

Test and Evaluation of Major Defence Equipment Acquisitions

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Opening Statement by Auditor-General

JCPAA Review 3 March 2016

1. Good morning Chairman and committee members.
2. Test and evaluation processes provide Defence managers with the information needed to effectively manage risk in the capability acquisition process. Test and evaluation can make a valuable contribution throughout Defence's capability development lifecycle, from pre-First Pass through to the declaration of Final Operational Capability.
3. Parliament has taken a close interest in Defence's management of test and evaluation over many years, and this Committee identified this topic as an audit priority of Parliament. We found that Defence has strengthened its enterprise-level management of test and evaluation in recent years. However, the conduct of test and evaluation remains distributed across 12 Defence organisations, placing a premium on the effectiveness of Defence's T&E governance.
4. Defence's administration of test and evaluation would be further strengthened by introducing arrangements to provide enterprise-level advice to senior responsible leaders on key issues, introducing performance measures and compliance assurance for test and evaluation, and completing reforms to test and evaluation personnel competency and training arrangements. These measures would provide greater assurance over the administration of Defence test and evaluation and would be

consistent with reforms underway within Defence to establish a stronger 'strategic centre.'

5. The ANAO examined a number of case studies. The major case study, relating to Australia's new Landing Helicopter Dock, HMAS *Canberra*, indicated that key management decisions were usefully informed by test and evaluation, which identified numerous defects and deficiencies for resolution. Defence decided, on balance, to accept HMAS *Canberra* on the understanding that the deficiencies would be addressed during the ship's operational phase. In doing so, the Chief of Navy accepted greater risks than would have been the case had System Acceptance been based on more complete objective quality evidence of compliance with contracted specifications, and had Initial Materiel Release been based on less qualified findings by Defence's regulators concerning compliance with technical, operational and safety management system requirements. As operational test and evaluation is still underway and is not due for completion until the fourth quarter of 2017, it remains to be seen what impact, if any, this elevated risk has on the achievement of Final Operational Capability.
6. We made three recommendations to assist Defence: strengthen the enterprise-level management of Defence's test and evaluation workforce; reduce risk and assist the transition of capability from the acquisition phase to operations; and strengthen enterprise-level governance and advisory arrangements for test and evaluation, in the context of Defence's implementation of the April 2015 First Principles Review.
7. The audit team and I would be happy to answer any questions the Committee may have.