

The Auditor-General
Audit Report No.9 2006–07
Performance Audit

Management of the Acquisition of the Australian Light Armoured Vehicle Capability

**Department of Defence and
Defence Materiel Organisation**

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of Australia 2006

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Canberra ACT
26 October 2006

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit in the Department of Defence and Defence Materiel Organisation in accordance with the authority contained in the *Auditor-General Act 1997*. 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 and the accompanying brochure. The report is titled *Management of the Acquisition of the Australian Light Armoured Vehicle Capability*.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name.

Ian McPhee
Auditor-General

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

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Abbreviations

AASB	Australian Accounting Standards Board
ASLAV	Australian Light Armoured Vehicle
BACWS	Behind Armour Commander's Weapon Station
CAD	Canadian Dollar
CCP	Contract Change Proposal
CLIN	Contract Line Item Number
CPT	Crew Procedural Trainer
CWS	Command Weapon Station
DEFMIS	Defence Finance Management and Information System
DMO	Defence Materiel Organisation
FMA	<i>Financial Management and Accountability Act 1997</i>
FOREX	Foreign Exchange
GST	Goods and Services Tax
MSSS	Multi-Spectral Surveillance Suite
RBA	Reserve Bank of Australia
ROMAN	Resource and Output Management and Accounting Network
SEI	Systems and Electronic Incorporated
USD	United States Dollar
WAFV	Wheeled Armoured Fighting Vehicle



Australian Light Armoured Vehicle in the Al Muthanna Province

Source: Department of Defence

Summary and Recommendations

Summary

Background

1. The basis of the Army's armoured reconnaissance and surveillance capability is provided by a fleet of 257 Australian Light Armoured Vehicles (ASLAVs). The vehicles are used to equip units in Darwin and Brisbane. Currently there is a deployment of some 50 ASLAVs serving in the Middle East Area of Operations.
2. The development of the ASLAV capability commenced in 1989 and has involved three acquisition phases to date and the integration of a range of capabilities to the base vehicles. The project has spanned a period of multiple changes in the structure of the Defence acquisition organisation, in acquisition processes and procedures, and in Defence capability decision-making processes.¹
3. Phase 1 had an approved cost of \$28.4 million (April 1989 prices). This involved the purchase of 15 ex-US Marine Corps Light Armoured Vehicles in order to trial the Wheeled Armoured Fighting Vehicle (WAFV) concept in northern Australia. The trials were conducted in 1990–91, with the subsequent report endorsing the suitability of the WAFV. Subsequently, Defence selected the Light Armoured Vehicle as the WAFV solution.
4. The initial scope of ASLAV Phase 2, approved in August 1991, involved the acquisition of 97 ASLAVs and supporting ancillary equipment at an approved project cost of \$255.73 million (April 1991 prices). In December 1992, Defence contracted with the Canadian Commercial Corporation (the Prime Contractor), a Canadian Government 'Crown Entity'² for 97 vehicles at a cost of \$123.84 million. The production work was then subcontracted to Diesel Division General Motors (later to become General Dynamics, described in this report as the Supply Contractor-Canada or the Supply Contractor-Australia). In 1995, the scope was broadened to include the replacement of the Phase 1 vehicles and the acquisition of 111 ASLAVs. Phase 2 vehicles were delivered to schedule over the period 1995–97 to the School of Armour in Puckapunyal and 2nd Cavalry Regiment in Darwin.

¹ The ASLAV Program is managed through the Wheeled Manoeuvre Systems Program Office in Melbourne.

² The Corporation is wholly owned by the Canadian Government, which facilitates international trade and reports directly to the Canadian Parliament.

5. Under Phase 2 the ASLAV fleet required three hull types to provide the basis for seven variants:

- The ASLAV Type I is a turreted vehicle with a 25mm stabilised cannon and thermal imaging weapon system, and is used for only one variant titled the ASLAV-25.
- The ASLAV Type II has greater internal capacity and no turret. Using a common hull design installed with unique Mission Role Installation Kits, it provides the Personnel Carrier, Command, Ambulance and Surveillance variants.
- The ASLAV Type III allows for the installation of a crane for the fitters (repair) variant or a heavy winch and support stands for the Recovery variant, again each with its own Mission Role Installation Kits.

6. In December 1997, the Government approved the acquisition of up to an additional 150 ASLAVs under Phase 3 at an approved project cost of \$491 million (Dec 1997 prices). Defence used a major contract amendment valued at \$286.37 million³ to the existing Prime Contract with the Prime Contractor to seek an additional 144 ASLAVs, to standardise the Phase 2 fleet to the Phase 3 build standard, and to provide supporting ancillary equipment, including commander's weapon stations, surveillance suites and simulators (the scope of 150 was reduced to 144 in accordance with direction to keep within the cost cap).

7. Phase 4 of the Project is planned for first pass approval in 2006–07 for a mid-life upgrade to enhance the survivability and situational awareness capabilities of the existing ASLAV fleet. This may include: mine protection; battlefield management; signature management; spall liners; and ballistic protection at a cost of between \$200 million and \$250 million. The DMO provided the following capability outcomes advice to the ANAO in August 2006 (Table 1).

³ The Contract amount is denoted in three currencies: \$C107.88 million; \$47.05 million; and \$US90.84 million (Sept 2000 prices).

Table 1**Capability outcomes advice provided by DMO**

Defence has been very satisfied with the performance of the ASLAV fleet since first delivery of Phase 2 to Army in the mid-90s. The vehicles were deployed at short notice to East Timor in 1999 where they made a significant contribution to the success of the mission. The vehicles maintained a high level of availability and achieved great effect with their mobility, protection, firepower and night time capability.

In 2004, Defence committed ASLAVs to operations in Iraq. The threat level necessitated a range of survivability improvements that were installed within months to provide an improved level of protection and firepower. In 2005, Defence committed ASLAVs again at short notice. DMO worked closely with industry to enhance a 40-vehicle fleet in weeks, with final survivability enhancements completed in Kuwait. The vehicle has met the ADF's expectations in combat, and vehicle availability in Australia and on operations has continued to be high. Defence has only one major remaining contract outside the Prime Contract for ASLAV, that being the contract for the development of the Surveillance prototype.

The ASLAV deployed to Iraq today is the best-equipped and most capable light armoured vehicle in its class. The turreted 25mm cannon and Remote Weapon Station 12.7mm machine gun system have day sights, thermal night weapon sights and integrated laser range finders. The turrets are stabilised and the vehicles have been successful in completing missions under fire utilising these accurate and capable systems. In terms of protection, the bar armour systems assist in the defeat of rockets, the ballistic steel armour is enhanced with the addition of spall liner both to reduce rockets effect and to improve protection against blast and bullet. The vehicles also operate fire suppression systems and the crews are equipped with body armour and ballistic goggles. This package of offensive and protective systems, combined with high levels of training and sound tactics, have allowed the ASLAV fleet to perform thousands of kilometres of patrolling and escort, securing their areas of responsibility.

Source: DMO advice provided to the ANAO in August 2006

8. The objective of the audit was to provide an independent assurance on the effectiveness of Defence and DMO's management of the acquisition of the ASLAV capability to Army. The audit examined the initial capability requirements and approval process, the contract negotiation process, and the management of the Project and Contracts by DMO.

Overall audit conclusions

9. The ASLAVs have proven to be a significant addition to the Army's capability. They have represented a proven vehicle type that is in widespread use with other military forces. DMO has advised the ANAO that the ASLAV capability is maintained at a high state of readiness as demonstrated with the highly successful short notice operational deployments in East Timor in 1999 and Iraq today.

10. The ASLAV vehicles have been supplied to the Australian Defence Force generally in accordance with the provision of the Contract and within the approved cost envelope. Initial planning time horizons for the delivery of the vehicles were overly optimistic. As such, the additional capabilities

(including commander's weapon stations, surveillance suites and simulators) which accounted for less than one tenth of the overall project cost and were to be delivered under Phase 2 of the Project, have not been provided to schedule and in some instances will no longer be provided through the Prime Contract. The ANAO notes that the changes made to strengthen the procurement process following the Defence Procurement Review of 2003 (Kinnaird Review) are intended to avoid similar situations from arising in future projects.

