seen. Part of the object of the remediation that we are going through right now is to get us to the point where we know exactly what we have got and, working with the logistics managers, we are stocking the shelves with what we need.

**Ms BURKE**—I have had some instances brought to my notice—as has Ms Grierson, and others can probably attest to this too—where people have had issues trying to get stores. An example that has come my way is of certain fairly highly sophisticated batteries, particularly communication batteries, that have a shelf life. These were sitting on the shelf and nobody knew that their shelf life was up. When there was a sudden need for a set of communication batteries to go to Timor, they were not there to be used. I will not go into that example too far because, for other reasons, it is currently before the courts. But would you say that is rectifiable on the spot? Would you say that that does not happen? That is what we are all getting to as the bottom line here: there has to be enough integrity in the system for us to know that something as vital as a communication instrument is there and operational.

**Air Vice Marshal Spence**—Sure. I do not think that particular example is necessarily attributable to a system failure. It goes back again to people—

**Ms BURKE**—Yes, it goes back to people.

**Air Vice Marshal Spence**—and the ability of people to do all of the tasks. It gets to that piece of the puzzle which we have not really talked about which is the housekeeping part of running the warehouse and business. We have talked about SDSS, but there is more that underpins that on the people side, and that is probably one element of it. We recognise that in some cases, in relatively recent times, we have not done that all that well, but it is part of the remediation process.

**Ms BURKE**—So those things are recognised as being there, and people are trying to rectify them on the ground as we speak?

**Air Vice Marshal Spence**—Absolutely.

**Dr Gumley**—I think we could summarise where we are at. SDSS Get Well has pretty much fixed the software bugs and problems. The hardware and the network has been pretty much fixed at all sites except Amberley, where it was not cost effective to do it now. We were going to do a major upgrade of the piping in Amberley next year anyway. We are now down to the area of

training. A lot of work has been done there, and that is continuing. About 80 per cent of the users have moved over from the old version of SDSS to the new one; about 20 per cent have not, so you were correct there in saying that there is a transition. People, being people, move for different reasons. You get familiar with the system, and sometimes you move slowly. We may be in the position soon where we will be forcibly turning off the old system for some users to try and encourage them to go to the new one. Ultimately it gets to what Air Vice Marshal Spence said: it is now up to housekeeping and what I think the Audit Office would call business process issues. That is the real nub of the problem as we face it over the next 12 months.

**Ms BURKE**—Do you think that you have implemented changes and procedures based on what the ANAO has come and said? Do you feel as if you have actually embraced not just this one report but numerous reports over the years—that finally there is some realisation that, as opposed to just agreeing with recommendations, you are now implementing them?

**Dr Gumley**—I will say, certainly from a DMO perspective, the answer is definitely yes. We have had a lot of soul-searching about the report and we are moving out on it. The remediation plans, which I guess we will get to later in the afternoon, are evidence of what we are doing.

**Mr Smith**—And the recommendation in Audit report No. 5 that I fell upon with the greatest energy was the one about training. I think that really was the core of a lot of that. Dr Gumley and I are personally supervising what is happening in there, and Brigadier McGahey is driving it along.

**Brig. McGahey**—I take your point about shelf life. Within the new iteration, batch life and shelf life are metrics that are measured within the new version of SDSS. Progressively, as the data is upgraded, that shelf life is recorded and monitored by the fleet managers.

**Senator HOGG**—Could I just go back a couple of steps. I am just at a little bit of a loss as to why the SDSS project got to the situation that it did. What were the actual causes in your view?

**Mr Smith**—Why it got to a situation where it needed a Get Well?

**Senator HOGG**—Yes.

**Dr Gumley**—Perhaps I might start and let Brigadier McGahey correct me where I make mistakes. I looked at the project. It was one of the first things that I did when I arrived in DMO. People brought to my attention that there were some problems with SDSS, and I got involved with it fairly quickly. I found out that the job was probably underestimated. The logistics for some time had been funded in a series of minor projects.

**Senator HOGG**—What do you mean by underestimated?

**Dr Gumley**—The amount of software that needed to be changed was pretty well known, but there probably was not enough effort put into understanding that you were going to put a new type of interface which is very intensive of bandwidth, putting it through the copper pipes and so on that go to the computers. I think that was underestimated. I think in particular the amount of training was underestimated. I think we all know that you just cannot put 20 people in a classroom and teach them for a morning and they go away and become experts in a system. You

only become experts in these systems by osmosis, by using them and doing them and learning from your mistakes. So the training was underestimated. Then there were some business process changes that were contingent on the product, and I think we underestimated how much effort was going to be required to roll that across what is a very large and complex organisation.

**Senator HOGG**—By the way, I am not holding anyone at the table responsible for anything that has happened, so no-one should be defensive. I am just trying to get an analysis of why the project went off the rails. It seems to me, from the time line that I have, that there was an initial project conception and estimate of \$27 million back in mid-2000. It was ticked off by the Defence executive for 15.87 somewhere towards the end of 2000. I have no date on the time line that I have here and I am not worried about a specific date. Was there a problem, in hindsight, in the planning stage and the development stage of the project itself and, because the planning and development stage of the project was fundamentally flawed, the project became difficult to redeem? Was that one of the problems?

**Dr Gumley**—Yes.

**Senator HOGG**—How has that been overcome now or how will it be overcome in the future?

**Dr Gumley**—We are going to be handling it as a major project in a pass 1, pass 2 type approach. The whole principle of the Kinnaird recommendations for Defence was that you spend some money between pass 1 and pass 2 taking risk out of projects. Another way of saying that is that you plan them better. We will be doing quite a bit of effort between pass 1 and pass 2 on the next JP 2077 project to take risk out. Kinnaird suggested that between 10 and 15 per cent of the money for projects should be used between pass 1 and pass 2. That is certainly the case for smaller ones. For middle ones it might be between five and 10 per cent. But we will need to do work between the two passes to get the planning improved.

**Mr Smith**—In other words I think that, in project management terms, that project was implemented and costed when it was still in a pretty immature state.

**Senator HOGG**—Nonetheless, firstly, it was done in the environment where there was an existing SDSS system and, secondly, accrual accounting was a reality at that stage. What concerns me greatly is that, in spite of what I see from this side of the table as substantial resources within the Department of Defence, an important project such as this would suffer the fate that it ended up suffering with a get-well program. That is the concern there. The other thing is that, assuming it was ticked off in good faith—and I am not doubting that—what internal audit processes were in place to pick up that the project was having difficulties, was suffering and needed remediation at an earlier stage than was otherwise identified?

**Mr Smith**—I cannot speak to that because I was not—

**Senator HOGG**—Can I say with the greatest respect that that is my very point. I am not being critical of you.

**Mr Smith**—We have done a lot of retrospective work on it, though.

**Brig. McGahey**—We have. When it became evident that the project was in difficulty we restructured the way the project was being managed. We brought the management audit branch on board to review what was being achieved. We looked at the requirements definition. When we went live, technically the thing worked—the issue was not about the technical solution. The issue was what Get Well has been about, which is about training, the change in culture and the ability to make sure that the underlying data within the previous system was brought up to speed. That is where the project missed. But I would have to say that it was not until late in the project that the problems with delivery were identified and then addressed.

**Senator HOGG**—But my point is that there must have been internal audit processes that would have shown up the fact that this was in difficulty. What happened to those internal audit processes?

**Brig. McGahey**—Yes, there were. But they were certainly not as developed within DMO in terms of the project management methodology and the traffic light system. They were not as well developed as they are now. Consequently, when the project was failing, it was not readily apparent until we saw that it was not going to meet the outcomes required.

**Senator HOGG**—So could the project have been saved earlier, had the training at the outset been more sophisticated, more rigorous? Could it have been saved had there been better internal audit process in place as well? Or was it always destined to have some real difficulties?

**Brig. McGahey**—As Dr Gumley has flagged, because the requirement scope was not fully defined, and given the resources available, I think the project would have always struggled to deliver what was required.

**Senator HOGG**—I understand that there was in the order of an extra \$34 million spent to recover the project and see it through to the end of its life. Is there a justification for spending that amount to recover the project rather than earlier on just saying: ‘The project’s finished. We’re going to spend the \$34 million on starting a new program’?

**Brig. McGahey**—I do not think that was an option. As we said, this is an operational system.

**Senator HOGG**—My other question is with respect to JP 2077, which I understand will replace this system. I notice that there were funds allocated to JP 2077 that have been diverted to the Get Well Program. Is that correct?

**Mr Smith**—Not to Get Well, I think. Dr Williams may help.

**Dr Williams**—I could give you a broad explanation. There have been a few phases of JP 2077. Some of the earlier phases were doing some shorter term fixes, and some of that money may have been put into Get Well. The phase we are talking about is a completely new element for the new system.

**Senator HOGG**—The diagram on page 59 of the audit report seems to indicate that it is money from the JP 2077 program.

**Dr Williams**—As I said, it was from an earlier phase. There were multiple phases of that project.

**Senator HOGG**—All right. The new program is for off the shelf. What sort of allocation of funds has been made at this stage for the—

**Dr Williams**—Just to clarify this, it is important to recognise that the SDSS system is the core of our logistics system but it includes a number of other elements built onto it for maintenance and other purposes, so that the totality is actually a significantly large system. The 2077 project that we are looking at, which will come up shortly for government consideration, is looking to replace the core element.

**Senator HOGG**—The core?

**Dr Williams**—It would essentially be the financial package, to bring it up to meet the new IFRS standards. It would also pick up, as David McGahey said, a deployable capability and an in-transit capability. So there is an operational dimension but also a financial dimension.

