Written Questions on Notice
JCPAA Hearing 9 February 2006
Into ANAO Audit Report No.45, 2004-05 and ANAO Report No.3, 2005-06

Management of Selected Defence System Program Offices

1. What is the current level of vacancies in the DMO (in August 2004 there were 1709 positions unfilled).

RESPONSE:
The number of positions unfilled is not an accurate reflection of current vacancy levels. From 1 July 2005 to date, approximately 1000 vacancies have been advertised in DMO. This includes positions that have been advertised on more than one occasion and may also include positions that may not be filled due to changing management requirements.

2. What is the current ratio of civilian to military personnel at DMO?

RESPONSE:
The ratio is 3: 1

3. Why is the average length of military posting to DMO 2.17 years, which is lower than the recommended tenure of three years (Audit Report, p. 34)?

RESPONSE:
Prior to DMO becoming a Prescribed Agency on 1 July 2005, the length of tenure for military postings in DMO was 2 to 3 years. From 1 July 2005, new policy on employment of military personnel in DMO was agreed with each Service Chief which has changed the tenure of military postings.

Now, all project director and project manager appointments (civilian or military) are normally to be for a 3 to 4 year tenure, subject to the requirements of the capital acquisition program. It is also expected that the period of tenure for appointment of military personnel in project manager roles is to be no less than three years, with any variation being subject to CEO DMO agreement. The period of tenure for military preferred positions at COL(E) level and above would now normally be no less than three years, with the majority of positions at four years. Tenure for military preferred positions at LTCOL(E) level and below is now to be no less than two years, with the majority of positions at three years.

4. What are you doing to address the need for more military personnel in DMO?

RESPONSE:
All Defence Service Groups are experiencing difficulties in meeting DMO military staffing requirements. Where the supply of military personnel falls short of requirements, the DMO is able to engage alternative labour up to the limit of the funds provided for military position.

5. What is the role of military personnel in System Project Offices? What particular expertise do they provide?

RESPONSE:
Military personnel in DMO SPOs have a number of varied roles ranging from command (SPO OC/Director), project managers, engineers, logisticians and technical roles. Military staff possess a detailed knowledge in various specialisations and also provide expertise from a military, in-service and operational nature for platforms being acquired or sustained.

6. How many Professional Service Providers (PSPs) were engaged during 2004-05?

RESPONSE:
During 2004-05, 395 PSPs were engaged in DMO.

7. How many of your engineers are now participating in the qualification program to become Certified Engineers (target of 50 per cent uptake by end of 2005-06)?

RESPONSE:
Prior to May 2004, there were 125 engineers in the DMO with Chartered Engineer status. Since the introduction of a corporate professionalisation program, the number has increased to 245 (214 civilian, 31 military). Approximately 31% of DMO engineers (civilian and military) are chartered and a further 63% are enrolled and pursuing chartered status.

8. What is the current status of the Quality and Environmental Management System (QEMS)?

RESPONSE:
The DMO Business Process Model has now been established, with 93 separate DMO units targeted for integration. 31% are currently complete. The target completion date is December 2006. Baseline QEMS application in July 2006 to enable resources currently used on development of the application to be re-directed to QEMS unit migration efforts. A new Business Unit Graphical User Interface (BU GUI) is scheduled for release in June 2006, which will make it easier to access job-relevant policy and procedural information.

9. How does QEMS integrate with each SPO's quality management system? Have these systems had to be revised to fit in with QEMS?

RESPONSE:
SPO quality management systems integrate with QEMS through links between their existing documentation and the DMO Business Process Model. Automated links are being built between the QEMS application and Divisional document management systems. The integration process is one of alignment. This is the only revision made to SPO/Divisional systems. SPO procedures and work instructions are not changed.

10. Have you updated QEMS to include relevant policy guidelines included in CEPMAN 1, as recommended by the ANAO?

RESPONSE:
A gap analysis was performed on CEPMAN and QEMS over May and June 2005. Additionally, the DMO Accounting Policy Manual and DMO Finance Instructions were released into QEMS in June 2005.

11. What is the current status of implementation of the Defence Records Management System across DMO and the Department of Defence?

RESPONSE:
The implementation of DRMS is managed by the Chief Information Officer Group. DRMS is mandated across Defence, and is currently implemented on a user pays/cost recovery basis. DRMS has been implemented to approximately 42% of DMO staff. DRMS is currently being introduced to a further 350 users in DMO and is being considered by a number of other DMO Business Units. DRMS is also currently under consideration for implementation in a number of other Defence agencies that have significant interactions with DMO.

12. Has adequate training for staff using the Defence Records Management System been completed?

RESPONSE:
New users receive classroom based training; a detailed DRMS manual and a one-on-one follow up training session. At each new site implementation one-on-one training is provided to a nominated workgroup coordinator and workplace trainer. Approximately 60% of DRMS implementation effort is spent organising and delivering training. High quality ongoing support is provided to all DRMS users/agencies including additional training where required.

13. What is the current status of AEO or AMO certification in the Maritime and Land based divisions?

RESPONSE:
Land Systems Division has eight Accredited Engineering Organisations (AEO) that have been accredited by the Directorate of Technical Regulation (Army). This represents 80% of the organisations that require accreditation. All had previously been accredited, but a restructure within the Division has resulted in two new organisations forming from previously accredited SPOs, one being another SPO and the Overlander Program Office. Under Army's Technical Regulatory Framework these new entities need to seek re-accreditation. The newly formed SPO is currently preparing for its final audit and is expected to be accredited early in April 2006. The Overlander Program Office is expected to achieve accreditation by June 2006.

