

Maximising Australian Industry Participation through Defence Contracting

Department of Defence

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Canberra ACT
20 May 2025

Dear President
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken an independent performance audit in the Department of Defence. The report is titled *Maximising Australian Industry Participation through Defence Contracting*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website — <http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Caralee', is positioned below the 'Yours sincerely' text.

Dr Caralee McLiesh PSM
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

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Contents

Summary and recommendations.....	7
Background	7
Conclusion	8
Supporting findings.....	8
Recommendations.....	11
Summary of entity response.....	12
Key messages from this audit for all Australian Government entities	13
Audit findings.....	15
1. Background	16
Introduction	16
Administrative arrangements.....	21
Parliamentary interest.....	24
Rationale for undertaking the audit	25
Audit approach	25
2. Administrative arrangements.....	27
Does Defence have a framework that clearly defines Australian industry contracting requirements?	27
Has Defence provided fit-for-purpose guidance and training to relevant Defence personnel?	39
Has Defence provided fit-for-purpose information and guidance to Defence industry?	45
3. Implementation of requirements.....	49
Did Defence effectively advise potential suppliers of Australian industry contracting requirements?	51
Has Defence contracted with suppliers in accordance with policy requirements?.....	55
Has Defence monitored industry compliance with contracted commitments?	63
4. Governance, assurance and reporting	69
Has Defence implemented fit-for-purpose governance arrangements?	69
Has Defence implemented a fit-for-purpose assurance framework?	73
Has Defence established appropriate reporting arrangements?	79
Appendices	85
Appendix 1 Entity response	86
Appendix 2 Improvements observed by the ANAO	87
Appendix 3 Summary of government initiatives relevant to Australian defence industry participation.....	89
Appendix 4 Summary assessment of Defence’s administration of the contracts selected for analysis	90



Audit snapshot

Auditor-General Report No.31 2024–25

Maximising Australian Industry Participation through Defence Contracting



Why did we do this audit?

- ▶ The Department of Defence (Defence) is required to maximise Australian industry participation through contracted plans and schedules with its suppliers. Since 2019, these requirements have been primarily conveyed through the *Defence Policy for Industry Participation* (DPIP).
- ▶ This audit was conducted to provide assurance to the Parliament on the effectiveness of Defence's approach to maximising Australian industry participation through its contracting activities.



Key facts

- ▶ Materiel and non-materiel procurements valued at or above \$4 million are to include Australian industry schedules or plans.
- ▶ Construction services procurements valued at or above \$7.5 million are to include Local Industry Capability Plans.



What did we find?

- ▶ Defence has not maximised Australian industry participation through the administration of its contracts.
- ▶ Defence's administrative arrangements for maximising Australian industry participation through its procurement and contracting activities are partly fit for purpose.
- ▶ Defence did not effectively implement relevant industry contracting requirements with respect to the eight executed contracts examined.
- ▶ Defence has established partly appropriate governance, assurance and reporting arrangements to oversee the implementation of its contracting requirements.



What did we recommend?

- ▶ There were 9 recommendations to Defence aimed at improving governance, assurance and reporting arrangements.
- ▶ Defence agreed to all 9 recommendations.

\$38.7 bn

Total value of Defence procurements in 2022–23.

\$10.6 bn

Australian Bureau of Statistics estimation of the Australian defence industry's contribution to the broader Australian economy 2022–23.

79%

Percentage of Defence spending that occurs in Australia.

Summary and recommendations

Background

1. For the financial year 2022–23, the Department of Defence (Defence) ranked as the Australian Government's largest procurer with 51.7 per cent of Commonwealth entity contracting, valued at \$38.69 billion.¹ Successive Australian governments have encouraged the involvement of domestic industries in Defence procurement to develop and maintain the industrial base, secure supply chains, and promote employment and economic growth.
2. Defence initiatives to maximise the opportunities for domestic suppliers to participate in government procurement include the Australian Industry Capability (AIC) Program, launched in February 2008.² The AIC Program required potential contractors to demonstrate how their tenders provide opportunities for Australian businesses.
3. On 28 March 2019, the Minister for Defence Industry released the *Defence Policy for Industry Participation* (DPIP) to improve consistency in Defence's approach to maximising Australian industry's opportunity to participate in Defence procurement. The DPIP requires Defence to consider AIC plans or schedules (or Local Industry Capability plans for construction projects) during procurement decision-making and to ensure the industry commitments in those plans are captured as contracted obligations in materiel and non-materiel procurements valued at or above \$4 million, and construction procurements at or above \$7.5 million.

Rationale for undertaking the audit

4. Defence's implementation and delivery of contracted Australian industry requirements has been an area of focus for successive governments and an ongoing interest for the Parliament. The government intent to maximise Australian industry involvement in Defence procurement was reflected in the AIC Program in 2008 and reaffirmed in the 2016 *Defence Industry Policy Statement* and the 2018 *Defence Industrial Capability Plan*. This audit provides the Parliament with independent assurance on the effectiveness of Defence's arrangements to deliver Australian industry policy outcomes through its contractual arrangements with its suppliers.

Audit objective and criteria

5. The objective of the audit was to examine the effectiveness of Defence's administration of contractual obligations to maximise Australian industry participation.
6. To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:
 - Have fit-for-purpose administrative arrangements been established to maximise Australian industry participation in Defence procurement and contracting?

1 Department of Finance, *Statistics on Australian Government Procurement Contracts*, available from <https://www.finance.gov.au/government/procurement/statistics-australian-government-procurement-contracts-> [accessed 11 April 2025].

2 The AIC Program, incorporating requirements for AIC plans, was foreshadowed in the *Defence and Industry Policy Statement 2007*. In February 2008, the AIC program was launched by the Parliamentary Secretary for Defence Procurement.

- Have applicable contracting requirements been implemented to maximise Australian industry participation?
- Has Defence implemented appropriate governance, assurance and reporting arrangements to support the objective of maximising Australian industry participation?

Conclusion

7. Defence has not maximised Australian industry participation through the administration of its contracts. Defence industry policy and contracting requirements were not applied to all relevant procurements, and — where supplier commitments have been contracted — Defence has not effectively monitored or ensured the delivery of those obligations.

8. Defence's administrative arrangements for maximising Australian industry participation through its procurement and contracting activities are partly fit for purpose. Defence's procurement framework has not been updated in a timely manner, and as at August 2024, did not fully reflect the requirements of the March 2019 DPIP. Guidance for Defence personnel in relevant tendering and contracting templates is incomplete, and in some cases outdated. Defence engages with industry through forums and other activities as well as through individual procurement processes to support the intent of government's industry contracting policy.

9. Defence has not implemented applicable contracting requirements effectively. Of the eight contracts examined, each had one or more important shortcomings resulting from limitations in Defence's advice to potential suppliers, weaknesses in Defence's contracting of industry participation commitments, and ineffective monitoring of supplier compliance with those commitments.

10. Defence's governance, assurance and reporting arrangements for industry participation are partly appropriate. Senior Defence committees have received reports on activities to support Australian industry policy objectives. Defence did not establish the Industry Policy Division working group to periodically review the policy in accordance with the DPIP. The AIC Plan assurance framework does not align with a professional standard-setting framework and activities conducted under that framework do not provide reasonable assurance over the matters examined. Defence reports on Australian industry expenditure and has undertaken to further develop its reporting as part of the 2024 *Defence Industry Development Strategy*.

11. As outlined in the 2024 *Defence Industry Development Strategy*, Defence was to update the DPIP in late 2024. This policy update follows the 2023 *Defence Strategic Review* and the 2024 *National Defence Strategy*. Effective implementation of the next iteration of Australian defence industry contracting policy will require appropriate administrative and IT support systems, including sound procurement controls and contract management activities.

Supporting findings

Administrative arrangements

12. Defence gives effect to its Australian industry contracting requirements through its internal policy framework. Defence's framework is informed by requirements under the *Public Governance, Performance and Accountability Act 2013*, the Commonwealth Procurement Rules and government's Defence industry policies, as set out by the 2016 *Defence Industry Policy*

Statement and the *2018 Defence Industrial Capability Plan*. Key elements of Defence's established policy framework, such as the Defence Procurement Manual (DPM) and its contracting templates, were not updated in a timely manner following the release of the DPIP in March 2019. The DPM was not updated until 1 July 2020, 15 months after the DPIP's release. Defence lacks arrangements to ensure that procurement documents and contracting templates are aligned with the DPIP requirements, and up to date. Automated system controls, which were established in 2022 and mandated in 2024 — to improve compliance with mandatory procurement policies — do not cover the requirements of the DPIP. (See paragraphs 2.2 to 2.41)

13. Guidance on the Australian Standard for Defence Contracting (ASDEFCON) and the Suite of Facilities tendering and contracting templates is incomplete, with additional guidance notes planned but not developed and released. Defence does not assess its personnel training data by role and therefore cannot provide assurance that its procurement and contracting staff have undertaken training relevant to their roles. The dedicated AIC training course announced in February 2019 is primarily focused on materiel procurements and was not implemented until September 2022. (See paragraphs 2.42 to 2.67)

14. Defence has undertaken a range of industry engagement activities to support the objective of maximising Australian industry participation in procurement. These activities have included the establishment of an Australian Industry Capability Forum and engagements with industry associations. In the absence of a communications strategy for the DPIP, Defence is unable to measure the effectiveness of the information and guidance it has provided to industry on the industry contracting policy requirements in place since 2019. (See paragraphs 2.68 to 2.80)

Implementation of requirements

15. Defence's advice on Australian industry contracting requirements was provided to potential suppliers as part of the relevant tender processes. Each of the eight contracts examined contained one or more shortcomings with respect to this advice or in the contracting materials provided by Defence, including:

- Defence not considering industry contracting requirements during the early stage of the procurement and therefore not advising suppliers of all requirements;
- the rationale for exemptions from implementing Australian industry contracting requirements not being documented by Defence; and
- outdated or incorrect terminology and reference material being used by Defence or available to suppliers. (See paragraphs 3.6 to 3.15)

16. Of the eight contracts examined, the relevant suppliers for four had provided Defence with a project or industry plan (or schedule) in accordance with the procurement stage requirements of the DPIP. By 29 August 2024, one of these plans (or schedules) remained in draft and had not been further developed as required, and three had been finalised and approved by Defence. For the five contracts without finalised plans, Defence did not document the exemption from this requirement for three suppliers, provided one supplier with an extension to 20 June 2023, and did not finalise the draft plan for the remaining supplier.

17. For four examined contracts, additional AIC or LIC commitments were also within other contract documents. For the two examined contracts with no plans or schedules developed, AIC or LIC commitments were located in other contract artefacts such as a service management plan

or statement of work. Unclear or imprecise clauses were included in the contract documentation for three contracts. Of the five that met the threshold for the publication of an AIC Plan, one was published on Defence's website. Shortfalls in record keeping were observed in the documentation for each of the eight contracts. (See paragraph 3.16 to 3.33)

18. Defence undertakes limited monitoring to ensure the delivery of contracted Australian industry commitments. Where suppliers have reported against their DPIP-related commitments, this reporting has not been complete, with 12 of 59 relevant measures reported against. For four of the five contracts where supplier commitments have been contracted:

- the reporting to Defence indicated that these commitments were not being delivered. Defence undertook follow up action with respect to one of those contracts; and
- the DPIP-related terms in Defence's contract with the head contractor are required to 'flow down' as requirements to the head contractor's subcontractors. One of these four suppliers has reported to Defence on its engagement with subcontractors. (See paragraphs 3.34 to 3.46)

Governance, assurance and reporting

19. Senior Defence committees at the enterprise and group levels have received reports on the implementation of activities relevant to the DPIP, including the implementation of the 'enhanced' Australian industry capability (AIC) contractual framework announced in mid-2020. The policy oversight forum responsible for the periodic review and alignment of the policy with government's defence industry policy objectives was not established as foreshadowed by the DPIP. In the absence of this forum, Defence has not regularly reported on the DPIP or monitored its implementation activities to ensure a unified approach at a whole-of-enterprise level, consistent with the intent of the DPIP. (See paragraphs 4.2 to 4.15)

20. Defence's assurance framework does not prescribe the level of assurance to be obtained and does not align with an auditing standards framework. Defence's 'AIC Audit Program' has provided limited insights on the extent to which Defence is implementing its DPIP obligations or whether suppliers are meeting their contracted DPIP-related commitments. Assurance activities conducted under Defence's framework are limited to materiel contracts over \$20 million in value, representing one-fifth of the procurement categories covered by the DPIP. The scope of Defence's assurance program has included contracts that were executed prior to the March 2019 introduction of the DPIP. Of the 17 assurance activities conducted by Defence since July 2021, seven did not report the deficiencies identified in AIC plans as non-compliance, as the DPIP did not apply to those contracts.

21. Other assurance-related activities such as Defence's self-reporting through compliance surveys under its Supplier Rating System indicate that Defence has not fully complied with its obligation to ensure supplier commitments are contracted in accordance with the DPIP. Of the 768 contract surveys conducted as at July 2024, 209 (27 per cent) reported that AIC obligations were 'not applicable'. Other procurement and contracting compliance arrangements in Defence do not cover the DPIP's requirements and have therefore not identified issues relating to its implementation. (See paragraphs 4.16 to 4.38)

22. Defence has established performance measures related to its engagement with Australian industry and provides quarterly reporting to the Minister for Defence. Defence's administrative

systems do not support reporting at the project level or ensure that AIC Plans are published where required. Defence has undertaken to further develop its reporting on defence industry as part of its implementation of the Defence Industry Development Strategy. (See paragraphs 4.39 to 4.57)

Recommendations

Recommendation no. 1
Paragraph 2.32 The Department of Defence establish arrangements to ensure that its contract template and guidance documents are up to date and aligned with Defence industry contracting and policy requirements.

Department of Defence response: *Agreed.*

Recommendation no. 2
Paragraph 2.40 The Department of Defence implement controls within relevant systems for its procurement, financial, and contract management activities to support and monitor compliance with its obligations to implement Australian industry participation and contracting requirements.

Department of Defence response: *Agreed.*

Recommendation no. 3
Paragraph 2.60 The Department of Defence complement the implementation of its new procurement and contract management training by:

- (a) establishing measures to inform senior leadership of the extent to which role specific training is completed, such as by procurement and contract managers; and
- (b) incorporating requirements for Defence policies, such as the DPIIP, into mandatory training.

Department of Defence response: *Agreed.*

Recommendation no. 4
Paragraph 2.64 The Department of Defence extend the scope of the existing AIC Practitioners course to cover the needs of users of Defence contracting material beyond the ASDEFCON suite.

Department of Defence response: *Agreed.*

Recommendation no. 5
Paragraph 3.32 The Department of Defence implement measures to ensure that:

- (a) where approval of industry commitments occurs after contract execution, this takes place within agreed timeframes and includes options for remediation and contract termination if this does not take place; and
- (b) public AIC plans are prepared and published where required.

Department of Defence response: *Agreed.*

Recommendation no. 6 The Department of Defence improve its administrative arrangements for contracts to ensure that:
Paragraph 3.40

- (a) contracts with industry participation-related requirements can be efficiently and effectively identified and managed; and
- (b) contracted industry participation-related measures can be efficiently and effectively identified and monitored.

Department of Defence response: *Agreed.*

Recommendation no. 7 The Department of Defence:
Paragraph 3.45

- (a) monitor subcontractor performance of industry participation commitments where there are contractual flow down requirements between head contractors and their subcontractors; and
- (b) incorporate details on the potential for flow down industry participation requirements into relevant guidance for Defence personnel and industry.

Department of Defence response: *Agreed.*

Recommendation no. 8 The Department of Defence improve its oversight arrangements to monitor and drive appropriate consistency in its implementation of Australian industry policy in its procurement and contracting activities.
Paragraph 4.14

Department of Defence response: *Agreed.*

Recommendation no. 9 The Department of Defence review and revise its AIC assurance framework to:
Paragraph 4.37

- (a) prescribe the level of assurance to be obtained through the assurance activities;
- (b) cover the full scope of Defence industry contracting and policy requirements; and
- (c) assess whether Defence industry contracting and policy requirements have been considered and addressed early in procurement processes as required, including the approval and documentation of exemptions.

Department of Defence response: *Agreed.*

Summary of entity response

23. The proposed audit report was provided to the Department of Defence. Defence's summary response is provided below, and its full response is included at Appendix 1. Improvements observed by the ANAO during the course of this audit are listed in Appendix 2.

Defence acknowledges the findings of the Auditor-General's Performance Audit report: *Maximising Australian industry participation through Defence contracting*. Defence is committed to ensuring that Australian industry participation in Defence contracts is considered and optimised in the delivery of Defence capabilities.

Defence accepts the key findings and recommendations aimed at enhancing governance, assurance, reporting arrangements, relevant training and guidance when implementing Australian industry participation policy requirements in Defence procurements.

In alignment with the Defence Industry Development Strategy, Defence has commenced the process to update the Defence Policy for Industry Participation and procurement reform initiatives to ensure Defence and industry are better positioned to deliver the required capabilities within reduced timeframes. These reforms will directly support the implementation of the ANAO's recommendations relating to improvement of administrative arrangements to enable identification and monitoring of Defence's industry policies enabled through its contract frameworks.

Key messages from this audit for all Australian Government entities

24. Below is a summary of key messages, including instances of good practice, which have been identified in this audit and may be relevant for the operations of other Australian Government entities.

Policy design

- Successful policy implementation requires senior management oversight and implementation planning to set clear responsibilities and timeframes for the delivery of agreed activities.
- Prerequisites or threshold activities should be clearly identified and delivered in accordance with an agreed implementation plan. Appropriate sequencing provides for a solid foundation in the later stages of delivery and the timely establishment of administrative arrangements, such as:
 - clear and consistent policies, templates and guidance materials;
 - effective IT system controls to ensure compliance with policy requirements;
 - reliable assurance reporting against a standards-based assurance framework; and
 - effective governance oversight and reporting arrangements to monitor the impact of policy and the achievement of intended objectives.

Audit findings

1. Background

Introduction

1.1 The Department of Finance (Finance) has reported that in 2022–23, a total of 83,625 Australian Government contracts valued at \$74.82 billion were notified on AusTender.³ Of this total, the Department of Defence (Defence) ranked as the Australian Government’s largest procurer with 51.7 per cent of Commonwealth entity contracting, valued at \$38.69 billion.⁴

1.2 Successive Australian governments have encouraged the involvement of domestic industries in Defence procurement to develop and maintain the industrial base, secure supply chains, and promote employment and economic growth. A summary of initiatives to encourage domestic participation in procurement relevant to the Australian defence industry is outlined at Appendix 3. These initiatives include the Australian Industry Capability (AIC) Program, launched in February 2008, which required potential contractors to demonstrate how their tenders provide opportunities for Australian businesses.⁵

Defence Industry Policy Statement and Industrial Capability Plan

1.3 On 24 February 2016, the Australian Government released the *Defence Industry Policy Statement* (DIPS), along with the 2016 *Integrated Investment Program* and 2016 *Defence White Paper*. The 2016 *Defence White Paper* stated the following.

The Government recognises that Australian defence industry has faced major challenges as a result of underinvestment in Defence, and the accompanying volatility in Defence funding. This Defence White Paper, the Defence Industry Policy Statement and the Integrated Investment Program provide Australian defence industry with a comprehensive policy framework to inform the contribution industry will need to make to Australia’s long-term security, including the development of capability, infrastructure and skills for the future.⁶

1.4 The DIPS was developed following consultation with Australian industry on the Defence *White Paper* and stated the following.

The consultation process identified the need to develop Defence industry policy to reset and refocus the Defence and industry partnership for improved delivery of Defence capability, to ensure we are maximising opportunities for competitive Australian businesses and streamline the delivery of Defence industry programs.⁷

3 AusTender is the Australian Government’s procurement information system, a centralised web-based facility that publishes a range of information pertaining to procurements and contracts awarded.

4 Department of Finance, *Statistics on Australian Government Procurement Contracts*, available from <https://www.finance.gov.au/government/procurement/statistics-australian-government-procurement-contracts-> [accessed 11 April 2025].

5 The AIC Program, incorporating requirements for AIC plans, was foreshadowed in the *Defence and Industry Policy Statement 2007*. In February 2008, the AIC program was launched by the Parliamentary Secretary for Defence Procurement.

6 Department of Defence, *2016 Defence White Paper*, 24 February 2016, paragraph 4.100, available from <https://www.defence.gov.au/about/strategic-planning/defence-white-paper> [accessed 11 April 2025].

7 Department of Defence, *2016 Defence Industry Policy Statement*, 24 February 2016, p. 10.

1.5 Four ‘key elements and initiatives of Defence Industry Policy’ were outlined in the DIPS.⁸ Among other things, these initiatives aimed to increase the depth of skills and diversification of the Australian defence industry, including through the establishment of a new Centre for Defence Industry Capability (CDIC)⁹, a virtual Defence Innovation Hub¹⁰, and the Next Generation Technologies Fund.¹¹

1.6 Building upon the DIPS, the *2018 Defence Industrial Capability Plan* (DICP) stated that the government’s goal was to ‘achieve an Australian defence industry that has the capability, posture and resilience to help meet Australia’s defence needs’ by 2028.¹² The DICP stated that achievement of this goal would require Defence to ‘maximise Australian industry involvement in the acquisition, operation and sustainment of our defence capability’.¹³

1.7 With respect to the Defence industry contracting policy in place at the time, the DICP outlined that:

The Australian Industry Capability (AIC) Program is the most important initiative within Defence’s Capability Life Cycle for developing Australia’s defence industrial base and implementation of this Plan. The program supports our goals and strategic objectives by maximising Australian industry involvement in Defence major capital equipment projects of \$20 million or more. It requires companies looking to supply capability to Defence to submit an AIC plan as part of the tender response.¹⁴

1.8 The DICP was released among a range of inter-related policy statements and strategies as outlined in Figure 1.1.

8 The four ‘key elements’ of industry policy outlined in the DIPS comprised of: driving competitiveness and export potential; delivering defence capability; a new approach to Defence innovations; and cutting red tape.

9 The CDIC, valued at \$230 million over the forward decade, was intended to ‘drive transformation of the Defence–industry partnership through a single governance framework that will help consolidate existing industry programs and provide a transparent, focused interface between Defence and Australian defence industry.’

10 The Defence Innovation Hub, valued at \$640 million over the forward decade, was intended to ‘undertake collaborative innovation activities from initial concept, through prototyping and testing to introduction into service.’

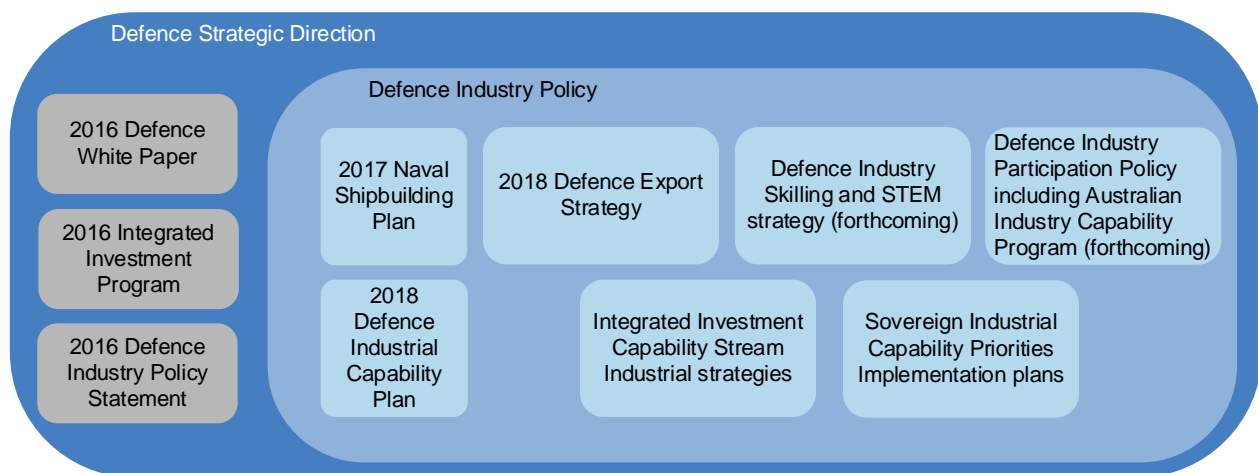
11 The Next Generation Technologies Fund, valued at \$730 million over the forward decade, was designed to ‘enable Defence to better position itself to respond to strategic challenges, retain a technology “edge” against adversaries and provide game-changing Defence capabilities for the future.’

12 Department of Defence, *Defence Industrial Capability Plan*, 23 April 2018, paragraph 1.9.

13 *ibid.*

14 *ibid.*, paragraph 4.8.

Figure 1.1: Defence Industry Policy Agenda 2018



Source: ANAO reproduction of figure in Department of Defence, *2018 Defence Industrial Capability Plan*, 2018, p. 14.

Defence Policy for Industry Participation

1.9 On 28 March 2019, the Minister for Defence Industry released the *Defence Policy for Industry Participation* (DPIP) to give effect to the DICP and build on the existing Defence contracting arrangements required under the AIC Program. The minister's forward to the policy stated that:

The purpose of the *Defence Policy for Industry Participation* is to provide greater consistency, unity and opportunity for Australian industry involvement in Defence procurement. We want companies across Australia to have the best possible opportunity to compete for Defence work, recognising that providing the best capability to Defence and value for money will continue to drive our decisions.