11. The ANAO considers that the decision to retain the original 1992 Contract for Phase 2 and incorporate Phase 3 as a Contract Amendment created a cumbersome document to effectively manage a decade after signature. From DMO's perspective the strategy to utilise the original Prime Contract has proven successful in the delivery of the ASLAVs to contracted schedule, although, given improved contracting strategies being adopted by DMO, it would likely adopt a different strategy today.

12. However, at the time, progressing a \$491 million major capital equipment project as a Contract Amendment to the Prime Contract of an earlier project approved at \$255 million was considered by Defence to be a low risk strategy. The ANAO considers that Phase 3 was not simply the delivery of further quantities of Phase 2 vehicles from the same production line, but a strategic acquisition deserving of its own Prime Contract.

13. While DMO has delivered the capability within the approved project budget, there are aspects of contract administration of the Project that have been managed less than satisfactorily. The Program Office did not have an up to date version of the Contract between February 2002 and March 2006⁴ and there was a substantial lack of readily available financial documentation for Phase 2 of the project. The Program Office detected errors in the payment of accounts amounting to at least \$7.15 million and instigated corrective action with the Contractor. The ANAO noted that the ASLAV Phase 3 Program expenditure was over reported on foreign currency transactions by some \$23 million. In addition, \$12.4 million has not been paid by Defence to the Australian Taxation Office for its Goods and Services Tax (GST) liability in the period 24 November 2000 to 25 November 2002, for which Defence would have been eligible for a tax credit.

⁴ At this time over 220 Contract Change Proposals (CCPs) had been approved.

Key findings

Acquisition of Vehicles (Chapter 2)

14. The ASLAV is a proven and capable armoured vehicle that provides the ADF with significant capabilities for Australian defence requirements. The 111 vehicles purchased under Phase 2 of the Project were acquired between 1995 and 1997 in accordance with the Contract schedule. In-service delivery of the 144 Phase 3 vehicles began in 2002 and was completed by 2004.

15. Phase 2 vehicles were introduced some 28 months later than originally planned by Defence as outlined in the Defence Equipment Acquisition Strategy, but in accordance with the Contract provisions. The initial slippage was due to Defence delays in issuing the Request for Tender and in the subsequent tender evaluation. In March 1995, the then Government approved a subsequent scope increase at a cost of \$43.9 million to increase the total funding of the project to \$316.5 million.

16. Phase 3 was approved in the December 1997 Budget at a cost of \$491 million (Dec 1997 prices) for up to 150 ASLAVs. In late 1996, the Prime Contractor had submitted an unsolicited proposal to Defence for additional vehicles and offered a price reduction to 90 per cent of the Phase 2 vehicle price valid for some three months. The offer of a reduced price lapsed as Defence did not respond within the required timeframe.

17. As part of the Phase 3 Project, the Standardisation of the Phase 2 vehicles to the Phase 3 standard is currently 85 per cent complete. The delivery schedule of standardised Phase 2 vehicles has been affected by recent unplanned operational enhancements. The schedule has been recovered by the Contractor.

Additional Project Capability (Chapter 3)

18. Phase 3 includes the transfer of elements of Phase 2 components which were not achieved under the existing Contract. In May 2005 these requirements, at a value of \$66.24 million, were moved from Phase 2 to Phase 3 of the Project. Whilst all capabilities were to be procured under the Prime Contract, other contractual arrangements have been entered into for two of the capabilities namely:

- the Behind Armour Commander's Weapon Station (BACWS) capability has been achieved through the purchase of a Remote Weapon Station from

Kongsberg⁵ through a series of acquisitions. By December 2005 all 59 Remote Weapon Stations had been procured at a cost of \$17.9 million. The BACWS project has completed deliveries on the contracted schedule with all Remote Weapon Stations fitted to vehicles by August 2006.

- the Multi-Spectral Surveillance System (MSSS) was to be introduced into service in October 2003 using the contractual requirements in the Prime Contract. The Surveillance prototype development, now contracted outside of the Prime Contract, is progressing to contracted schedule and has completed a successful Critical Design Review. DMO now expects this capability to be delivered in July 2008.

19. The remaining capabilities to be procured under the Prime Contract are the Crew Procedural Trainers (CPTs) and the Standardisation of 113 Phase 2 vehicles to a Phase 3 standard.⁶ Nine CPT simulation systems are to be procured at a cost of \$20.8 million. The Project has suffered delays relating to technical defects within the system which the Contractor is seeking to resolve. DMO has now delivered three high fidelity turret trainer systems to the School of Armour, although without the collective capability functionality. The CPTs were to be provided to Army by June 2002 and DMO now expects them to be delivered by late 2006.

20. The Standardisation Project includes upgrading the Phase 2 vehicle's electric drive turrets, thermal sights, laser range finders, and drive-line and suspension components. A series of work packages have been developed to complete the Project by October 2006. The Standardisation Project was suspended in early 2005 in order to allow for the deployment of ASLAVs for the Middle East Area of Operations. This has led to an approved schedule postponement of five months although DMO has advised that the lost time has been recovered by the Contractor. DMO advised in August 2006 that the Standardisation Project is progressing to contracted schedule with 95 of 113 vehicles delivered to a high standard.

Financial Management (Chapter 4)

21. During Phase 3, a number of incorrect payments have been made against the Contract by DMO. Ten credit notes were supplied by the Contractor to DMO due to errors made in the payment of eight invoices. The

⁵ The contractor Kongsberg Protech AS is a Norwegian firm which supplies high technology systems to defence forces around the world.

⁶ This includes 111 Phase 2 vehicles plus two additional vehicles.

errors were: making duplicate payments; paying against the wrong currency (for example in Australian dollars rather than Canadian dollars); and processing errors. The total amount of these credit notes was \$7.15 million.

22. The ANAO has identified systemic discrepancy in terms of the way in which foreign exchange transactions were reported by the Program Office for Phase 3 of this Project. Actual foreign exchange payments for the Project used the Reserve Bank of Australia (RBA) indicative daily foreign currency rates for USD and CAD payments. However, for extended periods of time, the Program Office fixed the USD and CAD exchange rates at artificially low levels in the Defence and DMO financial management system (ROMAN).⁷

23. The actual cost to the DMO in purchasing currency from the RBA was not accurately reflected in the Program Office expenditure reports. The ANAO has calculated that the Program could be over reporting the cost of the Project by \$23 million compared to actual costs incurred. As a consequence, the project budget process has not fully reflected all project payments. The ROMAN accrual records report the foreign exchange amount from an indicative rate on the day before the amount is entered into ROMAN and not on the date of invoice as required by Australian Accounting Standards.

24. There is no process for foreign exchange losses and gains to flow through to the project budget in DMO. The ANAO has been advised by DMO that the ASLAV Program Office, in conjunction with the Chief Finance Officer DMO, has prepared and posted the correcting journals to rectify the errors in the Asset Under Construction balance and assets in use caused by the fixing of the exchange rates.

25. In late 2000, a Reverse Charge Agreement between DMO and the Prime Contractor was entered into as the Prime Contractor was not willing to agree to the inclusion of any GST clauses as part of the negotiations for the Phase 3 Contract Amendment. This agreement allowed GST to be paid by the recipient of the supplies (Defence) and not by the Prime Contractor.

26. From 24 November 2000 to 25 November 2002, a total of \$124.3 million was paid to the Prime Contractor by Defence. These payments were made

⁷ DMO advised the ANAO in July 2006 that: in the period January 2001 to April 2005 the fixed exchange rate functionality available in ROMAN had been applied to two Purchase Orders relating to the Prime Contract and an additional nine supporting purchase orders. During the period this functionality was used, exchange rates were not manually applied to individual transactions. Rather, the Defence global update exchange rate was applied and updated with each global update exercise.

against invoices which did not include a GST component, in accordance with the Reverse Charge Agreement. Defence, as the recipient of the supplies, was obliged to pay the GST. However, according to Defence ROMAN records, no GST was paid between November 2000 and January 2003. On the basis of information on GST payments provided by Defence, some \$12.4 million of GST payments should have been paid by Defence to the Australian Taxation Office. The ANAO acknowledges that while Defence can claim a rebate through input tax credits which leads to a nil effect to the overall Defence budget, it is still important for the Department to claim GST as stipulated by the *A New Tax System (Goods and Services Tax) Act 1999*.

