

CHAIRMAN'S FOREWORD

The Collins submarine will, when fully operational, represent a quantum leap in capability. It is the largest conventionally-powered submarine in the world. It travels faster, dives deeper and has a longer range than any of its rivals. It has a lower indiscretion rate, higher availability and is more manoeuvrable than the Oberon class submarine. Its combat systems, when fully operational, are designed to track more contacts, attack more targets, and provide more weapons capability than the Oberon. The submarine and its systems are optimised for the conditions in its area of operation. It has advanced information and control management systems and has proved to be extremely quiet at patrol-quiet state.

However, the expectation that the superior Collins submarines would by now have taken up the capability of the paid-off Oberons has not been realised. Instead, Navy is confronted with a submarine fleet reduced from six operational Oberon class submarines, to one operational Oberon class submarine, and a far greater reduction in operational capability than the reduction anticipated by Defence at the start of the project.

At the invitation of the Australian Submarine Corporation (ASC) I took the opportunity on 28-29 April 1999 to sail on the *Dechaineux*. I spoke at length with the submarine's officers and crew, and ASC personnel.

Having only one operational submarine, and the requirement to provide training over an extended period to run two capabilities, the Oberons and the Collins, side by side, has presented significant training difficulties for Navy. The delays in delivery of software, the continuing need for rectification of defects and completion of contractor sea trials are affecting the submarine force structure, preparedness and morale.

The submarines have a number of as yet unresolved design and system problems, and while there is optimism that these will be overcome, the Commonwealth remains exposed to significant areas of risk as long as the submarines remain less than fully operational.

Technical difficulties have been experienced with the software used to integrate the combat systems functions. The combat system does not function as an integrated system resulting in the submarines' current combat system capability falling below planned capability.

Despite Defence's assurances that there will be no ongoing additional costs to the Commonwealth because of the fixed price nature of the submarine project contract, it will be difficult to establish with certainty what additional costs to taxpayers may result from design and engineering shortfalls and what are legitimate reconfiguration costs to meet new Defence requirements.

Audit Report No. 34, 1997-98 criticised aspects of the Project Office's management of quality assurance issues and project progress monitoring. The Audit Report also expressed concern about the expenditure of over 95 per cent of the project funds, when a substantial proportion of outstanding commitments remained to be fulfilled under the contract.

It is clear to the Committee that the risks in this project have not been handled as well as they might have been, and that the number of defects, particularly in the first two submarines, is evidence of this. Substantial risk still attaches to the submarines' combat system. While it has been assured that the remaining funds should be sufficient for the satisfactory completion of the project, the Committee considers that ongoing schedule changes require more frequent review to reverify that schedule and cost outcomes can be met.

The Committee considers that continued surveillance by Defence of the estimated cost to complete, and the payment of funds only on earned value, are critical to the outcome of this and other Defence projects.

Detailed comments have been made in the report about the unsatisfactory nature of Defence evidence in relation to Defence's payment to ASC's broker of \$2.4 million for 'insurance services'.

The report also addresses the issue of access to contractors' premises by the Auditor-General.

The primary responsibility for ensuring sufficient access to relevant records and information pertaining to a contract lies with agency heads. However, the Committee considers that it will not always be clear to agencies when contracts with third party providers are entered into, that there may be a later need for the Auditor-General to access premises in order to carry out his statutory responsibility to Parliament.

The Committee is also aware that some agencies may seek refuge in the reduced accountability that can occur when services are outsourced to the private sector, and are not as cooperative as they might be in assisting the Auditor-General to access contractors' information and records. In the JCPAA's view, such access is integral to proper management of such contracts and the successful audit of contract outcomes, and the Committee has recommended accordingly.

Bob Charles MP
Chairman

CONTENTS

Chairman's Foreword	iii
Membership of the Committee	ix
Membership of the Sectional Committee	xi
Recommendations	xiii

CHAPTER 1

INTRODUCTION	1
What this report is about	1
Background	1
Structure of the report	3

CHAPTER 2

CONTRACTOR PERFORMANCE RISK	5
Committee comments	7

CHAPTER 3

COMMONWEALTH INDEMNITY	9
Committee comments	11
\$2.4 million payment for insurance services	11
Committee comments	14

CHAPTER 4

MONITORING PROJECT PROGRESS	19
Introduction	19
Contract Management and Control System	19
Claims audits	24
Committee comments	25

CHAPTER 5

COST TO COMPLETE	29
Contracted specifications	33
Committee comments	35

CHAPTER 6

ANAO ACCESS TO RECORDS AND PREMISES	39
Committee comments	41
Consultants engaged by ANAO	43
Committee comments	46

CHAPTER 7

PROJECT MANAGEMENT AND RISK MANAGEMENT	47
Committee comments	50

CHAPTER 8

COMBAT SYSTEM DEVELOPMENT	53
Committee comments	61

CHAPTER 9

SUBMARINE DESIGN, CONSTRUCTION AND SAFETY	63
Overall performance	63
Submarine safety	64
Hull integrity	66
Acoustics	68
Diesel engines	71
Committee comments	71