The *Defence Policy for Industry Participation* formalises consideration of Australian industry at the national and local level in procurements valued at or above \$4 million for materiel and non-materiel procurements, and at or above \$7.5 million for construction procurements. It does this through specific schedules or plans that will now form part of tender requirements depending on the nature and size of the procurement. Our direction in this Policy will make consideration of Australian industry in defence procurement simpler, easier and intrinsic to Defence business.¹⁵

1.10 The DPIP was designed to be implemented in alignment with Defence's obligations under the Commonwealth Resource Management Framework.

Commonwealth Resource Management Framework

1.11 The use and management of public resources within the Australian Government public sector is governed by the Commonwealth Resource Management Framework, which is underpinned by the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).¹⁶ The

15 Department of Defence, *Defence Policy for Industry Participation*, 28 March 2019, p. 7, available from <https://www.defence.gov.au/sites/default/files/2020-08/Defence-Policy-for-Industry-Participation.pdf> [accessed 11 April 2025].

16 The framework comprises the PGPA Act, PGPA Rule, and PGPA associated instruments and policies. The PGPA Act came into effect on 1 July 2013. Section 15 of the Act requires entities to promote the proper use and management of public resources for which the authority is responsible. Proper use refers to the effective, efficient, economic and ethical use of public resources.

Commonwealth Procurement Rules (CPRs) are issued by the Minister for Finance under subsection 105B(1) of the PGPA Act. Paragraph 4.4 of the CPRs states:

Achieving value for money is the core rule of the CPRs. *Officials* responsible for a procurement **must** be satisfied, after reasonable enquiries, that the procurement achieves a value for money outcome. [emphasis in original]¹⁷

1.12 The Secretary of Defence has issued Accountable Authority Instructions (AAIs) under section 20A of the PGPA Act to support compliance with the obligations of officials under the CPRs and PGPA Act. Defence's policies for procurement and industry participation are governed by the AAIs. Key elements of the CPRs relevant to the implementation of the DPIP involve the consideration of broader benefits to the Australian economy and Australian Industry Participation (AIP) requirements.

Broader benefits to the Australian economy

1.13 Since 1 March 2017, the CPRs have required officials to 'consider the economic benefit of the *procurement* to the Australian economy' [emphasis in original] in addition to the value for money considerations outlined within the rule.¹⁸ The requirement to consider broader benefits to the Australian economy applied to procurements valued above \$4 million until 1 July 2024 when that threshold was reduced to \$1 million.¹⁹

1.14 Under the DPIP, Defence requires tenderers to 'demonstrate appropriate formal consideration of Australian industry — locally and nationally — through a schedule or plan that forms part of their tender response.'²⁰ The submitted plan or schedule is to be assessed by Defence as part of its overall value for money assessment. Following completion of procurement decision-making, the plan or schedule is to become a contracted deliverable for the selected supplier.

Australian Industry Participation requirements

1.15 Under the *Australian Industry Participation National Framework* and CPR Procurement Connected Policy – Australian Industry Participation (AIP) requirements, tenderers for Australian government funded projects are required to provide AIP plans when tendering for procurements valued \$20 million and above. The CPR Procurement Connected Policy – Australian Industry

17 Department of Finance, *Commonwealth Procurement Rules*, 1 July 2024, available from <https://www.legislation.gov.au/F2024L00627/asmade/text> [accessed 11 April 2025]. It is mandatory for officials from non-corporate Commonwealth entities, including Defence, to comply with the CPRs when performing duties related to procurement.

18 Department of Finance, *Commonwealth Procurement Rules*, 1 July 2024, paragraphs 4.7–4.8. Department of Finance guidance notes that economic benefits to the Australian economy result when the goods or services being procured: make better use of Australian resources that would otherwise be under-utilised; otherwise increase productivity; or provides broader benefits that support the development and sustainment of industry capabilities.

19 This requirement also applies to procurements valued above \$7.5 million for construction services and excludes procurements covered by Appendix A of the CPRs and procurements from standing offers where broader benefit was considered at establishment of the standing offer. Appendix A exemptions include the procurement of land and buildings, goods and services from another government entity, and procurements undertaken by certain entities within the Australian Intelligence Community.

20 Department of Defence, *Defence Policy for Industry Participation*, paragraph 1.9.

Participation mandates these policy requirements for non-corporate Commonwealth entities.²¹ The Department of Industry, Science and Resources (DISR) is responsible for the review, approval and publication of AIP plan summaries.²²

1.16 The DPIIP states that: ‘The *Defence Policy for Industry Participation* addresses the requirements of the CPR Procurement Connected policy – Australian Industry Participation, and means that potential defence suppliers will not need to prepare a separate Australian Industry Participation Plan.’²³

Defence procurements with DPIIP requirements

1.17 The DPIIP applies to three streams of Defence procurement:

- Materiel — for equipment that can be integrated into Defence platforms and systems or used by Defence personnel on operations. Materiel sustainment procurements are related to ongoing maintenance, upkeep, repair and other support of current Defence platforms and systems.
- Non-materiel — include goods and services such as base and garrison support and maintenance, health, logistics, professional support, childcare services, training, travel, information communications technology and corporate products.
- Construction services — covers the construction or maintenance of Defence facilities, establishments and training areas.²⁴

1.18 Defence contract data for the calendar year 2022 indicated that, of the approximately 15,000 procurements undertaken, over 600 met the DPIIP threshold requirements — including over 400 materiel and non-materiel procurements between \$4–20 million.²⁵ Contracts with DPIIP requirements made up 84 per cent of all contracts by value, as illustrated in Figure 1.2.

21 Paragraph 4.9 of the CPRs states:

Procurement-connected policies are policies of the Commonwealth for which *procurement* has been identified as a means of delivery. *Non-corporate Commonwealth entities* and prescribed *corporate Commonwealth entities* **must** comply with a procurement-connected policy where the policy indicates that it is applicable to the procurement process. [emphasis in original]

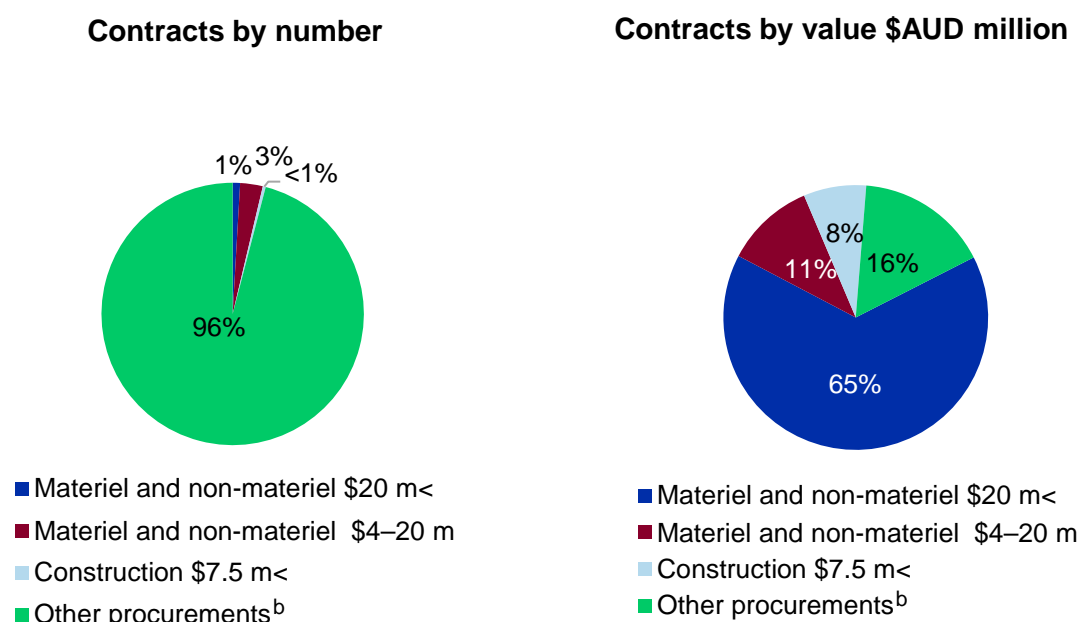
Department of Finance, *Commonwealth Procurement Rules*, 1 July 2024. Under sections 15 and 21 of the PGPA Act, procurement by non-corporate Commonwealth entities must not be inconsistent with the policies of the Commonwealth.

22 The Australian Industry Participation Authority within DISR is also responsible for regulating compliance with the *Australian Jobs Act 2013* requirements for AIP plans for major public and private projects with expenditure of \$500 million or more.

23 Department of Defence, *Defence Policy for Industry Participation*, paragraph 3.18.

24 Prior to the DICP, ‘non-materiel’ procurement included construction of facilities. Department of Defence, *Defence Policy for Industry Participation*, paragraphs 2.21 and 2.22.

25 On 3 July 2023, Defence provided the ANAO with a report generated through its SAP financial system which consolidates reported procurements between Defence’s internal SAP systems and non-SAP reporting on AusTender. This data does not include credit card transactions as part of an overarching contract, inventory management, or garrison estate management contracts. Further information on this data is at paragraph 1.35 and footnotes.

Figure 1.2: Proportion of contracts with DPIP requirements by number and value, 2022^a

Note a: The ANAO did not provide assurance over this data (refer to paragraph 1.35 and respective footnotes).

Note b: Other procurements are those that did not meet the financial thresholds set out in the DPIP.

Source: ANAO analysis of Department of Defence data.

Administrative arrangements

1.19 The 2023–27 Defence Corporate Plan stated that: ‘Defence’s mission and purpose [is t]o defend Australia and its national interests in order to advance Australia’s security and prosperity.’²⁶ Defence delivers on its mission and purpose through seven ‘key activities’. Of relevance to the DPIP, Key Activity 7 aims to contribute ‘to Australia’s prosperity through the inclusion of Australian businesses and enterprises in supply chains for capability and services.’ Defence’s Corporate Plan further states in this respect that:

The Government’s significant investment in Defence over the coming decade will advance Australia’s prosperity through expenditure on defence capabilities, support to new and existing defence industries and the creation of jobs.²⁷

1.20 At November 2024, Defence’s administration of DPIP primarily resided within the Capability Acquisition and Sustainment Group (CASG):

- the Industry Engagement Division comprising of the Domestic Industry Domestic Policy Branch, the Office of Defence Industry Support and the Australian Industry Capability Delivery Branch — responsible for industry engagement and the development and implementation of the DPIP and related policy, including the 2024 *Defence Industry*

26 Department of Defence, *2023–27 Defence Corporate Plan*, August 2023, p. 3, available from <https://www.defence.gov.au/about/strategic-planning/defence-corporate-plan> [accessed 11 April 2025].

27 The following ‘programs’ were linked to Key Activity 7: Strategy, Policy and Industry; Defence Finance; Capability Acquisition and Sustainment; and Defence Science and Technology. Department of Defence, *2023–27 Defence Corporate Plan*, pp. 7, 30 and 32.

Development Strategy and, as advised by Defence in November 2024, the forthcoming update to the DPIIP; and

- the Commercial Division comprising of the Materiel Procurement Branch and the Non-materiel Procurement Branch — responsible for the maintenance of the Australian Standard for Defence Contracting (ASDEFCON) suite of tendering and contracting documents.

1.21 The Infrastructure Division within the Security and Estate Group (SEG) is responsible for DPIIP with respect to construction procurements.²⁸ This includes managing the following:

- Suite of Facilities contracts for the construction and maintenance of Defence facilities, including building and fixed plant and equipment maintenance²⁹;
- Defence Infrastructure Panel (DIP) 2022–2027, established to provide streamlined access to high quality infrastructure related professional services³⁰; and
- Defence Infrastructure Panel – Environment, Heritage and Estate Engineering (DIP-EHEE) 2020–2025, established to provide ongoing environment, heritage and engineering services.³¹

1.22 Additional DPIIP related requirements may apply to procurements depending on the applicable Defence contracting suite of documents being used. For example, certain ASDEFCON templates require AIC plans to include Defence Sovereign Industrial Capability Priorities or Sovereign Defence Industrial Priorities³², and the contractor and subcontractor’s commitments for delivering Australian Industry Activities (including Defence-Required Australian Industrial Capabilities).³³ In August 2021, Defence released Australian Contract Expenditure (ACE)

28 This function was previously administered by the Estate and Infrastructure Group. In December 2021 Defence internally restructured, dissolved the Estate and Infrastructure Group and creating SEG.

29 Department of Defence, *Suite of Facilities Contracts*, available from <https://www.defence.gov.au/business-industry/procurement/contracting-templates/suite-facilities-contracts>, [accessed 11 April 2025].

30 Department of Defence, *Defence Infrastructure Panel*, available from <https://www.defence.gov.au/business-industry/procurement/panel-arrangements/dip> [accessed 11 April 2025].

31 Department of Defence, *Defence Infrastructure Panel – Environment, Heritage and Estate Engineering*, available from <https://www.defence.gov.au/business-industry/procurement/panel-arrangements/dip-ehee> [accessed 11 April 2025].

32 The government established ten Sovereign Industrial Capability Priorities (SICP) within the *2018 Defence Industrial Capability Plan*. The SICPs were replaced in 2024 with Sovereign Defence Industrial Priorities (SDIPS) under the *2024 Defence Industrial Development Strategy*. There are seven SDIPs: Maintenance, repair, overhaul and upgrade (MRO&U) of Australian Defence Force aircraft; Continuous naval shipbuilding and sustainment; Sustainment and enhancement of the combined-arms land system; Domestic manufacture of guided weapons, explosive ordnance and munitions; Development and integration of autonomous systems; Integration and enhancement of battlespace awareness and management systems; and Test and evaluation, certification and systems assurance. Department of Defence, *Defence Industry Development Strategy*, 29 February 2024, figure 3, pp. 18–19, available from <https://www.defence.gov.au/about/strategic-planning/defence-industry-development-strategy> [accessed 11 April 2025].

33 Australian Industry Activities (AIAs) refers to required industry capabilities specified as contract outcomes, for the production and/or support of the relevant materiel system and may be implemented as aspects of a SICP. Defence-Required Australian Industrial Capabilities (DRAIC) are a form of AIAs of high importance, with commensurate levels of planning and monitoring under a contract.

Measurement Rules to standardise where ACE and Imported Contract Expenditure (ICE) apply and the way in which they are measured across relevant Defence procurements.³⁴

Approach to implementation

1.23 The requirements outlined in the DPIP were to be implemented by Defence from 2019 and apply to new projects and new phases of existing projects.³⁵ The implementation of the DPIP was to be supported by the development and roll out of guidance and reference materials.³⁶

1.24 On 6 February 2020, the Minister for Defence Industry announced changes to the DPIP to strengthen contractual provisions and the establishment of an AIC audit program to assess whether contractual obligations had been met. On 15 February 2020, the Prime Minister wrote to the Ministers for Defence and Defence Industry requesting that prime contractors be given notice of the government's intention to strengthen the AIC program.³⁷ The Prime Minister's letter noted:

The Government expects Defence and its prime contractors to ensure that commitments made to the Government on AIC are fully delivered through improved, fit-for-purpose contracts between Defence and prime contractors.

1.25 In November 2020, the government released *Lead the Way: Defence Transformation Strategy*, which stated the following:

Throughout the course of 2020, the Australian Government and Defence have undertaken significant improvements to the Australian Industry Capability Program and support for Australian defence industry. Defence is:

- strengthening requirements for Australian Industry Capability in Defence contracts through additional contractual and non-contractual measures;
- implementing an enduring Independent Australian Industry Capability Plan Audit Program;
- implementing recent changes to the *Commonwealth Procurement Rules* guidelines to strengthen Australian industry considerations; and
- introducing improvements to the Australian Standard for Defence Contracting (ASDEFCON) document suite to cut process times and costs for Australian businesses.³⁸

34 Defence has defined ACE to include direct costs incurred by the Contractor (other than amounts paid by the Contractor to Subcontractors); or a Subcontractor (other than amounts paid by the Subcontractor to other Subcontractors), to the extent those costs are incurred by an Australian Entity in performing work under the Contract or a Subcontract (as applicable) in Australia or New Zealand. The definition of ICE includes the sum of: direct costs incurred by: the Contractor (other than amounts paid by the Contractor to Subcontractors); or a Subcontractor (other than amounts paid by the Subcontractor to other Subcontractors), (as applicable) to the extent those costs are incurred in performing work under the Contract or a Subcontract (as applicable) other than in Australia or New Zealand.

35 Department of Defence, *Defence Policy for Industry Participation*, paragraph 1.18.

36 *ibid.*, paragraphs 1.18, 4.4, and 4.8.

37 The Secretary of the Department of Defence and the Chief of the Defence Force wrote to prime contractors in March 2020 to advise of the planned implementation of measures to strengthen AIC terms in contracts, increase assurance activity and provide greater transparency.

38 Department of Defence, *Lead The Way: Defence Transformation Strategy*, 27 November 2020, pp. 52–53, available from <https://www.defence.gov.au/about/strategic-planning/lead-way-defence-transformation-strategy> [accessed 11 April 2025].

1.26 The 2023 *Defence Strategic Review* noted that:

Australian industry content and domestic production must be balanced against timely capability acquisition. Previous government direction to meet mandated Australian industry content skewed the capability acquisition process so that capability outcomes were secondary to creating opportunities for Australian industry – even when a clear rationale was lacking.

To enable Australian defence industry to deliver capability, acquisition processes must minimise the burden of working with Defence, particularly for small and medium enterprises. This will have the advantage of faster capability delivery while building depth in Australian defence industry where required.

Defence must consider Australian industry content when it makes sense and delivers capability outcomes on time. It is essential to ensure Australian sovereign defence industry capability is supported where it makes strategic sense.³⁹

1.27 On 29 February 2024, government released the 2024 *Defence Industry Development Strategy* (DIDS). The strategy committed Defence to 39 actions including simplifying the Defence contracting framework, implementing a new approach to engaging with industry, and updating the DPIIP by the end of 2024.⁴⁰ In relation to procurement reform, the Strategy stated:

We will simplify Defence’s approach to contracting, increase its risk appetite, and shorten the time it takes to receive project and contract approvals, to deliver capability at speed while maintaining appropriate levels of governance.⁴¹

Parliamentary interest

1.28 The involvement of Australian industry in Defence procurement and the achievement of contract policy objectives has been of interest to the Parliament, including through inquiries such as:

- Senate Foreign Affairs, Defence and Trade Legislation Committee, *Performance of the Department of Defence in supporting the capability and capacity of Australia’s defence industry*, November 2024 with an Interim Report including recommendations tabled in October 2023;
- House of Representatives Standing Committee on Infrastructure, Transport and Cities, *Government Procurement: A sovereign security imperative*, March 2022;

39 Department of Defence, *Defence Strategic Review*, 24 April 2023, paragraphs 12.8–12.10, available from <https://www.defence.gov.au/about/reviews-inquiries/defence-strategic-review> [accessed 11 April 2025].

40 DIDS reaffirmed that ‘Defence procurements must comply with the Commonwealth Procurement Rules (CPRs) and the reform activities will remain consistent with these rules’. Department of Defence, *Defence Industry Development Strategy*, pp. 3 and 96–103.

41 Department of Defence, *Defence Industry Development Strategy*, p. 33. Defence has also undertaken to improve its procurement and contract management activities following internal audits in 2023 and multiple ANAO performance audit reports. The internal audits related to procurement assurance and contract management. Relevant ANAO performance audits include Auditor-General Report No.47 2023–24, *Defence’s Management of Contracts for the Supply of Munitions — Part 1*, ANAO, Canberra, 2024, available from <https://www.anao.gov.au/work/performance-audit/defences-management-of-contracts-for-the-supply-of-munitions-part-1> [accessed 11 April 2025]; and Auditor-General Report No.21 2022–23, *Department of Defence’s Procurement of Hunter Class Frigates*, ANAO, Canberra, 2023, available from <https://www.anao.gov.au/work/performance-audit/department-defences-procurement-hunter-class-frigates> [accessed 11 April 2025].

- Joint Standing Committee on Foreign Affairs, Defence and Trade, *Inquiry into the implications of the COVID-19 pandemic for Australia's foreign affairs, defence and trade*, December 2020;
- Previous Joint Committee of Public Accounts and Audit (JCPAA) inquiries into ANAO performance audits and the Major Projects Reports (MPR)⁴²; and
- Joint Standing Committee on Foreign Affairs, Defence and Trade, *Principles and practice – Australian defence industry and exports: Inquiry of the Defence Sub-Committee*, November 2015.

Rationale for undertaking the audit

1.29 Defence's implementation and delivery of contracted Australian industry requirements has been an area of focus for successive governments and an ongoing interest for the Parliament. The government intent to maximise Australian industry involvement in the Defence procurement was reflected in the AIC Program in 2008, and reaffirmed in the 2016 *Defence Industry Policy Statement* and the 2018 *Defence Industrial Capability Plan*. This audit provides the Parliament with independent assurance of the effectiveness of Defence's arrangements to deliver Australian industry policy outcomes through its contractual arrangements with its suppliers.

Audit approach

Audit objective, criteria and scope

1.30 The objective of the audit was to examine the effectiveness of Defence's administration of contractual obligations to maximise Australian industry participation.

1.31 To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:

- Have fit-for-purpose administrative arrangements been established to maximise Australian industry participation in Defence procurement and contracting?
- Have applicable contracting requirements been implemented to maximise Australian industry participation?
- Has Defence implemented appropriate governance, assurance and reporting arrangements to support the objective of maximising Australian industry participation?

1.32 The audit focussed primarily on Defence's administration of the DPIIP as it relates to contract management activities, internal and external communication, arrangements to ensure industry compliance with contracted requirements, and whether intended policy objectives are being achieved.

42 The JCPAA inquiries into the ANAO performance audits and the MPR have included consideration of Australian industry involvement including: *Report 496 Inquiry into the Defence Major Projects Report 2020-21 and 2021-22 and Procurement of Hunter Class Frigates* (2023); *Report 483 Inquiry into the 2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design* (2020); and *Report 507 Defence 2022-23 Major Projects Report* (2024), See JCPAAA, *Completed inquiries and reports*, available from https://www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit/Completed_inquiries [accessed 11 April 2025].

1.33 The audit scope did not include assessments against all requirements of the CPRs, suppliers' arrangements for managing their contracted and subcontracted obligations, government-to-government acquisition agreements such as the Foreign Military Sales (FMS) program; and other activities that encourage the participation of Australian industry in Defence such as grants programs.⁴³

Audit methodology

1.34 The audit methodology included:

- review of documentation held by Defence, including policies, procedures and contract artifacts;
- meetings with relevant departmental staff; and
- consideration of two public submissions to the audit.

1.35 Defence does not hold a complete and accurate list of contracts that include provisions to maximise Australian industry involvement, such as AIC requirements.⁴⁴ As a consequence, the ANAO was unable to select a statistically valid sample of contracts to review. Based on the available contract data, the ANAO selected eight materiel, non-materiel and construction contracts commencing in 2022.⁴⁵

1.36 The audit was conducted in accordance with ANAO Auditing Standards at a cost to the ANAO of approximately \$1,161,000.

1.37 The team members for this audit were Mark Rodrigues, Marissa Lemmer, Fraser McEachan, Shane Madden, Finn Coverdale and Amy Willmott.

43 In June 2024, the ANAO commenced a performance audit on the award of funding under Defence's industry grants programs.

44 Defence's financial data is held in SAP and non-SAP systems. Non-SAP systems include the credit card management system, inventory management system (MILIS), and the garrison support system (GEMS). All procurements above \$10,000 are required to be reported on AusTender. Defence provided the ANAO with a report generated through its SAP financial system which consolidated reported procurements between Defence's internal SAP systems and non-SAP reporting on AusTender. The ANAO did not test the integrity nor gain assurance over the underlying data used for this report. Auditor-General Report No.4 2021–22, *Defence's Contract Administration – Defence Industry Security Program (DISP)* also noted, at paragraph 1.30, that 'Defence was unable to provide a complete and accurate list of contracts that included a DISP requirement'.

45 The contracts included the highest value contracts across the DPIP categories that the available data indicated had commenced in 2022, to allow for the implementation of the changes to Defence's administration of its industry contracting arrangements announced in 2020.

2. Administrative arrangements

Areas examined

This chapter examines whether the Department of Defence (Defence) has established fit-for-purpose administrative arrangements to maximise Australian industry participation in Defence procurement and contracting.

Conclusion

Defence's administrative arrangements for maximising Australian industry participation through its procurement and contracting activities are partly fit for purpose. Defence's procurement framework has not been updated in a timely manner, and as at August 2024, did not fully reflect the requirements of the March 2019 *Defence Policy for Industry Participation* (DPIP). Guidance for Defence personnel in relevant tendering and contracting templates is incomplete, and in some cases outdated. Defence engages with industry through forums and other activities as well as through individual procurement processes to support the intent of government's industry contracting policy.

Areas for improvement

The ANAO made four recommendations aimed at ensuring the timeliness and consistency of contracting templates and strengthening procurement and contracting training.

2.1 The *2016 Defence Industry Policy Statement* (DIPS) and the *2018 Defence Industrial Capability Plan* (DICP) articulate the government's objective to maximise Australian industry participation through Defence contracting, as outlined at paragraphs 1.3–1.8. To achieve this, Defence requires a procurement framework that clearly defines its Australian defence industry contracting requirements and contains fit for purpose guidance, training and information for Defence personnel and defence industry.

Does Defence have a framework that clearly defines Australian industry contracting requirements?