**Senator HOGG**—So some of the existing SDSS system will hang off the new system?

**Dr Williams**—Various systems of peripherals. Then there is an issue that, subject to a lot more money, there are options to gradually migrate that in the longer term into—

**Senator HOGG**—So are there integration problems with what will hang off the peripherals, as you have termed them, with the new core system?

**Brig. McGahey**—No. That is part of the planning going forward, bearing in mind that many commercial off-the-shelf systems at core do not deal with things like ammunition management and some of the issues that Defence has to face.

**Dr Gumley**—We also need to recognise that the database we are using will be the data in the new system. We are not going to completely repopulate and start from absolute scratch with the data, so the data has to transition from SDSS into JP 2077 as well. If there are errors in the data now, there is going to be errors in the data later.

**Senator HOGG**—So the errors will go across and will only be picked up in the fullness of time?

**Brig. McGahey**—Hopefully not. As part of the data quality exercise, we will aim to get the data in the best shape possible before we actually transfer it across.

**Senator HOGG**—Is there money already allocated for JP 2077? That is what I am trying to find out now.

**Dr Gumley**—It is in the DCP. There will be a submission to government to release some of the DCP funds under the normal two-pass process.

**Senator HOGG**—When will that be known?

**Mr Smith**—The first pass will go to government in June-July—June, all things being equal.

**Ms BURKE**—Will you be looking for additional funds?

**Mr Smith**—This is funded, I think, within the DCP. There is between \$100 million and \$150 million provided within the Defence Capability Plan now. Whether that is adequate remains to be decided, in terms of which way we go with the various contract options and so on.

**Senator HOGG**—What complexities are there in phasing out the core of the SDSS and going to the new system?

**Brig. McGahey**—As Dr Gumley has pointed out, the data will be moved forward. Basically, if the recommended option is adopted then we will migrate forward to a commercial off-the-shelf system. We will then build the deployable system, the requirements of which have already been broadly defined, an in-transit visibility system, and then part of that solution is a fully integrated financial solution. So the complexities are making sure that we roll it out and integrate the other satellite applications that need to come off the tightly coupled supply chain and maintenance systems, and then ensuring that we get the training and the infrastructure in place so that the 2077 project avoids many of the pitfalls that occurred with the upgrade.

**Senator HOGG**—It seems to me that the key to transition to the new system will be training. Will funds for training be exclusive of those already allocated to the project, or will they be part of the project funding?

**Dr Williams**—They will be part of the project funds. As a result of one of the lessons from the SDSS upgrade, in planning 2077 there has been a complete view, looking at the total package of training, transition data, conversion—the whole bit. So the attempt was to fund that in totality rather than look at just the capital elements and then underfund the other elements.

**Senator HOGG**—One of the other things that interests me is about the person or persons who managed the original SDSS version 4 upgrade project. Do we know if they received a performance bonus as a result of the work done in this project? Let me say, in fairness, that we have heard from a number of other inquiries that, despite the fact that a project has not gone very well, to say the least, people have still been paid performance bonuses. That concerns me greatly. If there are projects that have long tails attached to them and those projects of themselves fail, then it seems to me that, if someone has received a performance bonus somewhere along the line for the success of the project, the funds are not being paid out very well.

**Mr Smith**—I think it is pretty unlikely, because certainly at that time—I believe I am right in saying this—performance bonuses were not paid in DMO.

**Brig. McGahey**—The member was not paid a bonus for final delivery.

**Senator HOGG**—Right. Thanks very much.

**Ms GRIERSON**—I have a question for the Audit Office. When we talk about items that could not be located—not missing but eventually located—or were not easily found on the



system, are we talking about more than screws and door handles? Are we talking about any strategic items such as missiles or aircraft wings?

**Mr Cochrane**—Can we take that on notice and promise to give you some sort of indication in writing? We do not want to raise it, but in our view we are certainly talking more than nuts and bolts in some cases.

**Ms GRIERSON**—I think that is advisable and I would very much welcome that.

**Mr Smith**—I think you will find from the auditor's report and my own sign-off that specialised military equipment quantities and explosive ordnance quantities were not part of the qualification.

**Ms GRIERSON**—Not part of the qualification but certainly part of the audit.

**Mr Smith**—They were—

**Ms GRIERSON**—So perhaps they were an issue, but not enough to be—

**Mr Smith**—They were audited, but I do not believe an issue was found.

**Ms GRIERSON**—I would welcome additional information from the Audit Office on that. There are several other things I want to ask. Having been involved in the development of a statewide information system, I know that end users and all stakeholders were part of reference groups and focus groups and they had input. Did that ever occur in the SDSS project?

**Brig. McGahey**—Yes, it did. There was very comprehensive stakeholder engagement. At one-star level there was a program management steering group that provided input to the project throughout its life.

**Ms GRIERSON**—Did that project management group represent the lowest level user right through?

**Brig. McGahey**—As well as that we also had a senior user group and they conveyed the views from each of the groups within Defence of their assessment of how the project was going and its achievements.

**Ms GRIERSON**—Can I suggest to all of you that, at the level that is represented here today, you have priorities in your head all the time and they are often the strategic priorities, they are often policy and they are often extreme operational priorities. People on the ground may have different priorities; therefore, if they are not involved in a considered and genuine way they will not adopt the systems you are putting in place.

**Brig. McGahey**—Both from the project perspective and from Get Well we have engaged extensively with users. Personally, I have been to every site. I know that the secretary has been to a number of sites, as has CJLOG and Dr Gumley. We have an active program of engagement with users either through the media or through web enablement, so we get very direct feedback from the users about their happiness or otherwise with the system.

**Ms GRIERSON**—Have you used that direct feedback from that very active process to change the panel?

**Brig. McGahey**—Yes, we have.

**Ms GRIERSON**—How has that happened?

**Brig. McGahey**—If there is a problem report it is duly logged and prioritised and dealt with. In terms of customers' expectations and their feedback we have done a number of surveys which are available and which demonstrate the achievements of the program. Where we are seen to have missed the mark we are required to change the Get Well Program.

**Ms GRIERSON**—Have you changed the project management board personnel to reflect that in anyway?

**Brig. McGahey**—The project management board and the user groups that sit below it represent the groups that are the day-to-day users of this product.

**Ms GRIERSON**—Have you made any changes to that through this system?

**Brig. McGahey**—Yes, we have. The other thing we have done is that at the bases we now have what is known as a local site administrator. We have a network for the people who are responsible for managing systems on the bases. They feed issues back from the users so we essentially have two or three lines of communication that indicate success or otherwise of the delivery of the system.

**Ms GRIERSON**—We are all concerned that the project management costs blew out overall. It surprised me to read that part of that contract had hourly rates and they were continuous each month. Who signed off on that sort of arrangement? I think it was with PricewaterhouseCoopers. With a monthly hourly rate on a project of this size, the blowouts would be anticipated to be a risk, I would have thought.

**Dr Gumley**—I would agree with that. I do not think it is an appropriate way for us to have contracted the job. However, there may have been a reason for it. Because the job was so complicated and there are so many areas of activity, perhaps it was the only way we could get a contractor at the time to quote. I would not want to go that way again with any future project.

**CHAIR**—Did you know what you were looking for before you went looking for it?

**Dr Gumley**—I did not because I was not there.

**CHAIR**—Quite often in IT that is the thing—people chase an endless tunnel not knowing exactly what they are looking for.

**Mr Smith**—And it continues to evolve as they pursue it.

**Ms GRIERSON**—I am serious about who kept signing off on that. Whose responsibility is it? In a new contract who is going to have those powers to make a bad decision like that? Who did sign off on that? Who has the capacity in these sorts of—

**Mr Smith**—I think if we went to answer that question we would be naming people who are not here and who have retired and so on. I do not think that there is much to be gained.

**Ms GRIERSON**—Can you give me an idea of the level or status? This did not have the protection of major capital—

**Mr Smith**—No, it did not.

**Ms GRIERSON**—So it could be some very ordinary person or it could be some high-level person. I have no idea. But because it was a minor capital—

**CHAIR**—They did the scoping study and they got the contract.

**Ms GRIERSON**—You do not want to tell me, and I will take that as a reluctance to answer that question.

**Mr Smith**—I think that would be a mistake.

**Ms GRIERSON**—All right, an inability to answer that question. PricewaterhouseCoopers set the scope for the project and then got the project. Is there a conflict in that sort of arrangement? Is there a potential for conflict in that sort of arrangement?

**Dr Gumley**—Yes, there is a potential for conflict in that sort of arrangement. That is why we will not be doing that sort of arrangement in the future.

**Ms GRIERSON**—Can you tell me then whether, under the new system, any of the same people are involved in project management of that project? Under JP 2077 are any of the same people, any of these outsourced bodies, involved in the project management of that?

**Dr Gumley**—We will not be outsourcing project management of JP 2077. It will be run as an internal DMO project.

**Ms GRIERSON**—But someone is already doing it. Is MINCOM doing it? Who is doing it?

**Dr Gumley**—Source selection has not occurred yet and it would not be appropriate to speculate on issues that are—

**Mr Smith**—Project development has been done.

**Ms GRIERSON**—So you can assure me that at this stage there are no outsourced or contracted bodies managing this new project?

**Dr Gumley**—We are managing the project internally. We hire in consultants from time to time for parts of it but the actual responsibility—the accountability, if you like—rests with DMO.

**Ms GRIERSON**—But you are outsourcing some of it already to contractors? You are telling me that already.

**Brig. McGahey**—Some of the project definition work has been, but the people doing that work are being employed as prescribed service providers. They are coming in and doing specific pieces of work. It has not been outsourced generically.

**Ms GRIERSON**—So prescribed service providers are people who have got a track record, who have experience—your preferred list of people you might draw on.

**Brig. McGahey**—They compete for the work and then they come in and are given a package of work to complete.

**Ms GRIERSON**—How do you set that list? How do you get on that list?

**Brig. McGahey**—A panel of consultants apply and are selected to be put on the panel. From that list we competitively bid the work.