Maritime Division has six organisations who have AEO status. Three have provisional AEO status and two are in progress. Four organisations have an appraisal scheduled between March 2006 and January 2007.

14. Could you please advise the number of military personnel at DMO at each rank, with advice on corps/speciality? (broken down by SPO)

System Program Office	Classification Levels (Military Equivalent) as at 17 Feb 06										Total
	PTE (E)	CPL (E)	SGT (E)	WO2 (E)	WO1 (E)	LEUT (E)	CAPT (E)	MAJ (E)	LTCOL (E)	COL (E)	
FFG		1			1		6	4	5		17
Over the Horizon Radar		2	3	2			4	2	2	1	16
Tactical Fighter	1	6	26	14	4	10	28	23	7	2	121
Tracked Manoeuvre			5	4	5		4	9	2		29
TOTAL	1	9	34	20	10	10	42	38	16	3	183

Most of the corps/specialities of various ranks are in engineering and technical specialities, specifically weapons, electrical engineering, avionics technicians, aeronautical engineer, armament engineer and Royal Australian Electrical & Mechanical Engineers (RAEME) officers. In addition to engineering specialities, there are a small number of logistics personnel, supply clerks and logistics officers.

15. On average, how many years' service do military personnel have prior to being posted to DMO? (broken down by SPO)

RESPONSE:
On average, military personnel have 15 years service prior to being posted to DMO. This data could not be broken down by SPO.

16. Similarly, could you please advise the number of civilian personnel at DMO at each APS level? (broken down by SPO)

RESPONSE:

System Program Office	Classification Levels (APS and Executive Level) as at 17 Feb 06								Total
	APS 1	APS 2	APS 3	APS 4	APS 5	APS 6	EL-1	El-2	
FFG			2	5 (1)	14	26	11	3	61
Over the Horizon Radar			1		2	10	9	1	23
Tactical Fighter	1	5	24	15 (2)	43 (3)	38	10	1	137
Tracked Manouvre		6	4	7 (4)	5	17	3	2	44

Notes:
(1) Includes two APS 3-4 Technical positions
(2) Includes 4 APS 3-4 Technical positions
(3) Includes 2 APS 4-5 Professional positions
(4) Includes 1 APS 3-4 Technical position

17. On average, how many years' service in the APS do civilian personnel have prior to being posted to DMO? (broken down by SPO)

RESPONSE:
The average length of service for civilians in the four SPOs is:

Systems Program Office	Average Civilian Length of Prior Service
FFG SPO	12 years
Over the Horizon SPO	15 years
Tactical Fighter SPO	15 years
Tracked Manouvre SPO	12 years

Tactical Fighter systems Program Office

18. What is the expenditure on the Hornet Upgrade Project Phase 2 to date (budget $1.515 billion)?

RESPONSE:
Current project approval stands at $1,483 billion (Jan 2006 price basis).
Expenditure to 16 Feb 2006 was $848.834m

19. What is the expenditure on the Hornet Upgrade Project Phase 3 to date (budget $278.12 million)?

RESPONSE:
Hornet Upgrade Project Phase 3 consists of three discrete sub-phases:

- Phase 3.1 with a project approval of $121.013m (Jan 2006 price basis) and expenditure as at 16 Feb 2006 of $71.167m.
- Phase 3.2A with a project approval of $3.481m (Jan 2006 price basis) and expenditure as at 16 Feb 2006 of $2.301m.
- Phase 3.2B with a project approval of $171.835m (Jan 2006 price basis) and expenditure as at 16 Feb 2006 of $21.391m.

Hornet Upgrade Project Phase 3

- Total Phase 3 program approval stands at $296.329m (Jan 2006 price basis)
- Total Phase 3 expenditure to 16 Feb 2006 is $94.859m (Jan 2006 price basis)

20. Has the Hawk radar simulation and emulation project now been completed?

RESPONSE:
Full embodiment of these capabilities into the aircraft is scheduled for completion in August 2006, with project closure scheduled for January 2007. The radar emulation capability is scheduled for initial in-service use in July 2006. February 2006 flight testing of radar simulation has indicated that additional development will be required before introduction into service.

21. Why was there a lack of suitable on-site Defence representation on the Hawk radar project, which contributed to slippage in the project schedule (Audit Report, p. 52)?

RESPONSE:
The Hawk project positioned a Resident Project Team (RPT) at BAE SYSTEMS in the UK in 1997. The size of this team was reduced from 18 to four staff in December 2000 following the delivery of first UK built aircraft, after which production started in Australia. At the time there was no technical solution for radar simulation and emulation and a delivery date for this element was unknown. The overseas team was disbanded in December 2002, due to the cost, limitations imposed for locating personnel overseas and the uncertainty of the radar emulation and simulation capabilities.

The decision to close the RPT was made using the cost savings to fund "as-required" travel of Australian based specialists to the UK mitigate the risks of non resident representation. At the time of the ANAO audit, restrictions on overseas travel had further reduced on-site Defence representation. This had a minor impact on the clarification and resolution of some technical problems.

Track Manoeuvre Systems Program Office

22. What is your response to the ANAO's finding that the Leopard fleet has minimal levels of reserves and spare parts (Audit Report, p. 54)?