Defence gives effect to its Australian industry contracting requirements through its internal policy framework. Defence's framework is informed by requirements under the *Public Governance, Performance and Accountability Act 2013*, the Commonwealth Procurement Rules and government's Defence industry policies, as set out by the *2016 Defence Industry Policy Statement* and the *2018 Defence Industrial Capability Plan*. Key elements of Defence's established policy framework, such as the Defence Procurement Manual (DPM) and its contracting templates, were not updated in a timely manner following the release of the *Defence Policy for Industry Participation* (DPIP) in March 2019. The DPM was not updated until 1 July 2020, 15 months after the DPIP's release. Defence lacks arrangements to ensure that procurement documents and contracting templates are aligned with the DPIP requirements, and up to date. Automated system controls, which were established in 2022 and mandated in 2024 — to improve compliance with mandatory procurement policies — do not cover the requirements of the DPIP.

2.2 Since 2007, Defence has used its procurement policy framework to support the implementation of Australian industry capability requirements in its procurement and contracting activities. At October 2024, Defence's framework to define procurement and contracting requirements comprises the 2019 *Defence Policy for Industry Participation* (DPIP), Defence's Accountable Authority Instructions under the *Public Governance and Performance Act 2013* (PGPA Act), the Defence Procurement Manual (DPM), Defence's Procurement and Contracting Requirements document, and a range of contracting templates.⁴⁶

Defence Policy for Industry Participation

2.3 Prior to the release of the DPIP in March 2019, existing government requirements to promote the involvement of Australian industry in Defence procurement were implemented through the Australian Industry Capability (AIC) Program. Under the AIC Program, potential contractors were required to demonstrate how their tenders would provide opportunities for Australian companies. The requirements applied to materiel contracts valued \$50 million and over. In July 2011, that financial threshold was reduced to \$20 million.

2.4 The 2018 DICP foreshadowed that the DPIP would be developed to:

provide a more consistent approach to Australian industry involvement in materiel and non-materiel procurement of \$4 million and above. It will provide a clearer and stronger link between our defence industry policy and mechanisms for delivering capability to Defence, and build on mechanisms already in place to capture and assess the broader economic benefits on the Australian economy.⁴⁷

2.5 On 28 March 2019, the Minister for Defence Industry released the DPIP to give effect to the 2018 DICP commitment and build on existing AIC Program contracting arrangements in Defence. The DPIP streams and requirements by contract value are outlined at Figure 2.1.

46 In October 2019, Defence estimated that it had around 900 policies relating to procurement. See Auditor-General Report No.4 2021–22, *Defence's Contract Administration – Defence Industry Security Program*, ANAO, Canberra, 2021, footnote 32, available from <https://www.anao.gov.au/work/performance-audit/defence-contract-administration-defence-industry-security-program> [accessed 11 April 2025].

47 Department of Defence, *Defence Industrial Capability Plan*, 2018, paragraph 4.56.

Figure 2.1: DPIP streams and requirements by contract value^a

	Materiel	Non-materiel	Construction
\$20 million	Australian Industry Capability Plan	Industry Participation Plan	Local Industry Capability Plan
\$7.5 million	Australian Industry Capability Schedule	Industry Participation Schedule	
\$4 million			No requirement
	No requirement	No requirement	

Note a: Following the release of the DPIP, Defence replaced the non-materiel procurement requirement for Industry Participation Schedules and Plans with the existing materiel procurement requirement for AIC Plans and Schedules. Other changes designed to strengthen the implementation of AIC in Defence procurement and contracting following the release of DPIP are discussed at paragraphs 2.20–2.22.

Source: Reproduction of figure in Department of Defence, *Defence Policy for Industry Participation*, 28 March 2019, p. 41, available from <https://www.defence.gov.au/sites/default/files/2020-08/Defence-Policy-for-Industry-Participation.pdf> [accessed 11 April 2025].

2.6 Under the DPIP, plans are required to:

describe how the tenderer has engaged with Australian industry at the national and local levels (where applicable) to deliver the required goods, works or services. This includes the specific commitments by the tenderer to maximise opportunities for competitive Australian industry to participate in the supply chain and to support development of Australian industry capability. The plans will also describe how the tenderer will monitor and report on its commitments once in contract.⁴⁸

2.7 Schedules are required to include ‘a breakdown of the value of the planned expenditure in Australia in terms of companies, nature and value of work.’ Schedules are required to be included in plans (where plans are required). Local Industry Capability Plans are required to ‘reflect the specific nature and requirements of construction-related procurement.’ For these procurements, tenderers are expected to ‘adopt a common sense approach based on reasonable geographic proximity to the location where the work is to be performed.’ Local industry considerations are also to be incorporated into AIC schedules and plans for all procurements with DPIP requirements, except for materiel acquisition procurements that are ‘predominantly location agnostic’.⁴⁹

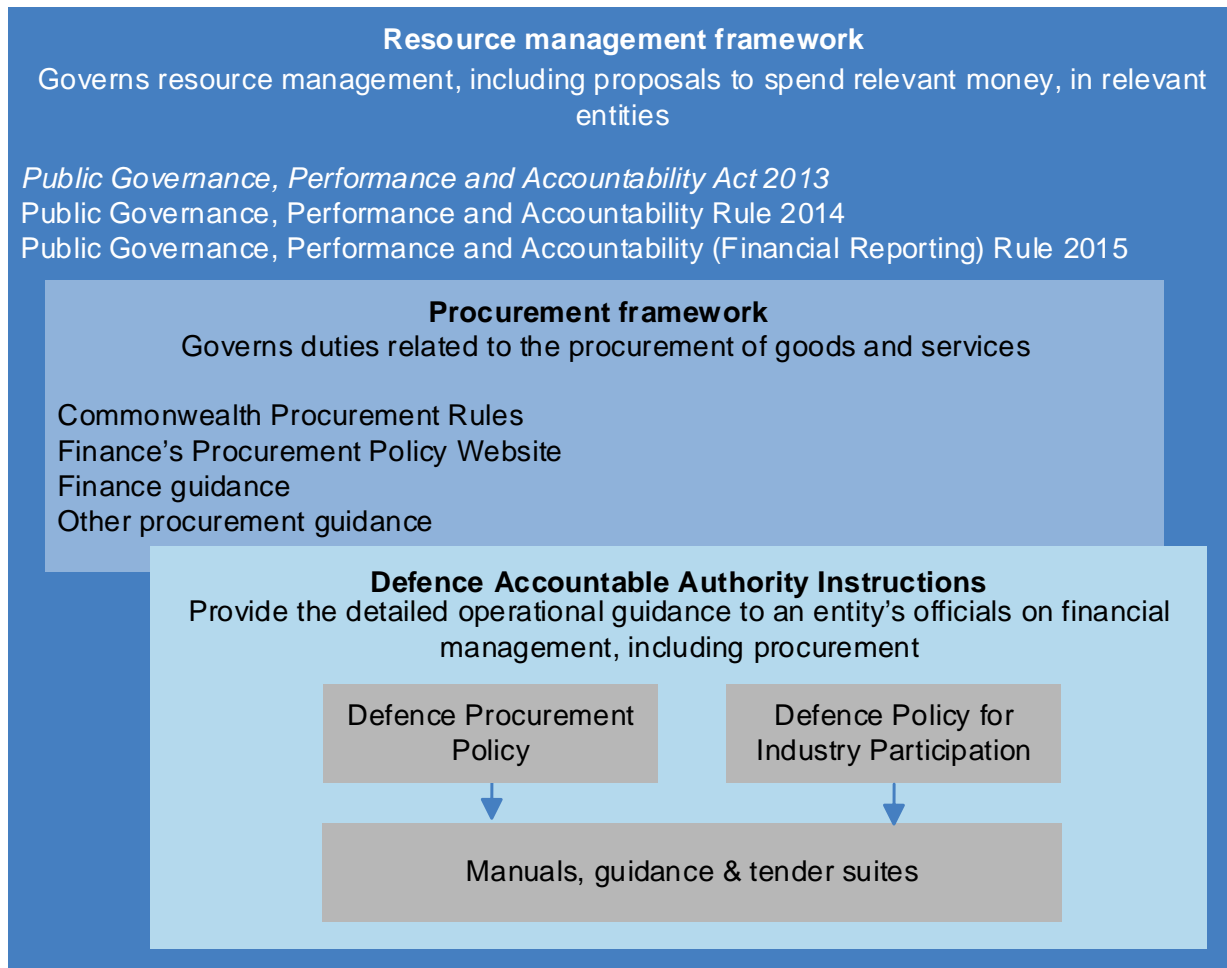
48 Department of Defence, *Defence Policy for Industry Participation*, 28 March 2019, paragraph 3.16, available from <https://www.defence.gov.au/sites/default/files/2020-08/Defence-Policy-for-Industry-Participation.pdf> [accessed 11 April 2025].

49 Not all materiel acquisition projects are location agnostic. See Department of Defence, *Defence Policy for Industry Participation*, paragraphs. 3.12 and 3.23.

Accountable Authority Instructions

2.8 As set out at paragraph 1.12, the Secretary of Defence has issued Accountable Authority Instructions (AAIs) under section 20A of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) to support compliance with the obligations of officials under the Commonwealth Procurement Rules (CPRs) and PGPA Act. Defence's policies for procurement and industry participation reside under the AAIs, as illustrated in Figure 2.2.

Figure 2.2: Commonwealth Resource Management Framework and Defence procurement and industry participation policy



Source: Reproduction of figure in Department of Defence, *Defence Policy for Industry Participation*, p. 28.

2.9 In relation to Australian industry contracting policy, AAI 2 Spending Defence Money states:

Defence will maximise the opportunities for competitive Australian industry to compete on merit to meet Defence's capability needs. This applies to materiel, non-materiel and construction procurements that meet the relevant thresholds. Refer to the mandatory Defence industry policy [50] requirements and relevant thresholds specified in the Defence Procurement Manual (DPM),

50 'Defence industry policy' in the DPM refers to the range of Defence industry policies including: *2016 Defence Industry Policy Statement*, *2018 Defence Industrial Capability Plan*, and *Defence Policy for Industry Participation* 2019.

including in respect of the Australian Industry Capability Program, when planning for and undertaking procurement.

...

you must ... comply with the Defence industry policy requirements including relevant thresholds specified in the DPM [Defence Procurement Manual]. [emphasis in original]

2.10 The Defence AAI 2 was first updated to include industry participation requirements on 1 July 2020. At that time, the AAI referred to the AIC program — the primary Defence industry participation policy prior to the release of the DPIIP.

2.11 In addition to the DPM, Defence's 'Procurement and Contracting Requirements' (PCR) policy gives effect to Defence industry policy requirements. Specific requirements in the PCR with respect to the DPIIP include:

Defence *officials must* consider at the early stages of the Defence Capability Life Cycle⁵¹ and during the planning stage of the *procurement* the requirement or potential opportunities for Australian industry in the *procurement*, consistent with the Government's Defence industry policy.

...

Defence *officials must* comply with the Defence industry policy requirements as incorporated into Defence's contracting templates. If Defence's contracting templates are not used, Defence *officials* must comply with the Defence industry policy requirements, consistent with the Defence templates.

...

Defence *officials* do not need to comply with the Australian Industry Participation National Framework administered by the Department of Industry, Science, Energy and Resources, as the Defence industry policies satisfy the Australian Industry Participation National Framework requirements. [emphasis in original]

51 The Defence Capability Life Cycle was replaced by the One Defence Capability System in December 2020. The Defence Capability Manual defines the One Defence Capability System as 'an integrated system that ensures Defence capability decisions optimise capability outcomes within resource limitations' taking place through four phases: 'strategy and concepts, risk mitigation and requirement setting, acquisition, and in-service and disposal'.

Department of Defence, *Defence Capability Manual*, version 1.2 (publicly available), available from <https://www.defence.gov.au/business-industry/industry-governance/defence-capability-manual> [accessed 11 April 2025].

Defence Procurement Manual

2.12 The DPM is ‘the primary reference document for all Defence officials involved in conducting a procurement’. The January 2019 (version 1.3) DPM was not updated with the release of DPIIP in March 2019. Guidance contained within this document referred to previous AIC Program requirements with no reference to the updated policy.⁵² The subsequent version of the DPM, issued on 20 April 2019 (version 1.4), was not amended to refer to the DPIIP and did not include relevant updates to requirements, such as the new financial thresholds. The DPM was not updated to include the new DPIIP requirements until version 1.6, issued on 1 July 2020 — 15 months after the release of the DPIIP.

2.13 Defence has undertaken to improve its procurement and contract management activities following internal audits in 2023 and ANAO performance audit reports.⁵³ One of those internal audits, on Defence’s procurement assurance activities, found that the design and usability of the DPM was not fit for purpose:

Internal Audit found that Defence’s policies and rules for procurement are difficult [to] interpret and do not currently support efficient understanding of the requirement for users. The DPM structure and content does not support efficient, effective execution of key procurement requirements for business users. For example:

- Mandatory requirements are difficult to pinpoint and prioritise ...
- Extensive links to other guidance is [*sic*] not fully contextualised or explained ...
- DPM Guidance on process steps for simple versus complex procurements cannot be put into practice ...

2.14 In its November 2023 response to another of these internal audits, Defence advised that an existing program ‘to restructure and review the Defence Commercial Framework’ (including the DPM) was already underway and expected to be completed in May 2025. This program was to include the introduction of revised training and guidance for Defence officials and the implementation of a procurement and contracting assurance framework from June 2024. These activities are discussed at paragraphs 2.54–2.63 and 4.34–4.35.

Procurement and contracting templates

2.15 Defence AAI 2 provides that:

Defence’s contracting templates incorporate provisions that give effect to Defence industry policy. If Defence’s contracting templates are not used, Defence officials must ensure that Defence

52 Prior to 2021, the DPM was referred to as the Defence Procurement Policy Manual. ‘Defence *officials must* comply with the Defence Australian Industry Capability (AIC) policy for procurements valued at or above \$20 million (including GST), and in particular ensure that the successful supplier in the procurement implements an AIC plan’ [emphasis in original]. The Defence Procurement Policy Manual Version 1.3, 1 January 2019 also noted:

Currently, only the ASDEFCON contracting templates incorporate provisions that give effect to the AIC program, including requiring tenderers to submit AIC plans as part of the tender process. The successful tenderer is required to give effect to the agreed AIC plan under the contract. The AIC program is currently being updated following the [Defence Industry Policy Statement 2016](#). For further information about the AIC program, Defence officials should refer to the [Defence Industry Policy Division intranet page](#). [emphasis in original]

53 Refer to footnote 42.

industry policy requirements are considered and incorporated in request documentation where required.

2.16 Tendering and contracting templates relevant to the DPIP are primarily covered by:

- the Australian Standard for Defence Contracting (ASDEFCON) suite of tendering and contracting documents — managed by the Capability Acquisition and Sustainment Group (CASG) and applicable to materiel and non-materiel procurements; and
- the Defence Suite of Facilities templates (Facilities suite) — managed by Infrastructure Division, Security and Estate Group (SEG) and applicable to construction procurements.

2.17 The DPM also states that the approved panel templates should be used where a procurement is undertaken using an existing panel arrangement.

2.18 Defence manages updates to its ASDEFCON contracting templates in its electronic filing system (called 'Objective'). Defence does not maintain a register of templates or a process management system to help ensure all ASDEFCON templates are reviewed and updated at regular intervals and as required. Templates within the Facilities suite are managed through a series of quality assurance registers.

Review of Defence's contractual provisions to maximise Australian industry involvement

2.19 In response to an update on the implementation of the DICP provided to government in October 2019, the government agreed that the Minister for Defence would consult with the Attorney-General to review provisions in Defence contracts. The Minister for Defence would then return to government with a plan to ensure that Defence has effective contractual provisions to maximise Australian industry involvement. In December 2019, Defence returned to government with a preliminary review conducted by the Australian Government Solicitor (AGS) focusing on eight materiel contracts.⁵⁴ The government was advised that:

- Defence's contracting templates generally give effect to industry participation policy⁵⁵, although they were not updated to reflect current Australian industry policy requirements; and
- AIC Plans were generally aligned with policy requirements although only some commitments within those plans were specific and measurable. As a consequence, Defence may not be able to legally enforce a contracted AIC Plan in the event of a breach or non-delivery.

2.20 A supplementary review also conducted by the AGS covered 54 prime contracts including those related to the ANAO 2018–19 Major Projects Report projects.⁵⁶ AGS described the findings of the supplementary review as 'broadly consistent' with those of the preliminary review. Following

54 The Defence prime contracts reviewed by AGS comprised of: SEA1000 Future Submarines Program; SEA5000 Future Frigate Program; LAND400 Phase 2 Combat Reconnaissance Vehicle Program; SEA1180 Offshore Patrol Vessel Program; LAND121 Phase 4 Hawkei Protected Mobility Vehicle Program; SEA3036 Pacific Patrol Boat Program; LAND2072 Phase 2B Project Currawong; and LAND121 Stage2A Facilities Project.

55 As outlined at paragraph 1.15, Australian Industry Participation is a 'procurement connected policy' under the CPRs and is administered by the Department of Industry, Science and Resources (DISR).

56 The supplementary review found that:

Certain contracts were excluded from this review by Defence where they were deemed less relevant to the application of the policy's objectives. The list of relevant contracts was developed in consultation between Defence and the Department of the Prime Minister and Cabinet.

government consideration of the supplementary review on 24 August 2020, the Minister for Defence Industry approved Defence's plan to develop and implement an 'enhanced' contractual framework for AIC, intended to strengthen the contractual terms with specific and measurable commitments to enable greater accountability and enforceability.⁵⁷ On 24 September 2020, the Minister for Defence Industry announced 'AIC changes in the contractual framework for future contracts from January 2021'.

2.21 Defence's implementation of the contracting changes involved progressively updating and releasing revised contract templates with updated AIC provisions to be applied prospectively in new contracts. The Defence Enterprise Business Committee (EBC) monitored the implementation of the roll out, as part of its oversight of the 2020 *Lead the Way: Defence Transformation Strategy*.⁵⁸

2.22 On 6 December 2021, Defence advised the Minister for Defence Industry that '[a]ll of the major acquisition and sustainment templates have been published to incorporate the 'enhanced' framework'.⁵⁹ The advice to the minister did not contain information about the department's progress on implementing the AIC changes to other contracting suites, such as the Facilities suite. The advice to the minister did not note that, at that time, two templates were yet to incorporate the 'enhanced AIC framework'.⁶⁰ In February 2022, the EBC reported to the Defence Committee (DC) that the 'enhanced' AIC contracting framework was complete. The information provided to the DC did not include details on the extent of the updates that had been made across Defence's contracting suites.

ASDEFCON review

2.23 During the period of review and change to the AIC contractual provisions discussed above, Defence commenced an internal review of the ASDEFCON contracting suite. This review commenced following a request from the Minister for Defence Industry. The scope of the review did not include Defence's implementation of AIC requirements. The purpose of the review was to identify 'opportunities to strengthen and refine Defence procurement contracting processes ... including simplifying and streamlining the ASDEFCON contracting templates.' The review was informed by an online survey with 144 Defence industry and 106 Defence internal responses.

2.24 With respect to Defence's overall approach to procurement, Defence advised the Minister for Defence Industry that:

While the Review focus was the ASDEFCON template suite, commentary received with regard to the broader Review topic of Defence procurement revealed a disparate approach between the ASDEFCON suite and other contracting templates in relation to "boiler-plate" commercial and legal principles. The Review Team found that a One Defence approach to such principles, including consistency in template text, would assist both Defence and Defence Industry.

57 Defence advised the Minister for Defence Industry:

Under the new framework, the key enhancements are to: a. elevate AIC as a "core" clause with strengthened AIC obligations that contractors must comply with under contracts; and, b. complement these clear obligations with a new AIC remediation and remedies regime to better hold contractors to account. [emphasis in original]

58 The role of senior Defence committees with respect to AIC is covered at paragraphs 4.3–4.9.

59 The advice also noted that the ICT Provider Arrangement Deed had been updated.

60 In September 2024, Defence advised the ANAO that the ASDEFCON (Complex Materiel) Volume 1 and ASDEFCON (Support Short) templates were updated to include the 'enhanced AIC framework' in July 2023.

2.25 The final report of the review made 16 high-level recommendations for incremental improvements in procurement practices that would be implemented through business-as-usual activities.⁶¹ The Minister for Defence Industry agreed to all recommendations. Defence advised the ANAO on 27 November 2023 that no changes were made that relate to CPRs or the administration of AIC as a consequence of the review.

Facilities suite updates

2.26 As part of an update of the Facilities suite in April and June 2024, Defence ensured that all contract templates with a requirement for a Local Industry Capability Plan (LICP) also contained clauses requiring reporting against local industry capability at a monthly meeting.⁶² Prior to this date, nine of the eleven templates with an local industry component did not include a clause requiring reporting against local industry capability at a monthly meeting. In eight of these nine templates, clauses relating to a monthly meeting included provision for reporting any other information requested.

Consistency of contracting templates

2.27 The DPIP requires that a consistent approach to consideration of Australian industry be applied to procurement. As part of the procurement process, tenderers are required to provide industry schedules or plans to demonstrate their engagement with industry and how they will maximise opportunity for industry participation during the project. Industry schedules (or plans) are to include information that allows Defence tender evaluation teams to identify the planned expenditure in Australia in terms of: subcontracting companies, nature and value of work. As noted at paragraphs 2.5 to 2.7 tenderers are required to provide this information as part of a schedule if the procurement is valued over \$4 million. For construction procurements, this threshold is \$7.5 million.

2.28 At 26 September 2024, the Defence website hosted a total of 41 templates within its ASDEFCON, Facilities and panel suites. Within these templates, 32 require that an AIC Plan or Schedule be developed for contracts above the \$4 million threshold. Of these 32; seven templates (22 per cent) requested information regarding the subcontracting company's business number, the nature of the work and value of the work; nine templates (28 per cent) contained one or two of those requirements; and 16 (50 per cent) required none.⁶³

2.29 Of the 21 ASDEFCON templates, 13 are contract templates that require compliance with the DPIP due to their potential value meeting the \$4 million threshold.⁶⁴ Six of the 13 contract templates required contractors to provide all information specified by the DPIP. Of the 13 templates examined

61 In response to the issue of the disparate approach to procurement, the final report recommended: 'Defence will continue to mature risk allocation management and commensurate contracting'.

62 Two Chief Engineering Works contracts did not include this update. One template retained a clause requiring contractors to report any additional matters requested by the contract administrator. The second template did not include a monthly report requirement.

63 Defence advised the ANAO in August 2024 that where contract templates have been developed for procurements below the DPIP threshold of \$4 million (or \$7.5 million for construction contracts), they do not contain DPIP-related provisions. Defence procedures do not prevent the use of these templates for procurements above the relevant threshold.

64 Eight templates were assessed as not subject to the AIC requirements in the DPIP for reasons including being: designed to be used in conjunction with other guidance documents, or used during the market testing phase, or used to gather information prior to the request for tender phase of procurement.

in the ASDEFCON suite, two used identical sets of clauses with the remaining 11 using unique sets of clauses. In August 2024, Defence advised the ANAO that differences in terminology within the ASDEFCON suite are due to individual templates being at varying stages of the update cycle.

2.30 Of the five panels templates examined, one included specific guidance embedded for contractors to provide Australian industry information. The Information Communication Technology Provider Arrangement (ICTPA) deed contained a schedule similar to that found in ASDEFCON and required information regarding companies, nature and value of work. Two further templates included general guidance without specifying which information was required.⁶⁵ The Defence Infrastructure Panel and the Defence Infrastructure Panel – Environment, Heritage and Estate Engineering (EHEE) did not contain guidance on AIC requirements.

2.31 At September 2024, the Defence website listed 15 Facilities suite templates that may be used for contracts above \$7.5 million. To meet DPIP requirements, Facilities suite templates are to collect information in the form of a Local Industry Capability Plan (LICP). LICPs are to include the same information as the schedules in the ASDEFCON suites, with an additional requirement for contractors to describe how local industry commitments will be monitored and reported on. None of the templates required contractors to provide a breakdown of planned expenditure in terms of subcontracting companies in the LICP. Five of the 15 templates examined used uniform language requiring that contractors provide a breakdown of the nature and value of work.⁶⁶

Recommendation no. 1

2.32 The Department of Defence establish arrangements to ensure that its contract template and guidance documents are up to date and aligned with Defence industry contracting and policy requirements.

Department of Defence response: *Agreed.*

2.33 *Defence agrees with the recommendation.*

Automated procurement workflow

My Procurements system

2.34 In 2022, Defence implemented a web-based workflow application called My Procurements to assist Defence personnel by automatically applying mandatory requirements and policies to Defence procurements.⁶⁷ The functionality was designed to support compliance, consistency and efficiencies in the procurement process and includes the ability to generate reports to track

65 The Defence Support Services (DSS) deed requires drafters to contact the AIC Directorate. The Major Support Provider (MSP) deed did not specify which AIC requirements must be met.

66 These were the templates for: Chief Engineer Works (Medium Works), Early Contractor Involvement Head Contract, Head Contract, Managing Contractor and Medium Works.

67 The policy requirements covered by My Procurements include completion and approval of Endorsements to Proceed and funding commitments under section 23 of the *Public Governance, Performance and Accountability Act (PGPA) 2013*. Section 23 of the PGPA Act provides authority for the Commonwealth to commit relevant money by entering into and varying arrangements for the ordinary activities of government.

non-compliance with requirements.⁶⁸ Defence mandated the use of the My Procurements application from 1 July 2024 to improve compliance with mandatory procurement policy.

2.35 The My Procurements system includes a prompt to alert personnel of DPIIP considerations when the expected value of the procurement falls within the thresholds prescribed by the DPIIP. The alert is intended to make personnel aware of DPIIP requirements but does not function as a control to ensure compliance or capture DPIIP information. As a consequence, data from My Procurements is not able to provide insight on the extent to which DPIIP requirements are being implemented.