27. In November 2004, the Prime Contractor provided an invoice to Defence in the amount of \$213 638 relating to payment for GST consultants and Senior Legal Counsel. DMO advised the ANAO that the costs incurred were necessary to determine how the Prime Contractor was to comply with its GST obligations under the contract. The Program Office approved the Prime Contractor's invoice for payment in February 2006.

Agency response

28. The Department of Defence provided a response (see Appendix 1) on behalf of DMO and Defence. DMO and Defence agreed with the one recommendation contained in the report. An extract from the response stated that:

The acquisition of the 257 ASLAVs by the Defence Materiel Organisation (DMO) has involved three phases, spanning a combined total of 16 years. This has included many ASLAV variants and the integration of a range of capabilities and upgrades to the original base vehicles.

Defence has been very satisfied with the performance of the ASLAV fleet. The vehicles were deployed at short notice to East Timor in 1999 where they made a significant contribution to the success of the mission. The vehicles maintained a high level of availability and achieved great effect with their mobility, protection, firepower and night time capability.

The 50 ASLAVs deployed to Iraq today are the best-equipped and most capable light armoured vehicle in their class. The turreted 25mm cannon and Remote Weapon Station 12.7mm machine gun systems have day sights, thermal night weapon sights and integrated laser range finders. The turrets are stabilised and the vehicles have been successful in completing missions under fire utilising these accurate and capable systems. In terms of protection, the bar armour systems assist in the defeat of rockets, the ballistic steel armour is enhanced with the addition of spall liners to both reduce the effect of rockets and improve protection against blast and bullet. This package of offensive and protective systems, combined with high levels of training and sound tactics, have allowed the ASLAV fleet to perform thousands of kilometres of patrolling and escorts, while securing their areas of responsibility.

In 2004, the ASLAV Program identified a range of contractual and financial management issues that required attention. Defence initiated an internal review and developed a detailed rectification program that has been implemented and successfully completed. The issues identified and details of the remediation work completed were presented to the ANAO for consideration on commencement of the performance audit.

Phase 4 of the Project is planned for first pass approval in 2006–07 for a mid-life upgrade to enhance the survivability and situational awareness capabilities of the existing ASLAV fleet. This is to be achieved through: mine protection; battlefield management; signature management; spall liners; and ballistic protection at a cost of between \$200 and \$250 million.

Recommendations

Set out below is the ANAO recommendation, with report paragraph reference. The recommendation is discussed in the relevant part of this report.

Recommendation No. 1

Para. 2.25

The ANAO recommends that the DMO review measures for document management and control, particularly in relation to ensuring that all versions of equipment acquisition contracts are retained and maintained.

*Defence and DMO response: **Agreed.***

Audit Findings and Conclusions

1. Introduction

This chapter provides an overview of the ASLAV Program including a timeline of events.

Background

1.1 The Australian Light Armoured Vehicle (ASLAV) is an eight wheeled armoured reconnaissance vehicle currently being used by the Australian Army in the Middle East Area of Operations. The ASLAVs started entering service in mid 1995. Phase 3 of the Program is the major focus of the audit. This Phase includes non-completed elements of Phase 2, notably the surveillance suite, gunnery trainer and commander's weapon stations and the acquisition of 144 ASLAVs and associated components. There are also currently 113 vehicles undergoing an upgrade in order to standardise all vehicles to the same configuration as the Phase 3 vehicles.

1.2 The ASLAV consists of seven variants based on three different hull types (see Table 1.1). There are a number of derivatives in service around the world, for example, the Canadian LAVII. Since the vehicle was first developed in the 1970s over 6 500 vehicles have been produced and are in operation today.⁸

Phase 1 acquisition

1.3 Between June 1990 and April 1991, 15 Light Armoured Vehicles (14 LAV-25 and a LAV-R) were procured from the United States Marine Corps through a Foreign Military Sale and assessed in Australia. The assessment concluded that these vehicles (with minor modification) were acceptable for introduction into service. The evaluation of the 15 vehicles was considered as Phase 1 of the ASLAV Project and was approved at a cost of \$28.4 million (April 1989 prices). In December 1995, the Project budget was increased to \$28.869 million (Dec 1995 prices). Information on the final cost of Phase 1 was not available.

⁸ A Light Armoured Vehicle User Nations Group (LAVUNG) was established in 1992 to provide a forum for LAV users to exchange operational, supply and maintenance experiences and resources.

Table 1.1**ASLAV vehicle types**

ASLAV Type	Variant Description
Type I	ASLAV-25 conducts troop-level tactical reconnaissance, contains a two man turret with a 25mm stabilised cannon and thermal imaging weapon system and can carry six troops and a crew of three.
Type II	ASLAV-Personnel Carrier (ASLAV-PC) supports troop level tactical reconnaissance and can carry seven troops and a crew of two. ASLAV-Command (ASLAV-C) provides command and control facilities and can carry a crew of five and two occasional troops. ASLAV-Surveillance (ASLAV-S) supports troop-level reconnaissance with ground surveillance and observation equipment and can carry four crew and two occasional troops. ASLAV-Ambulance (ASLAV-A) is fitted with medical equipment and can carry three crew and up to six patients.
Type III	ASLAV-Fitter (ASLAV-F) provides a protected mobile workshop for field repair personnel including a crane, vehicle parts and tools and can carry a crew of three. ASLAV-Recovery (ASLAV-R) is equipped to winch disabled vehicles to a more accessible location or tow it to a repair facility and can carry a crew of three.

Source: DMO documentation.

Phase 2 acquisition

1.4 By August 1991, Phase 2 consisting of 97 vehicles at a cost of \$255.73 million (April 1991 prices) was approved. In January 1992, a Request for Tender was released to the Canadian Commercial Corporation (the Prime Contractor), a Canadian Government Business, that was to act as the Prime Contractor and then sub-contract the manufacture of equipment to Diesel Division General Motors (the Supply Contractor, later to become General Dynamics).

1.5 After contract negotiations in October 1992, a contract for \$C111.465 million (March 1992 prices), was signed in December 1992 with the Prime Contractor. Using the base date foreign currency rate the Australian dollar equivalent at the time was \$123.84 million. The Phase 2 Contract provided that all Prime Contractor services would be provided at no cost to the Commonwealth. Table 1.2 provides a timeline of key events within the Phases of the ASLAV Program.

Table 1.2**ASLAV Program timeline**

Year	Activity
June 1989	Project Approval for Phase 1 (\$28.4 million, April 1989 prices)
June 1989-March 1990	Foreign Military Sale procurement of 15 vehicles for evaluation
September 1990-April 1991	Concept evaluation (wheeled light armoured vehicles in Northern Australia)
August 1991	Project Approval Phase 2 for 97 vehicles at a cost of \$255.73 million (April 1991 prices)
January 1992	Request For Tender issued to the Prime Contractor
October 1992	Contract negotiations
December 1992	Contract signature with the Prime Contractor for 97 vehicles at a cost of \$123.84 million
December 1994	Review of Major Capability Submission for increased funding to reach approved change in scope
March 1995	Scope increase at a cost of \$43.9 million (December 1995 prices) was sought and approved by Cabinet. Project amount increased to \$316.55 million
May 1995	Phase 2 vehicle delivery into service commenced
March 1997	Phase 2 vehicle delivery into service completed
October 1996	Review of Major Capability Submission for Phase 3 additional buy
November 1996	Unsolicited proposal from the Prime Contractor
June 1997	Phase 4 identified for a year of decision of 2002-03 (\$70 million)
December 1997	Project Approval Phase 3 for up to 150 vehicles at a cost of \$491 million (Dec 1997 prices)
September 2000	Contract signature for 144 vehicles and the standardisation of 113 Phase 2 vehicles at a cost of \$C107.9 million; \$47 million; and \$US90.8 million
January 2002	Program Office moved from Canberra to Melbourne
September 2002	Phase 3 vehicle delivery into service commenced
March 2003	General Dynamics acquired General Motors Defence
September 2004	Phase 3 vehicle delivery into service completed
September 2004	Standardised vehicle delivery into service commenced
August 2005	Contract signature for the development of a surveillance prototype
May 2006	CPT delivery into service commenced
October 2006	Standardised vehicle delivery into service to be completed
2006-07	Phase 4 first pass approval planned
July 2008	Surveillance vehicle delivery into service due to commence

Source: ANAO interpretation of Defence documentation.