**Ms GRIERSON**—What if you found that I had managed the SDSS, that my firm had had some contract management of that, and we had been very much part of the blowout—do we go down on that list? Do we get a review? Do we get a lower ranking because of that or are we still just people who keep tendering?

**Dr Gumley**—Clearly we look at contractor performance in awarding any future contract. IT, as you know, is a fairly nebulous thing in this country and a lot of people are playing in it. It might be useful to know some of the names that we used on the SDSS Get Well Program as an indication of the sorts of companies that we have been dealing with. There are companies like: Deloitte, MINCOM, SMS, Bearing Point, Knox Consulting, PAXUS, Frontier, Professionals Online, ICON, Techpoint, Kellogg Brown and Root, Patriot Alliance, Compuware and Boeing.

**Ms GRIERSON**—I think there are a few shareholders in the country and in the world who would have heard of some of those names and incurred some losses too.

**Dr Gumley**—What I am trying to point out is that there is no one company with a mortgage on this work. It is being spread out to the people who have got the greatest expertise.

**Ms GRIERSON**—In terms of JP 2077, we have been given advice that it is going to become the core system that replaces SDSS. Is that right?

**Dr Gumley**—Yes, it is a core system. It is going to be the core logistics system for the Department of Defence.

**Ms GRIERSON**—Who made that decision?

**Mr Smith**—The Department of Defence.

**Ms GRIERSON**—When was it made? Was it made in phase 1 in 2001-02? Did we always know that it was going to be the end product.

**Mr Smith**—We knew that we needed a project for a core system. That is all JP 2077 says: it is a project.

**Ms GRIERSON**—Now we are seeing it in a different light, perhaps. We are giving it more emphasis. We knew that there would always need to be one, but we have made the decision that that is the direction it is going in.

**Dr Gumley**—No, I do not think it has had any more or less emphasis. SDSS has been around for a while. We all know that software systems eventually run out of puff, and it is time to improve. So this project has been contemplated in the capability part of the organisation for at least five years. It was in the 2000 version of the DCP.

**Ms GRIERSON**—Has someone done the scoping for this project?

**Dr Gumley**—It is being scoped to a stage where we could go to pass 1 approval. Between pass 1 and 2, which is the risk reduction phase, we will be scoping it further.

**Ms GRIERSON**—Who is scoping this one?

**Dr Gumley**—DMO are scoping it. We will be getting some assistance from the PSPs and the capability division under General Hurley. The public version of the Defence Capability Plan has the budget for JP 2077 at somewhere between \$100 million and \$150 million.

**Ms GRIERSON**—That was the projected amount?

**Dr Gumley**—Yes.

**Ms GRIERSON**—How do you take it to cabinet as a major project? What is the stage for doing that?

**Mr Smith**—What happens is that our capability development group works with the user groups—CFO, DMO and so on—to develop the project. Then they work with other government departments to have the costings and the approach to the systems management verified by them. When there is an agreed draft at that level, it goes to the Secretaries Committee on National Security, which is chaired by the Secretary of the Department of the Prime Minister and Cabinet, or it goes first to the minister and then to the committee. When the minister and that committee are satisfied with the draft, it is taken to cabinet.

**Ms GRIERSON**—Where are we up to in that process?

**Mr Smith**—I believe we are at the stage of taking it to the secretaries committee. That is the next step, isn't it?

**Dr Gumley**—I understand that SCNS is the next step.

**Ms GRIERSON**—Is the scoping such that it can overcome all the problems of SDSS? Hopefully, the remediation plans are effective and the data is improved.

**Dr Gumley**—It will not fix every problem. If there are problems in the data that have not been corrected by remediation, there will be problems in the new system.

**Ms GRIERSON**—So someone in the scoping must be deciding that that is acceptable. Perhaps someone needs to review whether that is acceptable.

**Dr Gumley**—That is why the remediation plans are occurring in parallel.

**Ms GRIERSON**—Can someone give me an overview of the remediation plans? There are lots of them. There is remediation for software, financial processes, supply chain, infrastructure and data quality. What is the time line for all of those and how close are they to completion?

**Dr Gumley**—Do you want to move on to the financial statements for remediation? The answer to your question is to work our way through each of the remediation plans and then, at the end, there is a little bit that says: ‘How does this apply to JP 2077?’

**Ms GRIERSON**—What time did you suggest, Mr Smith?

**Mr Smith**—June is the aim.

**Ms GRIERSON**—If you are going to cabinet in June, I would have thought that they would want very succinct information about where those remediation plans are up to before they would commit to integrating old data—all that information—into a new system that is going to cost a lot of money again. I am asking you what you intend telling cabinet about the remediation processes—where they are up to, how efficient and effective they will be and whether you will be able to incorporate that important information into a new system.

**Mr Smith**—I expect that we will be telling them that by the time this project takes effect, bearing in mind that it is still a couple of years out, we will have sufficient remediation to make it possible to transfer the data.

**Ms GRIERSON**—I am going to pretend that I am in cabinet and ask you: ‘Will you need any more money to do the remediation projects?’

**Mr Smith**—The money that we are using for remediation projects we are taking from within hide. But over the next couple of years I expect that we will be putting more into remediation and I also expect that that is what government would want us to do.

**Dr Gumley**—Remediation is probably going to take three years or more.

**Mr Smith**—At least.

**Ms GRIERSON**—So you are quite confident that you have insufficient funds at this stage to do that? Can’t you divert any of that \$100 million to \$150 million?

**Dr Gumley**—No, because we are not allowed to divert capital funds into operating funds. That would be breach of process.

**Ms GRIERSON**—So you will need long-term remediation strategies, costs, plans, personnel and all of those commitments.

**Mr Smith**—Yes.

**Ms GRIERSON**—I would have thought it was a pretty good time, operation-wise, to be doing that.

**Mr Smith**—Yes.

**Ms GRIERSON**—It is a great opportunity for Defence.

**Mr Smith**—Thank you for your endorsement.

**Ms GRIERSON**—It is a great opportunity to do that because we are focused on operational needs and we know that, even though they are very critical, this is a time when there is some slack to get on and do these things. I would hope that your time line would be less than three years.

**Mr Smith**—Some slack in what sense?

**Ms GRIERSON**—I would have thought there were personnel available at this stage to be diverted to these sorts of tasks without jeopardising operations.

**Mr Smith**—That is a difficult call, Ms Grierson, because in terms of operational tempo we are probably running harder now than we have for a number of years. I want to make the point that we do not have a lot of slack in personnel. We will be diverting personnel from other things to do this work.

**Ms GRIERSON**—I hope that it is an opportune time to do it, anyway.

**Mr Smith**—It is a necessary time.

**Ms GRIERSON**—It certainly seems to be essential.

**Mr Smith**—Could I just go back to your point about specialised military equipment and explosive ordnance. Mr Cochrane said that he would come back to you, but the Acting Auditor-General, when he signed the audit report on 17 November last, attested that specialised military equipment exclusive of repairable items and quantities of explosive ordnance are fairly stated.

**Ms GRIERSON**—As eventually located. I still think it is essential for us to have that information. If you want that information to be confidential, I am sure the committee would be happy with that.

**Mr Cochrane**—It is not a question of his statement. I understood the question to be: ‘Were there any other significant items?’

**Ms GRIERSON**—That is right.

**Mr Cochrane**—The reason I am not willing to discuss it here is that there were a couple of items that worried us, and I would rather do that privately than in public.

**Ms GRIERSON**—I think that is a good idea.

**Mr Cochrane**—But it still does not stop the Auditor-General from being able to—

**CHAIR**—You might put that privately or in camera to the committee. It can then be referred and it is not for publication—it is only for the committee’s information. We would require that information from the Audit Office to highlight the area that you see to be deficient in that way.

**Mr Goodwin**—Just to avoid any confusion, there is an issue when you get a material series of quantity variances that will give us a qualification. You may still get quantity variances that give us concern but that are not within material bounds and so we do not necessarily qualify the whole of the accounts.

**CHAIR**—I would like to talk a little bit about delivery management and ongoing support. As stated by Ms Burke earlier, you said on 18 February before the Senate estimates, Mr Smith, that ADF personnel were not using the upgraded system. You said SDSS:

... is working where it works—that is, where the management of the warehouse, the work force, is prepared to use the system properly it can do the job, but it is that training and discipline issue that has to back it up.

In reading the report, I look at the fact that Dimension Data had a training contract which was not to exceed \$7 million. The final costs associated with discharging that contract had blown to \$13.35 million. In the audit report the final sentence of paragraph 32 on page 19 states:

Defence has not articulated a clear training philosophy to manage the post delivery training requirements for the entire upgraded SDSS user community.

Then in paragraph 34 it says, amongst other things:

... a significant training liability still exists, resulting from inadequacies in the Project ...

It also states:

... that the end user community has not accepted that the training provided has met the requirement to impart an adequate understanding of the SDSS *version 4* processes and functionality ... further reports that the problem associated with training compounded by the significant number of SDSS operators yet to receive initial SDSS training.

What concerns me is that we have embarked on this program of SDSS and then version 4 and we are now embarking on Get Well but, according to this report, there are many people who have never received initial training. Is the problem largely one of software engineering or is it that



people have not had the appropriate training to be able to use the product, which is infecting it with problems on the way through?

**Mr Smith**—I think it is both. As that report made clear, at that time training was a very big issue. As I said, there is a basic degree of functionality on SDSS. With the upgrade, that has improved. But it simply had to be accompanied by a breadth and depth of training that it was not getting at that time. As I said earlier, I think there were eight recommendations in this report—that is the one which I see as the hardest to do. I asked Brigadier McGahey to address that, which I understand he is doing. As I visit warehouses and so on myself, I ask people about the training. I think we have made progress there.

