



PARLIAMENT OF AUSTRALIA

# **Report 503: Inquiry into the Defence Major Projects Report 2020-21 and 2021-22 and Procurement of Hunter Class Frigates**

**Final Report**

**Joint Committee of Public Accounts and Audit**

June 2024

CANBERRA

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# Chair's Foreword

In this Final Report, the Committee considers the future conduct of the Defence Major Projects Reports (MPRs) as well as issues raised in the ANAO's audit of the Hunter Class Frigates program.

This final report complements the Committee's Interim Report in June 2023 which focussed on core issues arising from the 2020-21 and 2021-22 MPRs. The matters considered by the Committee at that time included cost, schedule, and capability performance assessments for both reports and common themes including the impacts of COVID-19, Defence projects of interest and concern, and issues around risk management and capability forecasting. Three recommendations were made in the Interim Report.

## **Future of the MPR**

The Committee regards the MPR as an important accountability mechanism that should continue for the foreseeable future, albeit with potential adjustments. There are of course other external accountability and assurance mechanisms for scrutinising Defence activities however the MPR provides a structured level of scrutiny and granularity across major capability projects that would not be provided through these other processes. The discipline of the MPR over many years has also had positive impacts on Defence's internal management of major projects.

Firm conclusions have not been reached by the Committee with regard to the future scope of the MPR at this stage. There are few useful international comparators that provide the rigour of public, independent assurance via a national audit institution.

Questions of confidentiality and national security in relation to the material published in the MPR have become more significant in recent years. There is an inherent tension between accountability and continuing to publish a robust and useful report, and the need to protect sensitive information.

The Committee accepts that national security considerations may at times necessarily prevent the publication of certain information while also agreeing with the ANAO's advice that it has an underlying duty to the Parliament to provide adequate transparency. The ANAO's concerns about providing assurance over information that cannot be published are reasonable.

Given this tension, the Committee's recommendation is that the ANAO supplement the published MPR with a confidential submission and related briefings with Defence where information cannot be published. In reaching this conclusion the Committee makes clear that Defence and the ANAO must continue to maximise the information published in the MPR, as the availability of confidential mechanisms must not be used as a device to reduce transparency to all Parliamentarians and the public or media scrutiny.

## **Procurement of Hunter Class Frigates**

Failings in the procurement of the Hunter Class Frigates were clearly identified in the Auditor-General's report yet only belatedly accepted by Defence after its own internal review. The Committee understands the significant pressure and risks that resulted from the then Government's sudden decision to accelerate the project and subsequent supply chain issues. Demonstrating value for money and compliance with the Commonwealth Procurement Rules (CPRs) are nevertheless non-negotiable requirements, particularly when expending tens of billions of dollars of taxpayer money.

It is simply inexcusable that no value for money assessment was ever conducted before the former Government selected BAE for the then \$35 billion project.

It is striking that neither Defence nor the ANAO were able to identify any other project that went to Government for decision without a value for money assessment. Ministers have every right to be able to rely on the detailed and technical assessments which underpin such processes and advice to government, whether to Ministers individually or collectively via Cabinet. The evidence however clearly indicates that this submission which went to Ministers was unique for not including a value for money assessment. Despite this, the former Government decided to select BAE for a (then) \$35 billion project anyway in breach of Finance Law.

Ministers are not supposed to be rubber stamps or daleks and there are two possibilities as to how this happened: (1) either no one noticed that no value for money assessment was undertaken, or; (2) they did know but didn't care and blithely decided to proceed with a (then) \$35 billion procurement anyway. Ultimately as this was a Cabinet process via the National Security Committee of Cabinet no one will ever really know what happened; whether there was a conspiracy or predetermined decision that BAE win the prize, or whether it was simply shocking incompetence by this group of Ministers in the then Government.

No explanation was given as to why the requirement for a value for money assessment was mysteriously removed from the Tender Evaluation Plan. Defence has now at least acknowledged this glaring deficiency following its internal review. It refused to accept this finding however when it was pointed out by ANAO in its audit. Finance has also indicated to the Committee that it would 'probably' take a different approach in its own processes for future procurements of this nature and scale. Probably.

Another puzzling issue for the Committee was that no rationale was provided for the seemingly unprecedented decision to knock 10 per cent off the price from all tenderers in the evaluation and advice to government on this procurement. It is doubtful whether there has ever been an Australian shipbuilding project that has run under budget and this action calls into question the judgement and competence of the officials involved.

The issue of design maturity for the Hunter Class frigates was a critical consideration in the inquiry as it relates to the capability of the vessel and its overall cost effectiveness both at the time of procurement but also at construction. It was concerning to the Committee in this respect that this ship was not in the water anywhere in the world during this entire process and was therefore seemingly still at the pre-prototype stage. The Committee understands

that the Hunter Class design was based on a successful ship that had been in service for many years, but the fact of the matter is that this was a completely redesigned and updated vessel that is yet to actually exist. Despite the fact that it was assessed by Defence experts as a mature design, this was clearly not the case. The Secretary of Defence admitted this by making the welcome, if somewhat overdue, statement at a hearing for the inquiry that he would not have characterised it as mature.

Defence must therefore reassess how it determines maturity in future large-scale acquisitions, particularly when dealing with foreign governments who will always be keen to sell expensive military hardware to Australia. A balance is needed between that approach and the acquisition of 'off-the-shelf' military capability which would be expected to be deliverable far more quickly and at considerably less expense. The Committee is mindful also of the ongoing and necessary tension between the role of capability managers and delivery managers after a procurement decision is made. The Committee intends to explore both of these issues in future MPR inquiries.

Recordkeeping was a constant area of prosecution by the Committee in its extensive Commonwealth procurement inquiry in 2023 and disappointingly, but, perhaps not surprisingly, was an issue also in the Hunter Class procurement process. The lack of recordkeeping highlighted in the Auditor-General's report was acknowledged by Defence but its formal response to this audit finding was frankly dismissive, if not flippant. The Committee fully appreciates the ANAO's position that the unavailability of only a very minuscule proportion of the relevant documentation was simply not the point it was trying to make.

Key documents that went to the core concerns about the process, including minutes of the Defence Committee—the apex decision making forum of the entire enterprise, were not available. Defence has at least now admitted this failing after its internal review, and the advice that it is adopting a new framework for records management is reassuring.

Five recommendations are made in relation to the Hunter Class Frigate program. Four of these request updates from Defence on changes arising from its internal review, progress with the project, how it will assess design maturity in the future, and the implementation and impact of its new recordkeeping framework. The Committee is also recommending changes to the CPRs that will explicitly require a value for money assessment in a tender evaluation plan as a default option and that the Department of Finance must determine and then advise the procuring entity whether this has been completed appropriately.

I thank the Deputy Chair in particular for her active participation and assistance and all members of the Committee. We acknowledge the work and the professionalism of the Committee secretariat in supporting this inquiry.

Julian Hill MP

Chair



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# Abbreviations

ADF	Australian Defence Force
ANAO	Australian National Audit Office
AGS	Australian Government Solicitor
AIC	Australian Industry Content
ANC	Australian Naval Classification
BAE	BAE Systems Australia
CASG	Capability Acquisition and Sustainment Group
CMATS	Civil Military Air Management System
CPR	Commonwealth Procurement Rules
DCIC	Defence Capability and Investment Committee
Defence	Department of Defence
Finance	Department of Finance
FOC	Final Operating Capability
Hawkei	Protected Mobility Vehicle – Light
IARs	Independent Assurance Reviews
JCPAA	Joint Committee of Public Accounts and Audit
Joint Strike Fighter	New Air Combat Capability

JORN Upgrade	Jindalee Operational Radar Network
Light Tactical Fixed Wing	Battlefield Airlift – Caribou Replacements
MPR	Major Projects Report
MQ-4C Triton	MQ-4C Triton Remotely Piloted Aircraft System
MRH90 Helicopters	Multi-Role Helicopters
Navy	Royal Australian Navy
Overlander Medium/Heavy	Medium Heavy Capability, Fielded Vehicles, Modules and Trailers
Parliament	Parliament of Australia
PBS	Portfolio Budget Statements
PDSS	Project Data Summary Sheet
PGPA Act	Public Governance, Performance and Accountability Act 2013
RFT	Request for Tender
TEP	Tender Evaluation Plan
PJCIS	Parliamentary Joint Committee on Intelligence and Security



# Members

## Chair

Mr Julian Hill MP

## Deputy Chair

Senator the Hon Linda Reynolds CSC

## Members

Dr Michelle Ananda-Rajah MP

Senator Catryna Bilyk

Senator the Hon Matthew Canavan

Dr Carina Garland MP

Mr Ian Goodenough MP

Senator Karen Grogan

Dr Daniel Mulino MP

Ms Peta Murphy (to 1 August 2023, from 9 August 2023 to 28 November 2023)

Mr Henry Pike MP (*from 22 March 2023*)

Senator Barbara Pocock (*from 31 July 2023*)

Mr Sam Rae MP (*to 22 June 2023, from 1 August 2023*)

Senator Tony Sheldon

Mr Aaron Violi MP

Mr Josh Wilson MP (*from 28 November 2023*)

*This committee is supported by staff of the Department of the House of Representatives*





# Terms of reference

On 9 March 2023, having considered recently tabled Auditor-General's Reports, the Joint Committee of Public Accounts and Audit resolved to conduct an inquiry into Defence Major Projects Reports. On 11 May 2023, the Committee resolved to broaden the terms of reference of that inquiry to include consideration of an additional Auditor-General Report.

The terms of reference are now as follows:

- 1 any matters contained in or associated with *Auditor-General Report No. 13 2021–22: 2020–21 Major Projects Report* and *Auditor-General Report No. 12 2022–23: 2021–22 Major Projects Report*
- 2 specific consideration of the scope and guidelines for the Major Projects Report to ensure it is fit for purpose into the future
- 3 any matters contained in or associated with *Auditor-General Report No. 21 2022–23: Department of Defence's Procurement of Hunter Class Frigates*, including:
  - a. All matters raised in and arising from the Auditor-General's report relating to the tender evaluation process including value for money, decision making, record keeping and scope and design maturity
  - b. The respective roles of the Department of Defence and Department of Finance
  - c. Contract management, monitoring and reporting, and current progress in delivery
  - d. Lessons arising and implications for future procurement processes of major capability acquisitions in light of the Defence Strategic Review.

Under section 8(1) of the legislation establishing the JCPAA, *the Public Accounts and Audit Committee Act 1951*, one of the duties of the Committee is to 'examine all reports of the Auditor-General (including reports of the results of performance audits) that are tabled in each House of the Parliament' and 'report to both Houses of the Parliament, with any comment it thinks fit, on any items or matters in those reports, or any circumstances connected with them, that the Committee thinks should be drawn to the attention of the Parliament'.



# List of recommendations

## Recommendation 1

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- 2.29** The Committee recommends that for future inquiries into Defence Major Project Reports the Australian National Audit Office provide a confidential submission regarding information required to be withheld from publication in Project Data Summary Sheets due to national security with appropriate handling procedures, and the Department of Defence organise confidential or classified briefings as required.

## Recommendation 2

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- 3.125** The Committee recommends that the Department of Defence provides it with an update at both 6 and 12 months on the progress of the changes arising from its internal review findings.

## Recommendation 3

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- 3.126** The Committee recommends that the Department of Defence provides it with an update in 12 months on the progress of the Hunter Class Frigate project, including the industry capability uplift and a value for money assessment.

## Recommendation 4

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- 3.127** The Committee recommends that the Department of Defence report back in six months from the tabling of this report as to how it will assess design maturity in future procurements.

## Recommendation 5

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- 3.128** The Committee recommends that the Department of Defence provides it with an update in six months on the implementation of its new recordkeeping framework and the impact of the new Chief Information Governance Officer role.

## Recommendation 6

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- 3.129** The Committee recommends that Commonwealth Procurement Rules be amended to explicitly require:

- **that a value for money assessment must be included in a tender evaluation plan unless the accountable authority approves an exemption from this requirement, and**
- **that the Department of Finance must determine and then advise the procuring entity whether these value for money assessments have been completed appropriately.**







# 1. Introduction

## Overview

- 1.1 The Australian National Audit Office (ANAO) and the Department of Defence (Defence) jointly prepare the Major Projects Report (MPR) each year. The MPR was introduced in 2008 at the request of the Parliament with the aim of improving the accountability and transparency of Defence acquisitions as a significant expenditure of taxpayer funds.<sup>1</sup> Prior to this, the Parliament and key Defence stakeholders had expressed concern that Defence projects were ‘largely invisible’ to the Parliament and the public.<sup>2</sup>
- 1.2 The MPR contains detailed information on a selection of Defence projects, including cost, project schedule and technical aspects. This information is provided in four parts:
  - ANAO’s independent review and analysis, which provides limited assurance of the accuracy of the information presented
  - Defence’s Major Projects Report and assessment
  - the Project Data Summary Sheets containing detailed information on each project assessed in the MPR, and
  - the MPR Guidelines for the year, as approved by the Committee.
- 1.3 As at 30 June 2022, Defence was managing 158 acquisition projects with a total value of \$130.5 billion.