CHAPTER 10

OPERATIONAL CAPABILITY	73
Committee comments	82
Other issues	84

Appendices

Appendix I	Conduct of the JCPAA's Review	87
Appendix II	Duties of the Committee	89
Appendix III	List of Abbreviations	91
Appendix IV	Submissions	93
Appendix V	Exhibits	95
Appendix VI	Transcript of Evidence	97

MEMBERSHIP OF THE COMMITTEE 39TH PARLIAMENT

Mr R Charles, MP (Chairman)

Mr D Cox, MP (Vice-Chairman)

Senator H Coonan

Mr K Andrews, MP

Senator the Hon R Crowley¹

Mr M Brough, MP

Senator the Hon B Gibson, AM

Mr P Georgiou, MP

Senator the Hon J Faulkner²

Mr A Griffin, MP

Senator J Hogg

Ms J Gillard, MP

Senator A Murray

Hon A Somlyay, MP

Senator J Watson

Mr S St Clair, MP

Ms T Plibersek, MP

Secretary

Dr Margot Kerley

¹ Discharged 10 December 1998

² Appointed 10 December 1998

MEMBERSHIP OF THE COMMITTEE 38TH PARLIAMENT

Mr R Charles, MP (Chairman)

Mr A Griffin, MP (Vice-Chairman)

Senator H Coonan

Mr L Anthony, MP

Senator the Hon R Crowley

Hon D Beddall, MP

Senator the Hon B Gibson, AM

Mr R Broadbent, MP

Senator J Hogg

Hon J Crosio, MP

Senator A Murray

Mr J Fitzgibbon, MP

Senator J Watson

Mr P Georgiou, MP

Hon J Sharp, MP

Mrs S Stone, MP

Secretary

Dr Margot Kerley

**MEMBERSHIP OF THE SECTIONAL
COMMITTEE ON AUDITOR-
GENERAL'S REPORTS
39TH PARLIAMENT**

Mr R Charles, MP (Chairman)

Mr D Cox, MP (Vice-Chairman)

Senator the Hon B Gibson, AM

Mr M Brough, MP

Senator A Murray

Mr P Georgiou, MP

Ms J Gillard, MP

Mr A Griffin, MP

The Hon A Somlyay, MP

Review Staff:

Ms Jennifer Hughson
Ms Tiana Gray

**MEMBERSHIP OF THE SECTIONAL
COMMITTEE ON AUDITOR-
GENERAL'S REPORTS
38TH PARLIAMENT**

Mr R Charles, MP (Chairman)

Mr A Griffin, MP (Vice-Chairman)

Senator H Coonan

Hon D Beddall, MP

Senator the Hon R Crowley

Mr R Broadbent, MP

Senator the Hon B Gibson, AM

Hon J Crosio, MBE, MP

Senator J Hogg

Mr P Georgiou, MP

Senator A Murray

Mrs S Stone, MP

Review Staff:

Ms Jennifer Hughson
Ms Tiana Gray

RECOMMENDATIONS

Recommendation 1

The Committee recommends that the Minister for Defence direct the Secretary of the Department of Defence to institute an investigation to establish: the appropriateness or otherwise of the \$2.4 million payment to the Australian Submarine Corporation's broker; whether Commonwealth monies may have been misdirected; and why a full audit trail could not be produced. (paragraph 3.37)

Recommendation 2

The Committee recommends that where the Department of Defence settles a commercial dispute, the settlement process be openly and properly documented. (paragraph 3.38)

Recommendation 3

The Committee recommends that the Auditor-General's Recommendations No. 4 and No. 5 in Audit Report No. 34, 1997-98, concerning increasing the frequency of the cost schedule control system surveillance audit and increasing the proportion of work package progress claims reviewed, be implemented by the Department of Defence. (paragraph 4.36)

Recommendation 4

The Committee recommends that the Department of Defence apply the utmost diligence to ensuring that the funds the Australian Submarine Corporation has in hand and the remaining funds the Department of Defence has yet to pay under the contract, will be sufficient for the satisfactory completion of the new submarine project. (paragraph 5.39)

Recommendation 5

The Committee recommends that the Minister for Finance make legislative provision, either through amendment of the Auditor-General Act or the Finance Minister's Orders, to enable the Auditor-General to access the premises of a contractor for the purpose of inspecting and copying documentation and records directly related to a Commonwealth contract, and to inspect any Commonwealth assets held on the premises of the contractor, where such access is, in the opinion of the Auditor-General, required to assist in the performance of an Auditor-General function. (paragraph 6.20)

Recommendation 6

The Committee recommends that realistic allowances for contingencies be made in delivery schedules for major Department of Defence projects and changeovers in platform types. (paragraph 10.45)

Recommendation 7

The Committee recommends that the Government urgently address the outstanding issue of through-life support for the Collins submarines. (paragraph 10.57)