

Performance Audit Report No. 52 (2013-14)

Multi-Role Helicopter Program

Introduction

- 6.1 Chapter 6 discusses the Joint Committee of Public Accounts and Audit (JCPAA) review of Australian National Audit Office (ANAO) Report No. 52, *Multi-Role Helicopter Program*. The chapter comprises:
- an overview of the report, including the audit objective, criteria and scope; audit conclusion; and audit recommendations
 - Committee review
 - Committee comment

Background

- 6.2 At a budgeted cost of just over \$4 billion, the Multi-Role Helicopter (MRH90) Program is to acquire 47 helicopters and their support system for the Australian Defence Force (ADF).¹
- 6.3 The program involves the acquisition of a single helicopter type to meet multiple capability requirements, and it is being implemented as part of Defence's AIR 9000 Program. The capability requirements include:
- troop lift helicopter operations from Royal Australian Navy (RAN) ships

1 ANAO, Audit Report No. 52 (2013-14), *Multi-Role Helicopter Program*, p. 13.

- utility helicopter operations to enable the Australian Army to respond swiftly and effectively to any credible armed lodgement on Australian territory
 - more likely types of operations in Australia's immediate neighbourhood²
- 6.4 In pursuing the acquisition, the then Australian Government recognised that ADF helicopters would be instrumental in the planned expansion of the ADF's amphibious deployment and sustainment capability.³
- 6.5 In June 2005, Defence signed an acquisition contract with Australian Aerospace for the supply of twelve MRH90 and for an interim support system. The interim support system did not include important MRH90 support elements such as an electronic warfare self-protection support cell, a ground mission management system, a software support centre, an instrumented aircraft with telemetry, and Full Flight and Mission Simulators. These support elements are critical for providing training and the ability to operate off ships. They were removed from the MRH90 acquisition contract to ensure AIR 9000 Phase 2 remained within its approved budget, and were added to the contract through later amendments, and at additional cost. In July 2005, Defence signed an MRH90 sustainment contract and a Strategic Partner Program Agreement with Australian Aerospace.⁴

Management arrangements

- 6.6 The Chief of Army is the lead Capability Manager for all of the ADF's MRH90 fleet. The Chief of Navy has capability management responsibilities for the six MRH90 assigned to Navy. These officers are responsible for overseeing and coordinating all elements necessary to achieve the MRH90's full level of operational capability by the government agreed date.⁵
- 6.7 The Defence Materiel Organisation (DMO) MRH90 Program Office is located in Canberra and is responsible for the acquisition of the MRH90 aircraft and their transition into service. The DMO's MRH90 Logistics Management Unit is located in Brisbane, and at the time of the audit was merging with the Armed Reconnaissance Helicopter (ARH) Logistics

2 ANAO, Audit Report No. 52 (2013-14), *Multi-Role Helicopter Program*, p. 13.

3 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 13.

4 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 16.

5 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 18.

- Management Unit to form the Reconnaissance and Mobility Systems Program Office (RAMSPO).⁶
- 6.8 Australian Aerospace is the Authorised Engineering Organisation (AEO) for sustainment of the MRH90, and has overall Systems Program Office (SPO) responsibility for a range of services normally undertaken by a DMO SPO. Australian Aerospace is the Approved Maintenance Organisation (AMO) for MRH90 Operational Maintenance at the Army Aviation Training Centre in Oakey, Queensland, and for MRH90 Retrofit and Deeper Maintenance at its MRH90 assembly facility in Brisbane. Two other maintenance organisations have been formally accredited by the Director General Technical Airworthiness as AMOs for the MRH90 aircraft: Army's 5th Aviation Regiment (Townsville); and Navy's 808 Squadron (Nowra).⁷
- 6.9 Army and Navy operational units provide overall MRH90 fleet management in terms of flying operations and safety management, fleet-usage coordination and management of aircraft serviceability. At the time of the ANAO audit, 27 MRH90 aircraft had been accepted.⁸

Report overview

Audit objective, criteria and scope

- 6.10 The ANAO Performance Audit No. 52 (2013-14) objective was to assess progress in delivering the MRH90 aircraft to the ADF through AIR 9000 Phases 2, 4 and 6, within approved cost, schedule and performance parameters. The timeline covered by the ANAO audit extended from the MRH90 Program's requirements definition phase in 2002, to progress achieved by April 2014.⁹
- 6.11 The audit approach closely followed the systems engineering processes that Defence uses to manage the capability lifecycle of projects. The ANAO did not intend, nor was it in a position, to conduct a detailed analysis of the full range of engineering issues being managed within the MRH90 Program. Rather, the audit focused on the MRH90 Program's progress thus far in establishing the management structures and processes

6 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 18.