## Conduct of the inquiry

- 1.4 The Committee adopted the *Inquiry into the 2020–21 and 2021–22 Major Projects Reports* on 9 March 2023, with terms of reference to consider both those reports and the scope and guidelines of MPR audits into the future.
- 1.5 On 11 May 2023, the Committee resolved to broaden the terms of reference for the inquiry to also consider issues raised or related to *Auditor-General Report No. 21*

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<sup>1</sup> Auditor-General Report No. 12 2022-23, *2021–22 Major Projects Report*, (hereafter, 2021–22 Major Projects Report), pages. 81 and 311.

<sup>2</sup> Auditor-General Report No. 9 of 2008-09, Major Projects Report 2007-08, p. 11; Senate Foreign Affairs, Defence and Trade References Committee, *Report into Materiel Acquisition and Management in Defence*, March 2003, pages 78-79.

2022–23<sup>3</sup> relating to the procurement of Hunter Class Frigates, one of the major projects included in the MPRs.

- 1.6 The Committee held three public hearings for the inquiry (see Attachment B) and received 5 submissions and 17 supplementary submissions (see Attachment A).

## Interim report in 2023

- 1.7 The Committee tabled an interim report for the inquiry on 26 June 2023<sup>4</sup>, which examined key issues arising from both the 2020-21 and 2021-22 Major Projects Report. Some of the key conclusions of the Committee were that:
- delays in taking appropriate and timely actions once a Defence project is formally designated a 'Project of Concern' is a significant issue and should not occur without valid reasons
  - there are still inconsistencies in Defence's risk management practices, although improvements have been made, and this still needs to be addressed going forward
  - contingency funding and Defence's approach to 'Lessons Learned' have been consistent issues across previous MPRs and continue to persist
  - Defence has not met the intent of the Committee's previous recommendation to properly define terms that are used in relation to a delta or deviation from project milestones being achieved.
- 1.8 The following three recommendations were made in the interim report:
- **Recommendation 1: The Committee recommends that the Department of Defence updates internal governance to require decisions for projects to enter the Projects of Interest or Projects of Concern list be actioned in a timely manner, taking no more than three months between decision and implementation**
  - **Recommendation 2: The Committee recommends that the Department of Defence provide a detailed update on the implementation of and compliance with internal policies for contingency funding and Lessons Learned for Major Projects**
  - **Recommendation 3: The Committee recommends that the Department of Defence provide an update on the requirements and consideration process to close recommendations from the Australian National Audit Office and the Joint Committee of Public Accounts and Audit, including an explanation as to why Recommendation 4 of Report 489: Defence Major Projects Report 2019-20 has been closed without meeting its intended purpose**

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<sup>3</sup> Auditor-General Report No. 21 2022–23, *Department of Defence's Procurement of Hunter Class Frigates* (hereafter Auditor-General Report No. 21 2022–23).

<sup>4</sup> Joint Standing Committee of Public Accounts and Audit, *Report 496 Inquiry into the Defence Major Projects Report 2020-21 and 2021-22 and Procurement of Hunter Class Frigates: Interim Report on the 2020-21 and 2021-22 Defence Major Projects Report*, June 2023, Canberra.

- 1.9 Responses to these recommendations had not been received at the time of adoption of this final report.

## **Focus of this (final) report**

### **Report structure**

- 1.10 In this final report, a focus of the Committee was the future conduct of the MPRs. These included an assessment of the reduced transparency of certain information in the Project Data Summary Sheets (PDSSs) for the Committee and the Parliament due to National Security concerns, and the limited nature of the assurance that ANAO can provide in these audits. These issues are discussed in chapter 2.
- 1.11 The Committee also conducted its investigation of the Hunter Class Frigates procurement by Defence, which is ongoing, in which it further scrutinised the findings of the ANAO in its specific performance audit of this process. This is the subject of chapter 3.

### **Future considerations for Major Projects Reports (chapter 2)**

- 1.12 The Committee considered the issue of transparency in relation to the MPR set against the need to withhold classified information on certain Defence spending from publication. The Committee acknowledges the tension between adequate Parliamentary scrutiny of and fostering public confidence in the expenditure of such large sums of public money on critical defence capability, versus issues of national security requiring the protection of certain information regarding capability and potential vulnerabilities arising from publication.
- 1.13 The Committee acknowledges that there are external accountability and assurance mechanisms in place to scrutinise Defence activities other than the MPR. The Committee considers however that the MPR is an important accountability mechanism that should continue for the foreseeable future, as it provides a structured level of scrutiny and granularity across major capability projects that would not be provided through these other processes.
- 1.14 The Committee discusses the ideas expressed by both Defence and ANAO during the inquiry to potentially provide sensitive information confidentially in the future to the Committee.

### **Procurement of the Hunter Class Frigates (chapter 3)**

- 1.15 On 4 August 2015 the Australian Government announced it was bringing forward its plans (to 2020) to replace the Royal Australian Navy's current fleet of eight ANZAC class frigates. Defence planned to build these new frigates in Australia as part of the Government's plan for long-term continuous shipbuilding. This shipbuilding plan was

intended to develop a sovereign Australian shipbuilding industry and create jobs in Australia.<sup>5</sup>

- 1.16 Auditor-General Report No. 21 2022–23 assessed the effectiveness of the Department of Defence’s procurement of Hunter class frigates and the achievement of value for money. The audit built on previous work by the Auditor-General on Defence’s acquisition and sustainment of Navy ships and implementation of the Australian Government’s 2017 *Naval Shipbuilding Plan*.<sup>6</sup>
- 1.17 A number of MPRs, including the 2021-22 audit, included the Hunter Class Frigates (originally named the Future Frigates) project. This was a project of significant public and parliamentary interest due to its importance to Australia’s shipbuilding industry and maritime defensive capability, and due to the very large cost to the taxpayer.
- 1.18 At the time of the announcement in 2018 of BAE Systems as the successful tenderer for the building of these frigates, this was designated as a \$35 billion program.<sup>7</sup> The ANAO noted in its audit of this procurement that:
- As of January 2023, Defence’s internal estimate of total acquisition costs, for the project as a whole, was that it was likely to be significantly higher than the \$44.3 billion advised to government at second pass in June 2018.<sup>8</sup>
- 1.19 The Australian Government’s 2020 *Force Structure Plan* (which included the acquisition or upgrade of up to 23 classes of Navy and Army vessels) subsequently reported that the cost of the Hunter class frigates was \$45.6 billion out-turned.<sup>9</sup>
- 1.20 The Government launched its new *National Defence Strategy and Integrated Investment Program* in April 2024 in which it was announced that only six Hunter Class Frigates will now be acquired (down from nine in the original program).<sup>10</sup>
- 1.21 The audit found overall that Defence’s management to date of its procurement of the Hunter class frigates had been only partly effective and raised numerous concerns regarding Defence’s process and administration, advice to Government and the then Government’s decision to choose BAE for a (then) \$35 billion project without a value for money assessment. ANAO made two recommendations in its report, both of which were agreed to by Defence, that:

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<sup>5</sup> Prime Minister and Minister for Defence, ‘Joint Media Release – The Government’s plan for a strong and sustainable naval shipbuilding industry’, 4 August 2015, available at <https://www.minister.defence.gov.au/media-releases/2015-08-04/joint-media-release-prime-minister-and-minister-defence-governments-plan-strong-and-sustainable-naval-shipbuilding-industry>, accessed 18 July 2023.

<sup>6</sup> Auditor-General Report No. 21 2022–23, pages 23-24.

<sup>7</sup> Auditor-General Report No. 21 2022–23, p. 7.

<sup>8</sup> Auditor-General Report No. 21 2022–23, p. 12.

<sup>9</sup> Auditor-General Report No. 21 2022–23, p. 7.

<sup>10</sup> *2024 National Defence Strategy and 2024 Integrated Investment Program*, Australian Government, Canberra, April 2024, available at <https://www.defence.gov.au/about/strategic-planning/2024-national-defence-strategy-2024-integrated-investment-program>, accessed 28 May 2024.

- Defence ensures its compliance with the Defence Records Management Policy and statutory record keeping requirements over the life of the project, and
  - Defence ensures its advice to Government on procurement for major capital acquisition projects documents the basis and reason for proposed decisions, including information on whole-of-life cost estimates and assessment of value for money.
- 1.22 ANAO also suggested further training and oversight might be required for Defence officials involved in major capital acquisition projects, and that there is scope for more active engagement with the Department of Finance in its role as the policy owner of the Commonwealth Procurement Rules (CPRs).
- 1.23 Key observations of the Committee in relation to this procurement process include:
- the core principles outlined in the CPRs of demonstrating value for money are fundamental to any expenditure by government on behalf of the taxpayer and it is patently evident that they were not adhered to by Defence in assessing proposals and advising government
  - Defence now accepts that a lack of a value for money assessment was a deficiency in the process, having now conducted its own internal review, but did not do so when formally responding to the audit finding in which it argued that these assessments had in fact been done
  - it is striking that neither Defence nor the ANAO were able to identify any other project a Value for Money Assessment was not undertaken, yet the former Government nevertheless proceeded to select BAE for a (then) \$35 billion project;— as this was a Cabinet process no one will ever really know whether this was a conspiracy to achieve a pre-determined outcome or incompetence
  - it is peculiar that the rules required Finance to prepare a Cost and Risk statement for Government following the selection of the preferred tenderer, but not to play any further role in ensuring value for money was being demonstrated
  - the design maturity of the Hunter Class frigates was a critical consideration, yet they selected BAE to build a ship that had never been built anywhere in the world and is seemingly still at the pre-prototype stage years later. The assessment by Defence through its panel of in-house and international experts that the Hunter Class frigate design was ‘mature’ simply makes no sense and the Committee welcomes the Secretary’s admission that in retrospect it is clear the ship selected was simply not a ‘mature design’
  - the lack of record-keeping highlighted in the Auditor-General’s report was acknowledged by Defence through this inquiry as a serious issue which is welcome, despite its decidedly flippant response in the audit report while agreeing to the corresponding recommendation
  - the Committee accepts that this project was rightly assessed as high-risk given the new and very constrained timeframe that was imposed on Defence by the then Government.





## 2. The future of the MPR

- 2.1 As indicated in the interim report, further consideration of certain aspects of the Major Projects Report (MPR) guidelines and scope was to be undertaken by the Committee in the latter part of the inquiry.

### Transparency

- 2.2 The MPR guidelines prepared by Australian National Audit Office (ANAO) and the Department of Defence (Defence), and then endorsed by the Committee each year, require that detailed information on the included Defence projects to be made publicly available through an established Project Data Summary Sheet (PDSS) format. However, some of this information provided to ANAO can be withheld from publication on National Security grounds, which reduces the transparency of these audits for the Parliament.
- 2.3 In the 2020–21 and 2021–22 MPRs, Defence made the decision not to publish certain schedule information in the relevant PDSSs (for four projects in 2021–22 and 12 projects in 2022-23) due to National Security concerns.<sup>1</sup>
- 2.4 The Committee explored the balance between the need for transparency through the MPR process and the requirement for certain information to not be published. Defence responded on notice to questions on this issue that it would be reviewing aspects of security and would make recommendations as part of its process of engagement with ANAO.<sup>2</sup> Defence further commented:

Consideration could also be given to the use of classified briefings for the Committee to facilitate a balance between public transparency and the need to keep certain information classified.<sup>3</sup>

- 2.5 Defence stated in its primary submission to the inquiry that it welcomes the opportunity to ‘design a more contemporary and accessible report that meets the expectations for public transparency and presentation of information.’<sup>4</sup> Defence further remarked:

The MPR is the most detailed aggregate of performance information across a collective group of Defence projects in the public domain. As the MPR is externally reported, it must take into account national security considerations.

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<sup>1</sup> Australian National Audit Office (ANAO), Supplementary Submission 2.4, p. 1.

<sup>2</sup> Defence, Supplementary Submission 1.2, p. [21].

<sup>3</sup> Defence, Supplementary Submission 1.2, p. [21].

<sup>4</sup> Defence, Submission 1, p. 3.

This includes the ability of foreign actors to consolidate information in the public domain to gain insights into Defence capabilities and potential capability gaps. Defence considers that national security, balanced with the need for transparency, should be a key driver in a review of the classification and scope of the MPR.<sup>5</sup>

2.6 The Auditor-General remarked on this issue at the public hearing on 19 May 2023 that:

The work that we do on the MPR is an assurance report, based on guidelines that are established by the public accounts committee. The public accounts committee guidelines set out that Defence should prepare the reports on the basis of how it thinks national security should be disclosed. We don't have a role in the MPR process of forming a judgement, really, about the view that they take, because that's how the guidelines are established.<sup>6</sup>

2.7 In its supplementary submission to the inquiry, ANAO stated that 'Defence's decision to not disclose certain information in the 2021–22 and 2022–23 MPRs has reduced the transparency of the MPR and the level of public reporting and analysis available to the Parliament'.<sup>7</sup> ANAO further remarked:

Going forward, the level and nature of non-disclosure by Defence may lead the Auditor-General to not accept the assurance engagement... There may be limited benefit in the ANAO providing assurance over information that the Parliament as a whole does not get to see, and undertaking work with limited benefit may not be the best use of ANAO resources.<sup>8</sup>

2.8 The ANAO commented also in this submission that 'transparency supports entity accountability to the Parliament as a whole and through it to the community',<sup>9</sup> emphasising that 'public reporting is a means of informing the public sector and others of ANAO findings and contributes to improved public sector performance'.<sup>10</sup>

2.9 The ANAO also proposed some options for improving transparency in situations where certain disclosures are not made by Defence in its PDSSs:

- confidential reporting by the Auditor-General to the JCPAA or other Parliamentary committee as a means of providing assurance to Parliament; and/or
- the provision of a confidential submission by the ANAO to the JCPAA.<sup>11</sup>

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<sup>5</sup> Defence, Submission 1, pages 3–4.

