

# Australian National Audit Office: Evaluating Australian Army Program Performance

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Australian National Audit Office (ANAO) reports should be studied by Australian army personnel, scholars and the general public. This agency scrutinises the exercise of authority and spending by Australian Government agencies. ANAO reports provide valuable insights on the successes, failures and complexities of Army programs. Individuals interested in these programs' managerial and operational performance should consult them to see whether they provide good value for money for taxpayers. Army professionals may eventually manage these programs and be subject to ANAO, judicial, media and parliamentary scrutiny for their management of these programs. This article intends to demonstrate these reports' public value.

Those studying contemporary Australian Army policymaking can use primary source materials from the Department of Defence, the Army, and Parliament's Joint Foreign Affairs, Defence, and Trade Committees. Substantive study of Army policymaking should also include Australian National Audit Office (ANAO) resources. Established by the *Auditor-General Act 1997*, ANAO responsibilities include assisting parliament in scrutinising the exercise of authority and public spending by Commonwealth executive agencies. ANAO works with Parliament's Joint Committee on Public Accounts and Audit by providing information, assistance and briefings to parliamentary members and committees and to the general public.<sup>1</sup>

Reports analysing the performance of Australian Army program performance and government agency programs from Australia and other countries are important for giving policymakers and taxpayers reliable information about the successes and failures of these programs to ensure they provide value for money and deliver government policymaking objectives.<sup>2</sup> ANAO divisions including the Defence and Foreign Policy Infrastructure Group and Defence and Major Projects Group are among its entities scrutinising Army programs. ANAO has significant legal powers for accessing documents and information to execute its authorities and its work is legally governed by Auditor-General established auditing standards. This scrutiny is documented in annual audit work program reports published in July, various assurance reviews including the *Defence Major Projects Report*,

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1 Australian National Audit Office, 'The Australian National Audit Office' (Canberra: Australian National Audit Office, 2018), pp. 1-2; <[www.anao.gov.au/about/australian-national-audit-office](http://www.anao.gov.au/about/australian-national-audit-office)> [Accessed 12 September 2019].

2 See Paul Nicoll, *Auditing Democracy: The Australian Model of Public Sector Audit and its Application to Emerging Markets* (London: Routledge, 2016); Jon Matsamura, John Gordon IV, Randall Steeb, Scott Boston, Caitlin Lee, Phillip Padilla and John Parmentola, *Assessing Tracked and Wheeled Vehicles for Australian Mounted Close Combat Operations: Lessons Learned in Recent Conflicts, Impact of Advanced Technologies, and System-Level Implications*, (Santa Monica, CA: Rand Corporation, 2017); <[www.rand.org/pubs/research\\_reports/RR1834.html](http://www.rand.org/pubs/research_reports/RR1834.html)> [Accessed 26 September 2019].

and other individual program-focused reports including audit insights and key lessons from individual audits. Findings and assessments from ANAO reports constitute the majority of this analysis. This work’s intent is enabling Australian military personnel and civilian readers to understand the methodologies used in writing these documents. It also demonstrates to Australian citizens and international audiences interested in Australian national security policymaking the importance of being able to freely access and study these reports and reach their own conclusions about Australian Army program performance. Such transparency about national security programs is a critical indicator of democratic governance and accountability.<sup>3</sup>

### Specific ANAO Reports

Numerous ANAO reports on the Army, dating from 1997 to the present, are available on ANAO’s website [www.anao.gov.au/](http://www.anao.gov.au/). One example is the *Defence Major Projects Report: Department of Defence*. Issued 18 December 2018, the 2017–18 edition of this report is 430 pages long and provides detailed documentary coverage of the performance of twenty-six Defence programs during that fiscal year. Examples of Army-related programs addressed in this compilation and their annual approved budgets are listed in Table 1 below:

**Table 1: ANAO performance assessments of Army programs 2017–18**

Project Number (Defence Capability Plan)	Project Name (on Defence advice)	Abbreviation (on Defence advice)	Approved Budget \$million
AIR 9000 Phase 2/4/6	Multi-Role Helicopter	MRH90 Helicopters	3771.1
LAND 121 Phase 3B	Medium-Heavy Capability, Field Vehicles, Modules and Trailers	Overlander Medium/Heavy	3428.9
LAND 121 Phase 4	Protected Mobility Vehicle-Light	Hawkei	1952.0
JP2 2072 Phase B	Battlespace Communications Systems	Battle Sys (Land) 2B	920.1
AIR 9000 Phase 7	Helicopter Aircrew Training System	HATS	481.5
LAND 75 Phase 4	Battle Management System	BMS	367.9

Source: Australian National Audit Office, *2017–18 Major Projects Report: Department of Defence*, Auditor-General Report No. 20 2018–19 (Canberra: ANAO, 2018), p. 5.