**Brig. McGahey**—A couple of fundamental changes have occurred. I think the issue about receiving basic training has been overcome. Organisationally, my appointment is now as the manager, joint training, for SDSS. So in terms of the disparate training that was occurring across the services, that is now being grouped into one organisation.

**CHAIR**—So you have got a centralised training authority?

**Brig. McGahey**—A centralised training authority which lies within my branch. We now have a common curriculum. We now have a common delivery mechanism. We are now moving into online training and accreditation. One of the issues with SDSS training, particularly for military members, is the half-life of training. If people are posted every couple of years then we have got to continue this high-level training.

**CHAIR**—That was the very issue I raised in the beginning, about length of postings. The reply came back that the predominance of people are actually public servants, not necessarily military persons.

**Mr Smith**—It varies from site to site.

**Brig. McGahey**—I think I said it was about 60 per cent military and 40 per cent civilian.

**CHAIR**—I do not remember the figure.

**Brig. McGahey**—We now have, as I said, a centralised program of training management and an agreed curriculum. We are going into online training. The other issue is that quite often with training you can sit people down in classrooms for a couple of days but it is actually the hands-on management of the system that is needed. So we have tended to migrate not away from training but into mentoring, where we send people out to sites and assist people at sites to do the three or four processes that specifically apply to them. But it will be an ongoing issue.

**CHAIR**—How many users of the system are there?

**Brig. McGahey**—There are 8,800 active users of the system at the moment.

**CHAIR**—How many of those would have received base-level training, intermediate training and full-blown training?

**Brig. McGahey**—All of them have received base-level training. It depends. They are trained for the particular specialisation they have within SDSS. For instance, if they manage inventory then they will be trained for that.

**CHAIR**—You said all of them get the base-level training. Yet the audit report, on page 21, paragraph 34, says the fact:

... is compounded by the significant number of SDSS operators yet to receive initial SDSS training.

**Brig. McGahey**—We have put a lot of effort into remediating that issue. I can certainly come back to you with figures.

**CHAIR**—Either the Audit Office is wrong in its report or Defence is.

**Mr Smith**—I am not questioning that this was an accurate snapshot at that time. I am really talking about what we have done since then.

**CHAIR**—So you have made moves since this report was tabled on 4 August last year—

**Mr Smith**—Yes indeed.

**CHAIR**—so that everyone now has a base level of education in utilising the system?

**Mr Smith**—That is what Brigadier McGahey has advised. I should clarify that it was recommendation 6 about training, not recommendation 8, but that is the one.

**Dr Gumley**—Chair, 2,098 people from DMO, 453 from Army and 95 from Air Force have been trained in the 14 months since this report was practically completed.

**Senator HOGG**—So why was training in the state that it was in prior to the program you have now put in place? What was the difficulty?

**4Brig. McGahey**—I think we underestimated the training that was required.

**Senator HOGG**—So was it the allocation of resources—money—to allow people to be trained, the allocation of people to do the training, or the allocation of packages which would enable the training to be done?

**Brig. McGahey**—When we initially asked the groups the number of people they wanted trained we got a specific number. That number grew, and we had to deal with that. We also had to look at the fidelity of the training that had been delivered to ask whether it was hitting the mark—in some cases it was not, so the training had to be rescripted. But over the last 14 months we have put a lot of effort into ensuring that training and mentoring in the system has met the user requirements.

**Senator HOGG**—So there was no real audit of the training process itself? It was just happening on an ad hoc basis.

**Brig. McGahey**—No. There was a contract in place, and there was an audit of that contract.

**CHAIR**—Your contract with Dimension Data was for \$7 million.

**Brig. McGahey**—Correct.

**CHAIR**—The undervalue in that was that it blew out to \$13.35 million. Given that that contract has been discharged, how much have you spent in additional training so all your people had got base-level training?

**Brig. McGahey**—This year we have spent about \$3 million on training.

**CHAIR**—Why was the contract with Dimension Data allowed to blow out from \$7 million to \$13.35 million when it was initially not to exceed \$7 million?

**Brig. McGahey**—The problem was the delays in roll-out. Because of operational requirements, we had two delays in going live. So we essentially had to do some retraining because we had several months delay. We needed to have people trained up to the point when the new software went live.

**Ms BURKE**—Is it also because the software is a bit too complicated to use?

**Brig. McGahey**—No.

**Ms BURKE**—So the issue has not been about people grasping and using the software?

**Mr Smith**—No. There is a lot about the environment in which it is used. For instance, one of the Navy people said to me that they went away to learn the system—they put on clean uniforms, got on a bus, went into Fremantle, sat down in a classroom and learned it—and then they came back, got into overalls, went down to the back of a very big warehouse and, with noise and dirt all around them, were expected to use it. It was unfamiliar; it was quite a different exercise. And that is the importance of the on-the-job training and mentoring that Brigadier McGahey has talked about.

**Mr TANNER**—What was the reason for the retraining?

**Brig. McGahey**—Because we had had a couple of delays in the roll-out of the upgrade—because of Iraq and the move back from Iraq—people had been trained and clearly needed to be retrained so that, when we went live, they would be able to—

**Mr TANNER**—Because they had forgotten?

**Brig. McGahey**—If you are not hands-on, if someone teaches you a computer program and then several months later you go live with it, you need to do a level of retraining so that you are confident. Having said that about the system, it is complex from the point of view that, as I have pointed out, we are getting all the services onto a new set of business processes so we had to ensure that they were culturally attuned to how the new business would be done.

**Mr TANNER**—Roughly what was the magnitude of retraining in terms of the amount of time per staff member?

**Brig. McGahey**—I would have to take that on notice.

**Mr TANNER**—Don't worry about it.

**Ms BURKE**—Do you reckon that all the services have picked it up equally, or has there been a difference between users?

**Mr Smith**—Brigadier McGahey, what is your experience?

**Brig. McGahey**—Army had the original version 3. Similarly, Air Force had touched it. But, as I said, we were trying to align everyone on the same system. Navy, because most of its systems are ship borne, manages through an interface into SDSS. So, of the three services, I guess Navy has had the least exposure and training.

**Ms GRIERSON**—How many systems are still being used? I think there were originally around 140 IT systems. Has that been reduced?

**Brig. McGahey**—Certainly one of the aims is to reduce them. In the last 24 months I think five applications which had been used in SDSS or related systems will be closed.

**Ms GRIERSON**—They will be closed?

**Brig. McGahey**—Yes.

**CHAIR**—I draw your attention to table 2 on page 20 in Audit report No. 5. It is the SDSS financial requirements delivery status of May 2004. If I look at issues in the issues table—whether it was delivered or not and the status—it gives me some very grave concerns about where we are going. I know that in the footnote it says that these issues are being addressed in the Get Well Program. Given that the budget blew out from \$27 million to \$49.9 million, it would appear that very little was achieved with the expenditure of \$49.9 million. Was it because the initial design or scoping study for what was required under the SDSS version 4 upgrade was inaccurate or limited? Is it that there was a lack of capability and professionalism in the management of not only the contract but also the development of the software implementation and training given to people? What was the problem?

We know there was a cost blow-out. We know that it has not delivered. But what was the problem? I have noted that you said that part of the problem was the ability to get things down the copper for information transfer. One would hope that that aspect has now been addressed with things like ADSL and ISDN and other such things. Where was the problem? Was it a lack of ability or capability in developing the scope or in the programming? Was it that the leadership did not know what they were doing and what they were asking for? Were they asking for too much capability? Was everything they asked for really necessary or was the initial scoping study just pie in the sky and it was hoped they could get there on the way through?

**Dr Gumley**—All I can comment on is the stuff I have read in the files since. It would appear that the project was not adequately scoped. It would appear that there was a march off into the grey never-never a little bit—

**CHAIR**—The wide blue yonder, yes.

**Dr Gumley**—without knowing quite what was out there. There was also an element of ‘wish-list’, where the project was underscoped. In other words, people said, ‘I wish I had this; I wish I had that.’ Part of the cost blow-out was because some of those wishes were granted.

**CHAIR**—Was that because PwC did both the scoping study and the work?

**Dr Gumley**—I do not know.

**CHAIR**—Somebody must have an opinion on that. I am not holding anyone individually accountable.

**Dr Gumley**—I am not being defensive either. I just simply—

**CHAIR**—I am just trying to get a handle on it.

**Dr Gumley**—do not know the answer to that.

**CHAIR**—If I look at that table without any extra information, it is a fairly damning report on the project management in terms of what the design concept was, what the expectations were and actually what was delivered. If a program does not work well, if it keeps breaking down, it is not accurate or it will not deliver what they want, it does not take long for the end user at the front line to turn off from using it and go and use something else, such as the back of an envelope, to account for what stock they have. The people at the front end are probably the most accurate people you have. They know exactly where everything is as long as you ask them, but trying to get it into a system is a different thing. If the system is not user friendly or efficient, they are not going to hang around for hours trying to get one or two numbers into the system.

**Dr Gumley**—I absolutely agree with that. That is what Get Well was about. It was about fixing the pipes, then it was about the training and then it was about fixing the software. Bit by bit, we have patched it up to where it should have been. The best you can do when you find yourself in a situation is work out a way to recover. That is what the Get Well Program was about.

**Ms GRIERSON**—If a similar review is done in December 2005 of Get Well, how confident are you that it will deliver all of those implementations?

**Dr Gumley**—David, you will have to help me. Do you have that report in front of you?

**Brig. McGahey**—Do you mean as per the original audit?

**Ms GRIERSON**—Get Well is due to be in place by December 2005. Will it be in place by December 2005?

**Brig. McGahey**—It will certainly deliver the scope of the project, yes. There are still issues from Get Well in terms of with business process compliance that will be addressed further downstream, but the core of what was to be delivered under Get Well has been delivered. December 2004 is the date.