1.6 By March 1995, a scope increase at a cost of \$43.9 million (1995 prices) was sought and approved by Government. The change in scope and subsequently, the majority of the cost increase, was to include the replacement of 14 Phase 1 vehicles (creating a Phase 2 total of 111 vehicles).⁹ The increase was also to allow for the completion of the integrated logistics support program, systems engineering, and the fitter/recovery and surveillance variants. In May 1995, delivery of Phase 2 vehicles commenced with all vehicles in service by March 1997.

Unsolicited Proposal

1.7 In November 1996, the Prime Contractor, on behalf of the Supply Contractor-Canada, formally submitted an unsolicited CCP for additional vehicles. The proposal was resubmitted in December 1996 and was valid until 28 February 1997. It contained options for either 80 or 150 additional vehicles.

1.8 This arose from a delay in a large Saudi Arabian order, with the Supply Contractor wanting to fill the gap. The Supply Contractor submitted an offer for up to 150 ASLAVs at prices that were about 90 per cent of the cost of the original 97 ASLAVs as advised by Defence. Due to the offer only being available for a short period, it was not taken up by Defence. The unsolicited proposal preceded the development of the Phase 3 proposal.

Phase 3 acquisition

1.9 Phase 3 was formally approved in December 1997 at a cost of \$491 million (Dec 1997 prices). The planned aim of Phase 3 was to acquire up to 150 ASLAVs to equip two reconnaissance battalions.

1.10 The response to the Contractor's proposal was received by Defence in late November 1999 with evaluation of the CCP commencing in February 2000. The Contract Amendment was signed in September 2000 for 144 ASLAVs and associated supplies and 113¹⁰ retrofit kits for the Phase 2 ASLAVs. The Phase 3 Contract provided that the costs to the Prime Contractor of delivering project management services were included in the Contract price.

⁹ In January 1995, it was decided that as the 15 Phase 1 vehicles were to be replaced they were to be sold to the original equipment manufacturer. It was originally thought that the sale would net \$1.48 million however, due to damage only 9 vehicles were sold for \$0.95 million. This sale was conducted as a CCP to the Phase 2 Contract.

¹⁰ This includes 111 Phase 2 vehicles plus two additional vehicles.

Phase 4 acquisition

1.11 The need for Phase 4 was first identified in June 1997 and involved updating the Phase 2 vehicles in order to align them with the Phase 3 vehicles at a total cost of \$70 million. Phase 3 achieved this outcome, however, it was identified that the vehicles still needed combat enhancement.

1.12 Phase 4 was later planned as a mid-life upgrade to enhance the survivability and situational awareness capabilities of the existing ASLAV fleet through: mine protection; battlefield management; signature management; spall liners; and ballistic protection at a cost of between \$200 and \$250 million.

1.13 Although the project had obtained first pass approval in 2003, after the Defence Procurement Review 2003 (Kinnaird Review) it was decided that the project would go through the strengthened two pass process and was therefore to be categorised as a pre first pass project. The 2006–16 Defence Capability Plan has forecast that Phase 4 will be approved by Government in 2010–11 to 2012–13 with in-service delivery forecast for 2012 to 2014.

In Service Support

1.14 There is currently no through-life support contract for the ASLAV family of vehicles. However, since March 1998 a support agreement for the repair and overhaul of ASLAVs has been in place between Defence and the Supply Contractor-Canada (this agreement has been extended to December 2006).

1.15 Since October 2000, work has been performed in the Northern Territory through the use of fixed price work orders as and when a vehicle or part needed repair or maintenance. An administration fee was also charged for the month during which the work was performed (if the work took less than a month to complete, the fee was pro-rated). DMO advised the ANAO that the current ASLAV fleet availability is in the range of 87 to 96 per cent and is one of the highest in Army.

1.16 An invitation to register interest for through life support for the fleet was released in late 2005 and DMO has advised that a Request for Tender will be released in late 2006. The through life support contract is expected to be in place in 2007.

Audit approach

1.17 The objective of the audit was to provide an independent assurance on the effectiveness of Defence and DMO's management of the acquisition of the ASLAV capability to Army. The audit examined the initial capability requirements and approval process, the contract negotiation process, and the management of the Project and Contracts by DMO. It was not an audit of contractor performance; rather it was of Defence and DMO's management of the ASLAV Program.

1.18 Audit fieldwork was conducted from August 2005 to May 2006. The audit team met with areas within Defence and DMO, including: the Program Office at Defence's Victoria Barracks, Melbourne; Joint Logistics Unit at the Albury Wodonga Military Area, Bandiana; Land Command at Victoria Barracks, Sydney; 7 Brigade at Gallipoli Barracks, Enoggera; and 1 Brigade at Robertson Barracks, Darwin.

1.19 A series of papers consolidating the findings of the audit were provided to Defence and DMO from March to July 2006. Comments on these papers were considered in the preparation of the proposed report. The Proposed Report was provided to Defence and DMO in August 2006. The audit was conducted in accordance with ANAO audit standards at a cost to ANAO of \$345 000.

2. Acquisition of ASLAVs

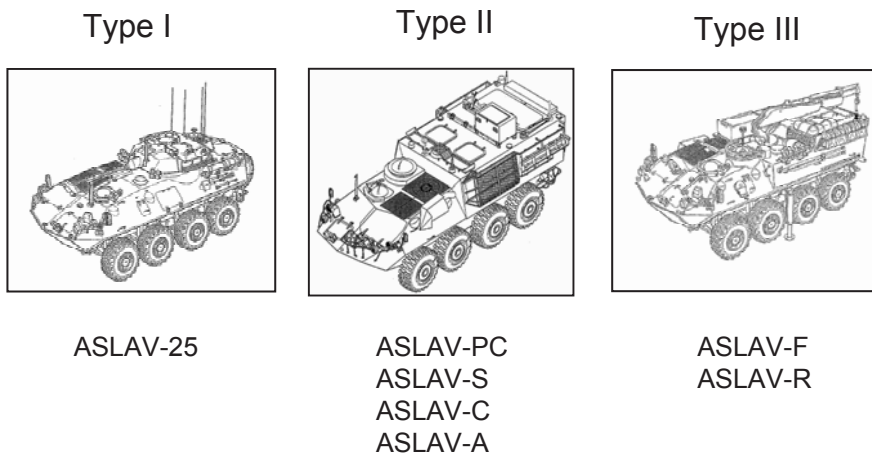
This chapter examines the acquisition and contract management of Phases 2 and 3 of the ASLAV Program.

Phase 2 acquisition timetable

2.1 Phase 2 was approved in 1991 for 97 vehicles in seven variants at a cost of \$255.73 million. A Contract with an Australian dollar equivalent value of \$123.84 million for 97 vehicles was signed in December 1992 with the Prime Contractor. The family of vehicles are based on three different hull types (see Figure 2.1) which allows the vehicles to be reconfigured using mission role installation kits.

Figure 2.1

Vehicle types and variants



Source: Defence documentation.