3 Accessed 15 March 2019; Jon Pierre and Jenny de Fine Licht, ‘How do Supreme Audit Institutions Manage Their Autonomy and Impact? A Comparative Analysis’, *Journal of European Public Policy*, vol. 26, no. 2 (2019), pp. 226–45; doi://10.1080/13501763.2017.1408669.

Within the annual *Major Project Report* document are Project Data Summary Sheets (PDSS) providing detailed descriptions of individual projects, project history documentation, government approval milestones, cost performance, management risk, and the names of responsible military personnel and contractor contact personnel. The LAND 121 Phase 3B program is intended to replace the current Australian Defence Force (ADF) fleet vehicles, modules and trailers to enhance ADF ground mobility. As of 30 June 2018, its 2017-18 financial expenditure was \$659.7 million against a forecast expenditure of \$697.3 million with this variance stemming from delaying payment of an invoice of \$37.7 million for goods and services delivered this year due to portfolio cash budget pressures.

Equipment due to be acquired by LAND 121 Phase 3B includes:

- 2,536 medium and heavy capability (MHC) vehicles and 3,054 modules supplied by Rheinmetall Military Vehicles Australia
- 1,582 trailers from Haulmark Trailers (Australia)
- 122 Gelädewagen (G-Wagon) fitted with maintenance modules supplied by Mercedes Benz Australia/Pacific Pty Ltd and associated trailers supplied by Haulmark Trailers (Australia)
- 49 in-service Bushmaster Protected Mobility Vehicles upgraded to Customised General Vehicle variants and associated trailers
- 18 Line Laying Modules acquired by LAND 121 Phase 3A; and
- 664 specialised modules to be acquired which are not yet in contract.<sup>4</sup>

Risks and problems with this particular program include system specification changes stemming from required engineering changes, technical certification, integration problems with new generation communication equipment, access to public roads, and support contracts potentially not meeting Commonwealth requirements. Additional difficulties include key subcontractor performance, delays to recovery capability and training, and interface problems between vehicles, trailers, modules, and other capabilities.<sup>5</sup>

Key lessons learned from this program covering categories such as contract management, requirements managing, and sourcing include:

- Governments should not announce preferred tenderers until negotiations are complete. Public announcements undermine negotiating leverage and may provide detail subject to change during negotiations.
- Projects must have a robust suite of up-to-date capability documents (Operational Concept Document and Functional Performance Specification) available during tender evaluation and negotiations to provide critical contextual information for the negotiation team. These documents also provide the framework for the acquisition authority and capability manager to conduct an informed acceptance process.

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4 Australian National Audit Office, *2017-18 Major Projects Report: Department of Defence*, Auditor-General Report No. 20 2018–19 (Canberra: ANAO, 2018), p. 209, <[www.anao.gov.au/sites/default/files/Auditor-General\\_Report\\_2018-2019\\_20.pdf](http://www.anao.gov.au/sites/default/files/Auditor-General_Report_2018-2019_20.pdf)> [Accessed 13 September 2019].

5 Ibid., pp. 211, 215-17.

- Requirements must be fully agreed upon before beginning negotiations, to avoid uncertainty and potential for delays.
- Team members on projects of this size and complexity need highly developed project management and contracting skills and experience.
- Early involvement of Army Logistic Training Centre (ALTC) staff in the development of the training requirement is mandatory.
- Ensure contractual provisions require the contractor to have executed contracts with Approved Subcontractors within a specific time following contract execution, so as to avoid impact on contract deliverables and slippage to key engineering reviews.<sup>6</sup>

On 14 January 2000, ANAO evaluated an *Army Individual Readiness Notice* (AIRN), originally proposed in September 1995, which recommended that Army members be placed on an individual readiness notice to supplement individual readiness. AIRN was developed to respond to increasing personnel shortages in several regular units while recognising that lengthy mobilisation periods in modern warfare are not always available. In order to be “individually ready” members must meet or exceed minimum readiness standards for areas such as dental, medical and physical fitness; weapons and employment proficiency; and individual availability.<sup>7</sup>

Three recommendations were made by ANAO concerning AIRN including:

1. Recommending the Army identify the annual costs of maintaining an AIRN (including assessment, recording and reporting costs) so its cost-effectiveness is assessable.
2. If AIRN is retained and revised that the Army ensure necessary changes to supporting policies are made and promoted prior to release and that updates be accompanied by proper communication, coordination, funding and oversight.
3. Army reviewing dental support provision to part-time members with this review assessing risk if part-time members need to be deployed and the costs involved with various dental options support options.

