

## Joint Committee of Public Accounts and Audit

### Defence First Principles Review, Naval construction – Auditor-General's Reports Nos 34 and 39 (2017-18)

#### ANSWER TO QUESTION ON NOTICE

#### Department of Defence

**Topic:** JCPAA - ANAO Reports 34 & 39 - 17 Aug 18 - Q1 - Risk - Hill

**Question reference number:** 1

**Member:** Julian Hill

**Date question asked:** 17 August 2018

**Date due for tabling:** 14 September 2018

#### Question

**Mr HILL:** All right; I'll just finish this point, then. I'm just reading from the Auditor-General's report. At 4.49, it says:

The Naval Shipbuilding Plan did not identify how Defence will address the high to extreme level of risk associated with its naval construction programs ...

And, at 4.50, it says:

The history of naval construction programs in Australia suggests that these are very high expectations indeed.

This is in relation to the conditions for success, including the seamless management. I understand your response, in effect, is that the risks identified are now being managed as part of the program. The management wasn't identified in the up-front plan but they're now being identified as part of the rollout.

**Mr Johnson:** Yes. Part of it's also the point you made at the very beginning: the timing of decisions. It's very difficult for us to address the risks if you're asking us to address three different ships. Just think about how difficult that conversation has become. It was hard enough to pick the right design for Australia. This goes back to the temporal nature of the report, which was that at a moment in time not everything could be addressed at that moment in time.

**Mr HILL:** Could you take on notice the Audit Office but also Defence and point us towards any examples in, say, the last five years, where the risk in shipbuilding, military, or military acquisition has been characterised as extreme?

**Mr Johnson:** Other examples?

**Dr Iouannou:** I'd point you very immediately to our audit of the air warfare destroyer, which was a substantial piece of work. It identified immaturity in the design and production system, resulting in productivity issues and a lot of rework. Subsequent to that audit there were internal-to-government inquiries—the Winter report and those reports—and there was work done to address some of those issues, especially around productivity and the need for rework.

I'd have to check whether the words 'extreme risk' actually appeared but there was no question that that audit pointed to levels of risk that were significant, certainly at the time.

**Mr HILL:** I'm not disagreeing. You're agreeing with the Auditor's report. You're saying things that are at a point in time; you're managing it. As a concern for the committee, or at least myself, is I've never seen the words 'extreme risk' in relation to an acquisition project. It doesn't mean it hasn't happened, but we do look through these things and we need to pick and choose what we spend our time keeping an eye on, and we encourage the Auditor-General to do so as well.

**Mr Hehir:** We'll certainly be keeping an eye on this enterprise!

**Mr HILL:** None of us are surprised!

**Rear Adm. Dalton:** There's absolutely no doubt that we all recognise that this is a very challenging program and that there are risks in here that need to be managed. And it's broader than Defence. It's a whole-of-government approach to shipbuilding. Defence can't do this by itself. We need the active participation of a range of other government departments to support what is in fact a national endeavour.

**Answer:**

Characterisation of acquisition risk is presented to government as part of the cabinet process and as such Defence cannot provide further details.