RESPONSE:
Defence has stockpiled a range of spares unique to the Australian version of the Leopard tank, mainly for the turret systems. Other high usage, expensive inventory has declined to minimal levels. At the time of the ANAO audit, urgent replenishment of some items had become necessary to support Army's usage of the tank fleet.

Current inventory levels are sufficient to support the present usage of the tank fleet and are being replenished as necessary. Continued overhaul of tanks in the reserve equipment pool maintains a sufficient number of spare serviceable tanks to support Army until the introduction of the new M1A1 (AIM) tank capability.

23. In 2003, an internal Defence audit found that only four per cent of vehicles sampled by the audit were fully functional (Audit Report, p. 56). Do you believe that is an acceptable level of functionality?

RESPONSE:
This level of functionality is not considered acceptable. The Defence review identified further problems relating to maintenance management and resources within Army's 1st Division as the major causes of their poor vehicle availability. Since then, Army and DMO have worked together to improve the availability of armoured vehicles. While there is still room for further improvement, availability of Leopard tanks and M113 vehicles has increased and is now reported by Army as 42% fully functional.

24. Would you further outline the Army's policy of managing equipment readiness according to the ability to make equipment serviceable for planned missions.

RESPONSE:
Army's equipment readiness is predicated upon the ability to prepare and deploy an appropriate number of vehicles at a prescribed, short notice and to sustain their operation for an appropriate period. Full functionality of equipment is important in maintaining the required level of readiness, but the ability to also return vehicles to full functionality by performance of minor maintenance or repairs within the notice period is equally important. By their nature, most land vehicles can be returned to full functionality in a short time.

25. How long, on average, would it take to make a non-functional Leopard tank ready for service?

RESPONSE:
The time to repair a Leopard tank to full functionality will vary considerably depending on the nature of the fault. However, most typical faults can be repaired within four hours.

26. Given that only four per cent of vehicles may be fully functional at any given time, is the Army adequately prepared to provide the appropriate number of tanks to a mission called at short notice?

RESPONSE:
The premise of four percent of tanks fully functional at any given time is not correct. Army has sufficient numbers of fully functional tanks and additional tanks requiring minimal work, to deploy the required number of tanks at short notice.

Over-the-Horizon Radar System Program Office

27. Did the Over-the-Horizon Radar System Project Office achieve ISO9001:2000 accreditation in 2005, as was planned?

RESPONSE:
OTHRSPO achieved ISO9001:2000 accreditation on 15 December 2004.

28. The Audit Report outlines a number of problems the Over-the-Horizon Radar project office had with implementing the QEMS quality management system (Audit Report, p. 61). What is the progress now towards implementing QEMS?

RESPONSE:
The OTHRSPO has integrated its ISO9001:2000 accredited Quality Management System with QEMS and has been operating solely under QEMS since 1 December 2005.

Fast Frigate Guided Systems Upgrade Project

29. What is the role of the FFG System Program Office in managing the FFG Upgrade Project? How many personnel does the SPO have working on this project?

RESPONSE:
The FFG SPO is responsible for delivering and sustaining the materiel capability of the FFG class for whole of life. For the FFG Upgrade this translates to a responsibility for directing and controlling product delivery in the Acquisition Phase of the project. In general terms, this requires defining and monitoring contractor performance in meeting their contractual obligations for the FFG Upgrade Project, and ensuring the program integrity in terms of consistency with performance specifications, coherence with planning and other programs, and conformance with corporate, technical, safety and specialist standards.

The FFG SPO's role covers the Project Management process groups of initiating, planning, executing, controlling and closing the project and Project Management knowledge areas of integration control, scope, cost, quality, human resource planning and execution, risk, procurement and communications.

The FFGSPO currently has a total of sixty personnel working on the FFG Upgrade Project. In addition there are twelve positions undergoing recruiting action.

30. Have any milestone payments been made under the FFG Upgrade Project since the ANAO tabled its report in May 2005?

RESPONSE:
Yes. Since May 2005 three milestone payments have been made.

31. Have these milestone payments taken account of the ANAO's recommendation that payments only be made when all review issues for previous milestone payments are satisfactorily resolved?

RESPONSE:
The ANAO recommendation No 5 refers to future major equipment acquisition contracts. The Commonwealth did not exercise its entitlement in regards to the payment of the three milestones since May 2005, to withhold at its discretion the whole or part of these claims until the previous Critical milestone was achieved. In each case the Terms and Conditions of the Contract were observed and the Project Authority elected to exercise its discretion to make these payments. This was after receipt of the Prime Contractor's Supplies Acceptance Certificate and certification that the relevant Milestone and Milestone Precursors had been achieved.

32. Why was record-keeping and payment approval haphazard prior to 2003? What changed in mid-2003 to ensure that proper record-keeping and payment sign-offs are now undertaken for the FFG Upgrade Project?

RESPONSE:
Numerous factors contributed to the ANAO identified problems with record keeping and payment approval prior to 2003 that have subsequently been addressed or are being addressed by DMO and FFGSPO more locally. Such factors include:

- the Defence Reform Program restructuring which resulted in reductions of skilled and experienced group personnel to provide guidance;
- a lack of appropriately skilled / professional FFGSPO business staff, coupled with the challenges stemming from the geographical dispersion between the project office relocating from Canberra to Sydney;
- the Prime Contractor's record deficiencies, and
- less than effective correspondence management and filing processes.