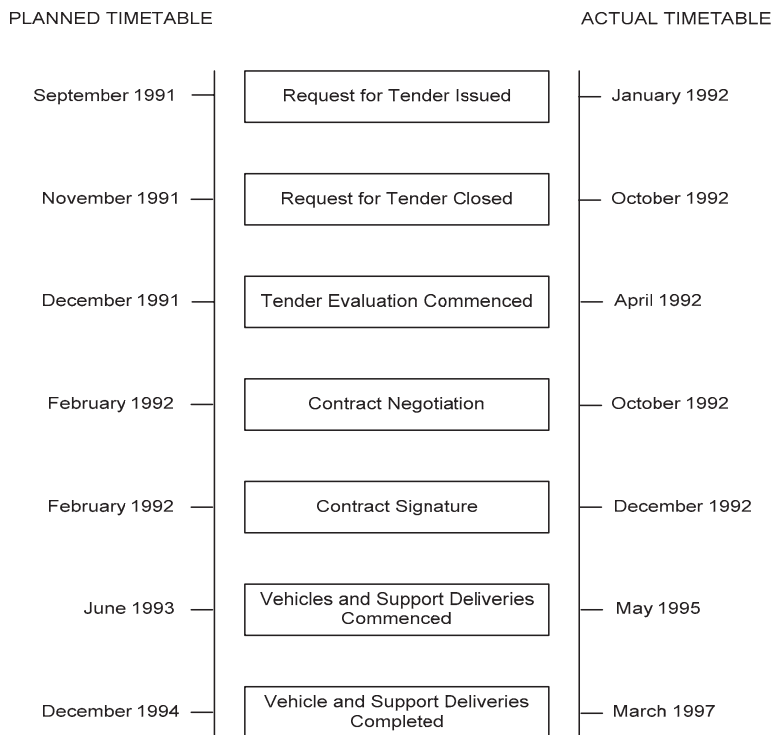
2.2 The September 1991 Phase 2 Equipment Acquisition Strategy states that the role of the Prime Contractor was to guarantee the Supply Contractor's performance in all areas technically and financially, which would include price certification and contract audit. An exception to this was Australian Industry Involvement, which was contracted separately with the Supply Contractor-Canada via a Deed of Agreement.

2.3 Phase 2 vehicles were introduced some 28 months later than originally planned by Defence as outlined in the Defence Equipment Acquisition Strategy, but were introduced in accordance with the Contract provisions. The

delay was due to the Request for Tender being released in January 1992 rather than September 1991 and a longer than expected tender evaluation process. Contract signature occurred some 11 months later than planned. Delivery of the vehicles was to commence 17 months after contract signature, however, it took 29 months for delivery to commence (see Figure 2.2).

Figure 2.2

Phase 2 planned and actual timetable



NOTE: Tender responses were received from the Prime Contractor between April 1992 and October 1992

Source: ANAO interpretation of Defence documentation

2.4 By November 1994, Defence considered that the approved capability could not be achieved within the current project budget allocation. Therefore additional funds were sought to complete a number of elements of the new and existing approved scope of the project.

2.5 The following elements could not be funded within the approved funding:

- integrated logistic support package;
- systems engineering package;

- ASLAV fitter/recovery variant;
- ASLAV surveillance suites;
- Commander's weapons station; and
- Add-on armour.

2.6 It was proposed that the project funding provision be increased by \$101 million which would not include the add-on armour. The armour was to be procured pending further analysis of armour types and the requirement for ballistic protection of the vehicle, this is now to occur within the scope of Phase 4.

2.7 In March 1995, the then Government approved a scope increase at a cost of \$43.9 million to increase the total funding of the project to \$316.5 million. The major element of the scope change was the replacement of 14 Phase 1 vehicles with reconnaissance variants and additional number of machine guns. It also included the integrated logistic support program; systems engineering; and the fitter/recovery and surveillance suites which were within the approved project.

Phase 2 contract management

2.8 The level and standard of documentation considered necessary to support the payment of public money is a matter of judgement for management as part of the overall Defence financial control environment. However, the existence of appropriate documentation to support payments is important for an agency in order to meet its FMA Act and FMA Orders obligations to maintain proper accounts and records. The ANAO found a substantial lack of financial documentation for Phase 2 of the project.

2.9 Whilst the ANAO was able to obtain a small number of invoices from July 1993 to November 1995, none of the invoices could be verified as Defence were unable to provide data to support actual expenditure for Phase 2. This was due, in part, to the fact that the Project spanned the use of two different Defence financial systems. Defence and DMO advised the ANAO that there were a number of reasons which contributed to the inability of Defence to provide the data and for the ANAO to review it including: the physical relocation of the Program Office from Canberra to Melbourne; subsequent archiving of files and records that date back over 10 years; and changes to the Defence financial management system from DEFMIS to ROMAN.

2.10 In 2000, Defence changed its financial management system from a cash based system (DEFMIS) to an accrual based system (ROMAN). As part of this process, the ASLAV Program was reconciled and the DEFMIS balance was brought over to ROMAN. As this reconciliation was the only documentation available, the ANAO has used these figures to report Phase 2 expenditure (see Table 2.1). As the ANAO did not have access to either the invoices or the expenditure data, the ANAO can provide no assurance as to the accuracy of the figures used in the financial reporting of Phase 2.

Table 2.1

Reported expenditure—Phase 2 as at mid 2000

Item	Expenditure (\$m)
Prime Contract	\$ 219.60
Training courses, equipment and publications	\$ 9.46
Initial production testing and test support evaluation and equipment	\$ 10.64
Project administration, management and information systems	\$ 4.68
Government Furnished Equipment, repair parts, supply support and customs duty	\$ 24.33
Ammunition	\$ 12.44
TOTAL	\$ 281.15

Source: Defence Project Transfer (Reconciliation of DEFMIS and ROMAN data)

Milestone payments

2.11 During Phase 2, the schedule of milestone payments within the Prime Contract was not used in the manner prescribed by the Contract. Payments were made against the Contract Line Item Numbers (CLINs) set out in the Schedule of Supplies rather than against the milestone numbers. This led to a situation where payments could not be identified against actual deliverables within the Contract. Additionally, the need to adjust the value of payments to account for previous advance payments meant that complex records would have been needed to effectively manage the Project. Appropriate records were not kept to show the management of payments under the Contract.

2.12 Due to the way the invoices were presented by the Prime Contractor, it was not possible to positively identify the unexpended balance of milestones (or CLINs) within the Contract for reconciliation purposes. Therefore it was necessary for the Prime Contractor to advise of all payments made to date to

ensure that no payments had been missed in the Defence reconciliation process.

2.13 DMO identified that lessons should be learned from the Phase 2 experience for Phase 3. However, DMO identified that there was potential for similar problems to occur as the Phase 3 work was a CCP to the existing Contract.

2.14 As previously indicated, the ANAO was unable to provide an assurance as to whether payments were made correctly against the Phase 2 Contract due to the inability of Defence to provide all of the Phase 2 Prime Contract invoices or supporting data. In addition, there was no way of knowing how many invoices existed for Phase 2 as the invoices were not sequentially numbered. Of the small number of Phase 2 invoices that the ANAO was able to obtain, all have been paid against CLINs and therefore were not processed according to the Contract.

Contract change proposals

2.15 In September 1994, the Prime Contractor and the Supply Contractor were concerned about the number of CCPs that were outstanding as they gave rise to cash flow problems for the Contractor.

2.16 By December 1994, Defence noted that the cost estimates at the time of Project Approval and Ministerial endorsement had proven inaccurate to varying degrees. Subsequently, the acquisition of Phase 2 vehicles was reviewed in 1995 by the Force Structure Policy and Programming Committee.

2.17 In July 1998, the Program Office became aware of major inconsistencies within Phase 2 ASLAV financial records.¹¹ In December 1999, Defence noted that the inconsistencies in financial records only became apparent when the Program Office was required to report against the Department accounting system (DEFMIS) liability rather than Funds Availability Certificate¹² liability.

2.18 By June 2004, the Program Office was looking to formally close off the Phase 2 Project. Phase 2 was not closed due to some outstanding capability for ASLAV-S which was to be provided by another Defence Project. DMO advised the ANAO that Phase 2 is in the process of being closed.

¹¹ In 1995, an internal Defence Committee was told that 39 CCPs were pending for unapproved work and that if funding was not made available by early 1995, the Project would have to issue stop work notices to the Contractor.