7 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 19.

8 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 19.

9 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 19.

used to deliver the aircraft within approved cost, schedule and performance parameters.¹⁰

6.12 The high-level criteria developed to assist in evaluating Defence's performance were:

- the requirements definition phase of the MRH90 Program, acquisition strategies and plans, and capability development policy and processes should be in accordance with internal Defence systems engineering procedures
- the criteria used in the tender evaluation and selection process should reflect the approved capability identified through the requirements definition phase
- the acquisition phase of the MRH90 Program, and test and evaluation leading to system acceptance, should meet the required technical, operational and safety regulatory requirements
- the process involved in certifying the aircraft's safety and fitness for service should meet the required technical, operational and safety regulatory requirements
- MRH90 sustainment arrangements should enable the aircraft to achieve agreed operational readiness requirements within approved budgets.
- Agencies within scope of the audit included the ATO, ASIC and the Department of Industry¹¹

Audit conclusion

6.13 Following MRH90 trials in April and May 2012, the Navy reported impressive handling and that the aircraft showed considerable potential for embarked operations. Defence informed the ANAO that the MRH90 aircraft has shown that it has the potential to offer greater capability in some areas than the Black Hawk and the Sea King. However, the MRH90 remains subject to a range of design rework in order to operate in high-threat environments.¹²

6.14 By March 2014, over \$2.4 billion had been spent acquiring and sustaining the MRH90, with 27 delivered. However, the MRH90 Program was running four years behind schedule, with the first Operational Capability milestones yet to be achieved. Considerable work remains to implement and verify some design changes, and to adjust operational tactics,

10 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 19.

11 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 16.

12 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 21.

- techniques and procedures, in order to develop an adequate multi-role helicopter capability for Army and Navy operations.¹³
- 6.15 The ANAO stated that the difficulties experienced are primarily a consequence of program development deficiencies and acquisition decisions during 2002-06. That period included requirements definition, the source selection process and the establishment of acquisition and sustainment contracts. The MRH90 Program's history shows that when these crucial stages of program development are not appropriately performed, then there are likely to be serious and potentially long-term consequences for capability delivery and expenditure.
- 6.16 The ANAO concluded that Defence's helicopter capability requirements definition was inadequate, did not properly inform the source selection process, and led to gaps in contract requirements. Defence also did not effectively assess the maturity of the MRH90 and S-70M Black Hawk aircraft designs, and the potential implications of immaturity, during the source selection process and to inform the development of contracts. Further, the acquisition and sustainment contracts established by Defence did not contain adequate protections for the Commonwealth.¹⁴
- 6.17 In the ANAO's view, the decision in 2004 by the then Australian Government to approve the acquisition of the MRH90 aircraft, instead of the initial Defence recommendation that the S-70M Black Hawk aircraft be acquired for Phases 2 and 4, has had significant implications as a consequence of:
- unforeseen immaturity in the MRH90 system design and the support system
 - the continuing need to modify some design elements to meet multi-role capability requirements
 - the high cost of sustaining the aircraft¹⁵
- 6.18 Since 2007, when Australian Aerospace delivered the initial aircraft, Defence has applied a range of strategies (which remain ongoing) directed at addressing aircraft deficiencies and achieving better contractual outcomes for the aircraft's acquisition and sustainment. They have included the DMO suspending acceptance of aircraft, listing the MRH90 as a 'Project of Concern', and re-negotiation of the acquisition and sustainment contracts. The ANAO stated that ongoing management attention in Defence with acquisition, sustainment and capability management responsibilities remains necessary for the MRH90 Program
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13 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 22.

14 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 22.