<sup>6</sup> Mr Grant Hehir, Auditor-General, ANAO, *Committee Hansard*, Canberra, 19 May 2023, p. 2.

<sup>7</sup> ANAO, Supplementary Submission 2.4, p. 3.

<sup>8</sup> ANAO, Supplementary Submission 2.4, p. 3.

<sup>9</sup> ANAO, Supplementary Submission 2.4, p. 3.

<sup>10</sup> ANAO, Supplementary Submission 2.4, p. 3.

<sup>11</sup> ANAO, Supplementary Submission 2.4, p. 4.

- 2.10 The ANAO emphasised however that ‘The Act [*Auditor General Act 1997*] does not provide for confidential reporting to Parliament, or for the presentation of reports other than to Parliament as a whole’.<sup>12</sup> ANAO stated:

Subsection 37(5) of the Act provides for the Auditor-General to prepare a confidential report for Ministers, where the Auditor-General decides to not prepare a public report or omits particular information from a public report. Under subsection 37(2) of the Act the reasons for doing so include prejudice to the security, defence or international relations of the Commonwealth.<sup>13</sup>

- 2.11 ANAO further commented that reporting publicly to Parliament is a cornerstone of its audit and assurance functions and that ‘it would be of concern if a precedent were set for reduced transparency to the Parliament as a whole in ANAO reporting assurance’.<sup>14</sup>

- 2.12 ANAO stated however that the ‘provision of confidential ANAO submissions to committees of the Parliament is an alternative to confidential reporting’.<sup>15</sup> ANAO notes in this regard that:

... the Parliamentary Joint Committee on Intelligence and Security (PJCIS) has sought submissions, including confidential submissions, from six intelligence agencies and the ANAO as part of its annual review of administration and expenditure. The ANAO has made such submissions to the PJCIS, drawing on its audit work.<sup>16</sup>

## Assurance

- 2.13 The MPR provides a limited assurance review by ANAO of the major projects at Defence that have been included in the audit. As explained by ANAO in this regard:

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than those performed for, a reasonable assurance engagement (an ANAO performance audit is typically a reasonable assurance engagement).<sup>17</sup>

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<sup>12</sup> ANAO, Supplementary Submission 2.4, p. 3.

<sup>13</sup> ANAO, Supplementary Submission 2.4, p. 3.

<sup>14</sup> ANAO, Supplementary Submission 2.4, p. 4.

<sup>15</sup> ANAO, Supplementary Submission 2.4, p. 4.

<sup>16</sup> ANAO, Supplementary Submission 2.4, pages 4–5.

<sup>17</sup> Auditor-General Report No. 13 2021–22, 2020–21 Major Projects Report, (hereafter, 2020–21 Major Projects Report), p. 5, footnote 7.

2.14 The Auditor-General's identical concluding remark in his Independent Assurance Report for both the 2020-21 and 2021-22 MPRs is that:

I do not express a reasonable assurance opinion on whether the PDSSs and the Statement by the Secretary of Defence are prepared in all material respects in accordance with the Guidelines.<sup>18</sup>

2.15 The ANAO further explained the reason for this as follows:

The ANAO's work is appropriate for the purpose of providing an *Independent Assurance Report* in accordance with the *ANAO Auditing Standards*. However, the review of individual PDSSs is based on a limited assurance approach and is not as extensive as individual performance audits and financial statement audits conducted by the ANAO, in terms of the nature and scope of issues covered, and the extent to which evidence is required by the ANAO.<sup>19</sup>

2.16 Defence provided supplementary evidence to the Committee in response to questions on assurance issues that arose from the 2020–21 and 2021–22 MPR reviews, stating in that submission that 'there is a robust reporting regime on Defence major projects, allowing for external assurance through a variety of mechanisms including by the Parliament and more broadly by the public'.<sup>20</sup> Defence further remarked:

Defence reports on the performance of major projects in accordance with parliamentary requirements and at the direction of Defence portfolio Ministers.<sup>21</sup>

2.17 Defence further expressed its views in this same submission that current frameworks provide a robust external assurance regime for its activities through a variety of mechanisms including:

- Defence Annual Report, Portfolio Budget Statements and Portfolio Additional Estimates Statements
- External audit and assurance activities facilitated through the MPR and individual ANAO project performance audits
- Parliamentary oversight and broader consideration of Defence's performance and planned activities via the:
  - Parliamentary Standing Committee on Public Works, to which Defence is required to present proposals for new and upgraded facilities at Defence establishments
  - Senate Estimates processes and
  - Other Parliamentary Committee inquiries.<sup>22</sup>

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<sup>18</sup> 2020–21 Major Projects Report, p. 114; Auditor-General Report No.12 2022–23, 2021–22 Major Projects Report (hereafter, 2021–22 Major Projects Report), p. 115.

<sup>19</sup> 2020–21 Major Projects Report, p. 19.

<sup>20</sup> Defence, Supplementary Submission 1.9, p. 2.

<sup>21</sup> Defence, Supplementary Submission 1.9, p. 2.

<sup>22</sup> Defence, Supplementary Submission 1.9, pages 2–3.

2.18 Defence comments in its submission to the inquiry that the scope and evidence requirements of the MPR, as a limited assurance activity, are worthy of re-evaluation:

As a Limited Assurance Activity, the MPR combines elements of a number of auditing approaches. Defence would welcome Committee consideration of the scope and evidence requirements and mapping of information for assurance, to ensure the MPR meets the intent of a Limited Assurance Activity. Defence acknowledges the complexity of Defence programs and would welcome consideration of the role of any specialist assurance practitioners in the MPR.<sup>23</sup>

## International comparisons

2.19 The Parliamentary Library was asked by the Committee to conduct a comparison of international comparison of major military project audit reports from Canada, New Zealand, the United Kingdom and the United States. There are considerable differences between these countries and Australia in the conduct of these audits as summarised below in Table 1.

**Table 1 Major Projects Report - International Comparisons**

Country	Auditor	Report	Scope	Differences from the MPR
Canada	Department of National Defence and Canadian Armed Forces	Status Report on Transformational and Major Capital Projects	Annual publication. The online Status Report includes 20 major approved projects and provides contractor details, project scope and schedule but not costs. There are irregular publications also by the Auditor-General of Canada.	Not an independent assessment in the manner of the ANAO's MPR or Performance Audits.
New Zealand	Controller and Auditor-General and Audit New Zealand	Major projects report	Annual publication. Considered by the Select Committee on Foreign Affairs, Defence and Trade.	Fewer projects and less scrutiny due to Audit New Zealand conducting an assurance activity rather than an audit.

<sup>23</sup> Defence, Submission 1, p. 3.

United Kingdom	National Audit Office (NAO)	The Equipment Plan (from 2012 to current). Major projects reports (until 2015). Irregular assessments of specific MOD programs (Value for Money reports) and projects.	Annual publication. Considered by the Public Accounts Committee. The most recent report (2022) covered 19 approved and unapproved projects.	The Equipment Plan has a 10-year outlook and includes a number of assumptions about costs and schedules.
United Kingdom	Infrastructure and Projects Authority (IPA)	Annual report on major projects and Government major projects portfolio (GMPP) data by department	Annual publication and quarterly statistical updates	The IPA provides independent scrutiny, project advice and assurance to government departments (including the MOD) on complex and strategically significant projects and programs.
United States	Office of the Director Operational Test and Evaluation (DOT&E)	DOT&E Annual Report	Contains, amongst other things, evaluation records which feature a brief description of the program. Assessment focuses on testing and evaluation, comments on progress	Has similarities to the MPR as contains data sheets for individual programs. Annual Report evaluation records are more concise than the MPR PDSSs, but their scope is narrower.

Source: Parliamentary Library (see Appendix A)

## Committee comment

2.20 The Committee concludes that the MPR is an important accountability mechanism that should continue for the foreseeable future, albeit with some potential adjustments. In reaching this high-level conclusion, the Committee acknowledges that there are external accountability and assurance mechanisms in place to scrutinise Defence activities other than the MPR. However, the MPR provides a structured level of scrutiny and granularity across major capability projects that would not be provided through these other processes. In addition, over many years evidence and advice provided to the Committee suggest that the discipline of the

MPR has had positive impacts on Defence's internal management of major projects, notwithstanding the inherent administrative and reporting burden.

- 2.21 With regard to the future scope of the MPR, the Committee has not reached firm conclusions at this stage. There are few useful international comparators that provide the rigour of public, independent assurance via a national audit institution. There is some attraction to the idea of reporting on a wider suite of capability projects at a less detailed level, or a hybrid approach which could slightly reduce or limit the number of projects included in the annual MPR that are subject to detailed PDSS preparation and assurance review by the ANAO accompanied by additional higher-level reporting on a wider suite of projects. Insufficient evidence was received, however, as to whether such changes are feasible or would then warrant the involvement of the ANAO which the Committee continues to see as valuable and desirable.
- 2.22 The Committee also notes that as Defence's project management systems and software continue to mature and improve then there should be further efficiencies to be gained by increasing the amount of automation of the preparation of the PDSSs and reducing the administrative overheads on Defence.
- 2.23 The Committee invites Defence and the ANAO to continue to propose sensible adjustments to the form and scope of the MPR when presenting the annual guidelines for the Committee's consideration and approval and/or via annual inquiries into future MPRs.
- 2.24 With regard to questions of confidentiality and withholding of certain information from publication, the Committee accepts that national security considerations may at times necessarily prevent the publication of certain information in the Project Data Summary Sheets. Ill-considered open-source information can provide potential adversaries with insights into potential capability deficiencies and vulnerabilities,
- 2.25 The Committee also accepts the ANAO's advice that it has an underlying duty to the Parliament to provide adequate transparency and regards this as a cornerstone of its activities. The ANAO's concerns about continuing to provide assurance over information that cannot be published are reasonable. Transparency in public sector performance fosters public confidence in the activities of Government, particularly when expending very large sums of public money.
- 2.26 The issue then is how to satisfactorily resolve the inherent tension between accountability and continuing to publish a robust and useful report, and the need to protect sensitive information.
- 2.27 The Committee considers that given the need for ongoing scrutiny by the Parliament in the current strategic environment the best approach would be to supplement the published MPR with a confidential submission from the ANAO and related briefings with Defence where information cannot be published.
- 2.28 In reaching this conclusion the Committee is mindful that:
- Defence and the ANAO must continue to maximise the information published in the MPR, as the availability of confidential mechanisms to brief certain

Parliamentarians via the Committee process must not be used as a device to reduce transparency to all Parliamentarians and the public or media scrutiny.

- The preference of the Committee is to adopt the Auditor-General's proposal to make a confidential submission to the JCPAA to supplement the MPR, as opposed to amending legislation to enable a confidential version of the MPR report or diverting consideration of the MPR to the new Joint Statutory Committee on Defence (JSCD). The ability of the JCPAA to oversight procurement and public administration to the maximum extent reasonably possible should continue. This will require further dialogue with Defence and the ANAO and potentially the Minister for Defence regarding distinctions between 'confidential' and 'classified' information and appropriate handling procedures.
- If highly sensitive issues arise in future MPRs that raise classification issues cannot reasonably be dealt with by the JCPAA, only then would such issues be referred to the new JSCD to explore in a classified setting.

## **Recommendation 1**

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- 2.29 The Committee recommends that for future inquiries into Defence Major Project Reports the Australian National Audit Office provide a confidential submission regarding information required to be withheld from publication in Project Data Summary Sheets due to national security with appropriate handling procedures, and the Department of Defence organise confidential or classified briefings as required.**



## 3. Hunter class frigates

### Overview of the project

- 3.1 The Hunter Class Frigates project arose from the Australian Government's announcement in August 2015 that it was bringing forward to 2020 its plans to replace the Royal Australian Navy's current fleet of eight ANZAC class frigates. The Department of Defence (Defence) planned to build the new frigates in Australia as part of the Government's plan for long-term continuous shipbuilding, intended to develop a sovereign Australian shipbuilding industry and foster job creation.<sup>1</sup>
- 3.2 The frigate project was to be delivered in five stages:
- 1 Competitive evaluation process to identify a designer and builder
  - 2 Design and productionisation<sup>2</sup>
  - 3 Batch one ship build delivering three ships
  - 4 Batch two ship build delivering three additional ships, and
  - 5 Batch three ship build delivering the final three ships (nine in total).
- 3.3 Defence began a shortlisting process for the frigate project in August 2015 with an initial market survey to relevant ship designs which met the essential criteria. These criteria included ships that would be buildable and supportable in Australia within the program budget, commence in 2020, and meet the Navy's capability requirements.<sup>3</sup> Defence used these criteria to shortlist three designs from an initial panel of seven for a further competitive evaluation process.<sup>4</sup>
- 3.4 The Government announced in June 2018 that it had assessed the three shortlisted designs in a competitive evaluation process and that the new frigates would be designed by BAE Systems and designated the Hunter Class.<sup>5</sup> The selected design

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<sup>1</sup> Prime Minister and Minister for Defence, 'Joint Media Release – The Government's plan for a strong and sustainable naval shipbuilding industry', 4 August 2015, available at <https://www.minister.defence.gov.au/media-releases/2015-08-04/joint-media-release-prime-minister-and-minister-defence-governments-plan-strong-and-sustainable-naval-shipbuilding-industry>, accessed 18 July 2023.

