



Auditor-General for Australia



13 February 2012

Senator Alan Eggleston
Chair
Senate Foreign Affairs, Defence and Trade
References Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Senator Eggleston

Inquiry into Defence Procurement

Thank you for your letter of 19 December 2011, concerning the preliminary report of the Senate Foreign Affairs, Defence and Trade References Committee's Inquiry into Defence Procurement, and for the copy you provided. You invited our comment on the Committee's preliminary report and the matters raised in it.

The Committee's report captured concisely the factors that have contributed to sub-optimal Defence acquisition outcomes. In analysing the findings of our various recent audits, we have found that these factors frequently arise from matters of implementation, undertaken in an environment of complex departmental policies and procedures. In our view, greater emphasis needs to be given to reinforcing the fundamentals of good project management, emphasising the importance of the seamless management of projects across organisational boundaries, and building on Defence's successes to promote good practice.

The Committee's endeavour to map the processes of the entire capability development life cycle is a challenging undertaking. As the Committee aptly put it, there is currently a maze of policy and procedure. Our audit work would support this view and the need for more transparent and understandable processes. While acknowledging that some aspects of Defence materiel procurement are inherently complex, and that some earlier reforms to Defence procurement processes are yet to be fully implemented, clear goals, roles and supporting information systems are especially important if Defence is to achieve the benefits of the matrix management approach to delivering capability.

Our audit experience has shown that the challenges of managing inherently complex projects are compounded when roles and responsibilities are not clear at all stages of the capability development cycle. It is important that there is effective management from the outset, from formulating and setting requirements, through to contracting and building or acquiring materiel, and supporting it in service. This was highlighted in the *2010–11 Major Projects Report*, which found that schedule slippage primarily reflected an underestimation of both the

scope and complexity of projects, and that maintaining major projects on schedule remains the most significant challenge for the DMO and industry contractors. Ongoing responsibility and accountability for defining and managing scope and schedule is, without doubt, a very important issue, and I note that the Committee has flagged for its next report to the Parliament an examination of the links between the senior decision-making and planning forums for Defence procurement.

As is the case at almost any time, we have a number of audits under way that have a bearing on Defence procurement. Given the Committee's intention of completing a further report by June 2012, it is possible that two of these audits (on the *M113 Upgrade and Introduction into Service*, and the *Gate Reviews for Defence Capital Acquisition Projects*) will table in the Parliament in sufficient time for the Committee to consider and take into account the findings. We will, of course, bear in mind the issues raised in the Committee's preliminary report in our current audit work, particularly in completing the audit of the *Two-pass approval for Major Defence Capital Equipment Projects* that I anticipate will table in the Parliament later this year.