**Ms GRIERSON**—What was due last December?

**Brig. McGahey**—The deliverables of Get Well.

**Ms GRIERSON**—When will it be completed?

**Brig. McGahey**—Essentially, apart from the ongoing work in business process, it is complete now—and there is the outstanding work on Amberley which was not remediated but will be post June.

**Ms GRIERSON**—When will Get Well roll out?

**Brig. McGahey**—Get Well is already rolled out.

**Ms GRIERSON**—So you are saying it is being implemented right now?

**Brig. McGahey**—It is being implemented right now—absolutely.

**Dr Gumley**—It is 90 per cent done.

**Ms GRIERSON**—So it is being used every day now?

**Mr Smith**—It is not a roll-out, in a sense. It is a sustainment management activity around what we have.

**Brig. McGahey**—It is a series of initiatives that address what we saw as the key deficiency within SDSS, as identified by the ANAO but also by the users.

**Ms BURKE**—Have you actually asked the end users; have you done any surveys of end users?

**Brig. McGahey**—Constantly.

**Ms BURKE**—One of the ANAO's points was that the actual end users were not involved in any of the processes along the way. So have you gone out post Get Well and asked, 'Are you happy?'

**Brig. McGahey**—Yes, we have.

**Ms BURKE**—What have they told you?

**Brig. McGahey**—Over 50 per cent have said that they saw a marked or a positive improvement in the system from Get Well.

**Ms BURKE**—What did the other 50 per cent say?

**Brig. McGahey**—Only three per cent said that it went backwards, and the others said that they felt that the system was reliable and usable.

**Ms BURKE**—But there is still need for improvement?

**Brig. McGahey**—There is always room for improvement in the IT systems.

**Ms GRIERSON**—Will Get Well be completely in operation by December 2005?

**Brig. McGahey**—The business process compliance study that was put in place was really about finding out where we had problems with business process. That will take some time. It could take a couple of years to work through those business process issues. There are 118 recommendations that we are working our way through.

**Ms GRIERSON**—We can look at that more closely when we look at the accounts, perhaps.

**Brig. McGahey**—Yes.

**Air Vice Marshal Spence**—From my command's perspective, I have been around all of my seven business units all around Australia over the last five months. I did not formally survey them, but I spoke to the people who use SDSS and sit down in front of the screens. At each of those places I specifically asked my business unit people—that is, on the Defence side of the house—and people on the TenixToll side of the house where it was a DIDS warehouse how they were tracking with SDSS; whether in their view the Get Well Program, because it was a program with a range of initiatives, had delivered the goods; and whether they were comfortable with SDSS as it stood. The answer universally was yes. As was said, there will always be some shortcomings in systems, but out there at the workplace the end user in my command is happy with where we are.

**Ms GRIERSON**—Mr Moore, have you been happy with it as you have been doing the accounts?

**Mr Moore**—Accepting that I have been in this job for one month—

**CHAIR**—You sound well qualified!

**Mr Moore**—there has always been an issue with our major corporate systems because we have three major systems, all with different hardware and different software. As I understand it, version 4 of SDSS addressed some of the interface problems that we had with the earlier version of feeding information into our financial system called ROMAN. So, as far as I am aware, there has been a marked improvement in the ability of SDSS and our financial system to talk to each other.

**Dr Gumley**—I would like to add one note of caution to that. We are working on 24 follow-on actions at the moment to make Get Well even better, and there are a number of process controls that have to be improved. By process, I mean management controls—how many people have access to the system, how many people are multitrained and can both order a piece of equipment and check it into the store, and whether you have separation of duties. I think those sorts of issues are currently of concern to the Audit Office, and they are the ones we really have to concentrate on over the next six months.

**Mr Smith**—The business processes, as Brigadier McGahey described them, yes.

**Dr Gumley**—So not the software or the hardware; this is the people side of it.

**Ms GRIERSON**—I believe there are probably different stages of getting well. Mr Moore, did you want to add something?

**Mr Moore**—Just to add that the other two major systems that we have—the financial system and our personnel system—are also due for upgrades over the next few years. Between the first pass and second pass approval for the replacement SDSS system, my people are going to have to work very closely with the DMO to ensure that what they are doing under JP 2077 and what I need to do with the financial system actually achieve common objectives that satisfy the logisticians' need to know where their equipment is—whether it is in a warehouse or somewhere else. That feeds into the financial accounts as well.

**Ms GRIERSON**—Given that you have only been there a month, have you had very much involvement with the new system, 2077?

**Mr Moore**—No, I have not.

**Ms BURKE**—Are TenixToll using the same system or are they using their own?

**Air Vice Marshal Spence**—TenixToll do have their own systems, but they are contractually required to input the information into SDSS. So, both in terms of warehousing and materiel maintenance, they can run their own system—that is fine—but they need to input the data into ours.

**CHAIR**—Are they doing it as a wash or as a double entry?

**Air Vice Marshal Spence**—As a double entry. Another point on TenixToll and the issue raised earlier of the military changing postings and that sort of thing is that a significant percentage of the people who work for TenixToll now are ex-military, so they have a core of SDSS information. But I also make the point that a civilian work force is not necessarily any more stable than a military one. In TTLL at the moment they are gaining and losing warehousing staff on a regular basis, which means that there are the same issues of having to retrain and regroup.

**Ms BURKE**—Have you asked their personnel how they are finding that double entry—using your system, the SDSS?



**Air Vice Marshal Spence**—Double entry is certainly an additional demand on their available resources, but it is not as though they were not aware of that, and it is part of our corporate requirement to have that.

**CHAIR**—How many sites are TenixToll operating for you?

**Air Vice Marshal Spence**—The majority of our warehouses. There would probably be half a dozen that they are not operating.

**Brig. Edwards**—There is only one major warehouse site that is not being operated by TenixToll, and that is being operated by Tenix. That is an old contract that has been running for some time.

**CHAIR**—So would all the stores in a place like Williamtown RAAF base be run by TenixToll?

**Air Vice Marshal Spence**—It is contracted to TenixToll. There are some military personnel embedded there in order to get the skills necessary for when they deploy.

**CHAIR**—Does their warehouse management include control and administration of ordnance or is that done purely by military?

**Air Vice Marshal Spence**—Ordnance is a separate contract through ADI.

**CHAIR**—Would they be administering the contract for warehousing security related electronic equipment?

**Air Vice Marshal Spence**—I think the answer is yes.

**Brig. Edwards**—They are required to manage most of our secure communications equipment. There are some items they are not managing, which are managed internally in Defence. All of their employees are required to go through the security clearance process before they can be employed. The normal defence security screening application applies. They are using our warehouse system, SDSS—that is our mandated system. The only place they are doing double entry is maintenance, where they are using their own maintenance system and then entering data into our system. We insist on that so that we have control of the core data for our future development.

**CHAIR**—I am glad you raised the aspect of maintenance, because it leads into the next area. On page 83 of the report, under section 5.24, 'end user acceptance', it says:

- Logistics Support Agency-Navy (LSA-N) will underachieve on repairable item expense by approximately \$25 million this financial year, primarily as a result of problems associated with the Repairable Item Management (RIM) module.

It goes on to talk about:

... 4 500 hours of overtime at a cost of \$160 000 since MIMS *version 4* rollout.

It goes on to talk about the interface to ROMAN and then there is a table which talks about problems they have had with corrupting data in synchronisation:

- Warehouse managers and supervisors are unable to use the standard SDSS report to assist in reconciling tracking anomalies.

I would like some comments on this and what is being done to rectify these things.

**Mr Smith**—Who is best placed to do that?

**CHAIR**—Flip a coin, any coin.

**Brig. McGahey**—The initial work that was done with maritime systems—it says Navy there—was really because they were using a somewhat disparate system from the SDSS. It was really about getting their business processes aligned to the SDSS, including their repairable item management. Since the report was issued, a lot of work has been done on that. Many of the issues that have been mentioned have been remediated with Navy, including training and mentoring to get them onto the SDSS business processes. Having said that, there are still issues because the naval systems operate through an interface to ensure the data that flows across the interface is accurate. We currently have an issue within SDSS on data flow through the interface to Navy systems that we are addressing.

**CHAIR**—Under the ‘Issue’ heading in table 5.2 on page 85, it says:

The SDSSv4 automated generation of the ‘Recommend Order Stores (ROS)’ report for centrally managed items is currently being incorrectly delivered to the DNSDC Regional Fleet Managers and not to the ADF Logistic Managers who are responsible for stocking and re provisioning such centrally managed items.

What concerns me is what the ‘Risk’ analysis next to it says. I quote:

ADF Logistics Managers are not being automatically advised of the replenishment requirements for their inventory. Unless ADF Logistics Managers manually check for low stock positions on SDSS (or ROS reports are mailed from the regional to the national inventory manager) stock-out situations will occur that may ultimately lead to an erosion of the ADF’s operational capability.

**Brig. McGahey**—It is a comment from a person who misunderstood it—a DNSDC who was misinformed—and that is not actually the situation.

**CHAIR**—Given that it is in the audit report, perhaps the audit department would like to comment on that seeing as you have ‘Source: Defence correspondence of April 2004’ written under the table?