<sup>2</sup> Turning a prototype into a version that can more easily be mass produced.

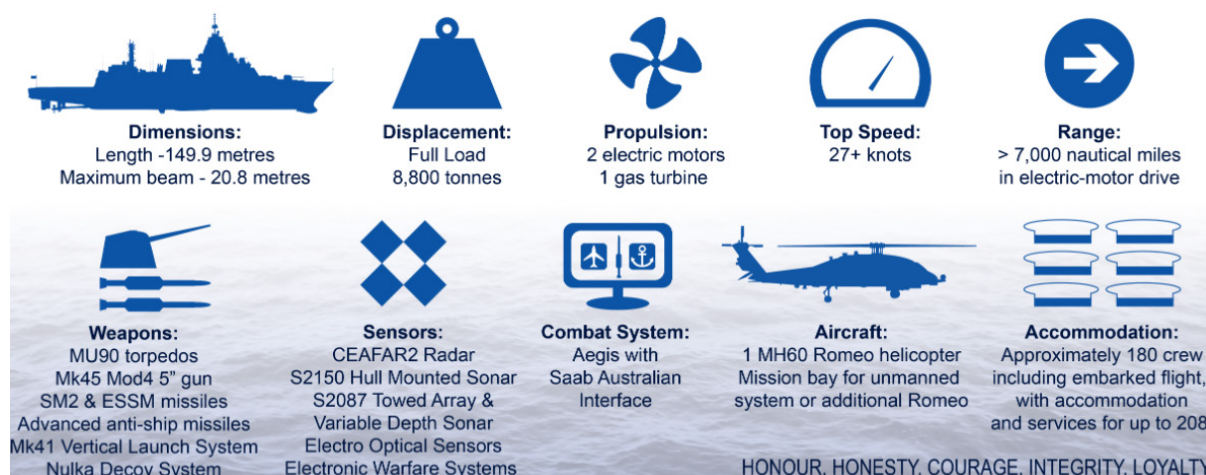
<sup>3</sup> Auditor-General Report No. 21 2022–23, *Department of Defence's Procurement of Hunter Class Frigates* (hereafter Auditor-General Report No. 21 2022–23), p. 29.

<sup>4</sup> Auditor-General Report No. 21 2022–23, p. 34.

<sup>5</sup> Prime Minister, Minister for Defence, Minister for Defence Industry and Minister for Finance, 'The Hunter class – defending Australia and securing our shipbuilding sovereignty', joint media release, 29 June 2018, available at: [https://www.minister.defence.gov.au/media-releases/2018-06-29/joint-media-release-prime-](https://www.minister.defence.gov.au/media-releases/2018-06-29/joint-media-release-prime)

was based on the BAE Systems Type 26 Global Combat Ship design with Australian modifications. The key modifications were to integrate the United States Navy's Aegis combat management system with a Saab Australian interface and Australian CEA Technologies phased array radar.<sup>6</sup> The platform characteristics for the Hunter Class frigate design are graphically depicted in Figure 1.

**Figure 1 Characteristics and key systems of the Hunter Class Frigates**



Source: Auditor-General Report No. 21 2022–23, *Department of Defence's Procurement of Hunter Class Frigates*, p. 20.

- 3.5 As noted in the Auditor-General's report, the Government's *2020 Force Structure Plan* reported a cost estimate for these new ships of \$45.6 billion upon delivery of the intended nine vessels.<sup>7</sup> The audit report further noted that the acquisition of new frigates was a key part of the Government's expenditure on maritime capability and a key contribution to the ongoing capability of the Australian Defence Force.<sup>8</sup>
- 3.6 Defence entered into a head contract with BAE Systems Australia (BAE) in December 2018<sup>9</sup> valued at \$1,904.1 million. The contract covered the design and productionisation work for the Hunter Class Frigates (stage two). By March 2023, the value of the head contract had increased to \$2,597.4 million. Defence planned to return to government to approve additional contracts under this head contract for the different ship build batches.<sup>10</sup>

minister-minister-defence-minister-defence-industry-minister-finance-hunter-class-defending-australia-and-securing-our-shipbuilding-sovereignty, accessed 11 March 2024.

<sup>6</sup> Auditor-General Report No. 21 2022–23, p. 20.

<sup>7</sup> This is the 'out-turned' estimate, which is the projected expenditure over time adjusted for inflation and foreign exchange rates.

<sup>8</sup> Auditor-General Report No. 21 2022–23, p. 7.

<sup>9</sup> Defence entered into the contract with ASC Shipbuilding, a subsidiary of BAE Systems Australia. In December 2020 ASC Shipbuilding commenced trading as BAE Systems Maritime Australia.

<sup>10</sup> Auditor-General Report No. 21 2022–23, p. 21.

- 3.7 The head contract committed BAE and the Commonwealth to work to develop a strategic relationship in accordance with a set of principles. This included developing a culture of open communication and transparency' and 'discussing all issues in an open and honest manner'.<sup>11</sup>

## The Commonwealth procurement framework

- 3.8 The Commonwealth Procurement Rules (CPRs) are at the core of the Commonwealth procurement framework.<sup>12</sup> The CPRs are issued by the Finance Minister under section 105B of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and provide the basic compliance framework for the Commonwealth entities subject to them in undertaking procurements.<sup>13</sup> These rules apply to Defence major project procurements, including the acquisition of the nine new Hunter Class frigates.

## Audit findings

- 3.9 Auditor-General Report No. 21 2022–23 (the audit) assessed the effectiveness of the Department of Defence's procurement of Hunter class frigates and the achievement of value for money.
- 3.10 The audit built on previous work by the Auditor-General on Defence's acquisition and sustainment of Navy ships and implementation of the Australian Government's 2017 *Naval Shipbuilding Plan*. This included performance audits, as well as the inclusion of the Hunter Class Frigate project, referred to as SEA 5000 Phase 1, in the annual Major Projects Report.<sup>14</sup>
- 3.11 The audit considered Defence's:
- tender process
  - advice to government on the procurement
  - contracting arrangements
  - contract monitoring and reporting arrangements, and
  - delivery of project milestones.

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<sup>11</sup> Auditor-General Report No. 21 2022–23, p. 22.

<sup>12</sup> Department of Finance (Finance), Procurement Framework, available at: <https://www.finance.gov.au/government/procurement/commonwealth-procurement-rules/procurement-framework> , accessed on 24 July 2023.

<sup>13</sup> Official of non-corporate Commonwealth entities must comply with the CPRs. Officials of corporate Commonwealth entities must comply with the 'rules for all procurements' listed in Division 1 and the 'additional rules' listed in Division 2 when the expected value of the procurement is above the relevant threshold. Australian Government, Commonwealth Procurement Rules, 13 June 2023, pages 3 and 9

<sup>14</sup> Auditor-General Report No. 21 2022–23, pages 23–24.

- 3.12 The audit found overall that Defence's management to date of its procurement of the Hunter class frigates had been only partly effective:

Defence's procurement process and related advisory processes lacked a value for money focus, and key records, including the rationale for the procurement approach, were not retained. Contract expenditure to date has not been effective in delivering on project milestones, and the project is experiencing an 18-month delay and additional costs due in large part to design immaturity.<sup>15</sup>

- 3.13 ANAO found in its audit that Defence did not conduct an effective limited tender process for the ship design, did not assess value for money for the three competing designs, and that the Tender Evaluation Plan did not include a requirement for this. These practices were not compliant with the CPRs or the Defence Procurement Policy Manual.<sup>16</sup>
- 3.14 ANAO further found that though Defence's advice to Government on the approval for the Hunter Class Frigate project was timely and informative, its advice at the second pass approval was not complete. Defence did not advise Government that it had not conducted a value for money assessment, that it considered that Government would make this assessment, or that its Tender Evaluation Plan stated that Government would assess value for money.<sup>17</sup>
- 3.15 Defence's response to these audit findings at that time was that it 'ensures all procurement advice to Government on major acquisition projects includes the basis and rationale for proposed decisions, including value for money.'<sup>18</sup>
- 3.16 Defence was found in the audit to have largely fit-for-purpose contracting arrangements, although the contract management plan was established three and a half years after the head contract was executed. Notably however, ANAO reported that Defence's expenditure was not effective in delivering on milestones for the Hunter Class Frigate project and that the cost of the head contract had increased. A lack of design maturity resulted in an 18-month delay to the project and extension of the design and productionisation phase, at an additional cost of \$422.8 million to the taxpayer.<sup>19</sup>
- 3.17 ANAO made two recommendations in the audit report, both of which were agreed to by Defence:

- 1 The Department of Defence ensures compliance with the Defence Records Management Policy and statutory record keeping requirements over the life of the Hunter class frigates project, including capturing the rationale for key decisions, maintaining records, and ensuring that records remain accessible over time.

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<sup>15</sup> Auditor-General Report No. 21 2022–23, pages 6 and 9.

<sup>16</sup> Auditor-General Report No. 21 2022–23, p. 27.

<sup>17</sup> Auditor-General Report No. 21 2022–23, p. 27.

<sup>18</sup> Auditor-General Report No. 21 2022–23, p. 14.

<sup>19</sup> Auditor-General Report No. 21 2022–23, p. 58.

- 2 The Department of Defence ensures that its procurement advice to the Australian Government on major capital acquisition projects documents the basis and rationale for proposed selection decisions, including information on the department's whole-of-life cost estimates and assessment of value for money.<sup>20</sup>

3.18 ANAO also identified three opportunities for improvement,<sup>21</sup> that Defence should:

- confirm all probity matters have been drawn to the attention of the probity advisor before obtaining final sign-off
- clearly map reported outcomes to contract negotiation directions and strategies, and
- prepare key contract management documents in a timely manner.<sup>22</sup>

3.19 Additionally, ANAO suggested further training and oversight might be required for Defence officials involved in major capital acquisition projects, and that there is scope for more active engagement with the Department of Finance in its role as the policy owner of the CPRs.<sup>23</sup>

## Committee's inquiry

3.20 On 11 May 2023, the Committee broadened the scope of its combined 2020–21 and 2021–22 MPR inquiry to also include a detailed review of the Hunter Class Frigate performance audit. The Committee made this decision as concerning issues were highlighted by ANAO in relation to this significant naval acquisition.

3.21 The Committee focused its examination on several key issues in relation to the Hunter Class procurement processes:

- lack of value for money consideration
- advice to government
- poor record keeping
- lack of design maturity
- use of probity advisors
- capability of the new frigates, and
- Australian industry capability.

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<sup>20</sup> Auditor-General Report No. 21 2022–23 *Department of Defence's Procurement of Hunter Class Frigates*, p. 13.

<sup>21</sup> Opportunities for improvement do not require a response from the audited entity. Auditor-General Report No. 22 2022–23, *Implementation of Parliamentary Committee and Auditor-General Recommendations — Attorney-General's Portfolio*, p. 36.

<sup>22</sup> Auditor-General Report No. 21 2022–23, pages 44, 61 and 66.

<sup>23</sup> Auditor-General Report No. 21 2022–23, pages 56–57.

# Value for money

## Requirements under the current procurement rules

- 3.22 When undertaking procurement activities and entity's accountable authority must promote efficient, effective, economical and ethical use of public resources in accordance with the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and the CPRs.<sup>24</sup> Achieving value for money is the core rule of the CPRs irrespective of the type of procurement process undertaken.<sup>25</sup> Responsibility for assessing value for money rests with officials under the CPRs, including processes where ministers are the final decision-makers on procurement outcomes.<sup>26</sup>
- 3.23 The CPRs recognise that price is not the sole factor in assessing value for money and state that officials must consider relevant financial and non-financial costs. These can include the quality of good and services, flexibility of the proposal, environmental sustainability of the proposed goods and services, and the whole-of-life costs. This assessment also considers the benefit to the Australian economy.<sup>27</sup>
- 3.24 The Committee's recent report on Commonwealth procurement raised a number of examples where value for money had not been demonstrated or prioritised in the procurement process and discussed the resulting issues that arose from this.<sup>28</sup>

## Issues relating to the Hunter Class Frigates

- 3.25 Defence's Request for Tender (RFT) for the Hunter Class frigates set out 10 evaluation criteria and other considerations, including value for money. Additionally, the RFT stated that the evaluation criteria would be used to determine the best option to 'support the achievement of the Project Objectives on a value for money basis'.<sup>29</sup>
- 3.26 Defence developed and approved a Tender Evaluation Plan (TEP) for the procurement of the Hunter Class Frigates that was intended to be the 'the planning and control document for the management and conduct of the tender evaluation'.<sup>30</sup>
- 3.27 This TEP set out the roles, responsibilities and processes to be followed in the evaluation. The TEP also stated that Defence did not need to evaluate and rank tenders based on value for money, and that its assessment would focus on the tender evaluation criteria which addressed capability, timing, project management and Australian Industry components, not pricing or value for money.<sup>31</sup> The TEP

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<sup>24</sup> Auditor-General Report No. 21 2022–23, (hereafter Auditor-General Report No. 21 2022–23), p. 27.