¹² The Funds Availability Certificate was required for every new Proposal Approval.

Phase 2 advance payment

2.19 Phase 2 of the Contract allowed for a series of advance payments throughout the life of the Phase. There were two initial advance payments, one of \$C16.72 million to be paid within 30 days of the effective day of the Contract (January 1993) and one advance payment eight months after the effective day of the Contract (August 1993) of \$C16.72 million.

2.20 Defence was unable to provide the ANAO with a copy of the original contract. DMO advised the ANAO in September 2006 that:

the Program Office does not hold a copy of the original contract, which is nearly 15 years old. The program has administered 31 Contract Amendments since the original contract was signed and has an up to date version of the contract.

2.21 The May 2006 ANAO performance audit on the Procurement of Explosive Ordnance for the Australian Defence Force (Army) reported that the major contract for the supply of domestically sourced explosive ordnance had not been maintained since 2000. In that audit report, the ANAO recommended that DMO implement version control arrangements to ensure that the Strategic Agreement for Munitions Supply remained up to date and available to staff.

2.22 DMO advised the ANAO that records management in DMO has changed significantly with the implementation of the Document Records Management System and that the Defence Inspector General is currently conducting a portfolio evaluation into the effectiveness of Defence recordkeeping, scheduled for completion by February 2007.

2.23 The earliest version of the Contract found in Defence files was dated August 1995 at Contract Amendment 12. This Contract shows that a number of advance payments, of \$C16.23 million and \$7.85 million, were added to the Contract at points of contract amendment. The Contract then allowed for these advance payments to be off-set against the number of vehicles.

2.24 The Prime Contract stated that an initial financial security of \$C16.72 million was to be provided and then adjusted according to the Schedule of Milestone Payments. A series of financial securities were provided by a financial institution throughout the Phase meeting this requirement.

Recommendation No.1

2.25 The ANAO recommends that the DMO review measures for document management and control, particularly in relation to ensuring that all versions of equipment acquisition contracts are retained and maintained.

Defence and DMO Response: Agreed. DMO will strengthen the policy guidance on document management and control contained within the Defence Procurement Policy Manual (DPPM), the primary reference document for all Defence procurement.

Phase 3 acquisition

2.26 The Phase 3 Project was approved in the December 1997 Budget at a cost of \$491 million (Dec 1997 prices). The aim of Phase 3 was to acquire up to 150 ASLAVs to equip two reconnaissance battalions. Reconnaissance battalions were to be an integral part of the new land force structure being addressed under the government initiative Restructuring the Army.

2.27 In October 1996, the Force Structure Policy and Programming Committee met to consider Phase 3. The Phase 3 proposal sought the purchase of additional vehicles to take advantage of the supplier's spare manufacturing capability in 1997–98 and 1998–99. It also stated that to obtain maximum advantage, contract signature would need to be obtained by March 1997.

2.28 The Phase 3 Major Capability Submission was written in the context of providing the Force Structure Policy and Programming Committee with a basis of discussion. It stated that the contract amendment signature date should be February/March 1997 and that a later approval date would make it difficult to achieve production in line with the available plant capacity.

2.29 In November 1996, the Prime Contractor, on behalf of the Supply Contractor-Canada, formally submitted an unsolicited CCP for additional vehicles.¹³ The proposal was resubmitted in December 1996 and was valid until 28 February 1997 and contained options for either 80 or 150 additional vehicles. The offer expired and a request for a CCP for additional vehicles was not issued to the Supply Contractor (through the Prime Contractor) until April 1999.

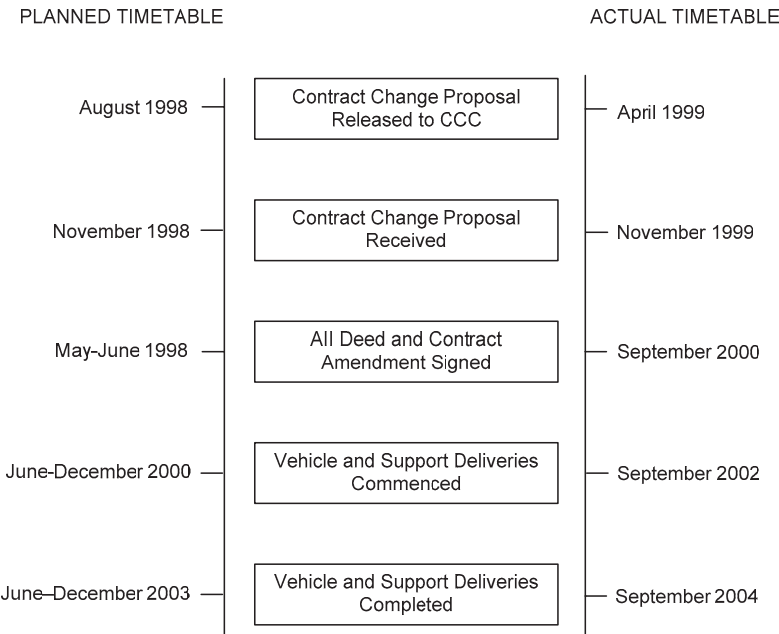
¹³ The unsolicited proposal submitted in November 1996 stated that 'a delay in a large Saudi Arabian order, has reduced the Supply Contractor's production output below their optimum level for the next two years. Desiring to fill the gap, the Supply Contractor submitted an offer for up to 150 ASLAV at prices that are about 90 per cent of the cost of the original 111 ASLAV.'

2.30 In May 1998, the Defence Source Selection Board identified that the existing Phase 2 Contract would be amended (through a Contract Amendment) to incorporate Phase 3 supplies. This was to avoid schedule delays and additional resource requirements associated with establishing a new contract. However, it was acknowledged that the Contract would need to reflect the change in Defence contracting arrangements since 1992.

2.31 The CCP was released eight months after originally planned and was received by DMO eight months later. The original plan was for the CCP to be received four months after release. It also took five months for the CCP to be assessed by Defence. The vehicles were delivered 10 months later than originally planned (see Figure 2.3). At this time none of the additional capability (BACWS, CPT and MSSS) had been achieved.

Figure 2.3

Phase 3 planned and actual timetable



Source: ANAO interpretation of Defence documentation

Phase 3 Contract Change Proposal

2.32 Defence decided to amend the original Phase 2 Contract to incorporate new terms and conditions for Phase 3. This created an overly complicated document with separate terms, conditions and schedules for Phase 2 and Phase 3.

2.33 In late April 1999, Defence requested that the Prime Contractor raise a CCP for Phase 3 including:

- an offer for the supply of Phase 3 quantities of ASLAV and associated supplies;
- an offer to retro fit ASLAVs and the extant contract in accordance with the Statement of Work; and
- a proposal for the provision of Through Life Support which will be the subject of a separate contract.

2.34 Defence received the CCP in late November 1999 and evaluation was completed in April 2000. In late April 2000, the offer was endorsed as providing value for money and in June 2000, Defence negotiated with both the Prime Contractor and the Supply Contractor-Canada to further develop the CCP.

2.35 A Contract Amendment was signed in September 2000 for contract prices of \$C107.88 million; \$47.05 million; and \$US90.84 million (September 2000 prices). The Contract Amendment included the procurement of 144 vehicles and standardising 113 Phase 2 vehicles to a Phase 3 standard.

2.36 The Phase 3 Prime Contract allowed for an advance payment of \$C6 million; \$15 million; and \$US5 million to be paid 30 days after the effective date (or 1 October 2000). Defence records show that an amount of approximately \$31 million was paid as advance payments in January 2001.

2.37 Defence documentation stated that no financial security was required for the Phase 3 advance payment on the basis that the Contractor is a sovereign power, the Subcontractor is a very large reputable company, and the work is an amendment to a contract with a faultless record, realising saving of \$0.9 million.

2.38 A number of management issues ensued including the use of CLINs rather than Milestones and an onerous CCP process. In turn, the Program Office did not have an up to date Contract until March 2006. In October 2004, the Program was unable to reconcile the Contract and was unable to confirm the exact financial position of the project. This, according to DMO, placed the program in danger of over commitment. Currently the Contract has a total of 31 Contract Amendments.