Since 2003, the financial management functions were relocated to the FFGSPO Sydney office, closer to ADI's FFG Upgrade business activity. Compliance and improvements in financial management with a quality management approach have been adopted. The documented, repeatable processes developed and maturing within the FFG SPO Quality Management Systems framework have assisted. The Quality Management Systems have been third party externally accredited.

DMO has also been raising the level of skills through training and professionalisation initiatives. In 2003 the DMO Finance Learn to Drive competency and training standards were introduced and in 2004, CEO DMO established the DMO Charter which included the goal of Professionalisation.

Head Maritime Systems has also driven a Maritime Systems Division Financial Renewal Program, which has included engagement of external accountants to assist in internal audit, procedures development and verification, manuals development and staff training. The FFG SPO was the lead SPO for this initiative.

Management of the M113 Armoured Personnel Carrier Upgrade Project

Minimum Upgrade Project

1. Were the risks associated with combining a number of different upgrade elements, procured under separate contracts and provided to the Prime Contractor by Defence, into a single vehicle, considered by Defence?

RESPONSE:
Yes. The Phase 1 upgrade elements were stand alone, mostly proven systems, except for the turret enhancements. The integration task was limited to physical installation into the vehicle and assessed as low complexity and low risk. The benefits of greater choice and lower cost from the direct, competitive purchase of these elements were judged to exceed the potential costs of any subsequent integration problems. That judgement was vindicated when many of the Phase 1 upgrade elements were retained and installed into the present prototype upgrade vehicle with little difficulty, noting that a much more capable turret has now been developed.

2. What were the potential cost and operational implications if the components could not be integrated?

RESPONSE:
This is difficult to quantify as the consequences would have depended on the nature and extent of any potential integration failure. The worst case of total failure of all systems, although very unlikely, could have resulted in project cancellation, the cost of which is unknown but would have been at least $22m, the amount incurred up to 1999. The operational implications of project failure would have been continued operation of the M113A1 in its existing configuration.

3. Why did Defence consider changing the scope of the Project so soon after contracts had been executed for the minimum upgrade?

RESPONSE:
The minimum upgrade had been planned as an interim improvement to the vehicles pending development and approval of the capability requirement and a business case for a major upgrade. Consideration of the major upgrade was brought forward because of the unsolicited offer from Tenix, the Phase 1 contractor, to merge the minimum and major upgrades. This new proposal was likely prompted by Tenix winning the tender for the Defence equipment support contract at Bandiana, which included M113 vehicle support.

4. Why did Defence proceed with Phase 2 when it had already commenced discussions about altering the scope of the Project?

RESPONSE:
Phase 2 was the alteration of the project scope.

5. The ANAO considers that it would have been prudent for the prototype vehicles to include all component parts and appropriate integration (Audit Report, p.38). Why did Defence not insist that the technical issues surrounding the turret be resolved and that a prototype that included all Phase 1 components be provided for testing before the project proceeded?

RESPONSE:
Defence believed at the time that the various elements of the Phase 1 minimum upgrade could be considered independent of each other. Defence did insist that prototype turrets be developed to demonstrate the resolution of technical problems and performance compliance with the contracted requirement. A Defence review of the turret development by Tenix concluded that Tenix remained able to develop a satisfactory turret. However, this was deferred when work was halted in favour of the proposal to bring forward and merge the Phase 1 and Phase 2 upgrades.

6. The ANAO found that the Minimum Upgrade Phase of the Project suffered from poor project management practices, ineffective project planning and inadequately defined project objectives. What action has been taken by Defence to improve project planning in subsequent projects?

RESPONSE:
Several reforms have been implemented within Defence to improve project planning including:

- A single point of accountability, Head of Capability Development, has been established to better integrate and manage the capability definition and assessment process.
- A mandatory two-pass project approval system has been established to ensure that government is presented with financially and technically robust proposals.
- The Defence Materiel Organisation (DMO) has been established as a Prescribed Agency to give it a separate business-like identity and to establish clear separation between capability development and delivery and maintenance of equipment.
- Professionalisation of project management staff is being increased, with increased training of project managers and accreditation by the Australian Institute of Project Management. All senior project manager positions are now subject to competitive selection on merit, including the posting of military Officers.
- The DMO is applying significant effort in improving its project management systems and processes. This includes the establishment of a standardised project management methodology and the introduction of improved, standardised project management and reporting tools.
- Materiel Assurance Boards have been established to advise the CEO DMO on issues surrounding capital acquisition projects and have received wide support throughout Defence.

7. Given the cost of the project and the delays that had been experienced to date, did the expected lifespan for these 1960s vehicles represent value for money, particularly when only 160 could be upgraded to an AS3 standard?

RESPONSE:
Yes. The Defence Capability Committee considered the project on 15 May 2000 and decided that even at a reduced scope of 160 A3 vehicles and 190 A2 vehicles for a total project cost of $313m (1999 prices), it still represented value for money. The M113 is a significant capability for the Army, and the Government's endorsement of upgrading 350 vehicles for a project cost of $500m (2000 prices) in the Defence White Paper 2000, similarly represented value for money. This was again endorsed by the Government's second pass project approval in June 2002.

Major Upgrade Contract

8. Why did Defence sole source the major upgrade to the same Prime contractor when it had been unable to complete the Phase 1(a) Prime Contract signed in 1997?