**Mr Cronin**—Yes. I would also draw your attention to paragraph 42 in the summary. In March, at the same time that Brigadier McGahey was visiting 14 sites—

**CHAIR**—What page is that on?

**Mr Cronin**—It is on page 23. This essentially is in the audit conclusion and it is supported by that panel of material in chapter 5, which also extends into table 5.3. So you have got tables 5.2 and 5.3. In terms of stock outs, in their inspection of Moorebank, the audit team observed processes of how stock outs worked in the generation of reports. The audit team, and I can bring members to the table, found that the stock out reports were being generated and then binned. This was an observable fact by the audit team. The persons involved did not know what to do with the stock outs. There was an inability of the system to run management reports and, in fact, the capacity of this system to generate stock outs on the things was severely compromised in terms of audit observation. It was not based on a single conversation; it was based on observable audit evidence. What we go through in this paper is a series of processes. We go through issues papers and discussion papers in section 19. I believe this has sat in that paper consistently. The discussion paper has the audit conclusion and the material at the back has come straight from Defence documentation.

In table 5.3 we are looking at the critical success as Defence closed that report and the initiation found. You can examine that on page 85. This is taken from Defence documentation. We have four things which are considered complete and three things which are considered incomplete. This is as of Defence documentation. We would say that there was a major problem with stock outs and of end user acceptance of the system—and I think Brigadier McGahey also found that in his visits—which led to the Get Well Program that started in March or April 2004, which is the time at which our field work finishes. We then go into a reporting phase. So this audit essentially sits in a period that is circa mid-April 2004.

**CHAIR**—We accept that. Do you have any comments on that, Brigadier McGahey?

**Brig. McGahey**—Only to say that, for that specific instance, if we can take that on notice and come back to you this afternoon then we can give you an update on that situation.

**Ms GRIERSON**—I have a point of further clarification. Mr Cronin, you are saying that it did not have the capacity to generate management reports.

**Mr Cronin**—No.

**Ms GRIERSON**—And without those you have no data to work on—you just have masses of data. A system is only as good as the reports you can get off it to shape your further actions.

**Mr Cronin**—If I bring Mr Coonan to the table, he will describe the process of what actually happened when a management report was attempted to be run.

**Mr Coonan**—We visited Moorebank, sat with the system users for quite some time and interviewed quite a few of them. The staff who operated at the desk where these reports were being generated had a pile of reports about three feet high in one corner and another pile about three foot high on each desk. I was told that they were the stock out reports for that day alone. I asked a staff member what he then did with them. He told me that he threw them in the bin because he received that many each day. I asked him what ordinarily should happen to those reports. He said they should go to the logistics desk officers, who would then reorder those spares to replenish the stores on the shelf.

**CHAIR**—Can you perhaps comment on that, Dr Gumley or Brigadier McGahey?

**Brig. McGahey**—I can say that that was 14 months ago and that is not the situation now. We do have management reports and we can run management reports. That is not how the stock outs are dealt with now.

**CHAIR**—It is fairly alarming that there would be six feet of paperwork from one day's worth of stock out reports which went in the bin. The alarming thing is not that there was six feet of stock out reports but that they were discarded and dumped.

**Ms GRIERSON**—That perhaps explains why people did not want to use it because, from experience, management reports are what give you feedback. If you are the person who has to do the data entry all the time, it is when you see your monthly management report that you think, 'I did a good job,' or 'That is going well.' So perhaps that does explain why a lot of people were dissatisfied with using it. What have you done to remediate that situation? You are telling me that it has been remediated.

**Brig. McGahey**—It is remediated from the point of view that the report generator, the core view package that we use, is available. People are trained on its use. I know that management pull reports at every level using this system.

**Mr Coonan**—I would like to add that our findings were validated in a Defence report which found that that was indeed the case. We have a copy of that Defence report.

**Mr Cronin**—I thought we might move on to the question of running a general management report and the capacity of the system to run a general management report as opposed to a stock out. Mr Coonan, could you explain what you observed there?

**Mr Coonan**—I was shown an instance where a general management report had been asked for yet 24 hours later had not been delivered because of the restrictions on the system—it had been sitting, churning, trying to produce a general management report. That was a limitation on the system capability that was not overcome by the design of the software.

**CHAIR**—Was that 24 hours because of looping issues within the software?

**Brig. McGahey**—Yes, it was. But I would point out again that that was 14 months ago. If you go to the site today, this report capability—

**CHAIR**—With all due respect, Brigadier McGahey, we are inquiring into an audit report which has been tabled. We appreciate the fact that you advise the committee that that was 14 months ago and that you have taken steps to address that, but we ask questions from the accurate information provided to us in the way of reports. We appreciate you upgrading the intel, but this is what we have to go off. We are not at the base. We are not in the Defence Force. We do not know what you are doing, and that is why we are asking questions, with all due respect.

**Mr Cochrane**—The thing that has to be pointed out too, and again this was occurring at that time—and this is on page 21—is that the production of management reports was actually one of the major requirements under the version 4 project. It did actually concern us, both in the

performance audit and in the financial audit, that those management reports were not forthcoming.

**Mr Coonan**—Many of those issues in table 2 on pages 20 and 21 were taken from the report that Brigadier McGahey fielded himself and then launched Get Well from. As Mr Cronin has said, at the date we did this audit this was the status of the system.

**Brig. McGahey**—That is true. When we did the initial site survey and I produced the report for the secretary and Dr Gumley, we launched Get Well to remediate these issues.

**CHAIR**—I do not say that you are not taking the right direction. I do not say that you have not got the commitment to address it. But you must understand that this report is what we have to go off. We have nothing tabled from Defence that says, ‘Here are the remedial actions that we’ve taken.’

**Ms BURKE**—Could we place on notice a request that you demonstrate that? Is there any way that you can demonstrate to us that that remedial action is there and you can now get a report?

**CHAIR**—Perhaps if you could take it on notice that, in relation to Audit report No. 5, you provide a brief to the committee as to the steps you have taken or the direction you are going in in relation to the recommendations.

**Ms BURKE**—I think it would be interesting to actually see a report, for us to be given documentation, if that is at all possible without breaching confidences or whatever. Any end user should be able to read a management report out of system. If there were some way you could provide us with what generates from the system, that would be interesting for us to look at.

**Ms GRIERSON**—I would be very interested to know what is there to guide Mr Moore at the moment. I think that is rather critical too.

**Ms BURKE**—If we could we do that too, that would be good.

**Ms GRIERSON**—I want to go back to a different point that was made a little while ago. You talked about how many systems are feeding into the system and said that some of them are part of contracts that you have with people who are managing parts of the operation for you. How difficult it is to turn that around? You said that some of them are already starting to use your system. It must be frustrating for them, but they are starting to use your SDSS so that it feeds straight in. Is it a matter of new contracts being written before you can insist on that changeover, or is it just cooperation that is required? Can they not marry two systems together?

**Brig. Edwards**—In the contract that AVM Spence referred to, which is the Defence integrated distribution system, the contract requires the contractor to update our data and to maintain our data at the accuracy level and the frequency required. They have chosen in their maintenance function to use their own system—

**Ms GRIERSON**—We are not surprised.

**Brig. Edwards**—because they want to run their own billing cycle.

**Ms GRIERSON**—They would have their reasons.

**Brig. Edwards**—They enter the data that we require. In relation to the way their software might run, we are interested in their billing system obviously because we have to pay the bill. They are required to enter into our maintenance system the essential data that we require to maintain the integrity of our data. They chose to do that.

**Ms GRIERSON**—In the long term, if we are going to invest a lot of money into a new system, the only way they are going to adopt that new system is if it is efficient, if it works and if it is applicable to them—that is, if one of the products off that system dovetails with their commercial processes.

**Brig. Edwards**—Their commercial process dovetails with our system, which is their choice.

**Ms GRIERSON**—Is that going to be part of the scope for this new project, or are we going to always have so many different systems that feed in? Is it possible to overcome that problem?

**Dr Gumley**—It will not be a uniform system. Many systems are going to have to feed in, otherwise it would be an everything goes, everything stops situation, where you change every system in the world and start again. Life keeps going on, so there are always going to be interfacing issues. All the banks have it, the supermarkets have it, everybody else has it; we are not unique in that.

**CHAIR**—Today there has been a lot of discussion on JP 2077. Also project JP 2080 commenced in-service delivery last year, going through to 2018. Perhaps you would like to brief the committee what project 2080 will actually do? It is on page 34 of the report.

**Mr Moore**—I will give it a go, and maybe turn it over. The financial system is SAP based. We were one of the original users of SAP in this town. It is in need of an upgrade from the version we have got. JP 2080 is going to deliver an upgraded version of our financial system, what we call a technical upgrade. We are looking at perhaps some additional functionality while we do that rather than just going to the next version of SAP. In about three years time, we anticipate in a later phase of JP 2080 a much more fundamental upgrade to our financial systems, so there are two distinct stages within JP 2080. We anticipate government approval. It is in the same queue as JP 2077—slightly behind, as I understand it. The other major upgrade contemplated is to our personnel system, which we call PMKEYS. At the minute, the version we have is incapable of supporting Defence Force pay. It supports the HR side of the ADF but not their pay.

**CHAIR**—Why is that so?

**Mr Moore**—The complexity of salary and allowances for military people makes it technically beyond the capabilities of the current system, as I understand it. So we have one system for permanent ADF people called ADFPAY, funnily enough, and another one for reservists called CENRESPAY. The intention, with this version upgrade, is to migrate both permanents and reservists across to PMKEYS. It is already paying civilian personnel in Defence but, as I said, it is incapable of paying the ADF.

**Senator HOGG**—Earlier today there was a passing reference to there being a new Defence instruction on stocktaking—I am not too sure who gave the evidence. It might have been Mr Smith.

**Mr Smith**—It probably was not.

**Senator HOGG**—Anyway, it was mentioned. It seems that it is a fairly integral part of what is going on. I am not familiar with the old DI on stocktaking, so can you tell us what the essential difference is between the old DI and the new DI? If you can table a copy of the new DI, that might enable the committee to at least apprise itself of what is fully in that document.