<sup>25</sup> Finance, *Commonwealth Procurement Rules*, p. 11.

<sup>26</sup> Auditor-General Report No. 21 2022–23, p. 15.

<sup>27</sup> Finance, *Commonwealth Procurement Rules*, pages 11 and 12.

<sup>28</sup> Joint Committee of Public Accounts and Audit (JCPAA), *Report 498: 'Commitment issues' – An inquiry into Commonwealth procurement*, p. 26.

<sup>29</sup> Auditor-General Report No. 21 2022–23, p. 34.

<sup>30</sup> Auditor-General Report No. 21 2022–23, p. 37.

<sup>31</sup> Auditor-General Report No. 21 2022–23, pages 36 and 39.

stated that 'it is proposed that Government will consider the value for money of the tenders'.<sup>32</sup>

- 3.28 The Australian Government Solicitor (AGS) signed off on the TEP, stating that it had identified no probity of legal process issues. AGS noted, however, that no value for money assessment was required, and that this decision would need to be made by some level of government which should be documented in the TEP.<sup>33</sup>
- 3.29 The audit indicates that earlier drafts of the TEP included a value for money assessment that was eventually removed.<sup>34</sup> At the 19 May 2023 public hearing, Defence officials could not explain why this had been done.<sup>35</sup> Defence further advised the Committee in a written response that it could not provide another example of a TEP where value for money was not considered, stating 'this situation appears to have been unique [to the Hunter Class TEP]'.<sup>36</sup>
- 3.30 ANAO reported in the audit that Defence followed its TEP and that its evaluation report did not include an assessment of value for money.<sup>37</sup> Senior Defence Committees considered the tenders and proposal before the three shortlisted tenders, with the Type 26 frigate design becoming the preferred option, went to government for decision. None of these Committees explicitly addressed value for money.<sup>38</sup>
- 3.31 In its 'second pass' advice to government to approve the preferred tenderer, Defence provided advice on its preferred capability, and the cost of the tender options, but did not include an assessment of value for money.
- 3.32 The Department of Finance (Finance) informed the Committee in its supplementary submission to the inquiry that it has an ongoing role in assessing Defence capability proposals:

Finance reviews information provided by Defence in order to provide a view on whether the costs are reasonable, realistic, comprehensive and consistent with the proposal being presented to Government (similar to the process for assessing a New Policy Proposal, but without formally agreeing to costs). Finance also provides a Cost and Risk statement that is included in the relevant cabinet submission, which provides advice on cost quality, affordability and key risks of the project, as well as any mitigation strategies proposed by Defence to address those risks.<sup>39</sup>

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<sup>32</sup> Auditor-General Report No. 21 2022–23, p. 39.

<sup>33</sup> Auditor-General Report No. 21 2022–23, p. 39.

<sup>34</sup> Auditor-General Report No. 21 2022–23, p. 39.

<sup>35</sup> Mr Matt Yannopoulos, Associate Secretary, Department of Defence, *Committee Hansard*, Canberra, 19 May 2023, p. 19.

<sup>36</sup> Defence, Supplementary Submission 1.5, p. [1].

<sup>37</sup> Auditor-General Report No. 21 2022–23, p. 40.

<sup>38</sup> Auditor-General Report No. 21 2022–23, pages 48 and 49.

<sup>39</sup> Finance, Supplementary Submission 3.1, p. 4.

3.33 Finance further stated that its role in the Hunter Class Frigate Program was to regularly engage with Defence on capability development leading up to the 2018 decision to select BAE as the preferred tenderer, and then prepare a Cost and Risk statement 'which advised Government on key factors relevant to the consideration of value for money, consistent with Finance's general role in advising Government on Defence capability proposals'.<sup>40</sup>

3.34 Finance indicated however that its Cost and Risk Statement advice was that 'that the decision to select BAE was based solely on capability' and further stated:

Consistent with Finance's normal role in Defence capability acquisitions, Finance had no direct role in relation to the procurement process conducted by Defence and did not directly reflect on Defence's assessment processes in its advice to Government.<sup>41</sup>

3.35 At the public hearing on 20 November 2023, Finance further commented on this specifically, indicating that it had reflected on the matter and would take a different approach were it to happen again:

In terms of the cost and risk statement that the Department of Finance puts together that accompanies any of these submissions going to government, as I said in May, we acknowledge that we didn't explicitly call out that there wasn't a value-for-money assessment... I think the key learning for us is that, moving forward, we've spoken about how I would hope we wouldn't be in this circumstance, but, if we were in the circumstance where that piece of analysis was missing, we would more explicitly call it out, rather than the way we handled it in this circumstance.<sup>42</sup>

3.36 In its response to ANAO's findings on the issue of demonstrating value for money Defence stated:

Defence recognises that value for money is not solely determined by the price. The Government determined there to be value for money in establishing a sovereign, sustainable, cost-competitive continuous shipbuilding program in Australia. The tenders were therefore considered in line with the Government's policy around continuous naval shipbuilding.<sup>43</sup>

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<sup>40</sup> Finance, Supplementary Submission 3.1, p. 5.

<sup>41</sup> Finance, Supplementary Submission 3.1, p. 5.

<sup>42</sup> Mr Nathan Williamson, Deputy Secretary, Governance and Resource Management, Finance, *Committee Hansard*, Canberra, 20 November 2023, p. 14.

<sup>43</sup> Auditor-General Report No. 21 2022–23, p. 101.

- 3.37 At the 19 May 2023 public hearing, the ANAO noted that Defence had conducted procurements in the past, such as the Offshore Patrol Vessel, which assessed and informed government of clear value for money assessments, comparisons, and rankings. The ANAO also noted that in other audits of Defence shipbuilding projects it had seen comparative value for money assessments in the advice to Government.<sup>44</sup>
- 3.38 During the course of the inquiry, Defence conducted an internal review of its Hunter Class procurement processes and provided its findings to the Committee in a supplementary submission.<sup>45</sup> Defence made a number of observations in this review regarding its assessment of value for money:
- Defence did not appear to recognise how the incompatibility between the project objectives, including considerations relating to price and continuous naval shipbuilding, and the procurement method as described in the tender documents, would impact on Defence's ability to achieve value for money.
  - Across the planning, shortlisting and down-select stages of the procurement, deficiencies in the process complicated the ability of Defence to achieve value for money during the course of the procurement and compliance with legislated requirements and Defence procurement policy.
  - Defence did not use all information available out of the tender process to undertake a comparative assessment in a manner consistent with Defence procurement policy. In failing to do this, Defence did not fulfil the requirements of the Commonwealth Procurement Rules in relation to achieving value for money.
  - Advice to the then-government at second pass in connection with the conduct of a value for money assessment was poorly executed by Defence.<sup>46</sup>
- 3.39 Issues concerning inadequate advice to Government during the Hunter Class procurement process are considered in the next section.
- 3.40 Defence's overall observations from its internal review findings were that 'these matters in combination could have ultimately led ANAO to form their view in connection to Defence not fulfilling the requirements of the Commonwealth Procurement Rules in relation to achieving value for money'.<sup>47</sup>

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<sup>44</sup> Dr Tom Ioannou, Group Executive Director Performance Audit Service Group, Australian National Audit Office (ANAO), *Committee Hansard*, Canberra, 19 May 2023, p. 20.

<sup>45</sup> Defence, Supplementary Submission 1.5.

<sup>46</sup> Defence, Supplementary Submission 1.5, pages 3-4.

<sup>47</sup> Defence, Supplementary Submission 1.5, p. 5.

- 3.41 The Secretary of Defence makes a personal remark in this same supplementary submission [signed by him] that:

I have noted that former Defence officials interviewed considered that there was sufficient advice provided to government to allow it to make a value for money assessment.<sup>48</sup>

- 3.42 At the public hearing on 20 November 2023, Defence informed the Committee that in the second-pass advice to Government, no explicit reference was made in the cabinet submission to value for money and that this should have been done.<sup>49</sup> The Defence Secretary further stated at that hearing:

I accept that that was a deficiency, which we acknowledged in terms of the ANAO's report and for which we are putting in place some arrangements, but it is not correct to say that the issues of value for money and cost were not ventilated during that process. It was a process over a number of years, and during that time officials were engaging on issues to do with cost and the complexity of the project.<sup>50</sup>

- 3.43 On further questioning by the Committee as to whether Defence continues to stand by its formal response to the audit, the Secretary remarked:

...we have done subsequent work and further reflection, and we've looked more at the procedures. I believe that Defence failed to provide clear advice around value for money, which I believe that we should have provided and which the ANAO identified as a failing in our process.<sup>51</sup>

- 3.44 The Auditor-General commented during this discussion however, as highlighted in the audit itself, that 'it was an active decision that the tender evaluation panel would not consider value for money. It wasn't something that was left out of the cabinet submission at the end; it was built into the tender evaluation process'.<sup>52</sup>

- 3.45 The Auditor-General further remarked at the 20 November hearing that none of the supplementary evidence provided by Defence to the inquiry altered the conclusions that were drawn in the audit.<sup>53</sup> He stated:

I decided to include a large number of rejoinders to the department's response in this audit because, while it said some positive things, the tone of the response was generally to disagree with most of what the audit findings were, or the heart of them, particularly with respect to the value-for-money issue and also with recordkeeping, where the response tried to minimise that, saying it was only a couple of documents that weren't available... Then the department does a review and comes back and says, 'Maybe you were right.' I think, with the amount of

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<sup>48</sup> Defence, Supplementary Submission 1.5, p. 5.

<sup>49</sup> Mr Greg Moriarty, Secretary, Defence, 20 November 2023, p. 2.

<sup>50</sup> Mr Moriarty, Secretary, Defence, 20 November 2023, p. 3.

<sup>51</sup> Mr Moriarty, Secretary, Defence, 20 November 2023, p. 3.

<sup>52</sup> Mr Grant Hehir, Auditor-General, 20 November 2023, p. 4.

<sup>53</sup> Mr Hehir, Auditor-General, 20 November 2023, p. 14.

engagement we have with the Department of Defence, my normal expectation is that doesn't happen.<sup>54</sup>

- 3.46 Defence reiterated on a number of occasions that, although it did not negate the requirement to conduct a proper value for money assessment, the timeframe for the Hunter Class project was very compressed due to a decision of Government to ensure continual shipbuilding, and that there were significantly higher risks associated with that in terms of conducting the necessary assessments.<sup>55</sup>
- 3.47 Defence subsequently commented that 'for any paperwork that is going before Investment Committee now, we are asking questions about the value-for-money determinations through the tender process and seeking line of sight from the earliest evaluation process...'.<sup>56</sup>
- 3.48 The audit report stated that Defence's approach to the CPRs, lack of assessment or communication of value for money, and its lack of understanding of this in its response suggests:
- ... that further training and oversight may be required of Defence officials involved in high-level planning and advising on major capital acquisition projects, at all levels. There is also scope for more active engagement with the CPR policy owner.<sup>57</sup>
- 3.49 In its response to written questions from the Committee, Defence agreed that training would be beneficial to reinforce the requirements of the CPRs but advised that it had not planned or considered delivering this training.<sup>58</sup>

## Other advice to Government

- 3.50 ANAO's report also examined the advice from Defence to Government on the procurement of the Hunter Class Frigates and found that this advice was incomplete, particularly in relation to value for money as indicated in the previous section.
- 3.51 There were two key decision points for Government in the initial stages of procurement of the Hunter Class Frigates, these were the first and second pass approvals. At the first pass government allocates funds to investigate options for the Hunter Class Frigates in further detail with the intent of narrowing the alternatives being examined. At the second pass government endorses a specific option and approves funding for its acquisition.<sup>59</sup>

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<sup>54</sup> Mr Hehir, Auditor-General, 20 November 2023, p. 14.

<sup>55</sup> Mr Moriarty, Secretary, Defence, 20 November 2023, pages 9–10.

<sup>56</sup> Mr Yannopoulos, Defence, *Committee Hansard*, Canberra, 20 November 2023, p. 8.

<sup>57</sup> Auditor-General Report No. 21 2022–23, p. 56.

<sup>58</sup> Defence, Supplementary Submission 1.5, pages [9 and 10].

<sup>59</sup> Auditor-General Report No. 21 2022–23, p. 33.