15 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 22.

to provide an acceptable and affordable capability for Army and Navy operations in a reasonable timeframe.¹⁶

- 6.19 Successive Defence reviews have highlighted that risk can be decreased through 'Military Off-The-Shelf' (MOTS) solutions. The ANAO has also observed that schedule delay in the acquisition phase of Defence projects has resulted where the capability solution approved by government was not adequately investigated in terms of its technical maturity, including the issue of whether an option is truly 'Off-The-Shelf' or developmental in some respect. The program's risk mitigation strategy was based on the acquisition of a MOTS solution, which is a sound and well-proven strategy. However, this strategy was not applied at the time the then Government pursued an accelerated *AIR 9000* Phase 2 acquisition decision. The two options under consideration remained in the development phase of the production lifecycle, and were not yet MOTS aircraft. This led to the MOTS strategy being written out of the *AIR 9000* Phases 2, 4 and 6 specifications, but with no compensating or more appropriate risk mitigation strategies. Following the commitment to procure the MRH90 aircraft, Defence has had to manage a range of systems development issues, many of which have not been resolved, or have been resolved at additional cost.¹⁷
- 6.20 The ANAO stated that Defence's inability to maintain the MOTS strategy highlights the need to consider the ideal timing of capability acquisition in formulating acquisition strategy. Developing new military helicopters or upgrading existing models involves a lengthy process of design, prototype construction, test and evaluation, airworthiness certification and full-rate production approval. The ANAO maintained that there are clear advantages in acquiring helicopters after the aircraft are certified and full-rate production has commenced, because operational test and evaluation outcomes should have been factored into the design; technical and operational airworthiness issues should have been resolved; and support system arrangements established to ensure the specified level of operational availability is achieved.¹⁸
- 6.21 On this occasion the recommendations of the Defence procurement process for the acquisition of this helicopter capability were not adopted by the then Government. The ANAO concluded that while it is open to government to decide on the acquisition of Defence capability and to have regard to wider strategic considerations, any significant uncertainties in

16 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 23.

17 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 31.

18 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 32.

relation to key factors on which decisions are likely to be based should be drawn to the attention of government.¹⁹

- 6.22 The ANAO concluded that the shortcomings in the MRH90 Program requirements, and the lack of recognition of aircraft immaturity, resulted in the acquisition and sustainment contracts containing inadequate protections for the Commonwealth. These contracts also did not provide effective performance incentives, measurement and feedback systems. These key components have had to be negotiated into the acquisition and sustainment contracts at a time when the Commonwealth had reduced bargaining power; that is, following the signing of the decade-long acquisition and sustainment contracts. The sustainment contract involves a model whereby functions normally performed by a DMO SPO are instead the responsibility of the MRH90 acquisition and sustainment Prime Contractor; a model which is considered to offer potential efficiencies but also involves some risks. The ANAO maintained that should a similar model be adopted for future major capital equipment programs, sufficient attention should be given from the outset to the development of appropriate performance incentives and related performance management approaches.²⁰

ANAO recommendation

- 6.23 ANAO did not make recommendations in this report, as Defence already has relevant management processes in place. 'The key issue for Defence is to consistently apply these processes to the standards required'.²¹

Agency responses

- 6.24 Defence's response to the audit report is set out below:

Defence welcomes the ANAO audit report on the Multi-Role Helicopter (MRH90) Program. This extensive report demonstrates the complex nature of Australia's helicopter replacement program which is integral to the Australian Defence Force and its conduct of combined operations. The report accurately highlights a number of challenges that Defence faces in transitioning from its current 3rd generation helicopters to 4th generation platforms.

Defence has made significant progress towards increasing efficiencies and maximising combat capability over a decade of continuous force mobility improvements and acquisitions. The

19 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 32.

20 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 17.

21 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 30.

experience gained from the MRH90 acquisition program stands Defence in good stead for acquisitions not only of helicopter systems, but across other capability acquisitions as well. In particular, DMO has learned substantial lessons in establishing and maturing a sustainment support system, by both Defence and industry; contract management; and accurate assessment of the maturity of proposed capability solutions.

Defence acknowledges that there is scope to realise further improvements in the MRH90 capability and anticipates continued maturity to the sustainment arrangements with associated benefits to cost of ownership. Defence is committed to managing the complexities of its mission and appreciates the regular reviews undertaken by the ANAO.²²

6.25 Australian Aerospace's summary response is set out below:

It is acknowledged that introduction of the MRH90 has been protracted for the reasons discussed in the Extract but Australian Aerospace is of the view that the aircraft is now gaining strong pilot support as a capable and safe aircraft by virtue of its modern avionics and advanced performance and flight characteristics. Australian Aerospace and its NHI Partner are committed to working with Defence on improvements to the cabin and related role equipment which will make the MRH90 a potent battlefield capability for the Australian Army and Royal Australian Navy in the future. As the Extract points out, significant changes to the MRH90 sustainment construct were agreed through Deed 2 and these arrangements are now showing very positive trends in Demand Satisfaction Rates and flight hours achieved. Australian Aerospace is confident that the issues with the MRH90 Program identified in the Extract are well known and are being addressed as quickly as possible in order to deliver the required capability for the ADF, in a cost effective way for the life of type of the helicopter.²³

Committee review

6.26 Representatives of ANAO, the Department of Defence ('Defence') and Defence Material Organisation (DMO) gave evidence at the Committee's

22 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 49.