3. Additional Project Capability

This chapter examines the additional capability procured through the Project Phases.

Background

3.1 In addition to procuring vehicles (originally 97 and increased to 113) in Phase 2, the Project was to acquire BACWS; CPT; and an integrated suite of sensors for the ASLAV-Surveillance capability (MSSS). Phase 2 of the Project was approved in August 1991 and delivery of the vehicles was completed by March 1997. None of the additional capabilities were achieved under Phase 2.

3.2 These capabilities, at a budgeted amount of \$66.24 million, were moved from Phase 2 to Phase 3 of the Project. Table 3.1 outlines some indicative dates, provided by DMO, for the initial delivery into service for these additional capabilities under Phase 3.

Table 3.1

Additional capability planned and actual timetable: Phase 3

Capability	Planned delivery into service to commence	Expected delivery into service to commence	Schedule Variance
BACWS ⁽¹⁾	October 2003	September 2004	11 months
CPT	June 2002	May 2006	47 months
MSSS	October 2003	July 2008	57 months
Standardisation	September 2004	September 2004	nil

NOTE: (1) The BACWS capability has been met through the procurement of Remote Weapon Stations

Source: Defence documentation

3.3 Delivery into service is expected to be completed in October 2006 for BACWS and the Standardisation Project; December 2006 for CPT; and during 2008 for MSSS.

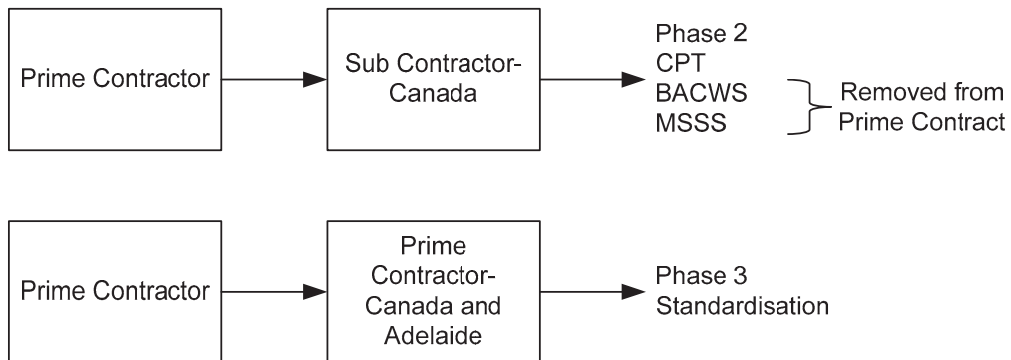
3.4 The Materiel Acquisition Agreement between Defence and DMO, signed in June 2005, stated that the Program included the following:

- procurement of 59 BACWS;
- procurement of 9 CPT;
- procurement of up to 18 Multi-Spectral Surveillance Suites for the ASLAV-S; and
- standardisation of 113 Phase 2 vehicles to the Phase 3 build standard.

3.5 The additional capabilities were to be procured using the existing contractual arrangement with the Supply Contractor through the Prime Contractor. While a majority of the capability is being procured through the contractual arrangement with the Prime Contractor, separate arrangements are also in place for direct procurement with the Supply Contractor (see Figure 3.1).

Figure 3.1

Contractual arrangements for additional capabilities



NOTE: The BACWS capability was achieved through a Contract with Kongsberg

The MSSS capability is being achieved through a Contract with Systems and Electronic Incorporated (SEI).

Source: DMO documentation

Standardisation of Phase 2 vehicles

3.6 As part of the Phase 3 scope, 113 Phase 2 vehicles are to be standardised to the Phase 3 build standard. Standardisation includes: electric drive turrets; thermal sights; laser range finders; and second generation drive-line and suspension components. Standardisation has been incorporated into the Prime Contract at a cost of \$34.9 million.

3.7 Standardisation is being conducted under three contractual arrangements with:

- the Supply Contractor-Canada—under the Prime Contract, this work is to achieve commonality;
- the Supply Contractor-Australia—under a separate Deed to provide repair and refurbishment; and
- Tenix Defence—under the Commercial Support Program Contract to provide repair and refurbishment work at the Bandiana facility.

3.8 DMO advised the ANAO that, as the vehicles were nine years old, it was necessary to conduct a refurbishment program. This work is to occur concurrently with the Standardisation Project to achieve efficiencies in the production line and is to be funded from the fleet management budget. The vehicles require on average an extra 280 hours of work per vehicle to get them to a Phase 2 standard.

3.9 The Contractor was unable to provide this level of work and maintain the schedule for standardisation. The additional hours are being performed by the Albury Wodonga Military Area Facility in Bandiana under a Commercial Support Program Contract. A new work package has been incorporated into the project in order to meet this repair and refurbishment requirement.

3.10 The work conducted under Work Package 1 involves the incorporation of retrofit kits and Work Package 2 involves the incorporation of other changes to maximise fleet commonality. One hundred and six hours of work per vehicle has been planned for these components of the Standardisation Project.

3.11 In early 2005, the standardisation component of the Program was suspended in order to allow the Contractor to concentrate on the rapid enhancement of vehicles for the deployment of the Al Muthanna Task Group. The production capacity was suspended during March and April 2005 and resumed full production in July 2005. DMO advised the ANAO that the schedule has been recovered and that as at August 2006, 95 vehicles have been standardised and the Project is planned for completion in October 2006.

Behind Armour Commander's Weapon Station Project

3.12 In 1991, the Force Structure Policy and Programming Committee agreed to a one man turret for all non-reconnaissance variants. It was decided that a BACWS for 33 ASLAV Personnel Carriers would be procured at a cost of \$8.83 million.

3.13 By 1996, an Australian Contractor had developed a prototype BACWS to enable a crew commander to operate a machine gun from behind armoured protection. This system was further developed and two prototypes were trialled over the period 1997 to 1999.

3.14 From August to September 1999, the Army Engineering Agency conducted a user trial and Reliability and Maintainability testing to assess the suitability for introduction into service of the BACWS system. The trial concluded that although the solution showed signs of real potential there were

some concerns with aspects of the system. By May 2002, the Contractor ceased work on the BACWS. DMO advised the ANAO that:

in May 2002 the Commonwealth directed that work on the BACWS cease as ongoing work by the contractor did not represent value for money – the technical solution failed to progress to a stage that would meet the requirement.

3.15 In August 2003, a revised acquisition strategy for BACWS of sole sourcing to the existing Supply Contractor-Australia through a stand alone contract was approved. The planned basis of provisioning was to equip 59 Phase 2 and 3 vehicles.

3.16 In early May 2004, due to an operational requirement, 19 Kongsberg Remote Weapon Stations were acquired as part of a rapid acquisition project. Subsequently, an additional 40 Remote Weapon Stations were procured (21 as a rapid acquisition and 19 through sole source procurement).

3.17 The Remote Weapon Stations have been in operation and are now considered as the solution for the BACWS Project. The rapid procurement of the Remote Weapon Stations was originally paid from Operation CATALYST funds and subsequently repaid from the Project budget.

3.18 At December 2005, 59 Remote Weapon Stations had been procured at a cost of \$17.9 million. DMO advised the ANAO that the Remote Weapon Stations have been operated by Army for nearly two years on operation in Iraq and has proven highly successful and reliable. The ANAO understands that all Remote Weapon Stations will be fitted to vehicles by October 2006.

Crew Procedural Trainer

3.19 In March 1997, Defence formally determined a need for a gunnery and crew trainer capability (later known as a CPT). The Equipment Acquisition Strategy states that the weapon system of the ASLAV-25 required significant training time to achieve and maintain operator competence. Therefore, it was identified that the availability of a simulator would improve the effectiveness of gunnery training and lead to training efficiency through better use of resources such as vehicles; ammunition; range usage; and instructor and student time.

3.20 A request for a CCP was issued to the Supply Contractor under the Prime Contract in September 1998, however a specification was not released to industry until March 1999.