**Brig. Edwards**—I will summarise the key differences and then where we are up to with the new policy.

**Senator HOGG**—And when it came into being.

**Brig. Edwards**—Okay. The fundamental change in the new policy is that we will be counting by stock code, so by that item across that stocktaking entity. For example, at DNSDC Moorebank, if we are counting this type of pen, we will be counting it in every warehouse across that site at that time. Our previous policy was that we would count by the combination of the item and its location. So, we would count this pen in this warehouse at Moorebank this week. If that pen was in another warehouse still at the same site, it might be counted a month later—so by location and item. It was a two-year cyclic program to cover the whole site. The new Defence instruction is to count this pen in every one of those warehouses on that site concurrently. But the whole site will be counted over a two-year program.

**Senator HOGG**—So you must know of its existence at the site to start off with?

**Brig. Edwards**—Yes. There is another part to the program, and that is called ‘register to floor’. The record says that I have 10. If I check what is on the floor I should have 10. The second part of the program is to take a sampling approach on floor to register—in other words, I walk into a warehouse, I see what is in that corner of the warehouse and go and check that against the register. So there are two parts to the program running over a two-year cycle. The new policy, the new Defence instruction, is about to be signed. The secretary has signed it and we await the CDF’s signature when he gets back. However, we have to make sure that we have the system change in place in SDSS to support that change of stocktaking method.

**Senator HOGG**—Is the system change there currently?

**Brig. Edwards**—No.

**Senator HOGG**—It is not?

**Brig. Edwards**—No, so we have got to get that in place and we have got to determine whether that is a simple change or a complicated change.

**Senator HOGG**—So is that a change that is already funded, or is this a new change, where new funding will be sought?

**Brig. Edwards**—This is a new change. But we have not done an analysis yet of whether this is a problem of a \$100 change or a \$1,000, \$10,000 or \$100,000 change to the system. It is simply a method of generating a report to produce a stocktaking sheet. We have what we believe is a much better policy.

Secondly, the policy outcome in terms of error rates found is directly comparable to the method that ANAO would use. So, if the National Audit Office or our internal agency management branch did a sample and came up with an error rate of five per cent, as we are using the same counting technique our error rates should be comparable in terms of apples and apples and we should not be in a discussion where we are saying, ‘Your error rate is five per cent because you’re using this technique, and ours is seven per cent because we are using another technique.’

We are concurrently improving management’s ability to see the outcome of the stocktakes by having a better reporting system so that, whilst the stocktake might occur down at this level, at the warehouse, senior management’s ability to see on a quarterly basis the outcomes of the stocktakes that they are running across the Defence group is improved. That is then reflected in the Defence Audit Committee report each quarter as well, because one of the problem areas was the visibility of the stocktaking activity: it was not clearly apparent to the group heads and to the Defence Audit Committee. So we are improving the stocktaking policy and improving the reporting of its outcomes up the Defence chain.

**Senator HOGG**—What is the likely implementation date?

**Brig. Edwards**—I do not know when we will be implementing it, because we need to work out how long it will take to put the systems change in place; whether that is a one-month or three-month solution, we have got to work on that now. So we have spent the last couple of months getting the policy that we want to go to right—the right method for getting agreement with our internal auditors and for getting broad agreement with the National Audit Office that we are heading in the right direction—and now it is about how we put that systems change in place to be able to execute it.

**CHAIR**—You said you would be referring back to the National Audit Office. How closely will you be working with them to make sure you are travelling in the right direction as they would see it?

**Brig. Edwards**—I think we already are working closely with them. They may care to comment.

**CHAIR**—Do you have any comment on that, Mr Goodwin?

**Mr Goodwin**—I am happy to comment. Yes, I would echo Brigadier Edwards’s comments. We have at the operation level been working fairly closely, through a series of committee style meetings, in revisiting the stocktake policy.

**Ms BURKE**—With regard to stocktaking and concerns about theft, there were obviously some discrepancies in numbers, about picking up theft and things being moved—concerns about that. It is usually the pet topic of one of our colleagues who is not here, so I figured that on Miss



Kelly's behalf we would go down that track. Is it an issue or a concern; does it happen? Is the system now picking up those things, or do they not happen?

**Brig. Edwards**—It is picking up discrepancies. First of all, as I said, we have not implemented the new stocktaking policy yet—that is the first step. In terms of identifying discrepancies, stocktaking generally identifies discrepancies; it is then a matter of finding out what was the cause of the discrepancy. One of our differences from the ANAO is that, whilst the audit on the site might run for a week and they sample X amount of codes, if they come up with an error and they do an investigation with us concurrently about why it is missing and we cannot find the supporting paperwork or whatever, they would declare an error, and that is it for that outcome. Internally, we might spend the next month or two months looking for that item in terms of tracking the paperwork and then say, 'Well, we actually found it.' So we will spend some time before we finally declare that error. So that is why we have always had differences between a sample outcome and a full-blown investigation into the event. That said, you would want to get to the point where there are no differences; in other words, the paperwork and the record are accurate on the day at the site.

**Ms BURKE**—Do you think any discrepancies do get down to theft?

**Brig. Edwards**—I think any organisation has what the commercial world calls 'shrinkage'. And they have a percentage allocation in their budget for shrinkage, because you cannot catch it all.

**Ms BURKE**—Are there internal security systems to verify and track in and out stock?

**Brig. Edwards**—There are the normal receiving techniques and so on.

**Ms BURKE**—Is there video monitoring and those sorts of things?

**Brig. Edwards**—There are in certain parts. There are obviously alarm systems in weapons areas and so on. Is it as sophisticated as what the government is about to put in airports? No.

**Air Vice Marshal Spence**—We do have video but it is limited. We have all the standard management practices in place and we conform to the Defence fraud control plans and all of those sorts of things.

**Ms BURKE**—Would you say from your experience that that would explain a huge amount of the discrepancies you have in your stocktake?

**Brig. Edwards**—No.

**Senator HOGG**—The last issue I would like to pursue is the issue of what internal audit arrangements are in place now to ensure that the fixing up of the system is going according to plan. Is there a rigorous oversight to ensure that training is taking place, that systems are going in place and that where systems are not going in place appropriate action is occurring to ensure that it does happen? Can you give us some insight there?

**Air Vice Marshal Spence**—From a command perspective I will offer what we have put in place. As you know, ANAO and MAB do their thing, but from our perspective we have put in place a logistics compliance and assurance team which works under the brigadier. That team is in the order of half-a-dozen people. That started at the beginning of this year and that team has an annual program to go out to all of our business units, which are co-located with the warehouses. That team looks into both the business unit and the contractor side of the house to look at compliance with the processes and procedures that are in the supply chain manual, how they operate SDSS and how stocktaking is done, conforming to that DI and others. It is not a purely audit function. It is a ‘we are here to help’ type arrangement as well to assess how it is performing and to provide assistance to those people. At the same time we are in the process of increasing the resources at each of the business units for the good governance function. Between those two elements we believe we will have a good understanding of how we are progressing in that area.

**Senator HOGG**—To whom do the compliance and insurance team report and how often?

**Air Vice Marshal Spence**—They report to the brigadier for the moment because he is running the project but ultimately they will report to the chief of staff in my headquarters, and they report at the conclusion of each visit, which is occurring on a monthly basis at the moment.

**Senator HOGG**—Have any of those reports necessitated action at this stage because things were not up to scratch?

**Brig. Edwards**—Yes.

**Senator HOGG**—Can you give us a feeling for the types of areas where there are deficiencies still remaining?

**Brig. Edwards**—They have been to three sites so far. They spend about a week at a site. There is a team of two or three. Probably the common theme across those three sites is an issue about levels of governance, which Air Vice Marshal Spence has spoken about, which is about confirming our feeling that we have not got quite the right resources in place yet to be exercising effective control at the site level, and we are looking to increase that.

**Senator HOGG**—When you say ‘resources’, are you talking about financial resources or personnel?

**Brig. Edwards**—Humans.

**Senator HOGG**—People.

**Brig. Edwards**—For example, at the site in Hobart, we are talking about one person to have closer observation of—

**Senator HOGG**—Speak kindly of Tasmania—we have a Tasmanian senator here!

**Brig. Edwards**—Obviously, they would be a great person! We are talking, for example, about one person at the Hobart site to exercise tighter control over that warehousing activity in terms

of being able to monitor it and ensuring contractor compliance, process compliance and so on. The second common theme is about staff process compliance. In some areas the compliance is good and in some areas continued improvement is required. If people are not aware of the process or if they are making local workarounds, part of that assurance team's work is about identifying that to both the core site—the core staff—and the contractor staff as well, because it is about improving performance. The third theme is about what I would call the broad experience level of some of our staff—when I say 'our staff', that is the contractors as well as the Defence staff—in terms of improving and lifting their experience level in warehouse operations.

**Senator HOGG**—Does that imply a deficiency in training?

**Brig. Edwards**—Some of it could be.

**Senator HOGG**—So will that necessitate more funds being pumped into training?

**Brig. Edwards**—No. It necessitates continual training. Using Hobart as an example again, changeover of contractor staff means contractor staff require continual training and refreshing.

*Senator Watson interjecting—*

**CHAIR**—We never know what you have got hidden in Tasmania!

**Senator HOGG**—No, we don't know about you, Watto!

**Senator WATSON**—You would not find too much wrong down there!

**CHAIR**—The Pine Gap of the south!

**Brig. Edwards**—I think the key point about that is that we have strengthened our ability to go and look more closely at these sites, both internally, by trying to lift their resourcing level in terms of core level and governance, and by having a command level, spot checking—pick a word—in an annual program where we go around and verify performance and behaviour at a site and report backwards.

**Senator HOGG**—When I came here today, I wanted to know why this had happened. I wanted to know why it was not stopped and whether it will ever happen again.