2.36 On 3 April 2024, Defence approved a My Procurements Enhancement Plan to address issues identified in audits of procurement and contract management practices.⁶⁹ The intent of the plan was to provide additional controls to improve compliance with mandatory procurement requirements. DPIIP related elements were not included in the plan as one of the changes to be made. As noted at paragraph 1.15, Defence is required under finance law to comply with the CPR Procurement Connected Policy – Australian Industry Participation. Defence relies on its implementation of the DPIIP to comply with this requirement.

My Finance (MyFi) system

2.37 Implemented in 2019, Defence's My Finance (MyFi) system is used to record certain aspects of a procurement from supplier selection and through the life of the contract. The MyFi system is not a contract management system. Details recorded in the system include, for example, whether the procurement was for goods or services, how many quotes were sought and whether the required approvals have been obtained.⁷⁰ As shown by Figure 2.3, Defence also uses the MyFi system to document compliance with Indigenous Procurement Policy considerations.

68 As noted at paragraph 4.36, Defence introduced arrangements to monitor compliance with procurement requirements in July 2024.

69 The relevant audits of procurements were outlined at footnote 42. The specific issues within the scope of the My Procurements Enhancement Plan included value for money consideration, conflict of interests and exemptions.

70 Other features captured in the MyFi system with respect to individual procurements include: instances of prepayments; whether payments would be outcomes or time/materials-based; and whether it was for a contractor, consultant or outsourced service provider. For the latter, MyFi is also used to identify where the daily rate in the relevant contract is 'at or above \$4,500 (inc tax) [sic]'.

Figure 2.3: Example of details recorded by Defence for individual procurements in the MyFi system

Administrative

Purchase Type: ☐ Goods ☒ Services Contractor, Consultant or Outsourced Service Provider: ☐ Yes ☒ No

Includes Prepayment: ☐ Yes ☒ No SES Approver:

Outcomes or Time/Materials Based: ☒ Outcomes ☐ Time/Materials Daily Rate at or above \$4,500 (inc tax): ☐ Yes ☐ No

Hardware or Software Purchase: ☐ Yes ☒ No Secretary Been Advised: ☐ Yes ☐ No

ICT Purchase Type: ☐ Hardware ☐ Software

Compliance

Indigenous Business Identified: ☐ Yes ☒ No Indigenous Procurement Outcome: ☐ Successful ☐ Unsuccessful

Indigenous Business Approached: ☐ Yes ☐ No Indigenous Subcontractors: ☐ Yes ☐ No ☒ Unknown

Reason for Not Approaching: List Indigenous Subcontractors:

Source: Extract from the Department of Defence's MyFi system.

2.38 The sort of information captured in the MyFi system suggests that it could be configured to record whether individual procurements have applied or incorporated DPIIP requirements. As this has not occurred, data from MyFi is not able to provide insight on the extent to which DPIIP requirements are being implemented.

2.39 Defence advised the ANAO in November 2024 that 'any future development in MyFi would not be supported' as it will be 'decommissioned and subsumed into [the] Enterprise Resource Planning (ERP)' system. The ERP program is a major ICT reform initiative of strategic importance to Defence.⁷¹ As of February 2025, Defence expects Tranche 1B of the ERP program to be rolled out in May 2025. A contract management system is not being delivered as part of that tranche.⁷²

71 ERP is introducing the latest SAP solution (SAP S/4HANA), replacing MILIS (inventory management system) and other legacy systems. It will introduce financial reporting changes to Finance, Procurement, Supply Chain and Asset Management. Delivery of Tranches 1A and 1B of the ERP program were originally scheduled for October 2020 and December 2022, respectively.

72 Defence advised the ANAO on 6 December 2024 that 'ERP does not currently have a contract management system within its approved scope.' As the 'largest procuring agency in the Commonwealth', procurement and contract management is core business for Defence. Contract management systems enhance accountability and transparency and improve financial and risk management processes. The ANAO has observed that risks associated with the absence of a centralised system to manage contracts include: a lack of clarity about an entity's contractual arrangements (see paragraphs 1.18, 1.35, 3.26, 3.30, 4.31, 4.43–4.45, 4.49), expenditure not being accurately tracked against contracts (see paragraphs 3.29–3.30), contract variations and extensions not being appropriately managed (see paragraphs 3.27–3.29), and difficulties meeting reporting obligations (see paragraphs 3.24, 3.25–3.29, 3.38, 3.44, 4.31–4.33, 4.43–4.45, 4.49–4.57).

Recommendation no. 2

2.40 Department of Defence implement controls within relevant systems for its procurement, financial, and contract management activities to support and monitor compliance with its obligations to implement Australian industry participation and contracting requirements.

Department of Defence response: *Agreed.*

2.41 *Defence agrees with the recommendation.*

Has Defence provided fit-for-purpose guidance and training to relevant Defence personnel?

Guidance on the Australian Standard for Defence Contracting (ASDEFCON) and the Facilities suite of tendering and contracting templates is incomplete, with additional guidance notes planned but not developed and released. Defence does not assess its personnel training data by role and therefore cannot provide assurance that its procurement and contracting staff have undertaken training relevant to their roles. The dedicated AIC training course announced in February 2019 is primarily focused on materiel procurements and was not implemented until September 2022.

Factsheets and guidance for personnel

2.42 The DPIP noted that ‘a suite of resources will be available to support Defence officials and industry to implement’ requirements. This included a *Defence Policy for Industry Participation Guide* (to be made available publicly) and ‘a suite of internal reference materials’ on DPIP implementation.⁷³ Discussion of the guide is at paragraph 2.70.

2.43 Defence has established a range of guidance documents designed to support the implementation of AAI 2 and the DPM including 25 factsheets covering topics such as the ‘Endorsement to Proceed’ (approvals under section 23 of the PGPA Act), ‘Due Diligence in Procurement’ and ‘Mandatory Defence Industry Security Requirements in Contracts’. The factsheets do not include guidance on the implementation of DPIP requirements.

2.44 The DPIP states that exemptions from requirements are to be ‘considered case-by-case and require the approval of the Defence official signing the Endorsement to Proceed’. DPIP advised guidance on exemptions would ‘be set out in guidance materials for Defence officials.’⁷⁴ Guidance on the Endorsement to Proceed process and in the Endorsement to Proceed Template form does not include consideration of DPIP requirements.

2.45 Policy guidance on the implementation of DPIP is available to Defence personnel on the Defence Industry Domestic Policy intranet page ‘Australian industry Capability Program Requirements’, which includes links to key industry policy publications and policy focused factsheets on DPIP elements such as Australian Contract Expenditure. Personnel can also access

⁷³ Department of Defence, *Defence Policy for Industry Participation*, paragraph 4.8.

⁷⁴ *ibid.*, paragraph 3.25.

frequently asked questions.⁷⁵ A policy factsheet on DPIP exemptions was drafted by the Industry Policy Division in November 2020 but not finalised. Defence's intranet guidance on exemptions states that personnel should '[c]ontact the DSIP [Defence Strategic Industry Policy] Directorate to discuss the process for considering exemptions.'

ASDEFCON guidance

2.46 The selection of a contract template is a manual process where personnel must navigate both the Defence intranet and website. The Defence Contract Template Selection and Tailoring Guide was designed 'to provide guidance to personnel conducting procurements.' An April 2016 version (version 2.1) of the guide was available on Defence's website until it was replaced with a new version in May 2024 (version 3). Version 2.1 of the guide focused on the ASDEFCON contracting suite, predated the DPIP, and referred to 2015 templates maintained by the former Defence Materiel Organisation.⁷⁶ As a consequence, version 2.1 of the guide noted a \$20 million threshold for procurements to include AIC requirements. The DPIP changed that threshold in 2019 to \$4 million for materiel and non-materiel procurements and \$7.5 million for construction services procurements.⁷⁷

2.47 Both versions of the guide state that specialist advice may be required to address any doubts regarding template selection. The scope of the 2024 guidance covers Defence and Commonwealth contracting templates and primarily focuses on the ASDEFCON suite of templates. The guidance provides information and context for the factors to be considered when tailoring a template for a procurement. The guidance refers to mandatory requirements outlined in AAI 2 and the DPM. With respect to DPIP, the guidance refers to the Australian Industry Participation National Framework, administered by the Department of Industry, Science and Resources (DISR). The guidance does not refer readers to the DPIP or state that the DPIP requirements address the requirements of the Australian Industry Participation National Framework or CPR Procurement Connected Policy – Australian Industry Participation.

2.48 The Defence website contains additional guidance on the ASDEFCON contracting suite, of which five guidance documents are directly relevant to DPIP requirements. Four of these guidance documents are either incomplete or out of date, as noted in Table 2.1.

75 The terms Australian Contract Expenditure and imported contract expenditure are elaborated at paragraph 1.22.

76 Capability acquisition and sustainment was managed by the former Defence Materiel Organisation until 1 July 2015 when it was delisted and those functions were transferred to CASG. References to Defence in this report include the Department of Defence and Defence Materiel Organisation prior to 1 July 2015.

77 Version 2.1 of the guide also advised that six ASDEFCON templates had no AIC requirements. The ANAO reviewed those templates and found AIC policy clauses within those templates.

Table 2.1: AIC related ASDEFCON guidance materiel on Defence's website

Guidance document	Purpose	ANAO observation
<i>Australian Industry Capability (AIC) Guide for ASDEFCON</i> Version 0.9 (Exposure Draft), September 2021	Developed to 'assist template users to understand, develop, request and implement an effective AIC program to achieve AIC Objectives, using the enhanced AIC contractual framework.'	Exposure draft. Two chapters and seventeen guidance notes yet to be included.
<i>Australian Contract Expenditure (ACE) Guide for ASDEFCON</i> Version 0.9 (Exposure Draft), September 2021	Developed to complement the ACE Measurement Rules, introduced as part of the 'enhanced' AIC contractual framework for ASDEFCON.	Exposure draft. Ten guidance notes to be included.
<i>Acquisition Pricing Workbook Guide for ASDEFCON</i> Version 1.1 April 2024	Developed to 'support the Microsoft Excel® workbooks that collect tendered pricing data and form part of the price and payments schedule for a resultant contract.'	Refers to the ACE Guide for ASDEFCON for further guidance. This document is an exposure draft.
<i>Australian Contract Expenditure (ACE) Measurement Rules</i> Version 1.1, October 2021	Developed to 'standardise the way in which Australian Contract Expenditure and Imported Contract Expenditure (ICE) are measured across relevant Defence procurements.'	ACE rules not required for all ASDEFCON and no Facilities and panel contracting templates.
<i>ASDEFCON (Strategic Materiel) V4.0 Statement of Work Tailoring Guide</i> July 2019	Developed to guide drafters tailoring the Statement of Work, for use with Version 4.0 of the 'ASDEFCON (Strategic Materiel) template.'	This guidance is out of date. ASDEFCON templates no longer require draft AIC Plans to be tendered or for the AIC Plan to be attached prior to Contract signature.

Source: ANAO analysis of Department of Defence documents as at 5 August 2024.

Facilities guidance

2.49 The Defence Procurement Manual version 1.5 (2024) refers to a 'Suite of Facilities Contracts User Guide' on the Defence website. This user guide was removed from the Defence website in early 2022 and replaced with template-specific manuals.⁷⁸ Of the nine facilities templates for projects at or above the \$7.5 million threshold, accompanying manuals have been published for five.

DPIP guidance and panel templates

2.50 Having chosen a contract template, the Defence contract manager must ensure the procurement is using the current version of the template. Defence's contracting templates contain guidance notes to assist officials in tailoring the contract material to the specific requirements of the procurement.⁷⁹ The contract manager is responsible for manually deleting and removing any guidance material found within in the template.

⁷⁸ The Suite of Facilities Contracts User Guide was last updated in March 2007, predating the DPIP by around 12 years.

⁷⁹ Templates within the Facilities suite contain guidance in square brackets. Templates within the ASDEFCON suite contain guidance in white text against a black background.

2.51 Defence's approach to contracting DPIP requirements under panel arrangements relies on the work order request process established in panel deeds. Requirements in Defence's five highest value panels are set out below⁸⁰:

- Managed by CASG, the Defence Support Services (DSS) panel and the Major Service Provider (MSP) panel both state that an AIC Plan 'may' be required by the Commonwealth as part of future work orders.
- Managed by SEG, the Infrastructure Panel and the Infrastructure Panel – Environment, Heritage and Estate Engineering do not include DPIP requirements in the respective deeds.
- Managed by the Chief Information Officer Group, the Deed of Standing Offer for the ICT Provider Arrangement (ICTPA) refers to a possible need for an industry plan or schedule as part of future work orders. Supporting documents are available on the ICTPA panel intranet page. These documents provide guidance on when a schedule or a plan is required.

Other intranet guidance

2.52 As outlined at Figure 2.1, at the introduction of the DPIP in 2019, Industry Participation Schedules and Industry Participation Plans were required for non-materiel procurements. At some point following the release of the DPIP, and as at 4 September 2024, the Defence intranet webpage for the 'Australian Industry Capability (AIC) Program' stated:

The 2019 Defence Policy for Industry Participation refers to Industry Participation Schedules and Industry Participation Plans for non-materiel procurements. Since the release of this Policy, the terminology has been changed to align non-materiel requirements with materiel requirements.

2.53 Defence did not retain a record of the date and reason for this internal change to implementation of the DPIP. Defence did not communicate this change externally.

Training

2.54 In addition to appropriate guidance, the provision of relevant training to procurement and contract managers supports the effective and consistent implementation of policy requirements. As stated in the Defence Contract Management Handbook:

[c]ontract management personnel should have, at a minimum, a broad understanding of the legislative and policy framework, as well as a practical working knowledge of Defence procurement, contracting and contract management practice.

General procurement and contract management training

2.55 General procurement and contract management training offered by Defence consists of optional courses including ASDEFCON Foundations, Certificate IV in Procurement and Contracting, Simple procurement, Contract Risk Training, Effective Contract Management, Support Procurement Strategy (that is, procurement planning), and Tender Evaluation Skills. These training courses are offered throughout the year and delivered in person and online.⁸¹ Between 2018 and 2022, an AIC awareness session formed part of the ASDEFCON Foundation Course. No information on CPR

80 As at 10 April 2024, Defence had a total of 154 current standing offer arrangements listed on AusTender.

81 These courses have been made available to Defence officials through the Defence learning and development portal 'Campus'. On 1 July 2024, Campus was replaced by the Learn eXcel Perform (LXP) platform.

Procurement Connected Policy – Australian Industry Participation or AIC was included in other general procurement training.

2.56 The completion of relevant procurement training is not a prerequisite or mandatory requirement for Defence’s procurement officers. In 2019–20, 606 participants completed the Certificate IV in Procurement and in 2022–23 there were 98 completions. Participants for the Simple Procurement training totalled 1587 and 590 in 2019–20 and 2022–23 respectively. While Defence collects data on the completion of training, it does not assess how many of the participants are in procurement and contract management roles.

2.57 A 2023 internal audit on Defence’s procurement assurance processes (referred to at footnote 41 and paragraphs 2.13–2.14) found that:

training courses on Defence’s CAMPUS learning system are not sufficiently aligned to the centralised guidance material available on the intranet, [and are] therefore ineffective in supporting officers to manage contracts and drive financial accountability.

2.58 In February and April 2024, Defence’s Enterprise Business Committee (EBC) requested that further work be undertaken to provide a complete picture of the training system, examine data on the completion of training and map staff competencies. In response to this request, the EBC was presented with a report on procurement and contracting compliance for 2023–24, which included the following information on staff training completion and competencies:

- 16,865 staff with Simple Procurement or equivalent competencies;
- 467 staff with Cert IV or equivalent competencies; and
- 37 staff with Diploma+ or equivalent competencies.⁸²

2.59 In July 2024, the Defence Audit and Risk Committee (DARC) was informed that Defence was working with the Department of Finance to develop new courses on Contract Management Basics and Delegation Training, with new training to be implemented from May 2025.⁸³

Recommendation no. 3

2.60 The Department of Defence complement the implementation of its new procurement and contract management training by:

- (a) establishing measures to inform senior leadership of the extent to which role specific training is completed, such as by procurement and contract managers; and
- (b) incorporating requirements for Defence policies, such as the DPIP, into mandatory training.

Department of Defence response: *Agreed.*

2.61 *Defence agrees with the recommendation.*

82 Excludes personnel from the Defence Intelligence Group.

83 Defence informed the DARC that rollout of the new training was dependent on the completion of the forthcoming Contract Management Framework review.

AIC and DPIIP specific training

2.62 In March 2020, Defence started developing an AIC-specific training course to give effect to an obligation outlined in the DPIIP.⁸⁴ The course was to be delivered by the end of 2020. The target audience for the course was procurement and contracting officials within Defence's CASG, Chief Information Officer and Estate and Infrastructure Groups (now Security and Estate Group). Defence updated the Minister for Defence Industry (through their office) on the planned training course in June, September and December 2021.

2.63 On 21 September 2023, following a pilot in 2022, Defence launched the AIC Practitioners course as an optional two-day instructional course for Defence contract managers and defence industry participants focused on the ASDEFCON contracting framework. Defence advised the ANAO on 20 September 2024, that at 30 June 2024, Defence had run the course on 26 occasions with a total of 330 participants from Defence and defence industry. The course material notes that the training does not address, but is broadly relevant to, procurement of non-materiel and construction services. Defence does not have an equivalent AIC dedicated course for procurements that use panel arrangements or the Facilities suite.⁸⁵

Recommendation no. 4

2.64 The Department of Defence extend the scope of the existing AIC Practitioners course to cover the needs of users of Defence contracting material beyond the ASDEFCON suite.

Department of Defence response: Agreed.

2.65 *Defence agrees with the recommendation.*

AIC community of practice

2.66 To support the implementation of AIC, in August 2022 the AIC Delivery Branch within CASG commenced AIC community of practice meetings 'to bring together managers of AIC contracted requirements within Defence in order to share knowledge and build a network of support.' These meetings occur quarterly without a set agenda. Record keeping of meeting agendas and outcomes is not sufficient to determine the content of all meetings held to date. Documentation shows that participants discussed 'challenges' in: ensuring suppliers undertook and subcontractors were accountable for AIC commitments, 'understanding and prioritisation of AIC within procurements', and measuring and identifying AIC commitments. Defence did not document how the discussion proposed resolving or mitigating these challenges.

Training in Capital Facilities and Infrastructure branch

2.67 The Capital Facilities and Infrastructure branch within SEG undertakes bimonthly mandatory training for personnel on matters including procurement. This training has included local industry

84 The DPIIP outlined that Defence would:

deliver an online training module for Defence procurement officials on the Policy [DPIIP] and its implementation in Defence tendering and contracting processes. Defence will also convene internal engagement sessions across key procurement areas to raise awareness of the Policy [DPIIP] and to work through implementation.

Department of Defence, *Defence Policy for Industry Participation*, paragraph 4.4. The draft training material covered all procurement types (materiel, non-materiel, and construction services).

85 The ICT panel and construction procurement related training contains AIC related content.

considerations and plans. Additional ‘just in time’ training is provided to personnel — including Defence’s contract managers and third-party project managers — once a procurement commences. Minimum requirements for this training includes information on local industry capability and monthly reporting.⁸⁶

Has Defence provided fit-for-purpose information and guidance to Defence industry?

Defence has undertaken a range of industry engagement activities to support the objective of maximising Australian industry participation in procurement. These activities have included the establishment of an Australian Industry Capability Forum and engagements with industry associations. In the absence of a communications strategy for the DPIP, Defence is unable to measure the effectiveness of the information and guidance it has provided to industry on the industry contracting policy requirements in place since 2019.

2.68 Defence’s engagement with Australian defence industry on activities to maximise Australian industry participation was designed as a component within the *2018 Defence Industrial Capability Plan* (DICP).⁸⁷ Information and guidance on Defence’s contracting policy for industry was prescribed by the DPIP and has involved communication activities to support the implementation of the ‘enhanced’ AIC contractual framework and the development of the *2024 Defence Industry Development Strategy* (DIDS).

Information and guidance to industry

2.69 The DPIP outlined that ‘Defence consulted with industry and other stakeholders during development of the Policy and is committed to helping industry to fully implement it.’⁸⁸ Specific activities outlined in the DPIP to assist industry understanding of the policy included tools and resources in the form of guidance, outreach events and assistance from the Centre for Defence Industry Capability (CDIC).⁸⁹ Defence did not develop a communication strategy or plan to guide its engagement with industry on contracting policy following the release of the DPIP.

2.70 The March 2019 DPIP also foreshadowed the release of a *Defence Policy for Industry Participation Guide* to provide industry guidance on best practice for the development and delivery of contracting requirements.⁹⁰ Following the Minister for Defence Industry’s announcement of the planned ‘enhanced’ AIC contractual framework in September 2020, an ‘AIC Program Industry Guide’

86 Additional information on reporting requirements is at paragraph 4.12.

87 The DICP noted that industry can obtain information and advice on Defence procurements by registering on AusTender, attending briefing events, conferences, and trade shows, joining defence industry groups such as the Australian Industry Group, the Australian Industry Defence Network and the Defence Teaming Centre.

88 Department of Defence, *Defence Policy for Industry Participation*, paragraph 4.5.

89 The CDIC was established in the Department of Industry, Science, Energy and Resources (DISER) following the release of the 2016 *Defence Industry Policy Statement* to: operate as a ‘bridge’ between Defence and industry; transform the Defence-industry partnership; make it simpler, easier and cheaper for industry to deal with Defence as well as access grants and engage with the Defence Innovation Hub (DIH); and build a world-class, globally competitive and sustainable Australian defence industry as a Fundamental Input to Capability (FIC).

90 Department of Defence, *Defence Policy for Industry Participation*, paragraph 4.8.

was released in February 2021 to provide ‘high-level, practical assistance to help industry understand and implement the 2019 Defence Policy for Industry Participation.’

2.71 The industry guide did not cover the full scope of the DPIIP and its delayed release meant that information to assist industry was not available for almost two years. The guide was withdrawn from the Defence website a few months later in November 2021. In February 2022, Defence advised the Minister for Defence Industry that the guide was withdrawn from the Defence website because it did not reflect the changes to AIC under the ‘enhanced’ framework and the role of the new Office of Defence Industry Support (ODIS).⁹¹

2.72 Industry outreach events conducted by Defence have included:

- the establishment of the AIC Industry Forum in August 2022 ‘to enable strategic engagement’ between Defence and Defence industry to share ‘information, insights and best practice on the implementation of contracting policy’⁹²;
- engagement with industry associations such as the Australian Industry and Defence Network (AIDN) and the Australian Industry Group (AiG), including the AiG Australian Industry Commercial and Contracting Working Group which has a standing agenda item on AIC;
- project specific tender briefings on some procurements⁹³;
- industry attendance at Defence training, including the AIC Practitioners course;
- the launch of an online Defence Business Readiness Tool and interactive questionnaire to help small and medium enterprises (SMEs) to understand what it means to be ‘Defence ready’;
- industry forums and briefings conducted by the ODIS in capital cities and some regional centres with over 1200 attendees in 2022 to 2023; and
- ‘Defence Industry Collab’ quarterly meetings between the Defence Security and Estate Group and industry as represented by consultancy companies and building contractors.⁹⁴

91 ODIS was established on 26 November 2021, replacing the Centre for Defence Industry Capability (CDIC). This occurred following the 2020 *Review of the Centre for Defence Industry Capability*. The report is available from Department of Defence, *Centre for Defence Industry Capability Review*, 15 September 2020, <https://www.defence.gov.au/about/reviews-inquiries/centre-defence-industry-capability-review> [accessed 11 April 2025].

92 Defence has used the forum to receive feedback relating to: the AIC Practitioners pilot training, measuring the success of the program, limiting the burden and workload on SMEs, and assurance over Prime Contractors’ commitments to SME during the tendering process.

93 The Defence Procurement Manual notes that ‘A key factor in delivering good procurement outcomes is early market engagement and continued open dialogue with suppliers throughout the procurement process’ and ‘Regular engagement with industry is an important driver of value for money outcomes and should be given equal priority to the management of probity risks’. The aim of industry engagement includes enhanced economic benefit such as *Defence Policy for Industry Participation* (DPIIP) considerations, Indigenous Suppliers or Small and Medium-sized Enterprises (SMEs). Of the eight contracts examined in Chapter 3, five procurements included tender briefings provided by Defence. This is discussed further at paragraphs 3.13–3.15.

94 The ‘Collab’ forum is owned and driven by industry. Defence advised the ANAO in August 2023 that ‘LICP [Local Industry Capability Plans] has been a discussion point in past meetings where Industry has discussed the application of LICP and how we can build up industry to address the current supply chain issues’.

2.73 In the absence of a communication plan or strategy to guide its engagement with industry in relation to DPIIP requirements, Defence is not able to measure the effectiveness of these engagements.