23 ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p. 50.

public hearing on Friday 24 October 2014. As discussed below, a number of themes were discussed during that testimony, including:

- Military Off The Shelf
- issues with new platforms
- European and United States decision making
- sustainment and spares

Military Off The Shelf (MOTS)

6.27 Although there is a general agreement that a functioning MOTS solution to a capability requirement is desirable, it is not as simple as first appears. DMO CEO, Mr Warren King, observed:

Absolute true MOTS are projects like the C17. It is a production line. It has got all the air navigation equipment that you need. It has potentially tens or hundreds of a unit in service. You buy it and bring it into service. They are typically under budget and typically ahead of schedule.

There are very few that fit into that entire MOTS, and so you come back down the path of 'When are you actually moving into the area of significant change?' or 'When are you in the area of not as mature as you thought?' In this case, clearly the manufacturers presented that this was a mature capability. You have to make a judgment about that in the circumstances. The degree of that uncertainty, to my mind, is the risk in these projects.²⁴

6.28 Although a platform or capability may be MOTS and thus deliverable at a predictable price and timetable that does not necessarily mean it is the best option as it may not possess the entire range of specifications that is required. LTGEN Caligari observed:

That is the problem when you go MOTS. When you go MOTS, you get what the MOTS wants to deliver, not necessarily what you want. So, when we test, we often test against what they say they are going to deliver if it is not an essential. If we make it essential and we want it tested against and we want our specification, it is no longer MOTS or it becomes less MOTS. You understand that sort of dilemma. There is the problem.²⁵

24 Mr Warren King, Chief Executive Officer, Defence Materiel Organisation, *Committee Hansard*, 24 October 2014, p. 1.

25 Lieutenant General John Caligari, Chief of Capability Development Group, Department of Defence, *Committee Hansard*, 24 October 2014, p. 11

Issues with new platforms

6.29 Newly developed platforms and capability may be better suited to Australia's needs, but while some issues can be foreseen, every problem cannot be accounted for. DMO CEO, Mr Warren King, observed:

...when you have a genuine MOTS solution, people doing risk analysis will have hundreds if not thousands of risks. 'I wanted the door blue but it's only green.' It will be very specific. When you have a new design that is not yet done, you get fewer risks. Why? The answer is: because you do not know what they are yet. One that maybe not this committee but other committees have looked at is a project we had to cancel, which was the LCM2000. In that one, we looked at a new design and an off-the-shelf design; the off-shelf did not meet our operational requirements but somehow, magically, this new design would. We went for the new design and, of course, as the reality emerges of the new design, the risks emerge as well. But you cannot predict them in advance.²⁶

6.30 Mr King also explained that while newly developed projects almost always go over time and over budget, there are still occasions when this was a more desirable path to take. When asked if there had ever been a project with a significant developmental element to it delivered on time and within budget, Mr King responded:

Almost never, but that is not to say you should not do it. The hard part, from my point of view – because I have to provide the government with an independent assurance about the risks they are taking on a decision – is to have a quantifiable basis for analysing that risk. It starts to become very complex to do. For example, if it is a new project that involves putting something in a very constrained volume – aircraft or submarines – it is automatically going to have a higher risk than if it is on the back of a truck.

Trying to do that, and I used this term the other night at estimates, which I borrowed – the 'conspiracy of optimism' – in an environment when you are decision making, it is very hard to be the voice saying, 'I urge caution.' We have this exact problem at the moment with the discussion around submarines.²⁷

26 Mr Warren King, Chief Executive Officer, Defence Materiel Organisation, *Committee Hansard*, 24 October 2014, p. 4.

27 Mr Warren King, Chief Executive Officer, Defence Materiel Organisation, *Committee Hansard*, 24 October 2014, p. 3.

- 6.31 Mr King further explained that while developmental platforms may incur extra costs, be delayed and even produce gross frustration that doesn't necessarily mean that the eventual outcome is marginal. Sometimes those 'projects of concern' can ultimately be a significant success:

I have a headline from a paper in 2004 that says, 'Bushmaster is symptomatic of everything that goes wrong in a Defence project,' or words to that effect. The point is that we went ahead and developed it, and today more than 50 vehicles have been blown up by IEDs and not one soldier has been killed. Sometimes you just have to pursue ambitions. A Wedgetail, which is the bane of my whole DMO life, is now in operations supporting our Super Hornets in coalition operations in the Middle East. So is MRTT [Multi Role Tanker Transports]. In fact I am going to write a book, *Projects of Concern in Operations*, because, although it creates great stress on everybody, they are now serving the nation's need. FFG7s [Royal Australian Navy Frigates] were a project of concern. They have been operational, since upgrade, for the last 10 years.²⁸

European and US decision making

- 6.32 One issue not foreseen during the selection process was the difference in the decision making process between companies based in Europe and that United States.
- 6.33 The MRH90 is ultimately the product of NH Industries, which in turn is collaboration between AgustaWestland (32%), Airbus Helicopters (31.25%), Airbus Helicopters Deutschland (31.25%) and Fokker Aerostructures (5.5%).²⁹ This is an international arrangement between Italy, the Netherlands, France and Germany.
- 6.34 The alternative airframe, the Black Hawk S-70M, is manufactured by Sikorsky Aircraft Corporation³⁰ which in turn is a subsidiary of United Technologies Corporation.³¹ Both are based in the United States.
- 6.35 On this occasion the US decision making process was faster than the European process resulting in a hindsight conclusion that perhaps the

28 Mr Warren King, Chief Executive Officer, Defence Materiel Organisation, *Committee Hansard*, 24 October 2014, p. 6.

29 NH Industries website: <http://www.nhindustries.com/site/en/ref/Partnership_22.html> accessed 3 November 2014.

30 Sikorsky Aircraft Corporation webpage: <<http://www.sikorsky.com/About+Sikorsky/For+Investors>> accessed 3 November 2014.

31 United Technologies Corporation webpage: <<http://www.utc.com/Our-Company/Corporate-Governance/Pages/default.aspx>> accessed 3 November 2014.

Sikorsky Black Hawk would have been the better option to pursue. LTGEN Caligari observed:

As it has turned out here, the Black Hawk development worked out better than the European one, for the reasons Warren [King] pointed out, but who was to know that at the start? We are looking at two big industrial bases. We have to pick what we think is the capability we want, and then decide if it is worth the risk on whether they will develop it in certain lines. This is not us taking a risk; this is the world taking a risk. This is not us niche building; this is us joining in on another international development process.³²

6.36 CEO DMO, Mr Warren King, also observed:

Why did the other helicopter get to be more mature, more quickly? The answer is that the industrial base from which we procured this helicopter is very complex and does not lead to quick decision making or quick resolutions of problems; whereas the other industrial base – the US industrial base, for example, that is attuned to producing a helicopter for the US that is fully supportable – turns out to be more responsive.

One of the things, in my opinion, that we did not see here is effectively that a lot of the military industry in Europe is complicated by a military industrial base, as opposed to a singular focus on getting that military capability into service. So decision making is hard, profit generation is cascaded, supply chains are very complex, project engineering resolution is very slow.³³

Sustainment and spares

6.37 The Committee noted the exorbitant cost of spares. The ANAO report noted that by May 2011, DMO found the MRH90 spares to be significantly more expensive than equivalent spares purchased for the Black Hawk helicopters. One particular example was the plastic plug, which costs \$2.18 through the US supply chain, but cost \$753.30 when acquired from Australian Aerospace – the Airbus Group’s Australian subsidiary.³⁴

6.38 The ANAO requested Defence advice on the result of audits or cost investigations carried out to assess the extent of such price differentials.

32 Lieutenant General John Caligari, Chief of Capability Development Group, Department of Defence, *Committee Hansard*, 24 October 2014, p. 5.

33 Mr Warren King, Chief Executive Officer, Defence Materiel Organisation, *Committee Hansard*, 24 October 2014, pp. 3-4.

34 *Committee Hansard*, 24 October 2014, p. 6 and ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p 193.

Defence informed the ANAO in April 2014 that no audits or cost investigations that include the cost of role equipment had been undertaken.³⁵ In response, DMO CEO Warren King responded:

I cannot explain why and I do not know our commitment there... The only... comment I can make to this is that this whole situation is making me very angry. I have asked people to represent me in Europe, in my team and other people, and I have called in the companies, including the CEO, and I put an example in front of him of a \$38 or \$32 item... coming in at over \$3,000 through their supply chain.

