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Report Nos 51 and 52 of 2011-12

SPEECH

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Speaker Fawcett, Sen David

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Senator FAWCETT (South Australia) (15:59): by leave—I wish to take note of the Auditor-General's Report No. 52 of 2011-12, Performance audit—*Gate reviews for Defence capital acquisition projects: Department of Defence*. It was forecast during a Senate inquiry into defence procurement by the ANAO. I would like firstly to put on record my appreciation for the work of Mr Ian McPhee, the Auditor-General, and his team, particularly Ms Fran Holbert. Over nearly 30 years of working across Army, Navy and Air Force, the Defence Acquisition Organisation and industry, I have seldom come across someone who has gained such insight as Ms Holbert. She has added considerable value to the Senate committee's inquiry into defence procurement and other defence matters, and I wish to place on record our appreciation of her contribution.

I have a couple of comments regarding ANAO and their audits, and the potential value they add to Defence. Currently their audits are predominantly post facto; they occur after the event. They offer a lot of insight, and they are currently limited by the terms of reference they are given by the government. One of the things I would encourage the government, and also ANAO, to consider is whether changes to the Auditor-General's Act 1997 or other legislation could give them the opportunity to become an enabling element, whereby rather than conducting audits after the event they actually provide the level of insight and skill that their organisation brings during the actual process, in the case of Defence, of procurement projects. As such, the lessons learned, the inquisitive external eye on adherence to process, or compliance with other requirements, actually help people manage the process and retire risk earlier rather than later.

The subject of this audit on which we have had some extensive discussions with DMO and Defence are the gate reviews. Essentially the focus of a lot of this inquiry into Defence procurement is how Defence and government go about managing risk. Currently it appears that we have extensive amounts of process. There are people who are well meaning but not necessarily particularly skilled in technology, and in some cases not particularly experienced in commercial practice, who apply large amounts of process in order to minimise risk associated with the project, whether that be technical or commercial, and risk associated with schedule or capability that may be delivered, such

that when they finally put up a cabinet submission there is minimum risk that the minister needs to deal with.

To adequately manage risk as opposed to avoiding it, however, we need processes and we need people who can identify risk, people who can quantify what impact that risk may have on the defence capability being sought and, most importantly, people who can address that risk. That means we need the skill sets—for example, people pre first pass, who can look at a project and very quickly see through claims that may be made with the conspiracy of optimism that tends to envelop people from the Capability Development Group at times, but particularly the manufacturers, who will make claims around something being an off-the-shelf purchase. We have examined a number of classic examples where the programs have in actual fact turned out to be quite developmental. The ability of appropriately trained people, whether from a scientific background or specifically from a test and evaluation background—where you have the blending of both operational and engineering skills—to test the claims made by a manufacturer is important. As such, we can have an accurate identification of the level of technical maturity around a product that is being offered to Defence so we can quantify what impact that may have in terms of the time required to develop it or accept it into service.

Lastly, the process needs to have a transparent closed-loop feedback system so that that information from the subject matter expert is accurately relayed to the decision makers. Far too often we have seen examples whereby something that has a red light at the level of the subject matter experts then has, after it has gone through various layers, a green light when it hits senior levels of Defence or the parliament. That system needs to change. We need to have a process that is used to inform decision makers rather than a process that is followed in order to try to minimise risk.

The Senate inquiry into defence procurement welcomes what we have heard so far around gate reviews. They certainly appear to be beginning steps down the right path. They go some way to providing people who are independent and knowledgeable and who can shed some light onto commercial or technical risk throughout various stages of the project. Particularly pre first pass, there is a role to expand the gate reviews, as they have currently been described

to us, such that we have people who can look at what is being proposed and who can cut through that conspiracy of optimism to say, 'In our experience, this kind of a project'—particularly if it is a software-intensive project—'has had delays of whatever period', or that it requires certain kinds of skill sets on the project team. Thus appropriate recommendations can be made to government at first pass that have a realistic estimation of cost and of schedule and, importantly, of the kinds of skill sets the Commonwealth, if it is to be an informed customer, should have working on that project and working with the manufacturer as part of the resident team.

Pre second pass, the same kind of methodology should be used—again, bringing in these independent and knowledgeable experts who have a transparent way of conveying their findings to decision makers—around the suitable contracting method. One of the bits of feedback we have had consistently through this Senate inquiry is that at various times Defence has sought to put in place commercial arrangements that have pushed risk onto the provider of equipment, as opposed to looking at the nature of the program and the level of maturity and having an appropriate risk-sharing commercial arrangement such that we do not artificially inflate the cost, because contractors will always, quite rightly, factor risk into the price. At the same time, we do not want to be paying more than we need to. That is one of the areas where industry skills and expertise could be used through the gate review process if it were applied as a matter of course—pre first pass and pre second pass and even during the project's life on a periodic basis—in relation to the level of compliance with the agreed scope, with agreed processes and in terms of making sensible decisions around the relationship between the Commonwealth and the contractor. This is an area where, if ANAO were able to conduct their audits—or, indeed, if defence had an organisation similar to ANAO which could provide a through-life audit of project processes and the compliance of people with agreed scope and financial controls—we could well see a far better outcome. Certainly there is an existing model within the airworthiness system of defence by which all three services operate their aircraft—they have their own pilots and engineers and different aircraft types—but are held to a high standard by the two regulators, both operational and technical. There are auditors who come in and mentor people about what will be expected in the audit. They then conduct the audit, and the results come back to the airworthiness board, which is made up of retired subject matter experts. Being retired, they are independent of the system; being subject matter experts, they have been around that boy half a dozen times and know the questions to ask and how to probe issues, and they can report without fear or favour to the

appropriate decision-making authorities. This model is one of the reasons that we still maintain a safe and effective air capability in Australia's Defence Force. It is a model that can and should inform our capability development and procurement process, and I believe that a combination of a group such as ANAO and the gate review process could be developed to have the same outcome. I look forward to reading the report and commend it to the Senate.

The DEPUTY PRESIDENT: Senator Fawcett, do you wish to seek leave to continue your remarks later?

Senator FAWCETT: I seek leave to continue my remarks later.

Leave granted; debate adjourned.