Industry engagement on the AIC contractual framework

2.74 As part of the development of the 'enhanced' AIC contractual framework, on 24 August 2020, the Minister for Defence Industry approved the release of a 'core package' of planned reforms to contractual provisions for industry consultation. Industry feedback included commentary on the Australian Contract Expenditure (ACE) measurement (costing) rules, the ASDEFCON Strategic Materiel template and the need for training and guidance materials.⁹⁵ In September 2021, Defence advised the Minister for Defence Industry that it had received 700 comments from 'about 28' companies and industry bodies. 'Key themes' from the feedback reported to the minister included:

- Lots of enforcement but no rewards
- Admin requirements of framework are significant and more demanding
- Hard to understand and needs a flow chart or map to understand the process
- Australian Contract Expenditure Measurement Rules (ACE) rules are complex and includes financial concepts. Does CASG have the resources to understand and assess these?
- Noting ACE percentage is not specified, how will it be evaluated? Would CoA [the Commonwealth] advise on weighting?⁹⁶

2.75 Defence's advice of September 2021 stated that additional templates under the 'enhanced' framework would be released in September and October 2021, to be supported by guidance material, training courses and AIC workshops targeting internal and external stakeholders (including Defence officials and industry).⁹⁷

2.76 The Defence website was also updated with an outline of key changes under the 'enhanced' framework. The website explanation of the AIC framework change is focused on the ASDEFCON suite of tendering and contracting templates (for materiel and non-materiel procurements). It did not outline related changes to the Suite of Facilities contracts (for construction procurements) or panel arrangements.

Industry engagement on the Defence Industry Development Strategy

2.77 In September 2022, Defence undertook industry stakeholder consultation as input for the development of the 2024 *Defence Industry Development Strategy*. The consultation report indicated that more than 120 industry contributions had been received from online and face-to-face sessions. Key themes from the consultation included the need for enhanced communication within the department:

All cohorts seek enhanced communication with the Department to inform their business strategies to meet Defence[']s capability requirements and informed [*sic*] using plain English products that

⁹⁵ In November 2024, Defence advised the ANAO that Ashurst and Clayton Utz were engaged to review 'the ASDEFCON templates in relation to a wide range of commercial/legal issues including the 'Enhanced AIC Framework' since before 2019 and up to July 2023'.

⁹⁶ The Defence briefing included 23 dot points of key themes without further analysis.

⁹⁷ Defence guidance and training on DPIIP is discussed at paragraphs 2.42–2.67.

provide tangible detail on the translation of policy intent to execution. Current policy documents were perceived as being numerous and disconnected, in particular within the policy environment relating to defence industry which has been described as difficult to navigate. Related policy documents were seen to have an overt use of Defence jargon creating challenges for new market entrants and those in adjacent sectors.⁹⁸

2.78 The government agreed to the DIDS as proposed by Defence in December 2023 noting that more targeted, detailed and regular communication with industry was required from the department. As noted in Appendix 4, the DIDS was released in February 2024, stating that:

Defence will provide sustainable and scalable information-sharing with defence industry, to deliver enhanced awareness, and facilitate faster and better-informed decisions. This will include bi-annual Domain Industry Forums and classified briefings for businesses with appropriate security clearances. To achieve this, Defence will implement a new approach to engaging with industry. This will incorporate a risk-based approach to effectively balance the tension between the availability of information, expected levels of classification and security requirements.⁹⁹

2.79 The DIDS outlined three actions with regard to Defence's communication with Industry:

- hold more secure briefings with trusted industry partners within classified environments to provide demand signals on defence capability ...
- communicate capability priorities via an updated framework of Defence-led industry engagements, forums and activities, commencing before tendering processes ...
- establish a tri-partite defence industry council in collaboration with the Australian Government, defence industry and unions.¹⁰⁰

2.80 On 20 June 2024, the Minister for Defence Industry agreed to a governance plan to support the implementation of the actions outlined in the DIDS.

98 The other key themes from the consultation were: identify industrial capability needs not capability programs; reducing the barriers to entry; and building the defence industry brand.

99 Department of Defence, *Defence Industry Development Strategy*, 26 February 2024, p. 49, available from <https://www.defence.gov.au/about/strategic-planning/defence-industry-development-strategy> [accessed 11 April 2025].

100 Department of Defence, *Defence Industry Development Strategy*, pp. 99–100.

3. Implementation of requirements

Areas examined

This chapter examines whether the Department of Defence (Defence) has implemented applicable policy requirements to maximise Australian industry participation in Defence procurement and contracting.

Conclusion

Defence has not implemented applicable contracting requirements effectively. Of the eight contracts examined, each had one or more important shortcomings resulting from limitations in Defence's advice to potential suppliers, weaknesses in Defence's contracting of industry participation commitments, and ineffective monitoring of supplier compliance with those commitments.

Areas for improvement

The ANAO made three recommendations to strengthen Defence's management of its contracted Australian industry participation requirements.

3.1 The *Defence Policy for Industry Participation* (DPIP) sets out that the Australian Government had planned a \$200 billion capital investment program over the decade following the release of the policy in March 2019.¹⁰¹ Planned Defence expenditure outlined in Defence's 2024 *Integrated Investment Program* anticipated total Defence funding over the coming decade of \$765 billion.¹⁰² This level of investment presents more opportunities for the involvement of Australian industry in Defence procurement, supporting the intent outlined in the 2016 *Defence Industry Policy Statement* (DIPS) and the 2018 *Defence Industrial Capability Plan* (DICP).

3.2 The Defence Procurement Manual (DPM) requires Defence personnel, including procurement and contract managers, to implement requirements as set out in the DPIP. Key steps in the implementation of these requirements include the provision of advice to potential suppliers, contracting in accordance with policy requirements, and monitoring and reporting on contractor delivery. To assess Defence's implementation of Australian industry contracting requirements, the ANAO examined eight contracts covering the scope of the DPIP. The examined contracts are outlined in Table 3.1.

101 Department of Defence, *Defence Policy for Industry Participation*, 2019, paragraph 2.3, available from <https://www.defence.gov.au/sites/default/files/2020-08/Defence-Policy-for-Industry-Participation.pdf> [accessed 11 April 2025].

102 Department of Defence, *Integrated Investment Program*, 2024, paragraph 1.8, available from <https://www.defence.gov.au/about/strategic-planning/2024-national-defence-strategy-2024-integrated-investment-program> [accessed 11 April 2025].

Table 3.1: 2022 contract notices selected for examination

Category	DPIP requirement	Vendor	Contract value at 9 September 2024 (\$)	Contract on AusTender	Contract template	Contract reference
Materiel above \$20 million (CASG)	Australian Industry Capability Plan ^a	Kongsberg Defence and Aerospace	1.09 billion	Naval Strike Missiles, CN3944527-A1	ASDEFCON (Complex Materiel) Volume 2 V5.1	1. Missiles
Non-materiel above \$20 million (CASG)	Industry Participation Plan ^a	KPMG Australia	23.65 million	Capability Development Support, CN3902568-A3	Defence Support Services (DSS) Deed	2. DSS
Non-materiel above \$20 million (SEG)	Industry Participation Plan ^a	Shell Energy Retail PTY LTD	87.00 million	Electricity Victoria, CN3901653-A1	Supplier's template and terms	3. Utility
Materiel \$4–20 million (CASG)	Australian Industry Capability Schedule	Lockheed Martin Australia PTY LTD	23.10 million	Air battle system selection, CN3911673-A2	Based on ASDEFCON (Strategic Materiel)	4. Systems
	Industry Participation Schedule	Downer Defence Services	15.07 million	Embedded workforce, CN3895169	Major Service Provider (MSP) Deed	5. MSP
Non-materiel \$4–20 million (SEG)	Industry Participation Schedule	Casper B.V.	14.97 million	Noise monitoring airfields, CN3903582-A2	ASDEFCON Services	6. Monitoring
Construction Above \$7.5 million (SEG)	Local Industry Capability Plan	IPSA	19.33 million	RAAF Learmonth electrical works, CN3914711-A6	Estate Works Program Suite Medium Works Contract	7. Learmonth ^b
	Local Industry Capability Plan	Lendlease Construction	893.76 million	RAAF Tindal redevelopment, CN3846183-A2 ^c	Managing Contractor Contract MCC-1 2003	8. Tindal

Note a: As discussed in paragraph 2.7, an AIC schedule is a sub-component of an AIC plan.

Note b: This contract was originally selected as a non-materiel \$4–20 million contract however examination showed it was a construction contract. '6. Monitoring' was selected for this category.

Note c: This procurement included contracts for two phases: the Planning Phase and Delivery Phase. The two contracts, along with their project plans, work in conjunction. ANAO analysis relates to both phases.

Source: ANAO analysis of Department of Defence data and Department of Defence, *Defence Policy for Industry Participation*, paragraphs 3.11–3.17.

Contract selection

3.3 The implementation of DPIP requirements in Defence's procurements and contracting, including the publication of public AIC plans, is undertaken at the project level. Projects comprise one or more individual contracts. Defence does not maintain a register of contracts with DPIP components or exemptions (see paragraph 1.35).¹⁰³ Defence provided the ANAO with contract data extracted from its financial systems to assist in the identification of contracts falling within the DPIP thresholds.¹⁰⁴

3.4 Contracts managed by the Defence Capability Acquisition and Sustainment Group (CASG) and the Security and Estate Group (SEG), comprising of the highest value executed contracts within each DPIP procurement threshold and type were selected for analysis.¹⁰⁵ The selection of eight contracts was informed by Defence's available data. The selection targeted contracts that the data indicated were executed in 2022 to enable an assessment of Defence's implementation of the 'enhanced' AIC contracting framework.¹⁰⁶

3.5 Under section 8 of the Commonwealth Procurement Rules (CPRs), entities are required to apply standards of risk assessment and value for money assessments 'commensurate with the scale, scope, and risk' of a procurement.¹⁰⁷ A summary assessment of Defence's administration of the contracts selected for examination is at Appendix 4, and Defence's performance in relation to each sub criterion is outlined in Table 3.2, Table 3.4 and Table 3.6.

Did Defence effectively advise potential suppliers of Australian industry contracting requirements?

Defence's advice on Australian industry contracting requirements was provided to potential suppliers as part of the relevant tender processes. Each of the eight contracts examined contained one or more shortcomings with respect to this advice or in the contracting materials provided by Defence, including:

- Defence not considering industry contracting requirements during the early stage of the procurement and therefore not advising suppliers of all requirements;
- the rationale for exemptions from implementing Australian industry contracting requirements not being documented by Defence; and
- outdated or incorrect terminology and reference material being used by Defence or available to suppliers.

103 Reporting on AIC is not incorporated into Defence's online financial portal (the MyFi system), or Defence's automated procurement workflow system (My Procurements), discussed at paragraphs 2.34–2.39.

104 The data indicated that in 2022, across the five DPIP categories, Defence entered into a total of 625 contracts valued at \$27.1 billion. Further background on the data from which the contracts were selected is at paragraph 1.35.









105 By value and number of procurements above the relevant DPIP thresholds, CASG primarily undertakes materiel procurements while SEG primarily undertakes construction services procurements. Both groups also undertake non-materiel procurements.





106 The 'enhanced' AIC contracting framework was established in 2020 and discussed at paragraphs 2.20–2.22.

107 Department of Finance, *Commonwealth Procurement Rules*, 1 July 2024, section 8, available from <https://www.legislation.gov.au/F2024L00627/asmade/text> [accessed 11 April 2025].

3.6 A summary of findings on Defence’s effectiveness in advising potential suppliers of Australian industry contracting requirements in each of the eight contracts examined is provided in Table 3.2, along with paragraph references to the relevant discussions.

Table 3.2: Defence’s advice to potential suppliers on the Australian industry contracting requirements for each contract examined, and relevant paragraph

1. Missiles	2. DSS	3. Utility	4. Systems	5. MSP	6. Monitoring	7. Learmonth	8. Tindal ^a
							
3.7, 3.14– 3.15 Table 3.3	3.7–3.10, 3.15	3.7–3.8, 3.12, 3.15	3.7, 3.15 Table 3.3	3.7–3.9, 3.11, 3.15 Table 3.3	3.7, 3.15 Table 3.3	3.7	3.7, 3.15 Table 3.3

Key:  Effectively met all AIC requirements  Largely met most AIC requirements
 Partly met the AIC requirements  Did not meet AIC requirements

Note a: This procurement occurred across two phases (started in 2018 and 2020 respectively) with an overall project LIC plan. As part of Defence’s management of this project, the approved LIC plan was revised and re-approved after 2018. The plan has been reviewed since execution of the Delivery Phase contract in 2020.

Source: ANAO analysis of Department of Defence documents.

Consideration of requirements at an early stage of procurement

3.7 Under Defence’s procurement policy framework, Defence personnel must consider opportunities for Defence industry in the early stages of the procurement process.¹⁰⁸ Of the eight contracts examined, four demonstrated early consideration of opportunities for Australian defence industry.¹⁰⁹ For the other four contracts, Defence did not undertake industry consideration at early planning stages.¹¹⁰

Application of exemptions

3.8 Exemptions from the contracting requirements in the DPIIP must be documented and approved by the official signing the endorsement to proceed (to approach the market). The DPIIP allows for exemptions ‘where the additional burdens for Defence and industry would disproportionately exceed the potential benefits.’¹¹¹ For three of the contracts examined, Defence did not consider opportunities for Australian defence industry at the approach to market stage.¹¹²

108 Early consideration can be documented in procurement plans and the endorsement to proceed. For larger procurements, Defence may undertake reviews of the opportunity for industry involvement prior to starting a procurement. Defence’s procurement policy framework is discussed at paragraph 2.2.

109 1. Missiles, 3. Utility, 4. Systems, and 8. Tindal.

110 2. DSS, 5. MSP, 6. Monitoring, and 7. Learmonth.

Defence advised the ANAO in September 2024 that ‘For major construction projects there is a requirement for a market sounding activity to be released to Industry via AusTender for each project’. This did not occur for the relevant examined contracts. Defence also advised the ANAO that industry is provided with ‘an estate works forward program bi-annually, which is made available via AusTender and through the Defence Industry Hub pages found at: [<https://www.defence.gov.au/business-industry/finding-opportunities/estate-works-program-forward-schedule>]’.

111 Department of Defence, *Defence Policy for Industry Participation*, paragraph 1.15.

112 2. DSS, 3. Utility, and 5. MSP.

The endorsements to proceed and other procurement documents did not record an exemption from the DPIIP requirements for these procurements.¹¹³

3.9 Two of these three contracts were procurements from panel arrangements with deeds of standing offer executed prior to the release of the DPIIP.¹¹⁴ The DPIIP gives effect to the requirement under the CPRs, introduced in 2019¹¹⁵, to consider the economic benefit of a procurement to the Australian economy as part of the procurement assessment process.¹¹⁶ Department of Finance guidance states that this requirement does not apply to procurements made from an existing panel arrangement if an economic benefit assessment was made during the establishment of the panel.¹¹⁷ This benefit was not assessed at the establishment of the relevant panels and was therefore required by the CPRs to be considered when procuring from the panels.¹¹⁸ The relevant deeds of standing offer contained clauses suitable for contracting relevant DPIIP-related commitments resulting from those procurements.

3.10 Defence advised the ANAO in August 2023 that for one of the contracts resulting from a panel arrangement (2. DSS), guidance notes within the relevant panel deed were relied on to determine that DPIIP requirements were not applicable. This was primarily due to a lack of clarity in the guidance notes about whether DPIIP financial thresholds were GST inclusive or exclusive. AIC financial thresholds are inclusive of GST. Defence also advised the ANAO in August 2023 that given the relevant procurement panel:

is for the engagement of primarily local resources to perform above the line services¹¹⁹, the expectation is that AIC will be 100% and therefore an AIC Plan would not add value given no work or resources were sought from overseas sources. KPMG's RFQTS response advised the Commonwealth that "KPMG is a wholly Australian owned professional services firm."

3.11 For the other contract resulting from a panel arrangement (5. MSP), Defence recorded conflicting information in the panel documentation. This included indicating in the deed of standing offer that DPIIP-related obligations for an AIC plan 'may' need to be developed while also including requirements in the Services Management Plan. Although they were not titled as such, DPIIP-related supplier commitments were subsequently included in the contractor's Service Management Plan and no AIC plan or schedule was developed.

113 Other procurement documents examined to identify an AIC exemption included briefs to decision-makers, procurement strategies, tender evaluation plans and reports.

114 2. DSS and 5. MSP.

115 Department of Finance, *Commonwealth Procurement Rules*, April 2019, paragraphs 4.7 and 4.8. These requirements remained in effect following subsequent updates to the CPRs, including the update in July 2024, which at October 2024, represented the most recent update.

116 The DPIIP is silent on how, or whether, it applies to standing offer procurements. The policy states that 'the plans and schedules under the [DPIIP] requirements form the basis of [CPR consideration of broader economic benefit] in Defence procurements'. Department of Defence, *Defence Policy for Industry Participation*, paragraph 3.28.

117 Department of Finance, *Consideration of broader domestic economic benefits in procurement*, paragraph 23, available from <https://www.finance.gov.au/sites/default/files/2024-07/consideration-of-broader-economic-benefits-in-procurement> [accessed 11 April 2025].

118 Broader economic benefit was not required to be assessed at the time of panel establishment. It was possible however to consider this benefit at the time of the procurements from the panels.

119 'Above the line' refers to service providers contracted by Defence to perform tasks ordinarily performed by Defence personnel or Australian Public Service (APS) employees.

3.12 The tender documentation for the third examined contract (3. Utility) outlined that DPIP requirements would be ‘based on the outcome of the tender process’ and provided a draft contract requiring DPIP commitments.¹²⁰ In August 2024, Defence advised the ANAO that ‘as this was a simple procurement – (high value with low risk), potential suppliers were not advised of Defence industry policy requirements in the Request for Tender documents.’ Defence also advised that an exemption was not documented for this contract.

Industry briefings

3.13 Industry briefings can be used to explain policy requirements to potential tenderers when approaching the market. The number and type of industry briefings conducted by Defence varied across the eight contracts examined. As outlined by Table 3.3, Defence conducted industry briefings for five of those contracts.

Table 3.3: Defence industry contracting policy covered in procurement briefings

Contract reference	Group	Number and type of briefings	Briefing included Defence industry contracting policy (AIC, DPIP) guidance
1. Missiles	CASG	Multiple briefings ^a	Yes
4. Systems	CASG	26 workshops prior to a competitive evaluation process	Yes
5. MSP	CASG	1	N/A ^b
6. Monitoring	SEG	2	Yes
8. Tindal	SEG	1 ^c	Yes

Note a: This procurement was conducted collaboratively. Defence released draft tender documents to the supplier in July 2022, held workshops with the tenderer in August 2022 and continued to communicate with the tenderer until the release of the final tender documents on 31 October 2022. Following tender submission, Defence reengaged with the tenderer to ‘resolve or clarify’ areas where the response did not align with Defence’s needs.

Note b: An industry briefing was held when the standing offer arrangement for this procurement panel was established. This occurred before the DPIP came into effect in March 2019.

Note c: An industry briefing was held for this project in 2017. The 2020 contract was entered into following government approval to proceed with delivery. The procurement process that led to the 2018 contract was intended to establish the same supplier for planning and delivery, conditional on achievement of certain milestones and government approval. As these were achieved, signature of the 2020 contract occurred without additional procurement requirements or a new briefing.

Source: ANAO analysis of Department of Defence documents.

3.14 With respect to the 1. Missiles contract, Defence decided in September 2022 to reduce the amount of information the tenderer was ‘required to provide in their tendered version of the AIC Plan’. These changes from the templated requirements were due to the ‘high level of detail required’ by the templates and included removing a reference to the 2019 DPIP as an ‘applicable document’ governing the approved AIC plan. Defence provided the tenderer with briefings on the

¹²⁰ No further information on the DPIP requirements was provided during the approach to market stage for this procurement. Defence did not record a rationale for not determining and advising tenderers of these requirements.

requirements under the DPIP, in part due to Defence's view that the tenderer 'would be challenged by the size and complexity' of its AIC contracting requirements.¹²¹

Other information provided to tenderers

3.15 Information provided to tenderers in the approach to market documents was not always current or consistent within individual procurement documents.

- With respect to the 1. Missiles contract, the requirement to calculate or estimate Australian Contract Expenditure (ACE) was removed from parts of the approach to market documents. Some of these requirements were retained in other sections of these documents.
- Three examined contracts included internally inconsistent requirements and terminology that was not in alignment with their respective tender documents.¹²²
- Six examined contracts did not include or require tenderers to provide a definition of local industry as part of their Australian industry considerations.¹²³ See paragraph 3.22 for further discussion of this requirement.
- Six examined contracts resulted from procurement processes that included outdated documentation or incorrect terminology and reference material.¹²⁴

Has Defence contracted with suppliers in accordance with policy requirements?

Of the eight contracts examined, the relevant suppliers for four had provided Defence with a project or industry plan (or schedule) in accordance with the procurement stage requirements of the DPIP. By 29 August 2024, one of these plans (or schedules) remained in draft and had not been further developed as required, and three had been finalised and approved by Defence. For the five contracts without finalised plans, Defence did not document the exemption from this requirement for three suppliers, provided one supplier with an extension to 20 June 2023, and did not finalise the draft plan for the remaining supplier.

For four examined contracts, additional AIC or LIC commitments were also within other contract documents. For the two examined contracts with no plans or schedules developed, AIC or LIC commitments were located in other contract artefacts such as a service management plan or statement of work. Unclear or imprecise clauses were included in the contract documentation for three contracts. Of the five that met the threshold for the publication of an AIC Plan, one was published on Defence's website. Shortfalls in record keeping and contract management were observed in the documentation for each of the eight contracts.

121 Defence engaged in 'collaborative' drafting with the supplier on the requirements subsequently incorporated into the request for tender and resulting contract.









122 1. Missiles, 3. Utility, and 6. Monitoring. Internally inconsistent requirements included: retaining drafting guidance listing AIC requirements as both optional and mandatory and whether requirements to develop ACE measurements would be developed before or after contract execution.





123 1. Missiles, 2. DSS, 3. Utility, 4. Systems, 5. MSP, and 8. Tindal.

124 1. Missiles, 2. DSS, 3. Utility, 4. Systems, 5. MSP, and 6. Monitoring. Outdated references included references to the Performance Exchange Scorecard and the removed Australian Industry Capability Better Practice Guide.

3.16 A summary of whether Defence contracted with its suppliers in accordance with Defence industry policy requirements is provided in Table 3.4, along with paragraph references for the relevant discussions.

Table 3.4: Contracting of DPIIP requirements for each contract examined, and relevant paragraph

1. Missiles	2. DSS	3. Utility	4. Systems	5. MSP	6. Monitoring	7. Learmonth	8. Tindal
							
3.17–3.21, 3.23, 3.25– 3.26 Table 3.5 Figure 3.1	3.25–3.26 Figure 3.1	3.18, 3.25–3.26 Figure 3.1	3.17–3.19, 3.23, 3.25–3.26 Figure 3.1	3.17–3.18, 3.23, 3.26, 3.30 Figure 3.1	3.17–3.19, 3.23, 3.26 Table 3.5 Figure 3.1	3.17–3.18, 3.23, 3.26 Table 3.5 Figure 3.1	3.17– 3.18, 3.23, 3.25– 3.30 Table 3.5 Figure 3.1

Key:  Effectively met all AIC requirements  Largely met most AIC requirements
 Partly met the AIC requirements  Did not meet AIC requirements

Source: ANAO analysis of Department of Defence documents.

Contracting supplier commitments

3.17 The DPIIP identifies AIC and Local Industry Capability (LIC) plans and schedules as a ‘core element’ in demonstrating Australian and local industry commitments by suppliers.¹²⁵ In practice, AIC and LIC plans and schedules are agreed before and after contract execution. AIC commitments can also be included in contract clauses, the statement of work and attachments to the contract. Of the six examined contracts that included AIC or LIC commitments, four had an AIC or LIC plan or schedule contracted.¹²⁶ Not all contracted industry obligations were included within those plans and schedules. For four of those contracts, additional AIC or LIC commitments were also within other contract documents.¹²⁷ For the two examined contracts with no plans or schedules developed, AIC or LIC commitments were located in other contract artefacts such as a service management plan or statement of work.¹²⁸

3.18 The status of contracted AIC and LIC plans and schedules is set out in Figure 3.1. Of the eight examined contracts, one (4. Systems) included a complete and approved plan or schedule at the time of contract execution. As at 29 August 2024, three examined contracts included a complete and approved plan or schedule.¹²⁹ With respect to the other five contracts examined, one (1. Missiles) had a contracted commitment to complete an AIC plan within 6 months; one

¹²⁵ Department of Defence, *Defence Policy for Industry Participation*, paragraphs 1.9 and 3.11, pp. 15 and 40.

¹²⁶ 4. Systems, 6. Monitoring, 7. Learmonth (using a draft contract as final), 8. Tindal.

¹²⁷ 4. Systems, 6. Monitoring, 7. Learmonth, and 8. Tindal.

¹²⁸ 1. Missiles and 5. MSP.

¹²⁹ 4. Systems, 6. Monitoring, and 8. Tindal.

(7. Learmonth) used the draft plan as a final plan without any changes; and the remaining two contracts did not have AIC or LIC plans or schedules.

Figure 3.1: Contracts with AIC or LIC plans, schedules and additional commitments in accordance with the DPIIP

	Approach to Market type and plan requested?	Approved at contract execution?	Approved at contracted deadline?	Approved at 29 August 2024?
1. Missiles	Limited tender – sole source ^a AIC plan requested; requirements reduced during period	To be developed AIC included in contract, plan to be developed	No Deadline execution date + 6 months (20 June 2023)	No Deadline execution date + 6 months (20 June 2023)
2. DSS	Panel – six candidates No plan requested, no exemption documented			
3. Utility	Open tender AIC to be determined based on outcome of tender process	No plan No exemption documented		
4. Systems	Open tender and shortlisting ^b AIC strategy and plan requested; multi-stage process	Yes Reviewed post-execution in accordance with contract		Yes Contract ended prior to this date
5. MSP	Panel – one candidate ^c No plan requested, no exemption. See paragraph 3.15			
6. Monitoring	Open tender followed by shortlisting AIC to be determined based on outcome of tender process	Incomplete Australian Industry Activity values to be determined	No deadline	Yes Approved on 24 August 2024
7. Learmonth	Limited tender – four candidates LIC plan requested	Plan noted as draft Included in contract as 'draft'	Remained in draft Contract ended prior to finalisation, reported against draft	
8. Tindal	Open tender in 2017 ^d LIC plan requested	Plan tendered, not finalised Project level plan	No Deadline execution date + 21 days (17 May 2018)	Yes Regular review throughout contract

Note a: Defence engaged in 'collaborative' drafting with the supplier on requirements subsequently incorporated into the request for tender and resulting contract.

