

## Australian Defence Force's Medium and Heavy Vehicle Fleet Replacement (Land 121 Phase 3B)

Audit Report No.52 2014-15

Opening Statement by Auditor-General

JCPAA Review 3 March 2016

1. Good morning Chairman and committee members.
2. A key message from this audit is the benefit of early Test and Evaluation by Defence of potential acquisitions to inform the procurement process. Defence's initial tender process, conducted between 2005 and 2007, to acquire a replacement medium and heavy vehicle fleet did not include an effective Test and Evaluation process. The initial tender process failed, and Defence ceased contract negotiations with its preferred supplier in May 2008, when the selected vehicles were found to be unsuitable for Defence's requirements.
3. Defence conducted a tender resubmission process from July 2008, which included an extensive Test and Evaluation program that informed a shortlist of three suppliers. The three shortlisted suppliers were invited to tender, and in December 2010 Rheinmetall MAN was selected as the preferred supplier. Contract negotiations were finalised with Rheinmetall MAN in March 2013.
4. As a result of the failed initial tender, and the five years taken to finalise the tender resubmission process, the scheduled achievement of Final Operational Capability for Defence's medium and heavy vehicle fleet has been delayed by seven years, to 2023. In the intervening period, Defence will continue to rely on a fleet of medium and

heavy vehicles that has now well exceeded its life-of-type, and is increasingly costly to operate, maintain and repair.

5. In addition to shortcomings in the tender process, we found that Defence did not update the Capability Definition Documents to support the second-pass approval processes in 2007 and 2013, or when negotiating and entering into contracts with Rheinmetall MAN in 2013. Instead, Defence developed a variety of non-standard documents to address the absence of the Capability Definition Documents, an approach which unnecessarily added to procurement risk. Our audit work has consistently underlined the importance of clearly defining capability requirements to help manage risk.
6. We made one recommendation to provide consistency in how Defence calculates its Basis of Provisioning—a process intended to measure the number of each vehicle type required by Army to meet its capability objectives. Defence applied different methodologies over time to develop the Basis of Provisioning for its medium and heavy truck fleet, and more fundamentally, made significant adjustments to required vehicle numbers and types based on the availability of project funding—an approach which did not align with the key purpose of the Basis of Provisioning process. The Basis of Provisioning is expected to be an 'objective' measure of capability requirements, rather than a statement of the assets which can be acquired within an available budget.
7. The audit team and I would be happy to answer any questions the Committee may have.