RESPONSE:
Notwithstanding the technical problems encountered in development of the turret improvements sought in the Phase 1 upgrade, Defence believed Tenix would deliver a satisfactory turret and successfully install the remaining Phase 1 upgrade elements, which had been proceeding satisfactorily. Reasons for continuing with sole source arrangements were:

- Tenix had previously established its cost competitiveness for contracts for the Phase 1 upgrade and for vehicle maintenance at the Defence Bandiana facilities.
- Shortly before acceptance of the Tenix unsolicited offer, ADI Ltd provided a similar offer, which was rejected because of its higher price.
- Defence strongly preferred an Australian contractor in order to maximise local industry content and subsequent vehicle support capability in Australia. Other viable contractors in the land industry sector were only ADI Ltd, which had provided a higher price offer, and General Dynamics. Both these companies were already heavily committed to work on the Bushranger and ASLAV projects respectively.
- Tenix access to Commonwealth facilities at Bandiana and the low labour rates for work at those facilities provided lower costs than those for other contractors which would need to establish engineering and production facilities for the upgrade.
- Notwithstanding separate facilities, another contractor would complicate the interaction between support of the existing vehicles and any upgrade program.
- There would be a need to meet Tenix termination costs for the Phase 1 contract.

9. Given the considerable change to the scope of the Project, would it have been prudent for Defence to re-tender the revised project, even though this might delay the upgrade further?

RESPONSE:
In hindsight, an open tender for the revised project would have provided a more robustly defensible contractor selection than the rationale for retaining the sole source arrangement, and would likely have provided a stronger basis for Defence in the subsequent contract negotiation.

10. Why did Defence allow the Contractor to proceed to stage 2 before outstanding issues associated with the initial prototype vehicles were resolved (Audit Report, p.53)?

RESPONSE:
The acquisition and contract strategy included a clear exit point for the Commonwealth following design and testing, if the vehicles fail to meet the specification. During contract negotiation, based on experience in managing the Bushranger project, to better mitigate development risk, Defence sought and obtained an additional, earlier exit point in the event that preliminary testing revealed major shortcomings. This was the Stage 1 exit point.

The contract provided for termination at the end of Stage 1 only in the event that major problems were identified that would prevent compliance with the vehicle specification and that Tenix could not demonstrably resolve. Two major issues were identified at the end of Stage 1 – delay in delivery of integrated logistic support (ILS) data and overheating of the engine.

While ILS delays were a concern, they would not prevent compliance with the vehicle specification. Engine overheating was the major concern, but Tenix developed improvements and conducted further limited testing which indicated that the problem would be resolved. Hence, Defence had no basis for exiting the contract at that point. The Defence decision was supported by legal advice at the time.

The recurrence of engine overheating during Stage 2 resulted from the failure by Tenix to incorporate all the earlier improvements into all the test vehicles and the extension of vehicle testing into field conditions.

11. What is the current status of the issues associated with the effects of heat on the vehicle systems and occupants, and the provision of the required integrated logistic support data?

RESPONSE:
Tenix has developed improvements to the engine installation and cooling systems to prevent engine overheating. Extensive test chamber and field testing of vehicles, including in hot climatic conditions in northern Australia, has been conducted with no recurrence of engine overheating. Reliability testing of the vehicles is continuing, but further engine overheating is unlikely.

Delivery of integrated logistic support (ILS) data has been delayed by the failure of the main sub-contractor to provide the data to Tenix. This issue has now been resolved. Tenix also experienced difficulties in recruiting sufficient staff, and this delayed the ILS. Additionally, work required redesigning, which affected the ILS data. Delivery of ILS data by Tenix is occurring, but continues to be behind schedule. This aspect of the contract is receiving close attention and Tenix is working to recover the delays in ILS.

12. Has approval been given for the contractor to proceed to Stage 3?

RESPONSE:
No.

13. Has Defence finalised its production acceptance plan?

RESPONSE:
No. This is planned for completion prior to the Production Readiness Review, scheduled for June 2006.

14. What have been the short and long term implications for Defence capability from the numerous delays in this project?

RESPONSE:
The short and long term implications of project delays on Defence capability are the same. It has been necessary for the Army to retain the M113A1 family of vehicles in service for a longer period and manage known capability deficiencies in the areas of protection, firepower, mobility and habitability.

15. What will be the implications for Defence capability if the Contractor is unable to meet production deadlines?

RESPONSE:
If the Contractor is unable to meet production deadlines, Army will continue to operate the current M113A1 fleet and manage the associated capability deficiencies until upgraded M113 vehicles are available.

16. The ANAO notes that the United States upgraded its fleet of M113A1 vehicles in the 1980s to AS3 standard (Audit Report, p.23). The Australian M113A1 fleet had an expected life end of 1995 and in 2005 remained in its original condition. Does Defence consider that continuing with this upgrade ultimately provides the best value for money? Has consideration been given to other options?

RESPONSE:
Comparison with the US is selective. Many countries have been upgrading M113 vehicles in recent years, for example the Canadian Defence Force over the last eight years, the German Army over the last four years, and the Danish Army over the last four years. Defence assessed these upgraded vehicles, and new vehicle options, which are much more expensive, including additional ASLAV vehicles, in concluding that the proposed (present) Australian upgrade offered best value for money. Upgraded M113s are highly capable and cost effective vehicles that continue to serve around the world.

