



Joint Committee of Public Accounts and Audit

Naval Construction Programs—Mobilisation
(Auditor-General Report No.39 of 2017–18)

17 August 2018

Opening Statement by Mr Grant Hehir, Auditor-General for Australia

1. Good afternoon Chair and committee members.
2. Thank you for the opportunity to appear before the committee today.
3. This is the third in a series of performance audits on recent naval shipbuilding programs. Recent audits examined the Air Warfare Destroyer Program (tabled 2014) and the Future Submarine Competitive Evaluation Process (tabled 2017). The ANAO will continue to audit naval construction programs and the shipbuilding enterprise due to their cost, significance to future defence capability, longevity, national scope, and the implementation risks involved.
4. The audit objective was to assess the effectiveness to date of the Department of Defence's (Defence) planning for the mobilisation of its continuous shipbuilding programs in Australia. The audit reports on the state of play as at May 2018. This early examination was intended to provide assurance to the Parliament on the extent to which implementation at that date supported achievement of the Government's 2017 *Naval Shipbuilding Plan*.
5. The audit found that Defence continues to work towards effective planning and mobilisation to deliver the Australian Government's Naval Shipbuilding Plan.
6. The Australian Government has identified the key elements for a successful continuous shipbuilding enterprise. These are expressed as 'guiding principles' and key program enablers.
7. The guiding principles were informed by lessons learned from previous Australian shipbuilding programs including the Collins Class submarine and Hobart Class Destroyer (Air Warfare Destroyer). The guiding principles focus on achieving productivity, the selection of mature ship designs, limiting unique Australian design changes, and adopting an integrated approach to design and construction.

8. The Australian Government identified four key program enablers in its 2017 *Naval Shipbuilding Plan*—infrastructure, workforce, the industrial base, and a national approach. Defence's planning and mobilisation activities relating to the four key enablers of the Plan remain a work in progress.
9. At this early stage, the effectiveness of governance arrangements cannot be established. In response to internal governance reviews, Defence appointed a senior responsible officer for the Plan in early 2018. A framework of senior advisory and coordinating committees has also been established.
10. Defence is currently meeting scheduled milestones for the Offshore Patrol Vessel, Future Frigate and Future Submarine programs, noting that each program is in its early stages.
11. Over time, Defence has advised the Government of the high to extreme risks the shipbuilding programs present. Defence advised the ANAO that its main risk mitigation strategy is implementation of the Government's guiding principles.
12. The audit observed that successful implementation of the Naval Shipbuilding Plan will also require:
 - the timely and effective mobilisation of key enablers;
 - the timely and effective implementation of each construction project; and
 - the seamless management of the naval construction program as a whole, to avoid flow-on effects and maintain a continuous build process which delivers the specified capability on time and within budget.
13. The audit also observed that Defence has not updated its cost assumptions for its naval construction programs, to reflect Government decisions relating to earlier design and build milestones for its surface ships, and building the Future Submarine in Australia. In the interests of transparency, we made one recommendation in line with a 2015 undertaking by Defence to the Government. The recommendation is that Defence determine the affordability of the 2017 *Naval Shipbuilding Plan* and related programs, and advise the Government of the additional funding required to deliver these programs, or the capability trade-offs that may need to be considered. Defence did not accept the recommendation.
14. The audit team and I would be pleased to answer any questions the Committee may have.