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INTRODUCTION

What this report is about

1.1 This report contains advice to the Parliament on the review by the Joint Committee of Public Accounts and Audit (JCPAA) of *Audit Report No. 34, 1997-98, New Submarine Project*, which was tabled on 25 March 1998.

1.2 The main feature of the JCPAA's review was the conduct of three public hearings on 29 April 1998, and on 5 and 22 March 1999, at which evidence was taken. The Committee's hearings focussed initially on the findings of the Audit Report and, more recently, on submarine capability.

1.3 At the invitation of the Australian Submarine Corporation (ASC), on 16 April 1999, Committee members inspected the submarine facility at Port Adelaide and the Collins submarine *Dechaineux*. The Chairman of the Committee, Mr Bob Charles, MP, accepted an invitation from ASC through Defence to go to sea on *Dechaineux*, and did so from 28 to 29 April 1999.

Background

1.4 The Department of Defence's (Defence) \$5.05 billion new submarine project commenced in 1982 and involves the design and construction of six Collins class submarines and associated supplies and services. The major part of the contract is the \$4.38 billion prime contract with Australian Submarine Corporation Pty Ltd (ASC). ASC manages over 70 subcontractors who in turn have subcontractors, bringing the total project contractor complement to about 1500 firms.¹

1 *Audit Report No. 34, 1997-98*, p. xiii.

1.5 Defence chose the Swedish Kockums AB type-471 design concept and a combat system to be supplied by a consortium led by Boeing Australia Ltd.²

1.6 The audit objective of *Audit Report No. 34, 1997-98* was to assess project management by Defence's Project Office in the light of accepted better practice project management techniques, including the effective management of risk. An important aim of the audit was to suggest improvements in project management that could be applied to this, and similar, Defence projects.³

1.7 At a public hearing on 29 April 1998 into *Audit Report No. 34*, the Auditor-General advised the Committee that despite the project's significant achievements, the submarines had unresolved problems relating to design and system reliability.⁴

1.8 A 1992 ANAO audit of the project expressed concern about the Project Office's lack of business acumen and the 1998 Audit Report noted little improvement in this respect. The 1998 Audit Report found that Project Office management of quality assurance issues was inadequate.⁵

1.9 The Auditor-General told the Committee that the ANAO's major concern had been that over 95 per cent of project funds had already been expended while a large proportion of outstanding commitments remained to be fulfilled under the contract.⁶

1.10 Defence advised the Committee that in its view, the Audit Report did not focus on what had been done to manage and overcome the problems encountered during the development and construction of the submarines.

1.11 Defence maintained that while some risk remained in the project, the risk was now much reduced and under

2 *Audit Report No. 34, 1997-98*, p. 2.

3 *Audit Report No. 34, 1997-98*, p. xiv.

4 Auditor-General, *Transcript, 29 April 1998*, p. PA 40.

5 *Audit Report No. 34, 1997-98*, pp. xv, xvii.

6 Auditor-General, *Transcript, 29 April 1998*, p. PA 40; *Audit Report No. 34, 1997-98*, p. xiv.

effective management, and that the project cost remained within its original budget of \$5.05 billion.⁷

1.12 The Audit Report made 12 recommendations designed to improve project management on the new submarine project and other major Defence projects. Defence agreed or agreed in principle to eight recommendations.⁸

Structure of the report

1.13 This report highlights the main issues discussed at the public hearings and, where appropriate, provides comment on unresolved or contentious issues.

1.14 During the hearings, the Committee focussed its attention on the following matters:

- contractor performance risk;
- Commonwealth indemnity;
- monitoring project progress;
- cost to complete;
- ANAO access to records and premises;
- project management and risk management;
- combat systems development;
- submarine design, construction and safety; and
- operational capability.

1.15 The report refers to, and should be read in conjunction with, the transcripts of evidence taken at the public hearings. The transcripts are reproduced at Appendix VI.

7 Mrs Merrilyn McPherson, Acting Deputy Secretary, Acquisition, DAO, *Transcript*, 29 April 1998, pp. PA 38-9.

8 Auditor-General, *Transcript*, 29 April 1998, p. PA 41.