17. The ANAO notes that there was some question in 1992 as to whether retaining the M113A1 family of vehicles until 2010 would be economic (Audit Report, p.24). Will the upgraded vehicles be the best option for Defence capability in the current operating environment?

RESPONSE:
The Army is confident that the Land 106 project will deliver one of the best protected and capable light armoured fighting vehicles in the world. The upgraded M113 fleet is a key element of Army's mechanised capability and has been designed to effectively perform all associated tasks.

18. What measures is Defence taking to ensure that there will not be delays in the provision of Government furnished equipment?

RESPONSE:
Defence has been working closely with the contractor, Tenix, to identify Government Furnished Equipment (GFE) requirements. Defence is conducting detailed planning of stock levels of GFE requirements and supply lead times for those items needing overhaul or new replacement before installation, and is stockpiling GFE to provide a buffer stock for the planned production demand. For GFE supplied by overhaul of M113A1 components by Tenix via the vehicle support contract at Bandiana, terms have been included in the upgrade contract to ensure Tenix remains liable for timely supply to support vehicle production.

19. What measures will Defence take to address reduced lift capacity (Audit Report, p. 58, paragraph 4.29)?

RESPONSE:
Project Overlander will acquire vehicles that are capable of transporting the M113AS4 Armoured Personnel Carrier in its transport configuration, that is, without crew and passengers, at a weight of about 16 tonne. In the interim, upgraded M113s can be transported on Defence semi-trailers.

ANAO observes that Project Overlander is expected to acquire fewer vehicles than are presently available to transport M113s, resulting in a reduction in lift capability. However, the number of M113s issued to Army units will also be reduced to the planned 350 vehicle level. This reduction is a consequence of re-equipping some Army units with ASLAV and Bushmaster vehicles, and re-allocation of equipment per the Hardened and Networked Army initiative.

20. Figure 4.1 of the Audit Report (p.62) indicates that testing was to commence in October 2005. Has testing commenced as scheduled and what has been the outcome of testing to date?

RESPONSE:
Yes. The status and results of testing of the upgraded M113 Armoured Personnel Carrier are:

- Endurance, 100% complete, no major problems.
- Turret performance, 100% complete, no major problems.
- Mobility, Performance and Physical Characteristics, 99% complete, no major problems.
- Maintainability, 90% complete, due 20 March 2006, no major problems.
- Electromagnetic and Electrical Performance, 98% complete, due 24 February 2006, no major problems.
- Reliability Qualification Test, 28% complete, due May 2006, hand brake failure, being investigated.

21. What options has Defence considered should testing show the vehicles to be unsatisfactory and/or the contractor is unable to meet production timelines?

RESPONSE:
Defence options for test failures depend on the nature and extent of the failures. Options considered in Defence risk planning include:

- Continued demand on the contractor, Tenix, to correct the failures in vehicle redesign, at the contractor's expense, albeit this would entail a schedule delay.
- Contract amendment to replace the failed component with an alternative, although this would likely entail contractual dispute with Tenix.
- Novation of the contract to another contractor to correct the failures and produce the vehicles, if a suitable contractor is available. This would entail contractual dispute with Tenix and likely increased cost.
- In the worst case where the failures could not be corrected, termination of the contract and cancellation of the project. In this event, Defence would consider the availability and value of alternative vehicles to replace the M113 vehicles. If approved by Government, this would entail much higher cost and the earlier loss of the particular capability provided by the M113 vehicles.

Defence options if the contractor is unable to meet production timelines include:

- Continued demand on the contractor to perform in accordance with the contract. Options for the contractor include overtime and shift work to increase production rates, and augmenting production with work in a second facility such as the contractor's facilities in Adelaide, although this would entail significant additional cost for the contractor.
- Continue to apply financial remedies in accordance with the contract, comprising liquidated damages, denial of escalation of payments for inflation and exchange rates beyond the contracted milestone dates, and withholding of payment until delivery.
- In the event of extreme delays, either novate the contract to another contractor, or terminate the contract and cancel the project, with the same consequences as for major test failures.

22. How is Defence addressing the risks associated with the Contractor proceeding to production prior to Defence sign off (Audit Report, p.61)?

RESPONSE:
This risk rests entirely with the Contractor. Defence in not paying for any of this work until Stage 3 approval and will not be paying any additional costs resulting from the fast tracking by Tenix of project activities. Defence is also monitoring contractor performance to ensure they continue to commit to their fast track plan.

23. Has Defence made any changes to the manner in which invoices are processed, in light of the ANAO's comments on the payment of GST (Audit Report p.64-65)?

RESPONSE:
No. Defence maintains that the spot selling rate for the foreign exchange component is an appropriate method for determining GST invoice values, and is in accordance with Goods and Services Tax Ruling 2001/2 dated 2 February 2001. The project continues to use the spot selling rate, rather than the wholesale rate preferred by the ANAO.

Questions Taken on Notice
JCPAA Hearing 9 February 2006
Into ANAO Audit Report No.45, 2004-05 and ANAO Report No.3, 2005-06

Legal Panels and FFG contracts
Hansard PA 4-5

i) Which legal firms are on the DMO Legal Panel?
ii) Which legal firm was used to negotiate the contract for each of the FFG's.
iii) How many variations to the contract have occurred in the life of the FFG contract. Who initiated these changes and what processes were used to make these changes.