I am not defending this situation at all. I do not know why we did not do the audit. My team has worked incredibly hard to get this new deed in which will deliver really significant savings. But I have said to European industry that, in my opinion as the CEO at DMO, in my role there, there is a whole question mark over their ability to recognise several key issues... But for us at the other side of the world it means we are slow at getting our spares, we do not get them at what I think is a reasonable price and, quite frankly, any further offers from that industry base will be viewed very conservatively...³⁶

6.39 Re-negotiated agreements have resulted in some improvements in the issues surrounding the high costs of the spares. RADM Dalton explained:

As part of the work-up to agreeing the final deed, we actually do have far greater visibility. We now have audit rights into all, including the principal subcontractors. We have visibility now inside the three prime commercial entities that make up the original equipment manufacturer for the NH90, which is a consortium that crosses country boundaries in Europe. We now have greater visibility than the owning governments in Europe across the boundaries. We do have much better visibility now than we had had pre-deed.³⁷

35 *Committee Hansard*, 24 October 2014, p. 6 and ANAO, Audit Report No. 52, (2013-14), *Multi-Role Helicopter Program*, p 193.

36 Mr Warren King, Chief Executive Officer, Defence Materiel Organisation, *Committee Hansard*, 24 October 2014, pp. 6-7.

37 Rear Admiral Anthony Dalton, Acting General Manager, Joint Systems and Air, Defence Materiel Organisation, *Committee Hansard*, 24 October 2014, p. 8.

Committee comment

- 6.40 The Committee's discussion with representatives from DMO, Defence and ANAO demonstrated to the Committee that all three organisations are aware of the issues surrounding the MRH90 project. With regard to Defence and DMO, it appears they are aware of the issues and are taking what measures are available to them to rectify as best as possible the project's shortfalls.
- 6.41 The Committee recognises that much of what is currently causing difficulty is the result of decisions made about ten years ago. Since that time, Defence and DMO have improved their performance in the area of acquisition and sustainment. Since the publication of the 'Kinnaird Report'³⁸ in 2003 the 'schedule slip' of DMO overall projects has almost halved.³⁹ Also, since 2007-08 the joint ANAO/DMO Major Projects Report has been published annually and reviewed by the JCPAA, contributing to greater oversight of Defence's acquisition projects. As has the establishment of the 'Projects of Concern' process which has increased Defence and DMO focus on problem projects, including through increased Ministerial oversight. The recommendations of the 'Mortimer Review' have also improved materiel acquisitions, notably through independent advice from the CEO DMO to Government at second pass.
- 6.42 Nonetheless, the Committee believes that there still appears to be much to be done. In its opening statement to the Committee the ANAO assessed that there is still a need for Defence to better manage the inherent risks in complex acquisition programs.⁴⁰ Further, the ANAO stated that while Defence already has relevant management processes suitable for defining capability requirements, formulating cost-effective major capital equipment acquisition strategies, and delivering program outputs, the key issue for defence is to consistently apply these processes to the required standard.⁴¹
- 6.43 The Committee was concerned to discover that the DMO was not adequately monitoring the realised Australian Industry Content promised in the contract. The ANAO found that:

Defence informed the ANAO that it validates AIC activities under the acquisition and sustainment contracts by examining invoices

38 The 'Defence Procurement Review - 2003', <<http://www.defence.gov.au/publications/dpr180903.pdf>> accessed 4 November 2014.

39 Mr Warren King, Chief Executive Officer, Defence Materiel Organisation, Committee Hansard, 24 October 2014, p. 4.

40 ANAO, *Submission 2.1.*, p. 5.

41 ANAO, *Submission 2.1.*, p. 5.

and accounting documentation. However, Defence has not assessed the value of the AIC activities actually delivered.⁴²

- 6.44 The Committee considers that the Department of Defence and DMO should publish annually figures on Australian Industry Content in its acquisition and sustainment contracts.

Recommendation 10

- 6.45 **The Committee recommends that the DMO allocate adequate resources to measure the delivered Australian Industry Content in its acquisition and sustainment contracts. Considerations should be given to publishing these figures either through the Portfolio Budget Statements or the Major Projects Report.**

Dr Andrew Southcott MP
Chair

42 ANAO, Audit Report No. 52 (2013-14), *Multi-Role Helicopter Program*, p. 199.