Defence agreed to the first two recommendations and agreed in principle to the third recommendation. Examining Defence responses to ANAO reports provides additional insight into the policymaking process. A later example in this work will demonstrate that Defence and contractors can disagree with ANAO findings and recommendations.<sup>8</sup>

A 28 July 2005 ANAO report examined M113 Armoured Personnel Carrier upgrade project performance. This document noted that the M113A1 vehicles had been introduced in the mid-1960s with updates in 1979 while serving as a lightly armoured aluminium-bodied, fully tracked vehicle available in different variants. Efforts to upgrade M113s began in 1972 and have continued subsequently. Various contractual and cost changes had produced delays with the following phases and had cost by March 2005:

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6 Ibid., pp. 218-19.

7 Australian National Audit Office, *Army Individual Readiness Notice*, Audit Report No. 26 1999–2000 (Canberra: ANAO, 2000), pp. 9, 12-17, <[www.anao.gov.au/sites/default/files/anao\\_report\\_1999-00\\_26.pdf](http://www.anao.gov.au/sites/default/files/anao_report_1999-00_26.pdf)> [Accessed 18 September 2019].

8 Ibid., p. 19.

**Table 2: M113 cost**

Component	Total Cost	Description	Status
Phase 1(a)	\$27.97 million	New or modified turrets	Not produced
		Cooled Drinking Water System	No longer contracted for
		Installation of components	No longer contracted for Concerns over impact of heat on unit parts and personnel in Northern Australia
Phase 1(b)	\$1.28 million	Procurement of 12.7mm quick change barrel machine guns	Procured and introduced into service
Phase 1(c)	\$3.14 million	Procurement of off-the-shelf A2 suspension kits	Procured but not introduced into service
Phase 1(e)	\$1.94 million	Procurement of spall curtains	Procured but not introduced into service
Phase 1(f)	\$3.42 million	Procurement of off-the-shelf engine cooling kits	Procured but not introduced into service

Source: Australian National Audit Office, *Management of the M113 Armoured Personnel Carrier Upgrade Project*, Audit Report No. 3 2005–06 (Canberra: ANAO, 2005), pp. 16, 53.

Three ANAO recommendations on the M113 included the Defence Material Organisation (DMO) implementing control mechanisms to ensure that scope changes are approved at the appropriate level; DMO recovering against deliverables the outstanding amount of the May 1997 mobilisation payment from the \$27.97 million Phase 1(a) M113 contract as soon as possible; and DMO reviewing contracting policy and its application of liquidated damages collection by either financial or agreed compensation and ensuring they are collected in a timely manner.<sup>9</sup>

Continuing M113 problems were reflected in a 27 March 2009 ANAO report updating the earlier report noting that total annual expenditure of \$1 billion made this one of the top thirty Defence project expenditures for 2008–2009. This assessment maintained that upgraded M113s are a core ADF capability and considered as fundamental equipment for the Army's two mechanised battalions for the 5th and 7th Battalions Royal Australian Regiments (RARs) with a forecast service lifespan until 2020.

This report concluded that earlier M113 technical difficulties had been resolved in 2007, but that problems have persisted due to slow production with the Prime Contractor informing Defence that existing Bandiana, Victoria, production facilities were inadequate, resulting in a December 2008 determination that there would be a shortage of nearly

<sup>9</sup> Australian National Audit Office, *Management of the M113 Armoured Personnel Carrier Upgrade Project*, Audit Report No. 3 2005–06 (Canberra: ANAO, 2005), p. 20, <[www.anao.gov.au/sites/default/files/ANAO\\_Report\\_2005-2006\\_03.pdf](http://www.anao.gov.au/sites/default/files/ANAO_Report_2005-2006_03.pdf)> [Accessed 18 September 2019].