## Advice provided at ‘first pass’

- 3.52 The ANAO reported that Defence provided sufficient advice at the ‘first pass’ on ‘risk, cost and schedule to inform the Government’s decision to proceed to the competitive evaluation’.<sup>60</sup> Defence’s first pass advice also noted that:
- the project was high risk, particularly the risks associated with schedule and design change
  - the cost would be managed within Defence’s Integrated Investment Program
  - all three reference ships designs had different design maturity, but would all require redesign work, and
  - at the time of the advice there had not been direct industry engagement to support the quality of its costings.<sup>61</sup>

## Advice provided at ‘second pass’

- 3.53 The audit reported that Defence’s advice to government at ‘second pass’ was not complete. To develop this advice, Defence used its assessment of the tenders against the government approved capability requirements. This advice was developed by Navy and internally reviewed by senior Defence Committees and the Secretaries’ Committee on National Security before being submitted to government.<sup>62</sup>
- 3.54 The ANAO also reported that Defence provided advice to government on the preferred capability, cost schedule and risk, but did not provide advice on value for money as discussed in the previous section.<sup>63</sup>
- 3.55 The ANAO reported that Defence rationale for the BAE 26 being recommended as the preferred option was primarily based on the anti-submarine warfare capability which aligned with the project’s objective and was one of the 23-capability requirements. Defence’s assessment against the 23-capability requirements did not and assess the maturity of the ship designs, however it did note that the Type 26 did not represent a ship in water at the time.<sup>64</sup> The maturity of this design is discussed in more detail later in the chapter.
- 3.56 The advice at second pass also did not include detailed whole-of-life cost estimates, and instead included only a ‘a rough order of magnitude whole-of-life cost estimate for BAE Systems’ tender’.<sup>65</sup>

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<sup>60</sup> Auditor-General Report No. 21 2022–23, p. 45.

<sup>61</sup> Auditor-General Report No. 21 2022–23, p. 45.

<sup>62</sup> Auditor-General Report No. 21 2022–23, p. 46.

<sup>63</sup> Auditor-General Report No. 21 2022–23, p. 50.

<sup>64</sup> Auditor-General Report No. 21 2022–23, p. 50.

<sup>65</sup> Auditor-General Report No. 21 2022–23, p. 51.

## Unsubstantiated cost reduction in second pass advice

- 3.57 The ANAO reported that the acquisition cost for the Hunter Class Frigates provided to government as part of the second pass approval included a 10 per cent cost reduction. This reduced the proposed cost by \$2.1 billion.<sup>66</sup> The audit report noted that Defence did not advise government that a cost reduction had not been negotiated with tenderers; or document the basis for this reduction.
- 3.58 Advice from Defence's Contestability Division in 2018 noted that there was an argument that project costs could reduce, however there was no evidence of this from Defence's shipbuilding projects or the cost literature.<sup>67</sup> In the 19 May 2023 public hearings Defence referred to this 10 per cent reduction as an 'efficiency dividend'.<sup>68</sup>
- 3.59 In its response to questions on notice, Defence advised that the ten per cent reduction was applied to all three tenders included in the advice to government.<sup>69</sup>

## Defence responses

- 3.60 Defence further advised in the May 2023 public hearing that reducing the cost in the advice provided to government without any agreement from the tenders 'is not normal practice' and stated that it could not explain why the department decided to reduce the cost.<sup>70</sup> In response to questions on notice from the Committee, Defence stated that reducing the price provided by tenders 'has not occurred in other tender evaluations'.<sup>71</sup>
- 3.61 Finance advice was included in the second pass approval, as is standard practice. This advice drew attention to the ten per cent price reduction, as well as noting the absence of whole of life cost estimates. However, Finance supported Defence's recommendations to government.<sup>72</sup>
- 3.62 At the 20 November 2023 hearing, the Committee further queried the nature of the advice that was given to Government during different stages of the Hunter Class procurement, particularly at the second pass.

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<sup>66</sup> Auditor-General Report No. 21 2022–23, p. 51.

<sup>67</sup> Auditor-General Report No. 21 2022–23, p. 51.

<sup>68</sup> Rear Admiral Wendy Malcolm, Acting Deputy Secretary, Naval Shipbuilding and Sustainment Group, Defence, *Committee Hansard*, Canberra, 19 May 2023, p. 23.

<sup>69</sup> Defence, Supplementary Submission 1.5, p. [8].

<sup>70</sup> Rear Admiral Malcolm, Defence, *Committee Hansard*, Canberra, 19 May 2023, pages 21 and 23.

<sup>71</sup> Defence, Supplementary Submission 1.5, p. [10].

<sup>72</sup> Auditor-General Report No. 21 2022–23, p. 52.

3.63 As indicated in the previous section, Defence acknowledged that it should have given a value for money assessment in its cabinet submission. Defence further commented that:

We'd argue—and the ANAO found as well—that there were many parts of the process that were sound, but I believe the advice that went to government put an overemphasis on capability issues.<sup>73</sup>

3.64 Defence further noted that due to the project being brought forward by three years 'the process of developing advice, tender evaluation, source evaluation and things like that was conducted within an accelerated time frame'.<sup>74</sup> Defence further remarked:

I'd say the government was aware that bringing forward a program of this scale and complexity by three years obviously introduced additional areas of risk. It did ask us to look at how that would be managed, and I think we've done some of that. Prototyping has been an important part of risk mitigation.<sup>75</sup>

3.65 Defence also noted in its supplementary submission on the findings of its internal review that:

- after initial pass and up until first pass, there was no consistent expression of the goals and purpose of the procurement. Planning for the procurement fell into a process of disjointed advice to government that did not include deliberate steps to maintain clear coherent goals and a procurement method commensurate with the scale, scope and risk of the procurement
- the tender process was structured around achieving project objectives advised to tenderers but the advice to government was not complete with respect to the material outcomes of the process, affordability or compliance and risk assessments with respect to project objectives.<sup>76</sup>

## Record keeping

3.66 The audit reported that Defence did not keep appropriate records of its procurement of the Hunter Class Frigates, and at times could not explain the rationale for key decisions, such as the 10 per cent reduction of the tender price discussed in the previous section.<sup>77</sup>

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<sup>73</sup> Mr Moriarty, Secretary, Defence, 20 November 2023, p. 2.

<sup>74</sup> Mr Moriarty, Secretary, Defence, 20 November 2023, p. 9.

<sup>75</sup> Mr Moriarty, Secretary, Defence, 20 November 2023, pages 10–11.

<sup>76</sup> Defence, Supplementary Submission 1.5, pages 2–4.

<sup>77</sup> Auditor-General Report No. 21 2022–23, pages 27–28 and 51.

- 3.67 The ANAO found that Defence did not retain or could not locate complete records of the procurement, including key decisions. Defence did not have complete records of:
- the assessment and rationale for shortlisting all selected designs for the competitive evaluation process, including why it did not require a value for money assessment, comparative evaluation of the tenders, or ranking of tenders
  - the discussion and decisions made by the senior level Defence Committee related to the Hunter Class Frigates
  - delegate approval of the source evaluation report, which recorded the outcome of the evaluation process
  - all identified probity matters, as required by its Process and Probity Plan.<sup>78</sup>
- 3.68 ANAO found that Defence's approach to record keeping was not consistent with the CPRs which highlight that maintaining appropriate records is a fundamental element of accountability and transparency in procurement.<sup>79</sup>
- 3.69 In response to ANAO's audit findings, Defence commented that it has over 730,000 documents within its records management system for this project.<sup>80</sup> The Auditor-General noted the concerns of the ANAO at the 19 May 2023 public hearing that Defence was diminishing this finding, remarking that 'our concern is not just that all records should be kept but that particularly important records should be kept'.<sup>81</sup>
- 3.70 The lack of documentation of key decisions and the rationale for these decisions was an issue ANAO identified multiple times in the audit report. Two key examples of this are:
- the lack of complete records of the Defence Capability and Investment Committee's (DCIC) decision to shortlist frigate designs. Defence presented a paper to the DCIC on seven potential frigate designs, which assessed that four of the seven designs were viable, these were the Italian FREMM, the Modified F-100, BAE's Type 26 and the French FREMM. The DCIC meeting records indicated that the Italian FREMM and Modified F-100 were considered the two most viable designs and that either the Type 26 or the French FREMM should be progressed as a third option. The meeting records stated that after discussion with the Secretary of Defence the Italian FREMM, Modified F-100 and BAE Type 26 be recommended to government for progression through the competitive evaluation process. However, the records do not state the rationale for the selection of the Type 26 over the French FREMM as the third option.<sup>82</sup>
  - the lack of records of the Defence Committee's consideration of the draft second pass advice to government. The Defence Committee is the most senior enterprise-level committee in the department and on 15 March 2018 considered a presentation on the tender options for the Hunter Class Frigates and draft advice

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<sup>78</sup> Auditor-General Report No. 21 2022–23, p. 28.

<sup>79</sup> Auditor-General Report No. 21 2022–23, pages 30 and 31.

<sup>80</sup> Auditor-General Report No. 21 2022–23, p. 32.

<sup>81</sup> Mr Hehir, Auditor-General, *Committee Hansard*, Canberra, 19 May 2023, p. 29.

<sup>82</sup> Auditor-General Report No. 21 2022–23, pages 29–30.

to government on this. Defence did not retain records a record of the discussions or outcomes of this meeting.<sup>83</sup>

3.71 At the 19 May 2023 public hearing, ANAO stated that the Defence Committee, as ‘an apex defence enterprise level committee, with well-established and elaborate secretariat arrangements which are designed to capture exactly this sort of decision-making’ did not have records to capture this decision making.<sup>84</sup>

3.72 Defence advised at this same hearing that the Defence Committee would normally have staff to take notes and prepare minutes and was not aware or another instance where critical minutes of key decisions have not been located.<sup>85</sup>

3.73 In its subsequent internal review findings provided to the inquiry, Defence acknowledged that its record keeping processes during this procurement were not compliant with CPR requirements:

- Mandatory record keeping obligations commensurate with the scale, scope and risk of the procurement were not complied with. This was inconsistent with the mandatory requirements of rule 7.2 of the Commonwealth Procurement Rules. The absence of documentation means that there is insufficient evidence to demonstrate how decisions were taken.<sup>86</sup>

3.74 The Auditor-General reiterated the position of the ANAO at the 20 November 2023 hearing on the importance of record keeping:

We based our audit on the records that were available through the entire period of the process. If there were conversations or engagements with ministers that weren't recorded, I'd find that quite unusual, or inappropriate, because they're official records which should be kept for the purposes of understanding the nature of the procurement process.<sup>87</sup>

3.75 Defence commented at this same hearing on the steps it had taken since the audit and its subsequent internal review to improve its record management processes:

... on the record-keeping issue we've pursued a number of initiatives to enhance our compliance with our records management policy and statutory record-keeping requirements. We established a new SES role—chief information governance officer—in April this year... The role of that officer is to integrate, promote, advise and improve the governance of Defence information records and data management. In August this year we also updated our records management policy.<sup>88</sup>

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<sup>83</sup> Auditor-General Report No. 21 2022–23, p. 49.

<sup>84</sup> Dr Ioannou, ANAO, *Committee Hansard*, Canberra, 19 May 2023, p. 29.

<sup>85</sup> Mr Yannopoulos, Defence, *Committee Hansard*, Canberra, 19 May 2023, p. 29.

<sup>86</sup> Defence, Supplementary Submission 1.5, p. 4.

<sup>87</sup> Mr Hehir, Auditor-General, *Committee Hansard*, Canberra, 20 November 2023, p. 4.

<sup>88</sup> Mr Yannopoulos, Defence, *Committee Hansard*, Canberra, 20 November 2023, pages 7–8.

## Maturity of the frigate design

- 3.76 The audit stated that when shortlisting potential designs for the Frigates, the RAND Corporation who undertook this was tasked with examining ‘only military-off-the-shelf options.’ From this examination, government then used essential criteria to shortlist designs.<sup>89</sup>
- 3.77 Military-off-the-shelf does not have a clear definition but broadly refers to equipment that is not a new design and can be in-service with the armed forces of another country, is sourced from an established production facility and/or has minor modification to operate with existing or allied assets.<sup>90</sup>
- 3.78 Defence’s endorsement of the three shortlisted tenderer options (the Italian FREMM, Modified F-100 and BAE Type 26) also set out five project objectives to identify the outcomes sought by government. One of these objectives was to ‘deliver nine Anti-Submarine Warfare Frigates (Ships) based on a Military-Off-The-Shelf design with a minimum level of change’.<sup>91</sup>
- 3.79 As reported in the audit, Defence advised the government that it had selected mature designs for consideration but did not include an assessment relating to this level of maturity. However, this advice to government did note that the BAE Type 26 design did not represent a ship in water at the time, but that this was expected to occur in 2023.<sup>92</sup>
- 3.80 The ANAO identified findings in an internal Defence review from February 2022 that the BAE Type 26 was not a mature reference ship design and that it had matured far more slowly than anticipated. This finding was found by ANAO to have been reiterated in an internal report from January 2023:

The extent of the Type 26 design maturity was over-stated and therefore, the extent of cost and schedule risk was under-estimated. The Type 26 design is just now nearing completion and the first ship has just been launched, but not yet finished and tested.<sup>93</sup>

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<sup>89</sup> Auditor-General Report No. 21 2022–23, p. 29.

<sup>90</sup> David Rudd, Military off-the-shelf: A discussion on combat ship acquisition, Defence Research and Development Canada, August 2014, p.2.

<sup>91</sup> Auditor-General Report No. 21 2022–23, p. 34.

<sup>92</sup> Auditor-General Report No. 21 2022–23, p. 50.

<sup>93</sup> Auditor-General Report No. 21 2022–23, p. 85.