RESPONSE:
i) Primary Panellists are AGS, Blake Dawson Waldron, Phillips Fox and Clayton Utz. Reserve Panellists are Mallesons Stephen Jaques, Freehills and Minter Ellison.

ii) The Office of the Australian Government Solicitor.

iii) The total number of Contract amendments approved for the FFG Upgrade Contract at 7 March 2006 is one hundred and seventy five (175). Contracts can only be changed via approved Contract Change Proposals. The contractor prepares all contract change proposals. The Project Authority can and has requested Contract changes be initiated. All Contract changes must be processed in accordance with the Terms & Conditions of the Contract (clause 15). This allows contract changes to be considered for approval or rejection only by the Project Authority. Robust change processes are in place to assess, process and approve or reject Contract Change proposals and inform the Contractor of that decision to meet the requirements of Contract Terms and Conditions.

Performance Management of FFG SPO
Hansard PA 5 & 9

In respect of the personnel responsible in the FFG SPO where the $76million spent was not accounted for:
i) how many of the people in that SPO would have received a performance payment for the work done during that period of time?
ii) what are performance payments based on?

RESPONSE:
i) None.

ii) There was no provision in place to make performance payments to Project staff during that period of time.

Management of SPO's
Hansard PA 9

What has changed in the internal audit processes that will identify where processes within SPO's will be picked up if there are deficiencies?

RESPONSE:
Since prescription on 1 July 2005 the DMO has put in place revised governance arrangements. Key elements include the Materiel Audit Committee, the five Materiel Assurance Boards and enhancement of the DMO assurance, audit and risk management functions.

DMO established an Audit Committee in March 2005 and it commenced formally in July 2005. The Committee is structured in accordance with Section 46 of the *Financial Management and Accountability Act 1997* (FMA Act). Its primary objective is to assist the CEO in fulfilling his role by providing both independent assurance and advice in relation to: financial reporting; risk management; business process controls; management systems; internal and external audit processes; and compliance with relevant laws, regulations and codes of conduct.

Materiel Audit Committee
Hansard PA 11

Please provide an outline/diagram of how the Materiel Audit Committee works.

RESPONSE:
The Materiel Audit Committee consists of three external members and two internal Defence members. The Chief Operating Officer and the Chief Financial Officer DMO serve as the principal DMO advisers to the Committee. A representative from ANAO and a representative from the Defence Inspector General (IG) Group are regular attendees at the meetings.

The DMO is strengthening the internal audit function by engaging an expert external service provider to act as the Internal Auditor for the CEO. This role will complement the internal audit function performed by the Defence Inspector General (IG) Group. Under an agreement with Defence, the Inspector General provides 1332 days of audit work for the DMO. The Inspector General also conducts audits of functions and activities performed in both Defence and the DMO. The ANAO provides the external audit function.

Five Materiel Assurance Boards were formed on 1 February 2006 to replace the eight Materiel Governance Boards established in November 2001. Four Boards are linked to the related DMO Domain Divisions of Aerospace, Electronic and Weapon Systems, Land and Maritime. A fifth Board has been established to support DMO Information Technology governance.

The Boards provide assurance to the CEO and DMO Domain Division Heads on the adequacy of the governance framework (including controls, policy, processes and procedures) for project and sustainment activities; and to provide advice to the CEO DMO and DMO staff on issues and risks involving schedule, cost, capability and sustainability. The Boards comprise both external and internal Defence members with great depth of skills, knowledge and experience.

The outcomes from the Boards are reported regularly to the respective Domain Division Head to alert to opportunities for improving the performance of individual project or sustainment activities. The systemic project and sustainment issues identified by Boards are also reported, through the Chief Operating Officer, twice yearly to the Materiel Audit Committee and the DMO Executive as the means to drive more broadly-based or systemic DMO improvements.

These enhanced governance processes will strengthen internal controls and assist DMO management to identify areas for further improvement.

Procurement Training
Hansard PA 11

On page 36 of the Audit report on Management of Selected Defence SPO's it says 'from July 2001 to April 2004, some 11301 DMO personnel participated in procurement training, while 366 more have been sponsored by the DMO to undertake non-tertiary project management courses.'
i) Is this a doubling-up in the amount of training people are getting?
ii) Are they different courses for people?
iii) Please also confirm these numbers are correct.

RESPONSE:
i) This is not doubling up as these are distinctly different forms of training. The procurement training referred to concerns both simple and complex procurement. Simple procurement is a 1 day course while the 5 modules that make up the Defence complex procurement competency take a total of approximately 12 training days. These courses are required before Defence officials exercise simple and complex procurement delegations.
The project management training referred to is known as the Project Management Development Program (PMDP) and is a year long, intensive program for those earmarked for possible project director roles at the EL2 level or above. In the course of this program the participants would certainly address and face procurement issues.

ii) See above.

iii) We are unable to confirm exactly the numbers of personnel who have attended these training courses. The numbers are plausible, especially given the relative differences in complexity in the courses discussed above. The expectation that most DMO personnel, and certainly all graduates, would undertake simple procurement would particularly contribute to the large number for procurement training. It should not be assumed that all of those persons have undertaken all of the courses required for the delegations.

FFG SPO personnel
Hansard PA 12

During the period July 2001 to April 2004, paragraph 6.4 of Audit Report No 45 indicates that there were 27 Service Personnel working in FFG SPO. What ranks were these personnel?