100 upgraded vehicles by December 2010. Defence Minister Joel Fitzgibbin announced on 28 October 2008 that additional production would occur at Williamstown, Victoria, and Wingfield, South Australia, but ANAO expressed concern that recovering lost production would be challenging.<sup>10</sup>

This report went on to note that Defence will have to use its original M113 fleet, with some of these being over thirty-five years old, until the new upgraded vehicles are delivered and that there are no alternatives to the upgraded M113. Final report recommendations, which Defence agreed with, include:

- Defence and DMO setting suitable threshold criteria for determining scope changes to acquisition projects and promoting advice to staff allowing decision-makers to receive appropriate, consistent, and efficient information on potential scope changes.
- Defence developing clear policy guidance on when prepayments will be considered for inclusion in future major acquisition contracts, and maintaining an appropriate record of the basis for agreeing to advance payments within contract negotiations.
- Defence ensuring that liquidated damages arrangements in subsequent major acquisition projects apply to clearly identified and key contract milestones.<sup>11</sup>

A third ANAO M113 audit was released on 24 May 2012. This assessment concluded that the ADF anticipates receiving 431 upgraded M113s with interim capability to last through 2025 for over \$1 billion. ANAO also noted that the upgrade continues to suffer from administrative, contractual, and technical problems despite a November 2007 settlement between Defence and Tenix the initial prime contractor. A 2011 contract renegotiation saw Defence believe that the remaining vehicles would be delivered by late 2012. However, ANAO determined that deficiencies in the original contract, including failing to properly specify payloads, produced technical problems in vehicle design and production that could not be effectively managed under contract provisions. Additional ANAO-determined deficiencies include an ineffective Defence cost and management schedule resulting in slow response to continuing project delays; senior Defence and government decision-makers not always being informed of project status in a timely and accurate matter adversely affecting their ability to make informed project-related decisions; and the upgraded M113 falling behind armoured vehicles used by other armed forces resulting in increased vulnerability in current threat environments and leaving an acknowledged capability gap.<sup>12</sup>

These production delays in years for the following M113 components are quantified in Table 3.

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10 Australian National Audit Office, *Management of the M113 Armoured Personnel Carrier Upgrade Project*, Audit Report No. 27 2008–09 (Canberra: ANAO, 2009), pp. 13–15; <[www.anao.gov.au/sites/default/files/ANAO\\_Report\\_2008-2009\\_27.pdf](http://www.anao.gov.au/sites/default/files/ANAO_Report_2008-2009_27.pdf)> [Accessed 19 September 2019].

11 Ibid., pp. 15, 20–21.

12 Australian National Audit Office, *Upgrade of the M113 Fleet of Armoured Vehicles*, Audit Report No. 34 2011–12 (Canberra: ANAO, 2012), pp. 17–18; <[www.anao.gov.au/sites/default/files/201112%20Audit%20Report%20No%2034.pdf](http://www.anao.gov.au/sites/default/files/201112%20Audit%20Report%20No%2034.pdf)> [Accessed 19 September 2019].

**Table 3: Production delays for M11s components**

Component	Delay (years)
Recovery vehicle	1.7
Personnel carrier	2.3
Mortar	5.0
Logistics vehicle	5.4
Fitter	1.9
Command vehicle	3.7
Ambulance	3.7

Source: Australian National Audit Office, *Upgrade of the M113 Fleet of Armoured Vehicles*, Audit Report No.34 2011–12 (Canberra: ANAO, 2012), p. 30.

Additional problems with M113 vehicle functionality, assessed by ANAO with data from the School of Armour, showed that in December 2010 the percentage of vehicles classified as Fully Functional fell from 62 per cent in 2008 to 38 per cent in 2010 with this total only marginally improving to 39 per cent by March 2012. ANAO noted that Defence had established adequate facilities to maintain and operate the M113s with the 7th RAR’s move from Adelaide to Darwin in February 2011 enabling utilisation of training areas not affected by Darwin’s tropical climate limitations. ANAO also expressed concern that the upgraded M113 has deficient firepower and other vital capabilities when compared with other armed forces. The report’s sole recommendation, which Defence agreed with, was maintaining a focus on delivering Fundamental Inputs to Capability (FIC) for each major capability project, including FIC elements to be delivered to other capability projects. Additionally, Defence should also conduct at least annual reviews in developing FIC elements for each major capability project detailed in Joint Project Directives.<sup>13</sup>