**Brig. Edwards**—Are you talking about SDSS upgrades?

**Senator HOGG**—I am talking about what has been put into the SDSS effort—the report itself. I appreciate the fact that things have moved on since then, but I think that part and parcel of the role of this committee—seeing that others have made a statement about this—is to scrutinise how things were at a snapshot in time. The fact that things were not rosy, were not going according to plan, involving the expenditure of public funds, of course causes people like me grave concern indeed. I am pleased to see that things seem to have moved on.

**Ms GRIERSON**—With the SDSS, management costs were approximately 50 per cent of the overall expenditure. What percentage is Get Well running at in terms of management costs?

**Dr Gumley**—Get Well is an across Defence program. The actual management has been mostly internal. Unlike the last one, where we sent it off to PricewaterhouseCoopers and they managed to spend a lot of money, we have done it internally and we have done it a lot more efficiently.

**Ms GRIERSON**—I think there is always a cost. There is always an ability to identify costs. I guess the only thing that we need to be reassured of is that enough energy direction—whether or not that is being outsourced to someone—is being placed in the training, in the modifications and remediation plans, in the actual on-the-ground operations, to fix this and to implement this, rather than just the oversight and setting it up.

**Dr Gumley**—I understand the question. There are 57 people in the SPO, the systems program office, who are working on Get Well and similar related issues. We have used some contractors. Dave, do you have the figures there of how many we have used?

**Brig. McGahey**—Essentially SMS and KPMG.

**Dr Gumley**—But what sort of numbers? How many people?

**Brig. McGahey**—It is about 10 people.

**Ms GRIERSON**—And they are advising you on management structures and how to do this et cetera?

**Brig. McGahey**—Exactly, yes.

**Ms GRIERSON**—Can you tell us what you are paying them?

**Dr Gumley**—I will have to dig through the notes.

**Ms GRIERSON**—You can take that on notice. I am happy to have that some other time. I would really welcome an overview of how the Get Well Program is broken down in terms of resources. I think that is important, because we have learnt from SDSS that 50 per cent of the total budget going towards management costs probably did jeopardise the whole program. It certainly did not deliver the filtering down that would have meant that this system was embraced, used and effective. So I would welcome a breakdown of what is involved in the Get Well Program.

**Dr Gumley**—Sure.

**Senator WATSON**—I have a question for the department. In terms of the valuations that you seek to impose on your clients, do you work on an accounting cost or valuation or an economic valuation? When you answered my question, I think you were talking about an economic cost.

**Mr McPhee**—As you would be aware, that is driven by the accounting standards. Generally the position is that you go for the lower of cost or replacement value.

**Senator WATSON**—That is an accounting concept.

**Mr McPhee**—Yes.

**Senator WATSON**—But your colleague responded in terms of an economic cost and that was worrying me.

**Mr Goodwin**—There are two questions. The first question is: at what point could you remove—as in write off—an asset? The first point is that you have to make a determination as to whether that item has an economic value to an entity, in which case by definition it is an asset. First pass. The second point is: if it is an asset, at what value do you pick it up into the financial reports, which is what I think the Auditor-General is touching on.

**Senator WATSON**—That is the way the Auditor-General is responding.

**Mr McPhee**—Correct, but I just make the point that we are, as an Audit Office, working within a framework determined by government and parliament, with standards. I guess we do understand that Defence has some special issues here. I sort of understand also why the secretary of Defence is saying that, at some stage, they may make a management call about whether something is worth pursuing to meet the requirements of the accounting standards. Again, as the point is made: if that decision is made, there would be disclosure around there, it would be very transparent and the accountabilities would flow from that. We understand that.

**Senator WATSON**—I just wanted to ensure that the Audit Office were still working on those accepted accounting standards.

**Ms GRIERSON**—I guess one of the things that has come out today is that we are now alerted to the fact that more energy and resources are being used to get JP 2077 to take on some of this core function. I really would like to request what has been spent so far on the project, what elements have been outsourced and which personnel are involved in that. It does seem to me that, if we were going to look at this project, it would be right at the beginning that we would want to do some early intervention to get it right. I am very interested in how that is being put together right now and I would like information on that. Air Vice Marshal, I think you offered to give me some sort of overview of the stage of remediation plans—that is obviously something you could not provide here—in terms of progress, timing and what additional costs will be required to get those remediation plans in place. Could you also provide us with an overview of the progress, the timing and the cost of those remediation plans?

**Air Vice Marshal Spence**—Certainly.

**Mr Smith**—Just to clarify: that is the remediation plans to do with handling data and activity which feeds into JP 2077. Is that what you meant?

**Ms GRIERSON**—No. I mean the ones we have got in place now and we are spending money on. I think they came under five or six areas, according to the audit report.

**Air Vice Marshal Spence**—The remediation plans that I am talking about are the ones that are in response to ANAO's comments on stock hold.

**Mr Smith**—I think we are talking here about our responses to the eight recommendations.

**CHAIR**—And your expenditure on 77 and 80 to date.

**Ms GRIERSON**—That seems an awful lot, but I am happy to have all those. There are remediation plans under Get Well, aren't there, to make it work?

**Dr Gumley**—No. There are two quite separate issues: we have the main remediation plans for the financial audit, and then we have the Get Well Program, which was specifically addressed to handle this book.

**Ms GRIERSON**—It is the financial audit remediations that I am particularly interested in, based on the report. Thank you.

**Mr Smith**—There are 14 remediation plans.

**Senator HOGG**—I have just a final question to the Audit Office. Given the significance of the size, quantity and value involved in the SDSS project, how long before the Audit Office would revisit this to do a follow-up audit to test whether what the Department of Defence has done has been effective or whether there are still deficiencies that need to be pursued?

**Mr Cronin**—We have planned in the 2005-06 audit work program to do the Get Well Program as an audit. We have envisaged that this would start around February-March 2006, and we would aim to report later in 2006. We had that timing on the belief that the Get Well Program was going to be fully completed by December 2005. That is why we would start around February-March next year. Mr Coonan has been designated as the audit manager for that project.

**Mr Goodwin**—That is the order of the Get Well Program. In addition to that, we would normally do an audit of SDSS, the system at that point in time, to see whether it satisfies our requirements for financial reporting purposes. That would happen in the current cycle.

**Senator HOGG**—But given that the core system, as I understand it from here today, is going to go, how necessary will that be?

**Mr Goodwin**—There are two aspects to that. There is one about picking up whether Get Well is doing what it is supposed to do. It is necessary for the Audit Office to still look at SDSS while it exists, for financial reporting purposes. We would look at it from an IT and business process perspective to say: 'Are we satisfied that the IT controls in terms of security access are okay, in terms of protecting data? And are we satisfied that the underlying business processes are robust to protect the input of data?' We would necessarily need to give some consideration to that to get to a viewpoint as to how we gather audit evidence or attest on the financial statements.

**Senator HOGG**—If I understand it correctly, that will be done in conjunction with the Get Well Program—or will it be separate?

**Mr Goodwin**—It would be done having regard to the Get Well Program.

**Ms BURKE**—Audit are moving into Defence—let us just face it. They are just setting up camp and staying there for the rest of their lives, aren't they?

**Mr Smith**—They have committed to spend \$4.6 million this year.

**CHAIR**—Yes, \$4.6 million of your money.

**Mr Smith**—I am not certain that we have defined adequately what the deputy chair has asked us to produce. There are three things. One is that there are 14 remediation plans relating to our financial statement as a whole.

**CHAIR**—We have not got to that area yet.

**Mr Smith**—Then there are eight recommendations of the SDSS Audit report No. 5. Then there is the matter of some evaluation of what has happened under Get Well. Which of these is it?

**Ms GRIERSON**—We have not touched the financial statements today. We are going to have to do that. We will look at those separately, depending on evidence, so that is not included in that request. With regard to the question of the other two, the answer is yes. We were given a structure that said you had a remediation project team, and there are program directors and managers of all those remediation things. I am assuming they are all doing those. There is a project manager of infrastructure, a project manager of data quality and an overall project director. Did that happen? I am looking at page 89 of the report. Of course, this was 12 months ago. You were putting in place an integrated approach to ongoing improvements; you were using this model.

**Dr Gumley**—That is all the Get Well Program and fix-it stuff. The answer is yes.

**Ms GRIERSON**—If those people all exist, I would really like to know their progress, their time lines and their costs. That program will look at financial processes, supply chain processes, software remediation, infrastructure, data quality and then the overall picture. You are the DMO chief executive officer in charge of that, I suppose.

**Dr Gumley**—We have an up-to-date report on where the Get Well Project is at, which includes how much is being spent on it, who the governance committees are—

**Ms GRIERSON**—How much more is required, I would hope.

**Dr Gumley**—the 24 items I mentioned earlier that are still to be done—and we have itemised them—

**Ms GRIERSON**—And time lines for those.

**Dr Gumley**—and the through-life support that is going to be required for Get Well into the future. We have that report, and I seek guidance as to whether it is the appropriate thing to offer up.

**Ms GRIERSON**—That will be for us to judge when we see it.

**CHAIR**—I do not doubt that you have a photocopy of that right now, but it might be pertinent to forward that as a submission and we will include that in the evidence when we finally receive it. How old is that?

**Dr Gumley**—It is from 14 April, so it is two weeks old.

**Ms GRIERSON**—Thank you.

**CHAIR**—Thank you very much for the information that has been provided today. I found it very informative and, as the chair of the committee, I say that I am rather glad that you have taken such remediation measures coming out of the report and the progress that you have made. That will be reflected in our report.

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

That the committee authorises publication, including publication on the parliamentary database, of the transcript of the evidence given before it at public hearing this day.

**Committee adjourned at 3.53 p.m.**