RESPONSE:
The ANAO report paragraph 6.4 describes the staffing status at the time of the audit (about April 2004). The allocation of 27 Service Personnel consisted of 23 full time billets and temporary staff in the form of reservists. The status of FFGSPO allocation of 23 Service Personnel Billets in April 2004 is as follows:

Service Personnel

Rank	No Positions	Positions Filled
Chief Petty Officer	2	2
Warrant Officer	1	1
Sub Lieutenant	1	0
Lieutenant	4	5
Lieutenant Commander	10	9
Commander	4	4
TOTAL	**23**	**20**

Military Postings in FFG SPO
Hansard PA 14

During the period July 2001 to April 2004, paragraph 6.4 of Audit Report No 45 indicates that there were 85 Service and Civilian Personnel working in FFG SPO. What was the:
i) average posting/tenure of members
ii) what were the ranks/levels of all members?
iii)what degree of experience, and background did the members have?
iv) what were the differences in background in civilian, military and public service experience?

RESPONSE:
i) The ANAO report paragraph 6.4 describes the staffing status at the time of the audit (about April 2004). The allocation of 27 Service Personnel consisted of 23 full time billets and temporary staff in the form of reservists. The funded civilian positions of 64 brought the total number of funded FFGSPO permanent positions to 87. For Royal Australian Navy personnel the normal posting cycle is 2 or 3 years. Shorter postings, at that time, were common for junior officers (SBLT/ LEUT) due to the high operational tempo. The average posting tenure of FFG SPO Service staff in April 2004 is as follows:

Service Personnel

Rank	Average Tenure by rank (years)
Chief Petty Officer	1.2
Warrant Officer	2.0
Lieutenant	0.8
Lieutenant Commander	0.8
Commander	1.6

(APS) Civilian Personnel

Rank	Average Tenure by rank (years)
APS 3	0.9
APS 4	1.2
APS 5	1.6
APS 6	2.1
EL1	4.0
EL 2	4.2

ii) The rank levels of both Military and Australian Public Service (APS) personnel, in the FFG SPO in April 2004, is detailed in the following table.

Service Personnel

Rank	No of Positions	Positions Filled
Chief Petty Officer	2	2
Warrant Officer	1	1
Sub Lieutenant	1	0
Lieutenant	5	4
Lieutenant Commander	10	9
Commander	4	4
Total	23	20

(APS) Civilian Personnel

Rank	No of Positions	Positions Filled
APS 2	0	0
APS 3	7	2
APS 4	3	2
APS 5	19	18
APS 6	23	21
EL1	8	8
EL 2	4	4
Total	**64**	**55**

iii) The staff at Military ranks and Australian Public Service (APS) levels APS 5 and greater all possessed extensive training and experience, and were well equipped for the positions they held.

iv) The experience levels of the service personnel are usually biased towards operational employment, military specialisations and familiarity with the FFG ship class, maritime engineering and the operational environment. Technical, logistics and professional engineering skills and qualifications underpin these experience levels. Most Service personnel of Lieutenant Commander rank and above have practical Project Management experience. Skills are generally developed through on the job application rather than formal education, and their business acumen experience varies. The APS staff are recruited to specific positions that specify pre-requisite qualifications, usually for particular disciplines. The level of experience, practical application and formal qualifications vary. The APS and Service staff attributes and experience levels in general complement each other.

Earned Value Management System
Hansard PA 16

On page 20 of Audit Report No 45, it says 'ANAO has not been provided with documentation from Defence that supports the basis of earlier value payments prior to the approval of the Earned Value Management System (EVMS) Performance Measurement Baseline. There is no evidence of a contract changes proposal being executed that would enable these earned value payments to be made. The Contractor's EVMS did not receive compliance certification until November 2001, by which time more than $200 million had been paid in earned value payments.'
i) what is being done about this?
ii) what has been put in place to address the conclusion of the Auditor-General by way of senior executive attention and loss of capability?

RESPONSE:
i) Since the ANAO Audit, FFGSPO has reviewed and reconciled the total contract claims to the Defence ROMAN Financial Management System. ANAO 2004/2005 financial statement auditors conducted the review and the reconciliation. The current FFGUP Earned Value process includes reviewing documentation, records and product through a deliberate and risk based audit program. This supports the assessment and recommendations for cost and schedule performance and earned value management claim for payment recommendations to the delegate.

DMO has been raising the level of skills through training and professionalisation initiatives. ANAO Report No 45 Paragraph 7.64 acknowledges the ANAO is generally satisfied with the improved practices and procedures adopted by the FFGSPO to record and assess the basis of

payments to the Contractor since mid-2003. Further improvements have been made in response to internal audit and the Maritime Division Financial Renewal Program.

ii) The DMO Executive has implemented a Maritime Systems Domain Materiel Assurance Board (previously the Ship Building Materiel Governance Board) to provide governance oversight of this and other maritime capital projects. Recently the Materiel Governance Boards have undergone some significant changes. The number of boards has been reduced and is now more closely aligned with the DMO domains.

Additionally, a Board of Review consisting of senior managers from DMO, ADI and Navy, as the principals, has met at approximately three monthly intervals throughout 2005 to jointly consider the status of progress with the project. This forum has also provided senior management leadership and direction for the earliest delivery of the leadship, HMAS SYDNEY.

A number of achievements since September 2004 have provided additional certainty for Navy about the capability that will be provided by the Upgrade and the milestones contained therein.