19 April 2011 saw ANAO issuance of a report on explosive ordnance management by ADF branches. This report began by noting a 30 June 2009 Defence report noting an explosive ordnance inventory of \$3.1 billion representing 60 per cent of Defence’s then total reported inventory at 17 depots managed by the Joint Logistics Command (JLC) which is then issued to ADF units. Preceding years have seen nearly 75,000 annual explosive ordnance movements between explosive ordnance depots and ADF. Each service then had different arrangements for recording and managing unit level explosive ordnance. This ordnance becomes the responsibility of Air Force, Army, and Navy units once it leaves these depots and is subject to risk of loss or theft. Various high-profile security incidents brought this subject to ANAO’s attention including a rocket launcher being obtained by criminal elements and requiring a joint investigation between Defence and the Australian Federal Police.<sup>14</sup>

13 Defence defines Fundamental Inputs to Capability (FIC) as ensuring the effective operation of new capability by combining the multiple personnel, equipment, and support system inputs to effectively deploy and sustain forces. *Ibid.*, pp. 25, 43–44, 49, 140, 159.

14 Australian National Audit Office, *Management of Explosive Ordnance Held by the Air Force, Army, and Navy*, Audit Report No. 37 2010–11 (Canberra: ANAO, 2011), pp. 11–13; <[www.anao.gov.au/sites/default/files/ANAO\\_Report\\_2010-2011\\_37.pdf](http://www.anao.gov.au/sites/default/files/ANAO_Report_2010-2011_37.pdf)> [Accessed 20 September 2019].

Key findings on handling and management of explosive ordnance include:

- Explosive ordnance is distributed to and used by ADF units who manage over 800 magazines and storage lockers around Australia.
- Inventory of this ordnance cannot be centrally scrutinised in Defence unless ADF units holding it correctly record it on Defence's general inventory management system Military Integrated Logistics Information System (MILIS). Instead of recording explosive ordnance on MILIS, ANAO found ADF units used stand-alone computer-based spreadsheets and manual stock recording systems which were not subject to effective monitoring and review.
- This makes it difficult for Defence to assure that explosive ordnance is visible and being properly managed and controlled.
- Defence has been slow in implementing recommendations from a 2007 Weapons, Munitions, and Explosives Security Performance Audit.
- It is critical for Defence to have clear instructions, policies, and procedures for identifying and reporting explosive ordnance security incidents from initial identification through outcome of subsequent investigations.<sup>15</sup>

Five ANAO recommendations, which Defence agreed to, include:

1. Widening the scope of existing explosive ordnance management reviews to include expanded focus on arrangements for unit level physical control of explosive ordnance including spot checks of unit explosive ordnance holdings; and consolidating review results to facilitate monitoring of any required remediation work and analysing emerging trends and problems at service units.
2. Defence "finalis[ing] its inaugural Defence Instruction (General)" for managing explosive ordnance; and promoting ADF-wide advance for managing unit level explosive ordnance.
3. "Defence developing an integrated inventory management system to account for" unit level explosive ordnance.
4. "Defence taking steps to remove all inconsistencies in definitions and requirements for managing explosive ordnance security incidents in Defence policy and procedural documents."
5. "Defence improving its incident reporting and data management of explosive ordnance security incidents."<sup>16</sup>

Documentation that Defence and private sector contractors do not unanimously agree with ANAO report findings and recommendations is demonstrated by an 11 September 2018 report on the Army's Protected Mobility Vehicle-Light (PMV-L). This project aspires to provide the ADF with highly mobile field vehicles protected from ballistic and blast threats. The acquisition process began in 2006 and in 2008 Defence decided to purchase the Joint Light Tactical Vehicle (JLTV) being developed by the United States. In 2015,

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<sup>15</sup> Ibid., pp. 18-22.

<sup>16</sup> Ibid., pp. 25-26.