Note b: This procurement involved a two-stage competitive evaluation process. Stage 1 involved an open approach to the market with successful tenderers entering into a deed to undertake further work funded by Defence to refine their proposals (Stage 2).

Note c: The process involved a direct approach to the incumbent provider contracted in the role since 2014 (refer to paragraph 3.29).

Note d: This procurement occurred across two phases (started in 2018 and 2020 respectively) with an overall project LIC plan. As part of Defence's management of this project, the approved LIC plan was revised and re-approved after 2018. The plan has been reviewed since execution of the Delivery Phase contract in 2020.

Source: ANAO analysis of Department of Defence documents.

3.19 Defence guidance for the Defence Suite of Facilities contracts for estate works advises contract managers to avoid inserting 'TBA, to be agreed or similar expressions' and states that failure to fill in, or incorrectly filling in, any one of the contract particulars creates uncertainty and may cause the contract to ultimately fail. The ASDEFCON suite does not include the same guidance however the underlying principle remains the same for any contract entered into by Defence. Three of the examined contracts (based on ASDEFCON templates) contained clauses with some details that were 'to be determined'.¹³⁰ For two of those three contracts, specific Australian industry values and commitments were left undetermined at contract execution.¹³¹

3.20 For one examined contract (1. Missiles), Defence contracted measurable and specific percentages of work to be undertaken by Australian industry. A caveat to this commitment was included in the contract with a clause stating that these commitments may not be feasible, and that the supplier would only comply with these contracted terms if 'reasonably possible'. This additional clause has the potential to limit the Commonwealth's ability to seek remedies if the work committed to is not undertaken.

3.21 Defence agreed to the approval of four AIC plans (or schedules where relevant) after the respective contracts were executed. Some of Defence's contract templates allow for the approval of AIC plans to be delayed until after contract execution. The status of these plans, as at 29 August 2024, are outlined in Table 3.5. Approving AIC plans and schedules after contract execution introduces the potential for the terms in the plan to be seen as not essential to the performance of the contract. Once the head contract has been executed, suppliers may also be less incentivised to commit to AIC-related initiatives. Defence's ability to maximise opportunities for Australian industry through the engagement may then be reduced.¹³²

Table 3.5: Approval of plans after contract execution, as at 29 August 2024^a

Contract reference	Contract start date	Contract terms required a plan or schedule?	Deadline to submit required plan or schedule from contract start date	Date plan or schedule approved by Defence	No. of days since contract execution and plan approval (at 29 August 2024)
1. Missiles	20 December 2022	No ^b	20 June 2023	Not approved	618
6. Monitoring	1 July 2022	Yes	No deadline	24 August 2024	791

¹³⁰ 1. Missiles, 4. Systems, and 6. Monitoring.

¹³¹ 1. Missiles and 6. Monitoring.

¹³² As outlined at paragraph 1.13, the CPRs require the economic benefit to the Australian economy to be considered as part of assessing overall value for money in procurements. This means that AIC plans submitted as part of a tender process may form a key factor in determining the successful tenderer in that process. Ensuring that AIC plans are finalised at the contract execution stage can assist with ensuring the enforceability of those arrangements.

Contract reference	Contract start date	Contract terms required a plan or schedule?	Deadline to submit required plan or schedule from contract start date	Date plan or schedule approved by Defence	No. of days since contract execution and plan approval (at 29 August 2024)
7. Learmonth	19 September 2022	Yes	3 October 2022	Not approved ^c	666 ^c
8. Tindal ^d	26 April 2018	Yes	17 May 2018	9 July 2018	74

Note a: Contracts in this table for which an AIC plan was not finalised prior to contract execution incorporated additional AIC requirements elsewhere in the contract.

Note b: An AIC plan is required for this procurement. As part of the tender evaluation process, Defence noted that the supplier's AIC commitments were either 'deficient major' or 'deficient significant'. Defence engaged in 'clarification workshops' with the supplier to 'resolve or clarify' these and other requirements. Defence identified ten residual risks that remained after these workshops, including AIC. In order to meet the procurement's accelerated procurement schedule, Defence officials recommended resolution of these risks after contract execution with a contracted commitment from the supplier to complete the AIC plan by 20 June 2023. As at October 2024, there is no AIC plan in place for this procurement. In October 2024, Defence advised the ANAO that the schedule provided 'the necessary detail for AIC obligations for the activities performed under the contract'. As set out in DPIP, AIC schedules are required to provide less detail and rigour than AIC plans.

Note c: This contract ended on 15 June 2024. The contract end date was used in place of 29 August 2024.

Note d: This procurement included contracts over two phases: planning phase (signed in 2018) and delivery phase (signed 2020). In October 2024, Defence advised the initial LIC plan approved under the planning phase was reissued and reviewed as part of the delivery phase.

Source: ANAO analysis of Department of Defence documents.

Contracting a definition of local industry

3.22 The DPIP requires local industry considerations to be incorporated into schedules and plans for all procurements within the AIC thresholds, except for materiel acquisition procurements that are 'predominantly location agnostic and focused on maximising opportunities for Australian industry participation at a national level.'¹³³ The DPIP does not define 'local' in the context of AIC and LIC plans. Tenderers are expected to 'adopt a common-sense approach' in the context of the procurement and ensure the definition used reflects a 'reasonable geographic proximity to the location where work is to be performed.'¹³⁴

3.23 For the six examined contracts with contracted AIC commitments, 'local' industry:

- was defined in the three SEG-managed procurements that included DPIP commitments.
 - 7. Learmonth and 6. Monitoring both defined local as within a 50-kilometre radius of the activity. 6. Monitoring also included a secondary definition of local as Australian industry for specified work.
 - 8. Tindal defined local in four ways; within a 100-kilometre radius, within a 280-kilometre radius, a geographic region, and within the Northern Territory (including requirements for a bona fide presence and employment of territory residents).

133 Not all materiel acquisition projects are location agnostic. See Department of Defence, *Defence Policy for Industry Participation*, paragraph 3.23.

134 Department of Defence, *Defence Policy for Industry Participation*, paragraph 1.13.

- was not defined in the three CASG procurements that included contracted commitments.¹³⁵

Publication of plans

3.24 Both the DPIP and the CPR Procurement Connected Policy – Australian Industry Participation require public versions of AIC plans to be published for procurements above \$20 million. As noted on the Defence website (as at August 2024), the purpose of making AIC plans publicly available is to ‘inform industry of forward opportunities to participate in Defence projects and sustainment activities.’¹³⁶ Plans above this financial threshold should appear on either the Defence or Department of Industry, Science and Resources (DISR) website, unless Defence has documented an exemption for the contract from this publication requirement.

3.25 For the five examined contracts above the financial threshold for publication:

- public plans were not published for the 1. Missiles contract, the two non-materiel procurements (2. DSS and 3. Utility), and the one construction procurement (8. Tindal)¹³⁷; and
- the public plan for the 4. Systems procurement was published.

Compliance with legislative requirements

Approvals and record keeping

3.26 Shortcomings, including some that amounted to breaches of the finance law¹³⁸, were identified in Defence’s approvals and record keeping for the eight examined contracts. Under the CPRs, ‘[r]elevant entities **must** have access to evidence of agreements with suppliers, in the form of one or a combination of the following documents: a written contract, a purchase order, an invoice or a receipt’ [emphasis in original].¹³⁹ Defence’s Records Management Policy is designed to support compliance with legal requirements such as these. Defence did not retain complete records for the eight examined contracts and the following specific deficiencies were identified:

¹³⁵ The 4. Systems contract used the term ‘local’ as an inference to Australia, or domestically, rather than the DPIP definition. 1. Missiles, 4. Systems, and 5. MSP.

¹³⁶ Defence, ‘Public Australian Industry Capability Plans’, available from <https://www.defence.gov.au/business-industry/finding-opportunities/public-australian-industry-capability-plans> [accessed 11 April 2025].

¹³⁷ Construction projects are reported on DISR pages, including construction works similar to those undertaken in the 8. Tindal contract. Some public plans published by DISR included elements of labour provision or consultancy work. Procurements comprised solely of this work were not identified.

¹³⁸ For the purpose of the PGPA Act, ‘finance law’ means: the PGPA Act, the PGPA Rule, the Financial Reporting Rule, and any instrument made under the PGPA Act including the Commonwealth Procurement Rules, accountable authority instructions and delegation instruments. Subsection 13(4) of the *Public Service Act 1999* includes that employees of the Australian Public Service ‘when acting in connection with APS employment, must comply with all applicable Australian laws’. Section 32 of the PGPA Act states that, ‘To avoid doubt, the finance law is an Australian law for the purposes of subsection 13(4) of the *Public Service Act 1999*’.

¹³⁹ Department of Finance, *Commonwealth Procurement Rules*, 14 December 2020, paragraphs 7.1–7.5. The same requirements applied after the July 2022 update to the CPRs.

- for one contract (3. Utility), there was no documentation of consultation with Defence Legal prior to the use of a supplier's own contract template as required under Defence's Accountable Authority Instructions¹⁴⁰;
- for one contract (6. Monitoring), the documentation did not reflect that contract execution would occur via an exchange of letters or confirm that this had taken place;
- a fully executed and complete contract was not found for four contracts (1. Missiles, 4. Systems, 7. Learmonth and 8. Tindal) as contract signatures had been recorded by each party in separate documents. Some of these records were partial copies or extracts (including of the contract signatures page) that were not saved in one central location or consolidated into a single document. This makes it difficult to definitively establish the terms that were executed and agreed to by all parties and creates risk for the Commonwealth in enforcing contract terms; and
- for three contracts (2. DSS, 3. Utility, and 5. MSP), there was no recorded basis or approval for the exemption from AIC requirements.

3.27 Additional shortcomings were found in Defence's management of the nine deeds of amendment identified for one of the examined contractual arrangements (8. Tindal).

- In one amendment, a full date of execution was not recorded and an effective date (that is, the date on which the amended contract terms come into force) was not documented. Defence advised the ANAO in February 2025 that the date of execution for this amendment was 11 April 2023.
- For three deeds of amendment, the PGPA Act section 23 approvals were provided after the relevant effective dates.¹⁴¹ For two of these three amendments, the section 23 approvals occurred after the deeds of amendment had been executed.¹⁴²
- For five amendments, the effective date occurred prior to the date the relevant deed of amendment was executed.¹⁴³ In respect to these five amendments, Defence advised the ANAO in February 2025 that:

As the Managing Contractor contract is a collaborative style contract rather than a fixed term, fixed price contract the only way that we can vary the contract is through a Deed of Agreement (DOA) drafted by our Legal Service Provider rather than a standard variation process. The drafting and execution of DOA's [Deed of Agreements] takes some time and therefore the execution date is often a period of time after the effective date from which the claim can be made.

- For four of the five amendments, Defence advised the ANAO in February 2025 that the contractor had commenced work in accordance with Defence's directions prior to the

140 The procurement strategy noted that 'an exemption from the Defence Chief Procurement Officer (DCPO) endorsement process has been obtained for utilities'. It is not clear what this exemption relates to. On 23 September 2024, Defence advised the ANAO that 'written evidence of this DCPO exemption could not be sourced' and that '[n]o record of [a] verbal notification exists that identifies the person and date advised.'

141 See footnote 67 for discussion of the purpose of section 23 approvals. The difference between the effective date and section 23 approval dates for these amendments were: 161 days, 151 days and 23 days. The effective date is the date relevant Commonwealth funds became committed.

142 The difference between the execution date and section 23 approval dates for these two amendments were: 111 days and 23 days.

143 The number of elapsed days between the effective and execution dates were: 94 days, 40 days, 180 days, 161 days and 65 days.

execution of the deed of amendment. The commencement of works represents the date on which Defence begins to accrue financial liabilities.¹⁴⁴ Defence advised that the commencement of works was overseen by the Project Control Group¹⁴⁵ and that '[d]eliverables, payment claims and payments occurred after the execution date'.

3.28 Department of Finance guidance states that due diligence requires officials to 'satisfy themselves' that 'the procurement is conducted properly [and that] the procurement (including execution of a contract with the preferred supplier) does not place the Commonwealth in a position of increased or unacceptable risk'.¹⁴⁶ Failing to appropriately date contract material increases risk to the Commonwealth in the event of a dispute by introducing ambiguity and legal uncertainty. Risks increase where works commence prior to signature or if the effective and execution dates of multiple amendments overlap.¹⁴⁷

AusTender reporting requirements

3.29 Accurate reporting on AusTender is a requirement of the CPRs.¹⁴⁸ In five of the eight examined contracts, the contract start dates did not align with those reported on AusTender.¹⁴⁹ For two contracts, Defence's records were also inconsistent with reporting on AusTender.

- For one contract (5. MSP), Defence:
 - did not record a rationale as to why approaching one supplier from the panel was 'commensurate to the scale, scope and risk of the procurement' as required under Defence's Accountable Authority Instructions¹⁵⁰; and
 - reported annual purchase orders under a pre-existing contract (effectively one year of expenditure under the contract) on AusTender as new contracts rather than amending the original contract notice to increase its value. Defence advised the ANAO in August 2024 that this was due to the use of funding assigned for ordinary business group operations, which operates on an annual cycle.
- For another contract (8. Tindal), Defence reported 13 contracts using the same approach to market (ATM) identifier rather than amending the original contract entry to increase its value.¹⁵¹

144 An accrued liability is an expense that an entity has incurred but has not yet paid.

145 The Project Control Group consists of representatives from Defence, representatives from the third-party contract manager, and representatives from the managing contractor for a project.

146 Department of Finance, *Due Diligence in Procurement*, November 2023, available from <https://www.finance.gov.au/sites/default/files/2023-11/Due-Diligence-in-Procurement.pdf> [accessed 11 April 2025].

147 For example, Amendment 2 was executed on 21 August 2019. Amendment 3 was executed on 3 February 2020 with an effective date of 7 August 2019. The effect of this is that between 7 and 21 August 2019, three different sets of contract terms could apply depending on the nature of the changes and contract activities. The same situation occurred between Amendments 3 and 4.

148 Department of Finance, *Commonwealth Procurement Rules*, 14 December 2020, paragraphs 7.6 and 7.8. The same requirements applied after the July 2022 update to the CPRs.

149 2. DSS, 4. Systems, 5.MSP, 7. Learmonth, and 8. Tindal.

150 Since the initial selection of this supplier from a panel in 2014, Defence has continued to 'single select ... the same Contractor for this work'. In July 2022, the total approved expenditure for this supplier in this role was \$50.70 million.

151 Ten of these contracts were reported following execution of the delivery phase contract.

3.30 This latter error was due in part to Defence's standard approach for the reporting of larger capital works on AusTender (that is, reporting one contract for the contract itself and one for reimbursable works under the contract)¹⁵²; and what Defence described in November 2024 as 'an incorrect processing action', where officials created a new vendor with new payment details rather than amending the banking details of the existing vendor. Defence reported several contracts on AusTender instead of one, including duplicates based on the new vendor details. These reporting practices reduce the accuracy of AusTender data by overstating the number of contracts entered into by Defence and understating the individual values of Defence's reported contracts (see Figure 1.2). Defence advised the ANAO in November 2024 that 'work is currently underway to remediate' the duplication in its AusTender reporting for 8. Tindal.

3.31 Defence's compliance with statutory record keeping requirements and the Defence Records Management Policy has been the subject of previous ANAO audit recommendations.¹⁵³ In response to ANAO and internal audits, Defence has undertaken to improve its procurement, contract management and record keeping processes.¹⁵⁴

Recommendation no. 5

3.32 The Department of Defence implement measures to ensure that:

- a) where approval of industry commitments occurs after contract execution, this takes place within agreed timeframes and includes options for remediation and contract termination if this does not take place; and
- b) public AIC plans are prepared and published where required.

Department of Defence response: *Agreed.*

3.33 *Defence agrees with the recommendation.*

Has Defence monitored industry compliance with contracted commitments?

Defence undertakes limited monitoring to ensure the delivery of contracted Australian industry commitments. Where suppliers have reported against their DPIP-related commitments, this reporting has not been complete, with 12 of 59 relevant measures reported against. For four of the five contracts where supplier commitments have been contracted:

- the reporting to Defence indicated that these commitments were not being delivered. Defence undertook follow up action with respect to one of those contracts; and

152 Defence's AusTender reporting was discussed in more depth in Auditor-General Report No.25 2019–20, *Aboriginal and Torres Strait Islander Participation Targets in Major Procurements*, ANAO, Canberra, 2020, Box 4, available from <https://www.anao.gov.au/work/performance-audit/aboriginal-and-torres-strait-islander-participation-targets-major-procurements> [accessed 11 April 2025].

153 Relevant ANAO performance audits include Auditor-General Report No.47 2023–24, *Defence's Management of Contracts for the Supply of Munitions — Part 1* and Auditor-General Report No.21 2022–23, *Department of Defence's Procurement of Hunter Class Frigates*.

154 For further information about these activities, refer to paragraphs 2.13, 4.34–4.35.

- the DPIP-related terms in Defence's contract with the head contractor are required to 'flow down' as requirements to the head contractor's subcontractors. One of these four suppliers has reported to Defence on its engagement with subcontractors.

3.34 Department of Finance guidance outlines that it is important that contracts are managed consistently and actively throughout their life in accordance with their terms. This helps to ensure supplier performance is satisfactory and that contract requirements are met thereby ensuring that the contract delivers the anticipated value for money.¹⁵⁵ The Defence Contract Management Handbook defines contract management similarly as:

the phase of the Procurement Life Cycle that deals with the governance and administration of contracts by Defence officials. It is the activity undertaken to ensure that contracted outcomes are delivered to the required quality, schedule and cost to achieve the Commonwealth's value for money proposition when the contract was put in place.¹⁵⁶

3.35 A summary of Defence's approach to monitoring the delivery of contracted commitments across each of the eight contracts examined is provided by Table 3.6, along with paragraph references for the relevant discussions.

Table 3.6: Defence's monitoring of supplier compliance with contracted Australian industry commitments, and relevant paragraph

1. Missiles	2. DSS	3. Utility	4. Systems	5. MSP	6. Monitoring	7. Learmonth	8. Tindal
▼	■	■	■	■	■	▼	▼
3.36–3.38, 3.44 Table 3.7	3.36	3.36	3.36–3.38, 3.44 Table 3.7	3.36–3.38	3.36–3.38 Table 3.7	3.36–3.38, 3.44 Table 3.7 Box 1	3.36– 3.38, 3.44

Key: ◆ Effectively met all AIC requirements ▲ Largely met most AIC requirements
 ▼ Partly met the AIC requirements ■ Did not meet AIC requirements

Source: ANAO analysis of Department of Defence documents.

Management of contracted Australian industry commitments

3.36 The contracted Australian industry requirements in the eight examined contracts were dispersed throughout the contract documents and, in some cases, relevant documents were not centralised in one location.¹⁵⁷ This, along with other poor record keeping practices (see paragraph 3.26), increases the risk of contracted commitments being overlooked in Defence's monitoring and contractor compliance processes, particularly if there has been turnover in contract management personnel.

¹⁵⁵ Department of Finance, *Australian Government Contract Management Guide*, July 2023, p. 2, available from <https://www.finance.gov.au/sites/default/files/2023-07/australian-government-contract-management-guide-july-2023.pdf> [accessed 11 April 2025].

¹⁵⁶ The DPIP states that the 'lead area within Defence managing the contract with the successful tenderer will be responsible for reviewing reporting against contract milestones and assuring that contractors meet their obligations to deliver the agreed Australian industry outcomes.' See: Department of Defence, *Defence Policy for Industry Participation*, paragraph 4.6.

¹⁵⁷ Two examined contracts included no industry commitments: 2. DSS and 3. Utility.

3.37 Of the six examined contracts that included DPIIP-related commitments, four included requirements for reporting against the commitments.¹⁵⁸ Two contracts (5. MSP and 6. Monitoring) included generic reporting requirements that could provide a mechanism for DPIIP-related reporting if requested by Defence.

3.38 None of the examined contracts included reporting against the full breadth of their contracted commitments. Across the eight contracts, 59 industry measures were identified.¹⁵⁹ Of these, 12 were reported against, with reporting for five of these measures indicating that the relevant commitments were not being met by the supplier. In one instance (6. Monitoring), Defence in January 2024 undertook to follow up on underperformance.¹⁶⁰ In October 2024, Defence added performance of AIC to the agenda for its regular meetings with the supplier and planned to commence six-monthly reviews of AIC. In the other four instances where contracted commitments were not being implemented, and targets were not being met, no action was taken by the contract manager.¹⁶¹ The impact of this inaction on the achievement of contracted DPIIP-related requirements is discussed at Box 1.

Box 1: Management of local industry targets in 7. Learmonth

As a construction services contract, the supplier for the 7. Learmonth contract was required to meet its contracted commitments in accordance with the DPIIP through local industry targets rather than for broader Australian industry.

The supplier tendered a local industry capability plan (LICP) with an expected local spend of \$5.2 million, a regional/state spend of \$17.3 million and \$38,000 to be spent in the rest of Australia. This plan was included in the executed contract. Reporting against targets began in December 2022.^a In this first report, the supplier reported to Defence's third-party contract manager that local spending would drop by \$3.8 million and interstate expenditure would rise by \$2.4 million.^b

As this represented a shift from the contracted terms, the supplier was required to submit an amended plan for approval by the third-party contract manager within 14 days. The contractor was also required to comply with the originally submitted plan until an amended plan was accepted. An amended plan was not submitted to, or requested by, the third-party contract manager and changes to the plan were not discussed at the monthly meetings between Defence and the contractor.

The final LICP report showed that the contractor had not met the originally contracted terms. In August 2024, Defence advised that:

the overall spend was below the targets set at commencement of construction. This was due to the majority of the scope being specialised ... and the shortage of local skilled labour.

158 1. Missiles, 4. Systems, 7. Learmonth, and 8. Tindal.

159 Identified measures include commitments made under the Indigenous Procurement Policy. The DPIIP notes that 'The AIC Program has been strengthened through explicit requirements on tenderers to ... promote the involvement of Indigenous business in the delivery strategy' and include them in the supply chain. See Department of Defence, *Defence Policy for Industry Participation*, paragraphs 2.19 and 2.25.

160 In this case, Defence outlined options to increase expenditure on Indigenous firms. Expenditure on Indigenous firms continues to be monitored and managed.

161 1. Missiles, 4. Systems, 5. MSP (through a Services Management Plan), 7. Learmonth, and 8. Tindal.

Local spending at completion of the contract in August 2023 totalled \$1.4 million, representing a 73 per cent decrease from the target of \$5.2 million.

Note a: As discussed at paragraph 3.18, the LICP for this procurement was not finalised at the time it was executed as part of the contract.

Note b: For this construction contract, Defence engaged an external service provider, Augility, through a separate contract to administer the construction contract on Defence's behalf.

3.39 Timely contract reporting enables Defence to meaningfully review and take prompt action where follow up is required. For two of the examined contracts, delivery of the first contract performance report was not required until more than a year after the contract was executed (see Table 3.7). For two other examined contracts, reporting met the contracted deadline.¹⁶²

Table 3.7: Reporting against contracted commitments (in accordance with the DPIIP), at 29 August 2024

Contract reference	Contract start date	Deadline for first report ^a	Days between contract start and deadline	Date first report delivered	Days between contract execution and first report
1. Missiles	20 December 2022	20 December 2024 ^b	732	7 July 2024	566
4. Systems	31 August 2022	30 October 2022	60	13 September 2022	13
6. Monitoring	1 July 2022	31 January 2024 ^c	580	Not completed	791
7. Learmonth	19 September 2022	18 December 2022	91	December 2022 ^d	–

Note a: In this table, reporting for AIC does not include reporting for the purposes of the Indigenous Procurement Policy.

Note b: ACE measurement reports need to be submitted within 30 working days of completion. Suppliers' implementation of AIC is to be reviewed annually.

Note c: Defence advised the ANAO in October 2023 that LICP performance would be included in the contract performance review. The first six-month review (due 1 January 2023) was postponed until January 2024. In October 2024, Defence advised the ANAO that no AIC reporting had taken place to date.

Note d: The report covered quarter four 2022. The date of provision was not recorded.

Source: ANAO analysis of Department of Defence documents.

¹⁶² 4. Systems (one month early) and 7. Learmonth.

Recommendation no. 6

3.40 The Department of Defence improve its administrative arrangements for contracts to ensure that:

- (a) contracts with industry participation-related requirements can be efficiently and effectively identified and managed; and
- (b) contracted industry participation-related measures can be efficiently and effectively identified and monitored.

Department of Defence response: *Agreed.*

3.41 *Defence agrees with the recommendation.*

Subcontractor reporting

3.42 Defence's approach to materiel and construction service contracts involves procuring prime, head, or managing contractor/s to subcontract out smaller packages of work. Depending on the contracting template used, Defence may require the DPIP-related terms in the contract with the head contractor to flow down to their subcontractors.