- 3.81 BAE Systems Australia (BAE) advised the Committee at the public hearing on 8 September 2023 that it provided the government with an unprecedented level of transparency throughout the tender process, including on the maturity of the ship design:

The status of the reference ship was clear. It was in design and early build. It was maturing, and key elements of the program such as ship weight were still evolving as work continued.<sup>94</sup>

- 3.82 The audit indicated that the design ‘immaturity’ of the BAE Type 26 affected Defence’s planning, leading to an extension of the design and productionisation phase and diverting funds to pay for the extension and remediation activities.<sup>95</sup> As a result, the project experienced an 18-month delay and additional costs. The head contract covering the design and productionisation work by BAE to support the build of the Hunter Class Frigates had also increased from \$1,904.1 million when signed in December 2018, to \$2,597.4 million as at 31 March 2023 (a 36 per cent increase).<sup>96</sup>

- 3.83 BAE advised the Committee that designing and building a complex ship is not a simple task at the best of times, and that COVID-19 had placed a further strain on this process, the impact of which could not be overstated:

The resident program team that [were] in the UK were brought home. The shipyard commissioning in Australia was delayed, and supply chain issues began to emerge. It was at this time we suffered some emergent issues on the reference ship that needed to be worked through. It was not just BAE Systems’ elements of the program that were facing challenges through the pandemic. The radar system, combat management system and shipyard were all still evolving.<sup>97</sup>

- 3.84 BAE also noted that the main drivers for the ‘cost pressures’ facing the project were the scope changes and the inflation of supply chain costs. BAE stated that the material prices had increased at the highest rate in living memory due to the impact of COVID-19 and the war in Ukraine.<sup>98</sup> In response to questions on notice from the Committee, BAE indicated that the head contract was designed so that the scope could be changed, which had occurred and been coordinated through the Commonwealth project team.<sup>99</sup>

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<sup>94</sup> Mr Ben Hudson, Chief Executive Officer, BAE Systems Australia (BAE), *Committee Hansard*, Canberra, 8 September 2023, p. 1.

<sup>95</sup> Auditor-General Report No. 21 2022–23, p. 86.

<sup>96</sup> Auditor-General Report No. 21 2022–23, pages 9 and 11.

<sup>97</sup> Mr Hudson, CEO, BAE, *Committee Hansard*, Canberra, 8 September 2023, p. 2.

<sup>98</sup> Mr Hudson, CEO, BAE, *Committee Hansard*, Canberra, 8 September 2023, p. 2.

<sup>99</sup> BAE, Supplementary Submission 4.2, p. [6].

3.85 BAE emphasised to the Committee in the September hearing that ‘Type 23 looks to set a mature benchmark of which Type 26 is a better ship in almost every way. So, the maturity and the heritage stretches back in anti-submarine warfare more than three decades’.<sup>100</sup> BAE further stated:

The tender was clear. Our response was relatively clear. To the best of my knowledge, the company has done everything it can—and the British government—to provide complete transparency through that entire process... I don't think anyone is trying to restrict information or hide information on levels of maturity. It's plain; it's there for everyone to see. People were in the shipyard through that entire process. No-one pretended that a Type 26 was in the water.<sup>101</sup>

3.86 The Committee further queried Defence at both the public hearings on 19 May and 20 November 2023 in relation to the maturity of the Hunter Class Frigate design. At the May hearing, Defence indicated that ‘the UK was five years’ ahead of us in terms of where they were relatively in the program, so there would be a relative design maturity that was acceptable’.<sup>102</sup>

3.87 In response to a question taken on notice at the 20 November 2023 hearing on this issue, Defence stated that the positive assessment of design maturity was made by its own experts and by recognised international experts, further commenting:

One principle against which the designs were considered was whether the design was a mature design. Based on advice from the United Kingdom at the time, and the fact that the Type 26 was derived from the Type 23 vessel, the Type 26 design was assessed as meeting that criteria.<sup>103</sup>

3.88 The Secretary of Defence stated however at the public hearing on 20 November 2023 that he would ‘not have characterised it as a mature design’.<sup>104</sup>

## Capability of the Hunter Class frigates

3.89 BAE advised at the September hearing that the Hunter Class Frigates will be a strong anti-submarine warfare capability:

At its core, Hunter [Class Frigate] is a stealth ship that has very low signatures that make it difficult for submarines to find and track. Hunter will survive in high-tempo conflict in the Pacific where other ships may not due to the extensive focus on ship signatures, particularly in the underwater environment... it is also fitted with some of the most capable anti-air warfare systems currently available

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<sup>100</sup> Mr Hudson, CEO, BAE, *Committee Hansard*, Canberra, 8 September 2023, p. 3.

<sup>101</sup> Mr Hudson, CEO, BAE, *Committee Hansard*, Canberra, 8 September 2023, p. 3.

<sup>102</sup> Rear Admiral Malcolm, Defence, *Committee Hansard*, Canberra, 19 May 2023, p. 27.

<sup>103</sup> Defence, Supplementary Submission 1.7, p. [4].

<sup>104</sup> Mr Moriarty, Secretary, Defence, *Committee Hansard*, Canberra, 20 November 2023, p. 17.

today. Hunter is formidable and, in our estimation, is currently without peer in the capabilities it will provide our Navy.<sup>105</sup>

3.90 BAE further stated in these discussions that it was developing a quality product in the Hunter Class Frigate and has received positive feedback that it is exceeding global benchmarks from the by the government Naval Shipbuilding Expert Advisory Panel.<sup>106</sup>

3.91 The audit indicated that the acquisition of the new frigates was a key component of Australia's future naval and overall defence capability:

The acquisition of nine Hunter class frigates is a key part of the Australian Government's substantial planned expenditure on naval shipbuilding and maritime capability and contributes to the ongoing capability of the Australian Defence Force.<sup>107</sup>

3.92 ANAO stressed in its audit report however that 'Defence must manage both the Hunter class delivery schedule and the sustainment of its existing ANZAC class frigate capability, to maintain operational relevance and prevent a capability gap'.<sup>108</sup>

3.93 Defence noted in its observations following its internal review that:

The need for a frigate that delivers a high-end anti-submarine warfare capability modified to meet Australian requirements remains a key objective for the program. The Hunter class frigate has been designed to meet this key requirement.<sup>109</sup>

3.94 In a subsequent response to a question on notice regarding naval classification standards, Defence commented that the Australian Naval Classification (ANC) Framework had recently been developed and then launched in 2023 to determine the contemporary rule set for the design and construction of Australian Defence vessels. Defence stated:

It [ANC] updates and refines international and Australian standards and legislation into a single set of Australian Defence vessel design rules. This will support innovation and provide a blueprint for the classification of Australia's Defence vessels. The rules will apply to all future Defence maritime capabilities purchased off the shelf or designed and constructed in Australia and overseas. Industry will continue to play a key role in assuring the seaworthiness of Defence vessels under the ANC Framework.<sup>110</sup>

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<sup>105</sup> Mr Hudson, CEO, BAE, *Committee Hansard*, Canberra, 8 September 2023, p. 1.

<sup>106</sup> Mr Hudson, CEO, BAE, *Committee Hansard*, Canberra, 8 September 2023, p. 2.

<sup>107</sup> Auditor-General Report No. 21 2022–23, p. 24.

<sup>108</sup> Auditor-General Report No. 21 2022–23, p. 89.

<sup>109</sup> Defence, Supplementary Submission 1.5, p. 2.

<sup>110</sup> Defence, Supplementary Submission 1.8, p. 4.

## Australian industry capability

- 3.95 The initial shortlisting criteria in 2015 required that the reference ships be buildable and supportable in Australia.<sup>111</sup> Two of the five project objectives in the endorsement to proceed with the request for tender in 2017 were to ‘contribute to a Continuous Naval Shipbuilding industry in Australia’ and ‘maximise Australian Industry Capability’.<sup>112</sup> Additionally one of the criteria used to assess the three tender options was if the tender ‘Maximises Australian Industry Capability during the term of the Head Contract and facilitates utilisation of Australian Industry Capability during sustainment.’<sup>113</sup>
- 3.96 The audit also noted however that the ‘contribute to a Continuous Naval Shipbuilding industry in Australia’ project objective was one of three assessed as high risk by Defence.<sup>114</sup>
- 3.97 Defence advised the Committee that BAE has contracted targets for 54 per cent of spending to be on Australian Industry Content (AIC) in the current planning and productionisation phase, with a target of 58 per cent of the overall contract.<sup>115</sup> BAE later advised that its AIC involvement was calculated using the value of work undertaken in Australia.<sup>116</sup>
- 3.98 Defence further advised that BAE was exceeding its current targets, which BAE clarified at a later public hearing to be approximately 10 per cent above the target for AIC content for the current phase of the project.<sup>117</sup> Defence stated on notice that ‘the transfer of skills will be monitored to ensure the required design and construction skills are in place in accordance with the Sovereign Capability and Option Deed.’<sup>118</sup>
- 3.99 At the public hearing on 8 September 2023, BAE outlined the industry capability development that has occurred to date at the Osborne naval shipyard in South Australia arising in more detail:
- the combat system is maturing, the radar has matured, and elements of the shipyard that were behind schedule, such as the pipe shop, are now online
  - cut steel [is] on the blocks that will go into the first ship in May [2024], some 13 months ahead of the new agreed schedule
  - [the] workforce now number[s] 1,758 people

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<sup>111</sup> Auditor-General Report No. 21 2022–23, p. 29.

<sup>112</sup> Auditor-General Report No. 21 2022–23, p. 34.

<sup>113</sup> Auditor-General Report No. 21 2022–23, p. 36.

<sup>114</sup> Auditor-General Report No. 21 2022–23, p. 36.

<sup>115</sup> Ms Sheryl Lutz, First Assistant Secretary, Major Surface Combatants and Combat Systems, Defence, *Committee Hansard*, Canberra, 19 May 2023, p. 24.

<sup>116</sup> BAE Systems Australia, Supplementary Submission 4.2, p. [5].

<sup>117</sup> Ms Lutz, Defence, *Committee Hansard*, Canberra, 19 May 2023, p. 24; Mr Hudson, CEO, BAE Systems Australia, *Committee Hansard*, Canberra, 8 September 2023, p. 10.

<sup>118</sup> Defence, Supplementary Submission 1.3, p. 4.

- the engineering team now stands at 572 staff across all disciplines
- more than 170 engineering toolsets have been transferred. A digital shipyard has been developed and commissioned
- 56 apprentices on the program... rising to 150 apprenticeships [in] 2025. Academic partnerships... with the University of South Australia, Flinders, Melbourne and RMIT.<sup>119</sup>

## Committee comment

- 3.100 The procurement of the Hunter Class Frigates clearly fell short of requirements in key respects. The failings were clearly identified in the Auditor-General's report yet only belatedly accepted by Defence during this inquiry after its own internal review. It is genuinely perplexing to the Committee why Defence was so defensive (no pun intended) and kept rejecting, denying or dismissing obvious failings in the process during and after the audit report was tabled. The Committee appreciates the Secretary having appeared personally during the inquiry to address the issues raised in the report and the additional evidence then provided.
- 3.101 The Committee understands and accepts the significant pressure and risk imposed on Defence as a result of the then Government's decision to suddenly accelerate the project, reducing the available time by around three years. There will be a multitude of complexities that arise in the building of new sophisticated modern naval vessels as it is a huge undertaking. It is accepted also that there were significant supply chain issues for everybody during the height of the COVID-19 pandemic and appreciably heightened costs and delays that were beyond the control of BAE and Defence.
- 3.102 However, the core principles outlined in the CPRs of demonstrating value for money are fundamental to any expenditure by government on behalf of the taxpayer and it is patently evident that they were not adhered to in this process. Pressure or urgency does not suspend the requirement to observe or ability to comply with the CPRs, and especially so in relation to such an enormous amount of taxpayer money.
- 3.103 The fact that no value for money assessment was conducted by Defence on a (then) \$35 billion procurement and that "government" in some undefined process was somehow expected to do this for themselves is baffling to say the least. No explanation was given as to why the requirement for value for money was mysteriously removed from the Tender Evaluation Plan.
- 3.104 Some intimations were made during the inquiry that the requirement to construct the ships in Australia somehow justified the process. The Committee firmly rejects any such suggestion or conclusion. It is entirely reasonable that a government express a policy requirement for domestic manufacturing of this sort of capability, presumably to strengthen Australia's defence industrial base. Specifying such a policy requirement however does not mean a government can then choose a

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<sup>119</sup> Mr Hudson, CEO, BAE, *Committee Hansard*, Canberra, 8 September 2023, p. 2.

favourite/preferred shipbuilder without a value for money assessment. There was no evidence whatsoever that BAE was the only tenderer willing and able to construct ships in Australia.