Defence selected the Australian-developed Hawkei vehicle designed by Thales Australia. During October 2015 Defence contracted with Thales to acquire and support 1,100 Hawkei vehicles and 1,058 trailers at an ANAO-estimated cost of \$2.2 billion. As of 30 June 2018, Defence had spent \$463.1 million of project funds and \$293.9 million on related costs. Reasons for this audit included the subject of the equipment being procured, adopting a sole-source procurement strategy, and the risk involved in manufacturing a small number of these vehicles when the United States was beginning a similar and much larger program.<sup>17</sup>

Some information in this report was not released due to a 28 June 2018 memo from Attorney General Christian Porter to Auditor-General Grant Hehir maintaining that release of some information in this document would be detrimental to the public interest based on paragraphs 37(2)(a) and 37(2)e of the *Auditor-General Act 1997* which state:

- It would prejudice the security, defence, or international relations of the Commonwealth;
- It would unfairly prejudice the commercial interests of any body or person.<sup>18</sup>

ANAO findings concerning this program include Defence seeking approval to begin parallel investment in 2009 of Australian-based options it had previously decided to be high-risk and high-cost. In December 2011 Defence recommended and received approval for further development of Thales Hawkei since Defence considered it the best prospect of meeting future needs despite assessing it as being the least developed Australian option. ANAO went on to add that Defence failed to provide robust benchmarking of Hawkei and JLTV vehicle options to the Government to inform the Government's decision in context of a sole-source procurement. In addition, ANAO contended that Defence may not have exerted appropriate oversight of program process by postponing a Gate Review from May-October 2017. Defence also advised the Government that Hawkei would be 23 per cent more expensive than JLTV but have greater operational capability. Consequently, Defence was unable to apply competitive pressure in its negotiations with Thales and Defence did not properly inform the Minister when material circumstances changed before contract signature.<sup>19</sup>

This report did not present recommendations but provided the following lessons learned which ANAO considered relevant for all Australian governmental entities:

### **Procurement**

- Effective cost and capability benchmarking provides a basis for assessing value for money in sole-source procurements and maintaining competitive pressure in negotiating and contracting phases.
- Effective benchmarking should provide information needed to assess and explain differences in the price, quality, and quantity of purchased goods and services.

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17 Australian National Audit Office, *Army's Protected Mobility Vehicle—Light*, Auditor-General Report No. 6 2018–19 (Canberra: ANAO, 2018), p. 7; <[www.anao.gov.au/sites/default/files/Auditor-General\\_Report\\_2018-2019\\_6.PDF](http://www.anao.gov.au/sites/default/files/Auditor-General_Report_2018-2019_6.PDF)> [Accessed 20 September 2019].

18 Ibid., p. 90.

19 Ibid., pp. 10, 57.

## Governance and risk management

- Contractual risk mitigation strategies including off-ramps should be practicable, particularly in sole-source procurement.
- Circumstances external to a project materially changing may affect Commonwealth interests, and entities should return to the Minister with updated advice on responding to these changing circumstances.
- All key drivers for an acquisition project should be transparent in the planning, advice, and selection/assessment criteria relating to the project.<sup>20</sup>

A 15 August 2018 response to ANAO by Defence Secretary Greg Moriarty and Chief of the Defence Force Angus Campbell disputed ANAO's contention that the project entered Low Rate Initial Production without appropriate scrutiny. Moriarty and Campbell contended that this decision was made with proper senior management oversight and subsequent Gate Reviews did not identify concerns with this decision. They also contended that Hawkei gives Australia a domestically developed and sovereign capability which can be modified to meet emerging threats, protect ADF personnel, and can be modified to meet security partner requirements while providing these nations with a highly effective capability.<sup>21</sup>

More forceful criticism of ANAO was provided in a 20 August 2018 response by Thales Australia and New Zealand Chief Executive Officer Chris Jenkins. He mentioned that only receiving redacted comments from the ANAO report on PMV-L acquisition limited Thales range of comment options. He chastised ANAO for not recognising that Hawkei provides life-saving capability to ADF personnel in an Australian designed and manufactured vehicle. Jenkins caustically commented that ANAO was highly critical of the Bushmaster produced at Thales Bendigo plant which saved the lives of ADF personnel in Iraq and Afghanistan due to the protection it provided against roadside bombs noting that while many Bushmasters were destroyed by bombs in these countries not one Australian soldier was killed by such blasts in contrast to the fatalities suffered by the United States. and other coalition partners.

His criticisms of ANAO stressed what he saw as ignoring the strategic value of Army vehicle design, engineering and manufacturing being included as one of the ten Sovereign Industry Capabilities announced in the May 2018 *Defence Industrial Capability Plan*. Jenkins maintained ANAO ignored the broader economic benefit from Australian vehicle design, development and manufacture ignoring the 200 Hawkei jobs at the Protected Vehicle facility in Bendigo; an additional 200 jobs in Australian small and medium enterprises which are Tier 1 suppliers in the Hawkei supply chain; Australian industry content of at least 55 per cent in Hawkei production representing more than \$650 million; \$110 million of Hawkei development spending on an Australian vehicle; and broader benefits to the Army of developing the Hawkei Integral Computing System which can be adopted by other ADF vehicle fleets with considerable cost savings.