3.43 Guidance on the requirement for reporting on AIC by subcontractors has varied over time. When the AIC program was launched in 2008, Defence stated that AIC requirements 'will extend to second and third level contractors'. This requirement was not included in Defence's industry policy statements or strategic updates after that point. In 2022, Defence's internal Contract Management Framework noted that 'Defence may, in certain circumstances, flow down contractual obligations to Subcontractors via the Prime Contract.'

3.44 Where they exist, requirements to flow down obligations to subcontractors are incorporated within Defence's contract templates. Of the eight contracts examined, four included flow down obligations. In two contracts, the relevant template required the use of flow down obligations and these obligations were included in the executed contracts.¹⁶³ In the other two contracts, flow down requirements were not mandated by the templates but were included in the executed contracts.¹⁶⁴ Supplier reporting on subcontractor involvement has been provided to Defence for one of these four contracts (8. Tindal). In this instance, reporting indicated that subcontractor local industry participation had exceeded the target.¹⁶⁵

¹⁶³ 1. Missiles and 4. Systems.

¹⁶⁴ 7. Learmonth and 8. Tindal.

¹⁶⁵ At August 2023, supplier reporting indicated that subcontractor local industry participation was 77 per cent against a target of 70 per cent.

Recommendation no. 7

3.45 The Department of Defence:

- (a) monitor subcontractor performance of industry participation commitments where there are contractual flow down requirements between head contractors and their subcontractors; and
- (b) incorporate details on the potential for flow down industry participation requirements into relevant guidance for Defence personnel and industry.

Department of Defence response: *Agreed.*

3.46 *Defence agrees with the recommendation.*

4. Governance, assurance and reporting

Areas examined

This chapter examines whether the Department of Defence (Defence) implemented appropriate governance, assurance and reporting arrangements to support the objective of maximising Australian industry participation.

Conclusion

Defence's governance, assurance and reporting arrangements for industry participation are partly appropriate. Senior Defence committees have received reports on activities to support Australian industry policy objectives. Defence did not establish the Industry Policy Division working group to periodically review the policy in accordance with the *Defence Policy for Industry Participation* (DPIP). The AIC Plan assurance framework does not align with a professional standard-setting framework and activities conducted under that framework do not provide reasonable assurance over the matters examined. Defence reports on Australian industry expenditure and has undertaken to further develop its reporting as part of the 2024 *Defence Industry Development Strategy*.

Areas for improvement

The ANAO made two recommendations aimed at improving Defence's governance oversight and assurance arrangements.

4.1 The establishment of appropriate governance, assurance and reporting arrangements can inform a policy owner on the extent to which the policy is being implemented as intended, whether it is achieving expected impact, and when to make adjustments to the policy settings.

Has Defence implemented fit-for-purpose governance arrangements?

Senior Defence committees at the enterprise and group levels have received reports on the implementation of activities relevant to the DPIP, including the implementation of the 'enhanced' Australian industry capability (AIC) contractual framework announced in mid-2020. The policy oversight forum responsible for the periodic review and alignment of the policy with government's defence industry policy objectives was not established as foreshadowed by the DPIP. In the absence of this forum, Defence has not regularly reported on the DPIP or monitored its implementation activities to ensure a unified approach at a whole-of-enterprise level, consistent with the intent of the DPIP.

Enterprise governance

4.2 The core element of the DPIP is to provide a consistent, unified approach to Defence procurement, as outlined at paragraph 1.9. In May 2020, the government observed that further work on consistency was needed across all Defence groups to support the implementation of Australian industry capability (AIC) in Defence contracts.¹⁶⁶

¹⁶⁶ This was in response to an Australian Government Solicitor (AGS) review of AIC contractual terms in a selection of contracts managed by Defence, discussed at paragraphs 2.19–2.20.

4.3 Defence's enterprise governance arrangements provide for three tiers of oversight committees:

- Tier 1 Committees — examine issues impacting the whole-of-Defence, comprising of the Defence Committee and the Defence Audit and Risk Committee in an advisory capacity;
- Tier 2 Committees — examine issues impacting across multiple domains, comprising of the Chiefs of Service Committee, Enterprise Business Committee, Investment Committee and the Strategic Policy Committee; and
- Tier 3 Committees — examine issues impacting a single policy domain, which includes the Defence People, Defence Finance and Resourcing, Defence Security, Defence Communication and Information Systems, Intelligence Enterprise, Defence Joint Warfare and Defence International Engagement committees.

Tier 1 and 2 committees

4.4 The most senior committee, the Defence Committee (co-chaired by the Secretary of Defence and the Chief of the Defence Force, or CDF), has 'responsibil[ity] for setting top-level organisational goals and driving delivery of Defence's commitments'. In April 2022, the Defence Committee received updates on the implementation of the 2020 *Lead the Way: Defence Transformation Strategy*. Of relevance to the *Defence Policy for Industry Participation* (DPIP), the strategy included initiative '3.2: Strengthen Defence's approach to AIC, including innovation, export and harnessing opportunities from Australian science and technology'. An activity under initiative 3.2 on the delivery of the 'enhanced' AIC contracting framework was reported to the Defence Committee as complete in February 2022.¹⁶⁷

4.5 The Enterprise Business Committee (EBC) is responsible for 'strategic control and assurance over the enterprise capacity and military enabling functions of Defence to ensure effective operation of Defence business.' EBC consideration of AIC and DPIP related matters has included oversight of the Defence Transformation Strategy. Other consideration of AIC and DPIP related matters has included the AIC Plan Audit Program and the review of the Centre for Defence Industry Capability.¹⁶⁸

4.6 Defence's Investment Committee is responsible for 'exercising strategic control over the investment portfolio, bringing the future force and supporting enablers into being in line with government requirements.' Proposals presented to the Investment Committee, including draft advice to government, must include an Australian industry narrative covering the life of the project. The narrative is to outline the project or program's overarching strategy for maximising opportunities for Australian industry participation in line with government policies including the DPIP.

167 Initiative 3.2 consists of five other 'ongoing' Defence Transformation Program activities by the Capability Acquisition and Sustainment Group, Strategy, Policy and Industry Group and the Defence Science and Technology Group: Updates to Sovereign Industrial Capability Priorities; Reform Defence Export Controls; Implementation of Defence's new Science and Technology Strategy 2030: 'More, together'; Implement improvements to the Australian Standard for Defence Contracting; and Launch of the Office of Defence Industry Support.

168 The AIC Plan Audit Program is examined at paragraphs 4.17–4.26. The role of the Centre for Defence Industry Capability was outlined at footnote 89.

4.7 In September 2023, Defence informed the Minister for Defence and the Minister for Defence Industry of its intention that the Investment Committee use Acquisition and Sustainment Quarterly Reports for ongoing oversight of project performance.¹⁶⁹ These reports contain information at a project level of the distribution of Australian industry content compared with overseas content for materiel, non-materiel and construction service projects.¹⁷⁰ The reports do not present information on Australian industry participation programmatically or collectively by Defence group or by procurement type — that is, materiel, non-materiel or construction services procurements.¹⁷¹

Tier 3 policy committees

4.8 The DPIP stated that:

The Policy will be reviewed periodically through a Defence Industry Policy Division working group to ensure it aligns with the Government's defence industry policy objectives.¹⁷²

4.9 Defence advised the ANAO in August 2023 that the implementation of the DPIP had not been subject to periodic review through a Defence Industry Policy Division working group or similar forum. In November 2024, Defence reconfirmed that a periodic review had not taken place and advised that 'The DPIP is being reviewed and updated as identified in Defence Industry Development Strategy initiative 5.6.'

Other committee oversight

CASG Executive Advisory Committee

4.10 The Capability Acquisition and Sustainment Group (CASG) Executive Advisory Committee (EAC) was the primary governance body for the group between 2019 and 2022.¹⁷³ For the period February 2021 to December 2022, the EAC discussed AIC on five occasions. At four of those meetings, the discussion was limited to updates on the progress of assurance mechanisms. The EAC did not make decisions or raise action items with respect to AIC. For the other meeting, the agenda item (in December 2022) included AIC with respect to performance analysis but the minutes of the meeting did not detail the discussion on AIC.

4.11 In December 2022, the EAC agreed to change the name of the body to the CASG Board. The CASG Board adopted a new purpose: to ensure that CASG is prepared and able to deliver capability

169 The same report is to be provided to the Defence portfolio ministers within six weeks of the end of each quarter.

170 Refer to paragraphs 4.50–4.53 for further discussion on the quarterly performance reports.

171 Defence advised the ANAO in August 2022 that 'An increasing number of capability programs across all Domains are preparing future programmatic submissions for IC [Investment Committee] and Government consideration'. See Auditor-General Report No.47 2022–23, *Defence's Administration of the Integrated Investment Program*, p. 31.

172 Department of Defence, *Defence Policy for Industry Participation*, paragraph 4.10, available from <https://www.defence.gov.au/sites/default/files/2020-08/Defence-Policy-for-Industry-Participation.pdf> [accessed 11 April 2025].

173 As noted at paragraph 1.20, CASG is the primary Defence group responsible for the implementation of AIC policy through its AIC Division, Commercial Division and Defence Industry Domestic Policy Branch. The purpose of the EAC was to provide strategic direction, decision-making and oversight of the group and its performance. The EAC was chaired by the Deputy Secretary of CASG. Following the creation of the role in 2020, the First Assistant Secretary AIC Division was included on the EAC as a permanent member.

required by the Chief of the Defence Force and the Chief of Joint Operations.¹⁷⁴ In the period February 2023 to June 2024, the CASG Board considered AIC-related matters as part of an update on the Supplier Rating System¹⁷⁵ and when considering the challenges when extracting the entirety of the data required from Defence’s systems for quarterly performance reporting purposes.

Security and Estate Group, Capital Facilities and Infrastructure Branch

4.12 The Capital Facilities and Infrastructure (CFI) branch within Defence’s Security and Estate Group (SEG) monitors contracted local industry capability commitments through monthly meetings.¹⁷⁶ Contracts within this branch are primarily managed on Defence’s behalf by third-party contractors (see Box 2).

Box 2: Third-party contract management

Contracts administered by SEG may also include provision for a third-party project manager or contractor to act as the Commonwealth’s agent in managing the contract. Defence has not applied the policy requirements of the DPIP where it has engaged third-party contractors valued above the \$4 million threshold, as required by the DPIP for non-materiel procurements. In September 2023, Defence advised the ANAO that applying the DPIP would be an additional burden on contractors that would exceed potential benefits.^a As noted at paragraph 3.8, imposing an additional burden that exceeds potential benefit is an allowable basis to exempt a procurement from DPIP requirements. The DPIP states that written delegate approval is required and the reasons for the exemption are to be documented.^b

Note a: Defence advised the ANAO that project management and contract administration contracts are procured from the Defence Infrastructure Panel.

Note b: Department of Defence, *Defence Policy for Industry Participation*, paragraphs 1.15, 3.25–3.27, pp. 16 and 45–46.

4.13 Contract level reporting is consolidated into project level reporting and included in a snapshot for the monthly CFI branch meeting. Data is further consolidated to report progress across all projects administered by the branch. Examination of the eight contracts discussed in Chapter 3 identified that within SEG, contract administrators did not use the same method to report performance against local industry capability (LIC) objectives. This has resulted in a lack of comparability across the underlying data used for reporting, as it cannot be collected and analysed in the same way using the same definitions.

174 In addition, the CASG Board is to support: the provision of specialist support to industry; independent review and assurance processes; and coordination of group performance reporting.

175 The Supplier Rating System was introduced by Defence in 2020 to assess supplier performance across a range of contracts. Refer to paragraphs 4.27–4.32 for further discussion about the Defence Supplier Rating System.

176 Six out of eight current Suite of Facilities contract templates that include an LICP requirement also include a requirement to report against the LICP at six-monthly intervals.

Recommendation no. 8

4.14 The Department of Defence improve its oversight arrangements to monitor and drive appropriate consistency in its implementation of Australian industry policy in its procurement and contracting activities.

Department of Defence response: *Agreed.*

4.15 *Defence agrees with the recommendation.*

Has Defence implemented a fit-for-purpose assurance framework?

Defence's assurance framework does not prescribe the level of assurance to be obtained and does not align with an auditing standards framework. Defence's 'AIC Audit Program' has provided limited insights on the extent to which Defence is implementing its DPIP obligations or whether suppliers are meeting their contracted DPIP-related commitments. Assurance-related activities conducted under Defence's framework are limited to materiel contracts over \$20 million in value, representing one-fifth of the procurement categories covered by the DPIP. The scope of Defence's assurance program has included contracts that were executed prior to the March 2019 introduction of the DPIP. Of the 17 assurance activities conducted by Defence since July 2021, seven did not report the deficiencies identified in AIC plans as non-compliance, as the DPIP did not apply to those contracts.

Other assurance-related activities such as Defence's self-reporting through compliance surveys under its Supplier Rating System indicate that Defence has not fully complied with its obligation to ensure supplier commitments are contracted in accordance with the DPIP. Of the 768 contract surveys conducted as at July 2024, 209 (27 per cent) reported that AIC obligations were 'not applicable'. Other procurement and contracting compliance arrangements in Defence do not cover the DPIP's requirements and have therefore not identified issues relating to its implementation.

4.16 Policy and program assurance arrangements can provide important feedback on the level of compliance with administrative and contractual requirements. In addition, the DPIP stated that:

Defence is introducing a risk-based assurance review program for contracted AIC Plans in 2019, and will consider broadening this into other procurement areas.¹⁷⁷

AIC assurance framework

4.17 In October 2019, government directed Defence to work with the Attorney-General's Department to review the application of Australian industry provisions in Defence contracts and assess whether they were consistent with government commitments, as outlined at paragraphs 2.19–2.20. In May 2020, government agreed that Defence would 'enhance' the existing AIC contracting framework and implement an independent audit program to assess the extent to which prime contractors have met their AIC obligations. The outcomes of this audit program were to be reported to the Minister for Defence Industry to support the development of Australia's sovereign industry capability.

¹⁷⁷ Department of Defence, *Defence Policy for Industry Participation*, paragraph 4.7.

4.18 On 30 July 2020, the 'AIC Plan Assurance Framework' with the proposed 'Independent AIC Plan Audit Program' was presented to the Minister for Defence Industry. On 24 August 2020, the minister approved the establishment of the audit program, which was described by the assurance framework as step 4 in the following process.

The operation of the framework is based on a five-step process, which commences with the referral of a potential instance of contractual non-compliance, or an identified risk. Once received, the matter is assessed (second step) and a decision is made as to the most appropriate course of action (third step). Not all matters referred for assessment will proceed to an audit of AIC contractual compliance. Some may be referred to the project or contract manager for action, proceed to another administrative process, or result in no further action.

However, where it is decided that an audit is warranted and would be of benefit, matters may proceed to audit (step 4) and then potential remediation and follow-up as required (step 5).

4.19 The framework states that it is aligned with the Department of Finance's 2016 Resource Management Guide on audit and assurance, and that the audits undertaken at step 4 are to be in accordance with the Australian Auditing Standards Board (AUASB) and the Australian Professional and Ethical Standards Board (APESB) standards. The level of assurance to be provided by each audit under the framework was not prescribed. Rather, the framework states that 'the level of assurance required and the procedures to be undertaken' are determined during the planning phase for each audit activity.

4.20 The Department of Finance guidance includes two examples of approaches that could be adopted by Defence — 'reasonable assurance engagements' and a review based on 'agreed-upon procedures'.¹⁷⁸ The latter approach however, 'is not an audit, review or other assurance engagement', according to the AUASB standards.¹⁷⁹ These types of assurance-related activities therefore do not provide the level of assurance that is claimed by describing these assurance-related activities as audits.

Scope of the AIC Plan Audit Program

4.21 Validation of AIC performance is to be given effect through step 4: identify non-compliance and provide Defence with the opportunity to exercise its rights in relation to supplier's obligations.¹⁸⁰ The scope of the framework is limited to AIC plans for materiel procurements valued at \$20 million or above and executed after February 2016. Where adverse findings are made, contract managers or the project office are to undertake remediation activities and report on progress in Quarterly Performance Reports. These findings are to be analysed to identify systemic trends which are to be reported to the Minister for Defence Industry.

Completed activities under the assurance framework

4.22 Defence completed 17 assurance-related activities under the assurance framework in the period July 2021 to August 2024. Consistent with the objective of the framework, the completed

178 Department of Finance, *Clarification of the terms 'Audit' and 'Assurance' Resource Management Guide No. 210*, November 2016. This guide was removed from the Department of Finance website in 2021.

179 The AUASB standards state that 'An agreed-upon procedures engagement is not an audit, review or other assurance engagement.' See: Auditing and Assurance Standards Board, *Standard on Related Services ASRS 4400 Agreed-Up On Procedures Engagements*, December 2022, paragraph Aus 6.1, available from <https://standards.auasb.gov.au/asrs-4400-sep-2022> [accessed 11 April 2025].

180 The AIC Plan Audit Program outcomes are discussed in paragraphs 4.22–4.26.

assurance-related activities focused on validating the extent to which the contracted Defence suppliers have complied with their AIC Plan commitments. The scope of the assurance-related activities has been largely limited to detailed testing of the most recent project AIC Plan. Contract status reporting, previous versions of the plans and other reporting avenues were not tested in most cases. Subcontractors on the project were included within the scope of the assurance-related activity in two cases.

4.23 Of the 17 assurance-related activities completed, 15 made recommendations, one identified improvement opportunities and one did not raise any findings. The recommendations were directed to suppliers and did not address Defence's contract management. Common recommendations included that the AIC Plans be maintained consistently (including public AIC Plans being updated) and that, where absent, they be updated to include clear performance measures and contracted commitments regarding AIC. Seven reports included findings on deficiencies in the AIC commitments in AIC Plans. These ranged from minor inconsistencies in commitments to the absence of performance measures or targets within the AIC Plan. Of the 17 reports completed:

- 9 suppliers had met their contracted commitments without major issues identified;
- 4 suppliers had met their contracted commitments but with some identified issues, including a risk of material misstatement in the contract reporting, and the AIC commitments in the plan not having defined performance measures¹⁸¹;
- 4 reports stated that assurance could not be provided as to whether the suppliers had met their contracted commitments due to high risks of material misstatement and lack of supporting evidence.¹⁸²

4.24 None of the completed reports identified whether the engagement activity had been conducted in accordance with professional auditing standards. Nine reports contained general statements that the activity was conducted in accordance with the AIC Plan Assurance Framework. As noted at paragraph 4.19, the framework allowed for assurance-related activities with 'agreed-upon procedures' to be conducted, which are not audits or assurance engagements as defined under the AUASB auditing standards. The use of poorly defined audit procedures or conducting assurance-related activities that do not meet applicable standards may lead to misleading information being communicated to users about the level of assurance being provided by an activity.

4.25 Step 5 of the Assurance Framework is for the contract manager to monitor the implementation of recommendations. The AIC Delivery Branch does not oversee the implementation of recommendations and has no visibility of the extent to which the activities have led to change. One report from August 2023 recommended that the public AIC Plan be updated to reflect the current non-public version as it had not been updated since 2013. The recommendation

181 In one instance the report noted that the 'AIC Progress Reporting processes were contractually compliant, because they were not required under the contract', however other commitments in the AIC Plan had been met.

182 This included one plan that had been delivered as a draft and had not been further developed in accordance with the contract. This report also found that there had been no reporting of AIC achievements against the commitments that were drafted in the plan.

stated that this should be done within six months. At 6 September 2024, the public AIC Plan for this project had not been updated — 13 months after the recommendation was made.¹⁸³

4.26 One of the intended outputs of the framework is the identification of systemic issues. Consolidated lessons from the completed reports were compiled in January 2024 by Defence’s contracted assurance services provider.¹⁸⁴ The themes from those reports are summarised in Table 4.1.

Table 4.1: AIC assurance-related activities lessons learned summary

Theme	Documented observation
Assurance framework design	<ul style="list-style-type: none">• The selection process for the ‘audits’ is not consistent with the framework process. The Framework states that ‘audits’ are to be triggered due to compliance issues and that ‘good’ contracts should not be audited.• There is currently no tracking of report findings and recommendations, increasing the risk issues highlighted by the ‘audits’ may go unaddressed.
AIC audit reporting	<ul style="list-style-type: none">• The assurance-related report format does not allow for analysis beyond presenting the findings and recommendations. This impacts the report’s ability to present AIC related issues in a way that allows for risk-based comparison.
Contract management framework & CASG oversight	<ul style="list-style-type: none">• Numerous critical AIC objectives do not have measurable financial targets or commitments. This does not allow Defence to hold the supplier accountable for non-performance and makes it such that ‘there is no way of objectively measuring benefits of AIC programs.’• The AIC Plans and progress reporting provide unnecessary information, including large amounts that are irrelevant to the contracts’ AIC components. This reduces transparency as it is difficult to determine what the AIC component is accomplishing and what would be business as usual had the contract not had AIC provisions.• CASG is inconsistent in implementing follow up actions when shortfalls or non-compliance with AIC is reported, with information accepted without follow up on potential errors in some cases.
Lessons learned for prime contractors	<ul style="list-style-type: none">• Improved record keeping; collaboration between primes, subcontractors and Defence; and that AIC Plans are viewed as a living document.^a

Note a: See paragraphs 2.18 and 2.23–2.31 for discussion of ASDEFCON template maintenance.
Source: ANAO analysis of Department of Defence documents.

Supplier Rating System

4.27 In addition to the ‘audit’ program, Defence has used its Supplier Rating System (SRS) to inform itself of its implementation of DPIP requirements. In November 2020, the government agreed that Defence develop the SRS to assess supplier performance across a range of contracts.¹⁸⁵

183 The supplier was Leonardo UK Ltd in relation to Project SEA 1442 Phase 4 Maritime Communications Modernisation.

184 The contractor who had conducted all 17 audits in the program to date.

185 Prior to the SRS, Defence used the Performance Exchange Program (PEx) to assess the performance of prime contractors. In early July 2020, PEx was transferred to AIC Division (from Commercial Division) and subsequently paused 20 July 2020 to allow for consideration of its effectiveness as the contract with the provider ended. Defence assessed that PEx was not providing accurate information on supplier performance and did not enable suppliers to be critical of Defence, thereby reducing Defence’s ability to identify risks and issues.

The SRS is a standardised, bi-annual self-reporting survey of supplier performance administered by AIC Division and completed by Defence contract managers, with contractors invited to provide input.¹⁸⁶ Surveys are mandatory for contract managers if the contract value exceeds \$20 million (or \$7.5 million in the case of construction contracts), is managed by CASG and is not one of the excluded categories.¹⁸⁷ The SRS survey requires contract managers to rate the prime contractor's performance across nine performance management categories using an online survey with a preset logic path.¹⁸⁸

4.28 As part of the work to strengthen the AIC Program, Defence received government approval to develop the SRS in late 2020. On 20 August 2021, Defence advised the Minister for Defence Industry that the SRS was ready to conduct a pilot round and would include the opportunity for subcontractors to provide feedback on prime contractors. In July 2024, Defence advised the ANAO that subcontractors were not provided with that opportunity and currently do not have access to the SRS.

Supplier Rating System survey findings

4.29 At 1 August 2024, Defence had completed three rounds of the SRS survey, in addition to a pilot round. The third round of the SRS surveys covered contracts worth approximately \$92 billion across 130 unique suppliers. A summary of the overall SRS performance ratings is provided at Table 4.2.

Table 4.2: Supplier Rating System survey results, by round and rating

Performance	Round 1 April to September 2023	Round 2 October 2022 to March 2023	Round 3 April to September 2023
Excelling	10	19	22
Highly performing	53	66	77
Performing	152	133	173
At risk	9	10	10
Under performing	6	8	15
Total	230^a	236^b	297^c

Note a: This figure represents 94 per cent of surveys. Two were excluded and 14 surveys were not returned.

Note b: This figure represents 96 per cent of surveys. One was excluded and 11 surveys were not returned.

Note c: This figure represents 92 per cent of surveys. No contracts were excluded, and 26 surveys were not returned.

Source: ANAO analysis of Department of Defence documents.

186 Input from the contractors is voluntary.

187 Contracts that meet the criteria for inclusion in the SRS are identified using data from Commercial Division. Contracts may be excluded due to being foreign military sales, deeds, financial instruments, government to government sales and memorandum of understanding.

188 The responses provided by contract managers produce ratings on a 5-point scale for each performance management category, which are averaged and produce an overall rating. These ratings are intended to be used to: inform procurement decision-making including tender assessments, annual reviews, ongoing monitoring and decision-making; identify trends and support contract management improvement activities; and contribute to continuous improvement within Defence and with suppliers.

4.30 Across the three completed rounds, responses were received for 94 per cent of contracts. Of the 768 surveys returned by contract managers, 705 (92 per cent) were rated as ‘performing’ or better. In all three rounds, this proportion has remained consistent despite the increasing number of contracts included in the SRS.

4.31 The SRS is targeted to contracts above \$20 million and therefore meet the threshold for AIC plan requirements under the DPIP. However, of the 768 surveys returned as at July 2024, the AIC Performance Measurement Category is reported as ‘not applicable’ for 209 contracts (27 per cent). The SRS does not record why there are no AIC requirements in the contract.¹⁸⁹ Defence is unable to determine the rationale for the proportion of non-applicable responses without an examination of each procurement process.

4.32 Data from the SRS may be provided to senior personnel for analysis upon request. The AIC Division does not provide guidance to the requestor and there is no consolidated database where findings or actions taken as a result of the SRS data are recorded. The SRS reporting to the CASG Board has been noted with no action items taken.