- 3.105 It is acknowledged that Defence now accepts the lack of a value for money assessment as a deficiency in the process, having conducted an internal review, but it should have done so when formally responding to the audit; instead, Defence chose to argue that value for money assessments had been done. This required ANAO to essentially issue its own version of a scathing rebuttal in the report in the form of detailed further comments highlighting that this was clearly untrue.
- 3.106 It is striking that neither Defence nor the ANAO were able to identify any other project that went to Government for decision without a value for money assessment. Ministers have every right to be able to rely on the detailed and technical assessments which underpin such processes and advice to government, whether to Ministers individually or collectively via Cabinet. The evidence however clearly indicates that this submission which went to Ministers was unique for not including a value for money assessment. Despite this, the former Government decided to select BAE for a (then) \$35 billion project anyway in breach of Finance Law.
- 3.107 Ministers are not supposed to be rubber stamps or daleks and there are two possibilities as to how this happened: (1) either no one noticed that no value for money assessment was undertaken; or (2) they did know but didn't care and blithely decided to proceed with a (then) \$35 billion procurement anyway. Ultimately as this was a Cabinet process via the National Security Committee of Cabinet no one will ever really know what happened; whether there was a conspiracy or predetermined decision that BAE win the prize, or whether it was simply shocking incompetence by this group of Ministers in the then Government.
- 3.108 The required role of Finance through this process is also puzzling, particularly given the scale of military acquisitions of this nature. It is strange to the Committee that the rules required Finance to have appropriately prepared a Cost and Risk statement to advise Government following the selection of BAE as the preferred tenderer but did not require it to play any further role in assessing whether value for money was actually being demonstrated.
- 3.109 Finance has indicated that it would probably take a different approach for future procurements of this nature and scale. The CPRs should be amended to explicitly require Finance to determine whether an appropriate value for money assessment has been completed for large-scale acquisitions by the procuring agency, and then provide the appropriate advice to that entity if this is not the case.
- 3.110 Specific mention must be made of the perplexing decision to knock off 10 per cent of the price from all tenderers in the evaluation and advice to government. No rationale was provided or identified for this seemingly unprecedented action. While the Committee would love to think the Commonwealth could just buy everything for 10 per cent less than a tendered price, it's a patently ridiculous proposition and vague claims there might be an "efficiency dividend" raise reasonable questions about the competence of the officials involved. Indeed, it is not apparent to any member of the

Committee whether there has ever been an Australian shipbuilding project for such a major new capability that has run under budget. Given Finance's evidence, the Committee would expect such a buyer-desired discount would not be dreamt up again.

- 3.111 The acquisition of modern naval vessels is crucial for Australia as an island nation to maintain an effective maritime defence capability, including possible threats from submarines. The issue of design maturity for the Hunter Class frigates was therefore a critical consideration but this ship is not in the water anywhere in the world and is seemingly still at the pre-prototype stage.
- 3.112 The Committee understands that it is based on a successful ship that has been in service for many years, but this is a completely redesigned and updated vessel that is yet to actually exist. The assessment by Defence through its panel of in-house and international experts that the Hunter Class frigate design was 'mature' simply makes no sense—they were sold a picture of a ship that might exist in the future but evidently was NOT a mature design. The Secretary of Defence admitted this by making the welcome, if somewhat overdue, statement at the 20 November 2023 hearing that he would not have characterised it as mature.
- 3.113 This issue of maturity of course relates to the capability of the vessel and its overall cost effectiveness both at the time of procurement but also at construction, as a result of numerous changes to capability requirements and design along the way – which has served to add significant time, cost and risk. Defence's ability to fully assess the capability Australia is buying during the procurement process was seriously reduced as a result of the actual immaturity of the design it was sold. In many key respects the ship that will ultimately be built is significantly different to what was advertised as required or has taken months or years longer to (re-)design to be able to meet specifications.
- 3.114 Defence must reassess how it determines maturity in future large-scale acquisitions, particularly when dealing with foreign governments who will always be keen to sell expensive military hardware to Australia. The Committee invited the Government of the United Kingdom or its representatives to appear however they declined to do so, so there was no opportunity to explore the UK Government's role. In any event, the Australian Government has the right to expect an extensive level of due diligence by Defence in these circumstances, including a thorough testing of any claims made by a prospective tenderer or the government of their home country.
- 3.115 The Committee understands also that an evolution of design can often be justified in relation to procuring military assets that are still at the concept phase but can potentially deliver key capabilities to Australia. The Committee is mindful going forward however of the balance needed between this approach and purchasing an 'off-the-shelf' military capability which would be expected to be deliverable far more quickly and at considerably less expense.
- 3.116 This is an issue that has been scrutinised previously. The *Defence Procurement Review* led by Malcolm Kinnaird AO more than 20 years ago (Kinnaird Review) found that 'continuing delays in the delivery of major defence equipment mean that the ADF

has failed to receive the capabilities it expects, according to the schedule required by the Government'.<sup>120</sup> This report further commented that:

Judgements need to be made concerning what mix of capability and what trade offs between new and existing equipment are in the nation's interests.<sup>121</sup>

3.117 The Kinnaird Review further recommended that:

... an off-the-shelf solution must be part of any set of options put to government to ensure that a benchmark is established against which the costs, military effects and schedule of all proposals can be assessed.<sup>122</sup>

3.118 A later report in 2008 on Defence procurement and sustainment, led by David Mortimer AO, that examined the progress in implementing the reforms from the Kinnaird review, made the follow-up recommendation that:

Any decisions to move beyond the requirements of an off-the-shelf solution must be based on a rigorous cost-benefit analysis of the additional capability sought against the cost and risk of doing so. This analysis must be clearly communicated to Government so that it is informed for decision-making purposes.<sup>123</sup>

3.119 The Committee takes the view that Government should be required to consider off-the-shelf alongside developmental options for military procurements and make sensible choices in this regard, particularly with regard to risk. The Committee intends to explore this further in its future MPR inquiries.

3.120 With regard to the continuing work to finalise the design of the Hunter Class Frigates and actually build the ships, the Committee is mindful of the ongoing and necessary tension between the role of capability managers and delivery managers after a procurement decision is made. Capability managers and the services have significant ongoing say in changes to scope and design which may be warranted but which can significantly delay or increase risk in a project. If capability is to be delivered to the war fighter as quickly as possible then the practical realities of delivery, industry capacity and trade-offs need significant weight in finalising designs and future changes. The Committee will also give this issue further consideration in future MPR inquiries.

3.121 Recordkeeping was a constant area of prosecution by the Committee in its extensive Commonwealth procurement inquiry in 2023 and disappointingly, but, perhaps not surprisingly, was an issue also in this procurement process. The lack of recordkeeping highlighted in the Auditor-General's report was acknowledged by Defence, which agreed to the corresponding recommendation. Defence's formal response to this issue in the audit report was, however, dismissive if not flippant.

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<sup>120</sup> Malcolm Kinnaird AO, *Defence Procurement Review*, Canberra, August 2003, p. iii.

<sup>121</sup> Malcolm Kinnaird AO, *Defence Procurement Review*, Canberra, August 2003, p. iii.

<sup>122</sup> Malcolm Kinnaird AO, *Defence Procurement Review*, Canberra, August 2003, p. 19.

<sup>123</sup> David Mortimer AO, *Going to the next level: the report of the Defence Procurement and Sustainment Review*, Canberra, September 2008, p. 20.

3.122 The Committee fully supports the ANAO's position that the unavailability of only a very miniscule proportion of the relevant documentation is simply not the point it was trying to make. The fact of the matter is that records of how some key decisions were made were missing, and this is never going to be acceptable. In particular it is astounding that key documents which go to the core concerns about the process went missing, including minutes of the Defence Committee—the apex decision making forum of the entire enterprise. Defence has at least now admitted this failing after its internal review, and the advice that it is adopting a new framework for records management is reassuring.

3.123 The development of Australia's shipbuilding industry into the future is hugely important and it is to be hoped that the construction of the Hunter Class Frigates will go a long way to fostering this. The Committee accepts that this project was high-risk given the new and very constrained timeframe that Defence was presented with by the Government at that time. Defence has accepted where it went wrong, which is now also acknowledged, but it would have been better to have done so straight away and come clean when the Auditor-General Report was handed down. It is to be hoped that this will be its approach in its response to future audits.

3.124 The Committee makes the following recommendations.

### **Recommendation 2**

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**3.125 The Committee recommends that the Department of Defence provides it with an update at both 6 and 12 months on the progress of the changes arising from its internal review findings.**

### **Recommendation 3**

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**3.126 The Committee recommends that the Department of Defence provides it with an update in 12 months on the progress of the Hunter Class Frigate project, including the industry capability uplift and a value for money assessment.**

### **Recommendation 4**

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**3.127 The Committee recommends that the Department of Defence report back in six months from the tabling of this report as to how it will assess design maturity in future procurements.**

### **Recommendation 5**

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**3.128 The Committee recommends that the Department of Defence provides it with an update in six months on the implementation of its new recordkeeping framework and the impact of the new Chief Information Governance Officer role.**

## **Recommendation 6**

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**3.129 The Committee recommends that Commonwealth Procurement Rules be amended to explicitly require:**

- **that a value for money assessment must be included in a tender evaluation plan unless the accountable authority approves an exemption from this requirement, and**
- **that the Department of Finance must determine and then advise the procuring entity whether these value for money assessments have been completed appropriately.**

**Mr Julian Hill MP  
Chair  
19 June 2024**





# Additional comments

- 1.1 Coalition committee members propose an additional recommendation that Defence be required to report to the Minister for Defence and Minister for Defence Industry on significant scope variations that will impact on cost. A threshold should also be set that will trigger this reporting. Significant scope and schedule variations should also be reported.
- 1.2 Coalition members disagree with the characterisation in paragraph 1.23 in relation to design and maturity of the type 26 on which the Hunter is based is an evolution of the type 3.
- 1.3 Coalition members believe some of the language used throughout this report is inflammatory and does not reflect the views of all members of the committee.

## Recommendation 1

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- 1.4 **Coalition members of the Joint Committee of Public Accounts and Audit recommend that the Department of Defence be required to report to the Minister for Defence and Minister for Defence Industry on significant scope variations that will impact on cost. In addition to this:**
  - a threshold should also be set that will trigger this reporting; and
  - significant scope and schedule variations should also be reported.

**Senator the Hon Linda Reynolds CSC  
Deputy Chair**


**Senator the Hon Matthew Canavan**

**Mr Ian Goodenough MP**

**Mr Henry Pike MP**

**Mr Aaron Violi MP**





# A. Appendix A - Submissions

- 1 Department of Defence
  - 1.1 Supplementary to submission 1
  - 1.2 Supplementary to submission 1
  - 1.3 Supplementary to submission 1
  - 1.4 Supplementary to submission 1
  - 1.5 Supplementary to submission 1
  - 1.6 Supplementary to submission 1
  - 1.7 Supplementary to submission 1
  - 1.8 Supplementary to submission 1
  - 1.9 Supplementary to submission 1
  - 1.10 Supplementary to submission 1
  
- 2 Australian National Audit Office
  - 2.1 Supplementary to submission 2
  - 2.2 Supplementary to submission 2
  - 2.3 Supplementary to submission 2
  - 2.4 Supplementary to submission 2
  
- 3 Department of Finance
  - 3.1 Supplementary to submission 3
  
- 4 BAE Systems Australia
  - 4.1 Supplementary to submission 4
  - 4.2 Supplementary to submission 4
  
- 5 Government of the United Kingdom





## **B. Appendix B - Public hearings**

### **Friday, 19 May 2023 – Canberra**

#### **Australian National Audit Office**

- Mr Grant Hehir, Auditor-General
- Ms Rona Mellor PSM, Deputy Auditor-General
- Dr Tom Ioannou, Group Executive Director, Performance Audit Services Group
- Ms Michelle Page, Senior Executive Director, Performance Audit Services Group

#### **Department of Defence**

- Mr Matt Yannopoulos, Associate Secretary
- Mr Chris Deeble, Deputy Secretary, Capability Acquisition and Sustainment Group
- Rear Admiral Wendy Malcolm, Deputy Secretary Naval Shipbuilding and Sustainment Group
- Major General Anthony Rawlins, Head Force Design
- Air Vice Marshall Wendy Blyth, Head of Air Force Capability
- Major General Andrew Bottrell, Head Land Systems (by video)
- Air Vice Marshal David Scheul, Head Air Defence and Space Systems Division

### **Friday, 8 September 2023 – Canberra**

#### **BAE Systems**

- Mr Ben Hudson, Chief Executive Officer

# Monday, 20 November 2023 – Canberra

## Australian National Audit Office

- Mr Grant Hehir, Auditor-General
- Ms Rona Mellor PSM, Deputy Auditor-General
- Dr Tom Ioannou, Group Executive Director, Performance Audit Services Group
- Ms Amy Wilmott, Executive Director, Performance Audit Services Group
- Ms Michelle Page, Senior Executive Director, Performance Audit Services Group

## Department of Defence

- Mr Greg Moriarty, Secretary
- Mr Matt Yannopoulos, Associate Secretary
- Mr Chris Deeble, Deputy Secretary Capability Acquisition and Sustainment Group
- Mr Steven Groves, Chief Financial Officer
- Mr Jim McDowell, Deputy Secretary Naval Shipbuilding and Sustainment Group
- Mr Graham Weber, First Assistant Secretary Financial Performance & Management
- Major General Anthony Rawlins, Head Navy Capability
- Brigadier Warren Gould, Director General Systems and Integration
- Air Vice Marshal Wendy Blyth, Head of Air Force Capability
- Ms Sheryl Lutz, First Assistant Secretary MS Combatants & Combat Systems
- Ms Francesca Rush, Chief Counsel Commercial & First Assistant Secretary Australian Industry Capability
- Major General Jeremy King, Head Joint Aviation Systems Division
- Air Vice Marshal David Scheul, Head Air Defence and Space Systems Division
- Rear Admiral Wendy Malcolm, Patrol Boats & Specialist Ships

## Department of Finance

- Mr Nathan Williamson, Deputy Secretary, Governance and Resource Management
- Ms Anna Harmer PSM, First Assistant Secretary, Government & Defence Division, Governance and Resource Management