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<sup>20</sup> Ibid., p. 14.

<sup>21</sup> Ibid., p. 76.

These comments went on to contend that Australia would derive augmented economic benefits from Hawkei supply chain export sales with Bushmaster being exported to seven countries and that ANAO's report would be damaging to potential export prospects. Jenkins also castigated ANAO for making selective comparisons with the United States JLTV by ignoring a May 2018 Defense Department Inspector General report finding that the US Army and Marine Corps "have not demonstrated effective test results to prepare the JLTV program for full rate production" while acknowledging significant redactions in this US report make it impossible to determine which performance requirements failed. He concluded by stressing ANAO ignored heightened Australian Government emphasis on increasing defence procurement from Australian sources.<sup>22</sup>

## Forthcoming ANAO Audit Activity

In early 2019, ANAO published a list of audit activity it anticipated engaging in during 2019-20, inviting public review and comment between 18 February 2019 and 12 March 2019. At the time of writing, final publication of this activity will occur in early July 2019.<sup>23</sup> A number of Defence related programs are scheduled for audit in 2019 and beyond with Army pertinent examples including Army Battlefield Command System (LAND 200 Tranche 2), Defence Procurement of Combat Reconnaissance Vehicles (LAND 400 Phase 2), and Defence Facilities in Benalla and Mulwalla.<sup>24</sup>

ANAO reports on the Australian Army in 2020 and beyond will also examine the possible impact of Plan B on Australian military spending, procurement and program effectiveness. As reflected in Australian security studies analysis and debate, Plan B is the contention that Australia will have to rely less on the United States for its national defence due to concerns that President Trump is less supportive of the US-Australian alliance resulting from its America First strategy which some claim will cause US troops to leave South Korea and Japan and remove Marine Corps forces from Darwin. An Australian Strategic Policy Institute (ASPI) analyst has contended that Plan B would involve Australia doing more for its own security, playing a stronger regional leadership role, and reconsidering ADF size and strength for emerging security threats without confidence in the US security umbrella.<sup>25</sup>

Specific recommendations this analyst thinks are necessary for improving Australian defence capacity include increasing defence spending to reach 2.5 or 3.0 per cent of Gross National Product (GNP) within a decade with a 3 per cent increase representing an \$122 billion spending increase out to 2028; expediting equipment delivery dates and

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22 See Ibid., 78-80; Australia, Department of Defence, *2018 Defence Industrial Capability Plan*, (Canberra: Commonwealth of Australia, 2018): 20; <[www.defence.gov.au/SPI/Industry/CapabilityPlan/Docs/DefenceIndustrialCapabilityPlan-web.pdf](http://www.defence.gov.au/SPI/Industry/CapabilityPlan/Docs/DefenceIndustrialCapabilityPlan-web.pdf)> [Accessed 20 September 2019]; and US Department of Defense Office of Inspector General, *Army and Marine Corps Joint Light Tactical Vehicle*, (Washington, DC: DODIG, 2 May 2018); i; <[media.defense.gov/2018/May/25/2001923004/-1/-1/1/DODIG-2018-113%20FOUO.PDF](http://media.defense.gov/2018/May/25/2001923004/-1/-1/1/DODIG-2018-113%20FOUO.PDF)> [Accessed 20 September 2019].

23 Australian National Audit Office, 'Draft 2019-20 Annual Audit Work Program', 13 March 2019, p. 1, <[www.anao.gov.au/work-program/draft](http://www.anao.gov.au/work-program/draft)> [Accessed 21 September 2019].

24 Australian National Audit Office, *Read the Annual Audit Work Program 2018-19: Overview: Defence* (ANAO, 2019), pp. 1-9; <[www.anao.gov.au/work-program/portfolio/defence](http://www.anao.gov.au/work-program/portfolio/defence)> [Accessed 21 September 2019].