Other compliance and assurance arrangements

Financial compliance arrangements

4.33 Defence manages a register to record self-reported breaches of finance law by its personnel. In September 2024, Defence reported to its audit and risk committee that for the financial year 2023–24, a total of ‘3,440 breaches of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and Public Governance, Performance and Accountability Rule 2014 (PGPA Rule) were self-reported compared to 3,317 breaches in 2022–23’.¹⁹⁰ Of those breaches, 221 related to Defence’s Accountable Authority Instruction 2 for procurement. In July 2024, Defence advised the ANAO that non-compliance with AIC related obligations has not been recorded.

Procurement and Contracting Assurance Framework

4.34 In April 2024, Defence’s Enterprise Business Committee (EBC) endorsed the Procurement and Contracting Assurance Framework to improve the effectiveness of enterprise-wide procurement and contracting and detect non-compliance.

4.35 The EBC is responsible for endorsing an annual program of work, and reviewing outputs under the Framework based on twice-yearly reporting. Reporting is to be provided by the Deputy Secretary of CASG. The Defence Audit and Risk Committee (DARC) is to oversee the framework. The Procurement and Contracting Assurance team prepared a 2023–24 pre-assurance baseline report from published AusTender contract notices for consideration by the EBC and DARC in September 2024, which is to be used to inform future work. This reporting did not include information on compliance, effectiveness or performance relating to AIC policy requirements. The program of work

189 Performance management categories populated as ‘not applicable’ was a priority lesson learned after the completion of Round 1. However, in rounds 2 and 3, the percentage of contracts returning AIC as not applicable has remained consistent and no further action has been taken.

190 The report to the Defence Audit and Risk Committee noted:

The majority of breaches relate to PGPA Act s25 Duty of Care and Diligence (2,372), constituting 69% of breaches in 2023-24 compared to 2,373 (72%) in 2022-23. These breaches are primarily due to the misuse of Defence credit cards for private transactions.

for the year 2024–25 includes checking whether contracts that meet the threshold for an AIC Plan obtain the plan at the approach to market stage or before entering a contract.

Defence Integrity Division Procurement Compliance Directorate

4.36 In July 2024, in response to an internal review of compliance with key procurement and contracting requirements, Defence established a Procurement Compliance Directorate (PCD) within the Defence Integrity Division. The thematic issues identified included: awareness of applicable Commonwealth and Defence specific requirements, inadequate or absence of compliance checks, and poor record keeping. The PCD was stood up to provide an ongoing mechanism to review and assess Defence's compliance with the whole-of-government and Defence procurement and contracting requirements.

Recommendation no. 9

4.37 The Department of Defence review and revise its AIC assurance framework to:

- (a) prescribe the level of assurance to be obtained through the assurance activities;
- (b) cover the full scope of Defence industry contracting and policy requirements; and
- (c) assess whether Defence industry contracting and policy requirements have been considered and addressed early in procurement processes as required, including the approval and documentation of exemptions.

Department of Defence response: *Agreed.*

4.38 *Defence agrees with the recommendation.*

Has Defence established appropriate reporting arrangements?

Defence has established performance measures related to its engagement with Australian industry and provides quarterly reporting to the Minister for Defence. Defence's administrative systems do not support reporting at the project level or ensure that AIC Plans are published where required. Defence has undertaken to further develop its reporting on defence industry as part of its implementation of the Defence Industry Development Strategy.

4.39 The DPIP includes the following reporting requirements:

Defence will report on Policy implementation as part of its annual reporting requirements. Reporting will address policy impact across Defence procurement. It will not assess individual suppliers or performance of their contracted commitments.¹⁹¹

4.40 The DPIP was to be reviewed on an annual basis to ensure its ongoing alignment with government objectives. This process was to include engagement with industry and was to result in changes to tender and contracting documentation suites as required.¹⁹²

¹⁹¹ Department of Defence, *Defence Policy for Industry Participation*, paragraph 4.9.

¹⁹² *ibid.*

Public reporting

4.41 Under section 39 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), a Commonwealth entity must publish annual performance statements in its annual report.¹⁹³ Since the introduction of the DPIP in 2019, Defence's Corporate Plans have included key activities and performance measures related to its engagement of Australian industry.¹⁹⁴ The performance measures are focused on assessing the delivery of Defence's key activities at the whole-of-Defence level.¹⁹⁵ Performance measure 7.1 states that 'Defence contributes to Australia's prosperity through the inclusion of Australian businesses and enterprises in supply chains for capability and services.'¹⁹⁶

4.42 To determine performance against performance measure 7.1, the 2023–27 Defence Corporate Plan set five targets, of which two have broad relevance to the intent of the DPIP to maximise opportunities for Australian Industry participation. These two targets are:

- Defence direct economic contribution to the Australian economy. A target to demonstrate performance will be set during the reporting period.
- Defence contributes to strengthening sovereign defence industry. This will be demonstrated by an increase in the Australian contract expenditure of Capability Acquisition and Sustainment Group and Naval Shipbuilding and Sustainment Group contracts.¹⁹⁷

4.43 In the 2023–24 Defence Performance Statements, Defence reported that the advancement of Australia's prosperity was 'substantially achieved'. In relation to direct economic contribution, Defence reported that 'Defence spending increased by 7.1 per cent compared with the previous reporting period, which resulted in achievement of this target. Total Defence expenditure on businesses with an Australian Business Number was reported at \$27.46 billion for 2022–23 increasing to \$29.41 billion in 2023–24.'

4.44 As part of the preparation for the 2023–24 Performance Statements, the Deputy Secretary CASG assessed that target 7.1b was achieved due to a 6.7 per cent increase in total Australian

193 *Public Governance, Performance and Accountability Act 2013*, section 39 (Annual Performance statements for Commonwealth entities); Department of Finance, *Annual performance statements for Commonwealth entities (RMG134)*, 2023, available from <https://www.finance.gov.au/government/managing-commonwealth-resources/annual-performance-statements-commonwealth-entities-rmg-134> [accessed 11 April 2025].

194 Defence's Corporate Plan includes two high level outcomes. Outcome one is to 'defend Australia and its national interests through the conduct of operations and provision of support for the Australian community and civilian authorities in accordance with Government Direction'. Outcome two is 'protect and advance Australia's strategic interests through the provision of strategic policy, the development, delivery and sustainment of military, intelligence and enabling capabilities, and the promotion of regional and global security and stability as directed by Government'. The activities and measures with respect to the engagement of Australian industry are linked to Defence's outcome two.

195 Department of Defence, *Defence Corporate Plan 2023–27*, 2023, p. 28, available from <https://www.defence.gov.au/about/strategic-planning/defence-corporate-plan> [accessed 11 April 2025].

196 Department of Defence, *Defence Corporate Plan 2023–27*, p. 19. Defence has updated its performance measures in subsequent reporting.

197 The other three targets related to Defence's facilitation of defence industry exports, Defence's investment in innovation, science and technology as approved by government, and the percentage of Defence's contracts to Indigenous enterprises.

contract expenditure. This increase included a growth in whole-of-Defence expenditure from \$27.8 billion in 2022–23 to \$29.7 billion in 2023–24.¹⁹⁸ The assessment also noted that:

Due to a changed approach in methodology for calculation from financial year 2022–23 to financial year 2023–24, expenditure figures were compared to last financial year to ensure consistency using the new methodology. Figures are not necessarily comparable to previous externally published data due to the changed approach.

4.45 Defence documentation between 2019–20 and 2023–24 indicates that performance measure targets relating to defence industry were qualitative in nature and lacked a quantitative basis for the performance reporting conclusions. To date, Defence’s performance statements against performance measure 7.1 have provided limited insights on its contribution to advancing Australia’s prosperity through its engagement with Australian industry.¹⁹⁹ Performance measure 7.1 is relevant to the DPIP intent of maximising opportunities for Australian industry participation.²⁰⁰ However, the measure does not inform an assessment of Defence’s implementation of AIC requirements under the DPIP or its impact.

Major Projects Report

4.46 The 2022–23 Major Projects Report (MPR) Guidelines provide for reporting in Project Data Summary Sheets on whether there was an AIC Plan in place for large contracts, the key elements of the plan, and whether there were contracted AIC targets.²⁰¹ The ANAO excluded AIC from the scope of the assurance provided by the MPR. The report stated:

These exclusions are due to the lack of Defence systems from which to provide complete and/or accurate evidence, in a sufficiently timely manner to complete the review. Accordingly, the Independent Assurance Report by the Auditor-General does not provide any assurance in relation to this information.²⁰²

AIC plan publications

4.47 As noted at paragraph 3.24, public versions of AIC plans for materiel procurements over \$20 million are to be published to promote opportunities for Australian suppliers.²⁰³ The publication

198 Change by Defence group, CASG: \$8.6 billion, a 9.6 per cent increase and NSSG: \$4.3 billion, a 12.1 per cent increase. The growth in expenditure was attributed in part to inflation and real cost increases.

199 In the 2021 to 2022 performance cycle, when reporting the relevant performance measure as ‘achieved’, Defence relied on evidence that did not present a complete picture of performance against one sub-measure and was unable to assess the second. Defence’s Annual Report for 2021–2022 noted that ‘Performance is Achieved where all sub-measures are Achieved’.

200 In March 2025, Defence published an updated Corporate Plan for 2024–28. The update amended performance measure 7.1 to ‘Defence strengthens the sovereign defence industrial base across critical industrial capabilities’. The performance target with respect to ‘Defence direct economic contribution to the Australian economy’ was not changed. Department of Defence, *Defence Corporate Plan 2024–28*, 2025, p. 28, available from <https://www.defence.gov.au/about/strategic-planning/defence-corporate-plan> [accessed 11 April 2025].

201 The MPR is an annual review of Defence’s major equipment acquisitions, undertaken at the request of the Parliamentary Joint Committee of Public Accounts and Audit (JCPAA). The purpose of the MPR is to provide information and assurance to the Parliament on the performance of selected acquisition projects.

202 Auditor-General Report No.14 2023–24, *2022–23 Major Projects Report*, ANAO, Canberra, 2024, paragraph 1.3 available from <https://www.anao.gov.au/work/major-projects-report/2022-23-major-projects-report> [accessed 11 April 2025].

203 Department of Defence, *Defence Policy for Industry Participation*, paragraph 2.24.

of a public AIC plan is a Defence contracting requirement within templates for procurements including for large and complex procurements.²⁰⁴ The Defence website hosts a searchable list of public plans designed to ‘to inform industry of forward opportunities to participate in Defence projects and sustainment activities.’²⁰⁵

4.48 At 6 September 2024, the Defence website hosted 130 public AIC Plans, dated from April 2013.²⁰⁶ Of those, 70 AIC Plans were published following the launch of the DPIIP in 2019 and 46 of those were published since 2022. Defence data indicates that 140 materiel and non-materiel contracts valued at over \$20 million commenced in 2022 alone. This indicates that no plans have been published for at least two-thirds of the 140 contracts that commenced in 2022.²⁰⁷

4.49 Defence does not hold aggregate data on the total number of AIC plans in place. Defence advised the ANAO in August 2023 that there are no arrangements in place to ensure that plans are published on the Defence website as required and that they are removed from the website following the completion of the project or contract. Defence published one of the five contracts examined by the ANAO that had publication requirements, refer to paragraphs 3.24–3.25.

Quarterly performance report

4.50 CASG produces a quarterly performance report (QPR) that details scope, schedule and cost performance of projects. The purpose of the QPR is to inform the Minister for Defence Industry on the implementation of acquisition and sustainment activities. Relevant information is coordinated through the Independent Projects and Portfolio Management Office of CASG.

4.51 The quarterly performance report for the period January to March 2024 included information on the percentage of total Defence spending in Australia.

At present, approximately 79% of total Defence spending occurs in Australia. In 2023–24 forecast Australian Industry Capability spend is acquisition \$9,302m (59%) and sustainment \$13,047m (80%). This is a decrease of 1% for acquisition but no change to sustainment from last quarter.

4.52 Defence draws its Australian industry expenditure figures from planned budget expenditure information provided by the Defence Finance Group.²⁰⁸ The AIC Division within CASG did not contribute to the QPR until February 2024, and did not contribute to subsequent QPR reporting in 2024. The Defence Finance Group also provides the Australian industry expenditure data for Defence’s Senate Budget estimates briefs. These figures are provided as a percentage of planned Defence spending comprised of costs such as Defence’s workforce (staffing), operating costs, and

204 For example, the ASDEFCON (Strategic Materiel), (Complex Materiel Volume 2), and ASDEFCON Support templates.

205 Department of Defence, ‘Public Australian Industry Capability Plans’, n.d., available from <https://www.defence.gov.au/business-industry/finding-opportunities/public-australian-industry-capability-plans> [accessed 11 April 2025].

206 The website included 13 undated plans. Excluding the undated plans, the plans were published at an average rate of ten per year.

207 Due to delays in the finalisation of AIC plans after contract execution (see paragraphs 3.18 and 3.21 and Table 3.5) plans for contracts entered in 2022 could have occurred in a subsequent year. The total number of plans reported in 2022 was 12.

208 In September 2024, Defence advised the ANAO that its Australian industry expenditure figures are sourced from internal financial systems and excludes credit card payments.

acquisition and sustainment programs. Defence expenditure in Australia by cost category in the 2024–25 Portfolio Budget Statements (PBS) is outlined in Table 4.3.

Table 4.3: Defence’s estimated expenditure in Australia by cost category and percentage in 2024–25

Cost category	Percentage of Defence’s PBS 2024–25 expenditure in Australia
Workforce	99.6
Acquisition program	38.5
Sustainment program	80.6
Operating	97.6
Total Defence planned expenditure	74.3

Source: ANAO analysis of Department of Defence documents.

4.53 The inclusion of Defence’s workforce costs and planned operating expenditure are not aligned with the intent of the DPIIP and fall outside Defence’s definition of defence industry.²⁰⁹ While ‘enhancements’ to the ASDEFCON contracting suite in 2021 and 2022 included measures to mandate the collection of AIC data, this data was used once in aggregate reporting in February 2024.

Other reporting activities

4.54 In August 2020 and in June 2021, Defence advised government that it was developing data sources — in consultation with the Australian Bureau of Statistics (ABS) and the Department of Industry, Science and Resources (DISR) — to capture the economic impact of defence industry. On 30 September 2022, the ABS published its first ‘experimental estimates’ on the Australian Defence Industry Account (ADIA) covering the financial year 2021–22. The ABS described the ADIA as a ‘satellite account that measures the direct economic contribution and direct employment headcount of the defence industry to the Australian economy.’²¹⁰

4.55 The ABS released two further experimental estimates in 2023 and 2024. The 2024 release covered the 2022–23 financial year, reporting that the Australian defence industry:

- contributed \$10.6b (0.44%) to Australia’s gross value added, up 4.1% from the previous year
- employed 64,100 persons, up 6.3% from the previous year
- consisted of 5,544 Australian businesses.

209 The 2024 *Defence Industry Development Strategy* defined defence industry as comprising of businesses:

with an industrial capability used to provide products or services used in, or which can be adapted to be used in, the Australian Department of Defence supply chain and/or an international defence force supply chain. This includes businesses that deliver services which contribute to national security outcomes in addition to warfighting outcomes.

210 For the purpose of the ADIA, Australian defence industry represents:

the production of goods and services invoiced to the Department of Defence. For example, if a vehicle manufacturer supplies vehicles both to Defence and the broader economy, only the activity associated with Defence is captured. For an activity to be included, there must be a direct relationship between the Department of Defence and the supplier of the good or service. Only the direct defence industry contributions and employment are included.

4.56 The scope of the ADIA is limited to Australian organisations that have directly received payments for goods and services delivered within Australia. The data for the ADIA was sourced from the Defence Finance Group, Australian National Accounts: Supply Use Tables, the ABS Business Register and Business Activity Statements.²¹¹ This represents direct contracts with Defence only and does not capture expenditure through industry supply chains.

4.57 The 2024 *Defence Industry Development Strategy* (DIDS) stated that, '[t]o build the capable, resilient, competitive and innovative industrial base Defence needs, we must improve our approach to collecting data on defence industry.'²¹² Action 2.1 of the DIDS committed Defence to developing 'its industry intelligence capability to gain greater insights into Australia's industrial capability and capacity.'²¹³ Defence's detailed implementation plan with respect to this action included using data analytics to understand, develop, expand and map Australia's defence industrial base, with the industrial intelligence capability to be established by mid-2024. In September 2024, Defence advised the ANAO that it was 'finalising contract negotiations to acquire systems and data to support intelligence outputs, in parallel to progressing recruitment activities to on board qualified analysts, data and intelligence specialists.'



Dr Caralee McLiesh PSM
Auditor-General

Canberra ACT
11 April 2025

211 Australian Bureau of Statistics, *Australian Defence Industry Account, experimental estimates methodology*, 27 March 2024, available from <https://www.abs.gov.au/methodologies/australian-defence-industry-account> [accessed 11 April 2025].

212 Department of Defence, *Defence Industry Development Strategy*, 29 February 2024, p. 12, available from. <https://www.defence.gov.au/about/strategic-planning/defence-industry-development-strategy> [accessed 11 April 2025].

213 Department of Defence, *Defence Industry Development Strategy*, p. 12.

Appendices

Appendix 1 Entity response



Australian Government
Defence
PO Box 7900 CANBERRA BC ACT 2610

EC24-005978

Dr Caralee McLiesh, PSM
Auditor-General
PO BOX 707
CANBERRA ACT 2601

Dear Dr McLiesh

Auditor-General Proposed Report – Maximising Australian industry participation through Defence contracting

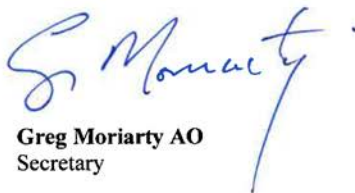
Thank you for the opportunity to comment on the Proposed Report for the Auditor-General performance audit *Maximising Australian industry participation through Defence contracting*.

Defence acknowledges and accepts the key findings and recommendations that are aimed at improving governance, assurance and reporting arrangements to maximise Australian industry participation. Defence is committed to improvements that allow easier, faster and more cost effective solutions for industry to work with Defence.

Attached to this letter are Defence's proposed amendments, editorials and comments (**Annex A**), response to requests for information (**Annex B**), response to proposed recommendations (**Annex C**) and Defence's summary response (**Annex D**). These constitute Defence's formal response to the Auditor-General Proposed Report.

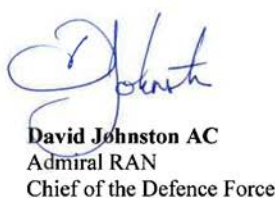
Our point of contact is the ANAO Liaison Officer who can be contacted via email at: anao.lo@defence.gov.au.

Yours sincerely



Greg Moriarty AO
Secretary

25 November 2024



David Johnston AC
Admiral RAN
Chief of the Defence Force

25 November 2024

Appendix 2 Improvements observed by the ANAO

1. The existence of independent external audit, and the accompanying potential for scrutiny improves performance. Improvements in administrative and management practices usually occur: in anticipation of ANAO audit activity; during an audit engagement; as interim findings are made; and/or after the audit has been completed and formal findings are communicated.
2. The Joint Committee of Public Accounts and Audit (JCPAA) has encouraged the ANAO to consider ways in which the ANAO could capture and describe some of these impacts. The ANAO's Corporate Plan states that the ANAO's annual performance statements will provide a narrative that will consider, amongst other matters, analysis of key improvements made by entities during a performance audit process based on information included in tabled performance audit reports.
3. Performance audits involve close engagement between the ANAO and the audited entity as well as other stakeholders involved in the program or activity being audited. Throughout the audit engagement, the ANAO outlines to the entity the preliminary audit findings, conclusions and potential audit recommendations. This ensures that final recommendations are appropriately targeted and encourages entities to take early remedial action on any identified matters during the course of an audit. Remedial actions entities may take during the audit include:
 - strengthening governance arrangements;
 - introducing or revising policies, strategies, guidelines or administrative processes; and
 - initiating reviews or investigations.
4. In this context, the below actions were observed by the ANAO during the course of the audit. It is not clear whether these actions and/or the timing of these actions were planned in response to proposed or actual audit activity. The ANAO has not sought to obtain assurance over the source of these actions or whether they have been appropriately implemented.
 - In July 2023, Defence updated the ASDEFCON (Complex Materiel) Volume 1 and ASDEFCON (Support Short) templates (see footnote 60).
 - In September 2023, Defence launched the AIC Practitioners course as an optional two-day instructional course for Defence contract managers and defence industry participants (see paragraph 2.63).
 - In January 2024, Defence's contracted assurance services provider compiled a consolidated set of lessons from the completed reports into AIC plans (see paragraph 4.26 and Table 4.1).
 - In April 2024, Defence approved a My Procurements Enhancement Plan to address issues identified in audits of procurement and contract management practices (see paragraph 2.36).
 - In April 2024, Defence released version 1.1 of the *Acquisition Pricing Workbook Guide for ASDEFCON* (see Table 2.1).
 - In April 2024, Defence's Enterprise Business Committee endorsed the Procurement and Contracting Assurance Framework (see paragraph 4.34).

- In April and June 2024, Defence updated its Suite of Facilities contracts to ensure that contract templates with a requirement for a Local Industry Capability Plan also contained clauses requiring reporting against the plan (see paragraph 2.26).
- In May 2024, Defence replaced the April 2016 version of the Defence Contract Template Selection and Tailoring Guide on its website with an updated version (see paragraphs 2.46–2.47).
- In July 2024, Defence established a Procurement Compliance Directorate within the Defence Integrity Division (see paragraph 4.36).
- In July 2024, Defence mandated the use of the My Procurements application to improve compliance with mandatory procurement policies (see paragraph 2.34).
- In July 2024, the supplier for 1. Missiles delivered its first report against contracted Australian industry commitments (see Table 3.7).
- In August 2024, Defence approved a complete Australian Industry Capability schedule for examined contract 6. Monitoring (see Figure 3.1).
- In October 2024, Defence added performance of AIC to the agenda for its regular meetings with the supplier for examined contract 6. Monitoring (see paragraph 3.38).

Appendix 3 Summary of government initiatives relevant to Australian defence industry participation

Date	Policy/program
Early 1970	<i>Australian Industry Participation Program</i> /'Offsets' policy launched to broaden the capability of Defence industry and maximise Australian content of Defence equipment.
1986	<i>Australian Industry Involvement Program</i> launched by Defence to develop and sustain strategically important capabilities in Australian industry and maximise Australian industry involvement in Defence procurement. Applied to capital equipment projects with tenders over \$5 million.
April 2001	<i>Australian Industry Participation (AIP) National Framework</i> agreed by all Australian governments to promote Australian industry capability and work cooperatively.
March 2007	<i>Defence and Industry Policy Statement</i> provided additional Australian Industry Capability requirements for procurement activities valued over \$5 million and which involved logistic acquisitions of military significance.
February 2008	<i>Australian Industry Capability Program</i> replaced the former <i>Australian Industry Involvement Program</i> and required potential contractors to demonstrate how their tenders provide opportunities for Australian companies. The requirements applied to materiel contracts valued \$50 million and over.
July 2009	<i>Australian Government Procurement Statement</i> announced the requirement for tenderers to prepare and implement AIP Plans for procurements valued at over \$20 million, effective from January 2010, as part of the <i>AIP National Framework</i> .
June 2013	<i>Australian Jobs Act 2013</i> required the development of AIP plans for private and public projects with a capital expenditure of \$500 million and over.
February 2016	<i>Defence White Paper</i> and <i>Defence Industry Policy Statement (DIPS)</i> identified industry as a fundamental input in the Defence capability life-cycle. The Policy Statement also foreshadowed a new Centre for Defence Industry Capability.
April 2018	<i>Defence Industrial Capability Plan</i> defined Australian Defence industry, introduced ten initial Sovereign Industrial Capability Priorities, and altered Australian industry requirements for defence major capital equipment and non-materiel procurements valued at \$20 million and above.
March 2019	<i>Defence Policy for Industry Participation (DPIP)</i> requires AIC plans and schedules for materiel and non-materiel procurements above \$4 million and LIC plans for construction services procurements above \$7.5 million.
February 2020	'Enhanced' Australian industry capability (AIC) contractual framework announced by the Ministers for Defence and Defence Industry to strengthen AIC contractual provisions in Defence contracts.
February 2024	<i>Defence Industry Development Strategy</i> replaced the 2016 DIPS and the 2018 DICP to support the priorities outlined in the 2023 Defence Strategic Review and the 2024 National Defence Strategy.

Source: Parliament of Australia and Department of Defence documents.

Appendix 4 Summary assessment of Defence's administration of the contracts selected for analysis

Contract	Did Defence effectively advise potential suppliers of DPIP requirements?	Has Defence contracted with suppliers in accordance with DPIP requirements?	Has Defence monitored industry compliance with contracted DPIP commitments?
1. Missiles	▼	▼	▼
2. DSS	■	■	■
3. Utility	■	■	■
4. Systems	▲	▲	■
5. MSP	■	▼	■
6. Monitoring	▲	▲	■
7. Learmonth	▲	▲	▼
8. Tindal ^a	▲	▼	▼

Key: ◆ Effectively met all AIC requirements ▲ Largely met most AIC requirements
 ▼ Partly met the AIC requirements ■ Did not meet AIC requirements

Note a: This procurement occurred across two phases (started in 2018 and 2020 respectively) with an overall project LIC plan. As part of Defence's management of this project, the approved LIC plan was revised and re-approved after 2018. The plan has been reviewed since execution of the Delivery Phase contract in 2020.

Source: ANAO analysis of Department of Defence documents.