25 Peter Jennings, 'Trump Means We Need a "Plan B" for Defence', Opinion, Australian Strategic Policy Institute, 21 July 2018, p. 2; <[www.aspi.org.au/opinion/trump-means-we-need-plan-b-defence](http://www.aspi.org.au/opinion/trump-means-we-need-plan-b-defence)> [Accessed 2 December 2020].

maintaining high levels of force readiness; concluding a formal defence treaty with Japan while pursuing and signing formal alliances with France and the United Kingdom; investing significantly in building strategic partnerships with India and Indonesia; formalising Australia's role as defence and security guarantor for Pacific Island countries such as Nauru and Kiribati; building a nuclear-powered submarine fleet with long-range cruise missile capability enhancing long-range striking power while acquiring the ability to fire these weapons from hard-to-detect ships and aircraft; developing a long-range bomber aircraft; developing an Australian equivalent of the US Defence Advanced Research Projects Agency (DARPA) to work on emerging technologies in artificial intelligence, hypersonics, and autonomous systems while spending more than the 0.5 per cent of the Defence budget currently spent on innovation programs; doubling the size of the Australian Signals Directorate within a decade and enhancing cyber offensive and defensive capabilities; and increasing ADF personnel from 58,000 to 90,000.<sup>26</sup>

The projected April 2020 parliamentary tabling of ANAO's report on procurement of LAND 400 phase 2 combat reconnaissance vehicles is one potential indication of how Plan B forecasting may influence Army power projection capabilities. ANAO audit criteria include whether Defence has conducted an effective tender process achieving value for money; conducted an effective evaluation process achieving value for money; and established effective project governance conducive to achieving value for money.<sup>27</sup>

ANAO's 16 December 2019 report on defence program readiness noted that the Chief of the Army had delayed introduction of the MRH90 helicopter into the 6th Aviation Regiment by three years due to reliability and design shortcomings while extending the Black Hawk fleet to 2022 to lessen risk to capability. It also noted that the MRH90 project may be unable to retain sufficient levels of experienced and skilled manpower to achieve delivery requirements. A more positive ANAO assessment was provided for the Land 53 Phase 1 BR Night Fighting Equipment Replacement Program which has achieved Initial Material Release and Initial Operational Capability, is on track to deliver capability specified at Second Pass, and no material problems or changes have occurred to adversely impact ongoing delivery requirements.<sup>28</sup>

## Conclusion

ANAO reports provide detailed documentation of the ambiguities, successes and failures of Australian Army and other Commonwealth public policy programs for military professionals, policymakers, scholars and the general public. They are especially insightful for their detailed coverage of program performance and cost, helping Australian taxpayers determine whether programs provide good value for money and are beneficial or detrimental to Australian national security requirements. They also provide detailed

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26 Ibid., pp. 3-6.

27 Australian National Audit Office, 'Defence's Procurement of Combat Reconnaissance Vehicles (LAND 400 Phase 2)', 2019, p. 1, <[www.anao.gov.au/work/performance-audit/defence-procurement-combat-reconnaissance-vehicles-land400-phase2](http://www.anao.gov.au/work/performance-audit/defence-procurement-combat-reconnaissance-vehicles-land400-phase2)> [Accessed 3 January 2020].

28 Australian National Audit Office, *2018-19 Major Projects Report: Department of Defence*, Auditor-General Report No. 19 2019-20 (Canberra: ANAO, 16 December 2019), pp. 177-78, 347-48; <[www.anao.gov.au/sites/default/files/Auditor-General\\_Report\\_2018-2019\\_19\\_a.pdf](http://www.anao.gov.au/sites/default/files/Auditor-General_Report_2018-2019_19_a.pdf)> [Accessed 3 January 2020].

documentation on how Defence and private sector contractors respond to ANAO findings, which may not always be favourable to ANAO or to their future commercial prospects of obtaining Defence contracts.

Army personnel should be particularly attentive to ANAO reports since their career trajectories may make them responsible for administering or scrutinising these programs and interacting with defence contractors and other government personnel to ensure that these programs perform effectively and meet national security requirements. Responsibility for these programs will require them to interact with ANAO personnel along with policymakers from parliamentary oversight committees and it will include presenting sworn evidence before these committees and traditional broadcast and social media, and potentially facing legal proceedings in the event of criminal activity or malfeasance involving poor performance by these programs. Incorporating detailed knowledge of ANAO policymaking activities and reports should be a required component of Australian professional military education and of serious study and analysis of Australian Army programs and their performance quality. ANAO reports will continue to provide substantive analysis and insight into emerging Australian Army program procurement and performance in the event the Plan B scenario—Australia having to increase its defence spending and capabilities due to decreased US support of Australian security interests—occurs.

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