3.21 The Contract for the design, development and production of CPTs was achieved through several CCPs to the Prime Contract in March 2000. Nine CPTs were ordered at a cost of \$20.8 million. The Prime Contractor subcontracted to the Supply Contractor which in turn sub-contracted the work.

3.22 By July 2004, the sub-contractor was 12 months late in delivering the first batch of three CPTs. As a result, Defence sought to negotiate a level of compensation for the delay and to also introduce liquidated damages clauses into the Contract.

3.23 As a result, another CCP was raised by the Supply Contractor to, among other things, re-baseline the CPT schedule and introduce liquidated damages clauses. This CCP was not approved by the Project and consequently, the schedule has not been updated and nor have liquidated damages clauses been included in the Contract.

3.24 The DMO advised the ANAO in July 2006 that they have been working with the contractor closely for over two years to get this project progressed. There were increasing delays in the CPT schedule, which were attributed to problems involved in rectifying technical defects within the system.

3.25 In an attempt to deliver the CPTs to Army, a plan was developed to enable the systems to be delivered prior to the contracted specification being met. It was decided that while the school of armour could take the first three CPTs at reduced functionality, the regiments would not take delivery of the final six until they are fully functional. DMO advised the ANAO that:

in late 2005 DMO consulted [Capability Development Group] to gain approval to deliver the first batch of three CPT to the School of Armour with individual crew capability in the first instance. When the sub-contractor has rectified remaining faults the complete collective training functionality will be provided to the Army ASLAV units in late 2006 and the first batch will be upgraded to collective capability functionality.

3.26 The first batch of CPTs was delivered to the School of Armour in May 2006. DMO advised the ANAO that these systems have performed well and are supporting a number of courses. DMO advised that when the remaining batches have full functionality, and collective training has been delivered, they will be delivered to Army in late 2006.

3.27 While acknowledging that the CPT Project has experienced delays because of the technical challenges experienced by the sub-contractor in this high technology developmental project, DMO has indicated that it has actively

managed the project to get results. At the time of audit \$15 million had been spent on the CPT Project.

Multi-Spectral Surveillance Suite

3.28 The Army Capability Plan 2.7 1988, states that one element of the ASLAV capability was surveillance and reconnaissance. To effectively fulfil this function, three specific variants were identified: a reconnaissance vehicle, a surveillance vehicle and a personnel vehicle. The surveillance vehicle was required to provide a means of gathering information by observation in the non-visual spectrum by conventional radar, high capability thermal imagers and, in the future, possibly high resolution millimetric wave radars.

3.29 The surveillance variant required a telescopic mast to support the radar antenna for use in stationary vehicles. The mast needs to be able to extend six meters, desirably eight meters, above the vehicle and be directionally controlled, and be able to be erected from inside the vehicle. The mast was also to provide a levelling system capable of compensating for at least a 10 per cent slope in any direction.

3.30 The surveillance vehicle modification contained some technical risk due to the integration of the mast and surveillance devices to the vehicle. Ten surveillance suites were to be procured at a cost of \$5.5 million (December 1994 prices). By 1995, it became apparent that the approved capability could not be achieved within the existing project allocation.

3.31 In October 1996, the Program Office was requested to consider the implications of advancing approval for an increased number of ASLAVs. This was in order to increase Defence spending during the years 1996 to 1999. Subsequently, \$25.9 million was redirected to the ASLAV-S Project on the condition that the expenditure was realised within these fiscal years.

3.32 In January 1997, the Prime Contractor provided a CCP to provide the surveillance suite which had been fitted to the Canadian Army's LAV vehicles. At the time it was stated that there was insufficient detail to allow project staff to generate even the broadest specification against which the performance of any offered solution might be measured. It was therefore decided that the performance criteria established for another project (known as Project NINOX) would be adapted for the ASLAV-S sensor systems.

3.33 By August 1997, it became apparent that while the additional funds allocated for the surveillance variant were predicated on expenditure in the

years 1996 to 1999, forecast expenditure would not be achieved for 1996–97. Over the course of the Project the number of surveillance variants has been reduced from 10 for Phase 2 and 18 for Phase 3 to just 18.

3.34 In the period 2001 to 2003, the Project sought to continue to develop the surveillance suite capability.¹⁴ In January 2004, Defence directed that work be ceased on surveillance work. The Supply-Contractor was paid \$1.2 million for costs incurred in their tendering process including design, engineering and test and evaluation activities to accord with Army requirements.

3.35 In March 2004, a revised acquisition strategy was developed in order to remove the requirement to use the ASLAV Prime Contract for the development and integration of the ASLAV Surveillance Suite.

3.36 DMO undertook an industry survey and determined two solutions which were systems compliant. The SEI Sabre system was assessed as a mature and compliant off the shelf system that required only minor enhancement to achieve installed, connected and detached ASLAV-S modes of operation.

3.37 Tender evaluation was conducted in September 2004. The Source Evaluation Report, dated November 2004, states that the SEI tender response was assessed as largely compliant, met value for money consideration and was more cost effective than the Supply Contractor-Canada CCP. It recommended that approval be granted to enter into negotiation with SEI.

3.38 Contract negotiations were conducted with SEI in late May 2005. The Contract Negotiation report recommended, in late July 2005, that the draft contract be signed. In August 2005, *The Supply of Australian Light Armoured Vehicle (ASLAV) Multi-Spectral Surveillance Suites (and Associated In-Service Support)* was entered into with SEI at a Contract price of \$US7.05 million.

3.39 DMO advised the ANAO in July 2006 that the Surveillance prototype development is progressing to contracted schedule, and has completed a successful Critical Design Review. At the time of audit \$1.9 million had been spent on the Surveillance Project.

¹⁴ In February 2000, the ASLAV-S Equipment Acquisition Strategy was amended so that the Ground Surveillance Radar was the only component to be procured by Project NINOX (with deliveries to be in mid 2002) and the long range Thermal Imager and Laser Range Finder to be sourced through the Prime Contract and then integrated with the Ground Surveillance Radar.

4. Financial Management

This chapter examines the financial management of the Program, concentrating on Phase 3, and examines the payment of accounts, reporting of project expenditure and the application of the Goods and Services Tax.

Background

4.1 In October 2004, the ASLAV Program identified that financial and contractual corrections were required. The assistance of forensic accountants was required to determine exactly what had been expended under the Contract. In order to do this, a number of representations were made to the Prime Contractor to provide basic financial data.

4.2 The forensic accountants were to identify inaccuracies in the ASLAV Program's accounts and Prime Contract relating to the Contract Amendments and CCPs applicable from Contract Amendment 26. At the time of audit the Program Office was managing the Contract as at Contract Amendment 28, which was signed in 2002. Contract Amendments 29 and 30¹⁵ were signed in November 2005 and March 2006 respectively.

4.3 By October 2005, the forensic accountants provided the Program Office with their final report, detailing a number of issues which needed to be addressed by DMO. As at December 2005, the Program Office had expended over \$350 000 on forensic accountant services.

4.4 In April 2005, a Commercial Assurance Review was initiated by DMO to address management aspects of finance, contracting and procurement. The Commercial Assurance Review was commissioned to establish why Phase 3 of the Project was advanced as a model project, but had poor financial management not evident to senior management (see Table 4.1). The Review made 29 recommendations (some of which were not agreed to by the Program Office) relating to contract and financial management. Those agreed have been implemented.

¹⁵ At this time over 220 contract change proposals had been made to the Prime Contract.

Table 4.1

Commercial Assurance Review, April 2005 selected findings

- Maintenance of project records: financial and general project record keeping was poor with official minutes and letters missing;
- Commitments to spend public moneys: it was common practice to task the contractor without appropriate Regulation 13⁽¹⁾ approvals were retrospectively exercised;
- Payment of accounts: invoices were held over to the next financial year to achieve expenditure levels;
- Contract management: the Program Office lost control of the Contract value due to the number of additional CCPs;
- Recommended buy list: due to an overly cumbersome process, the Program Office has no record of which items have been ordered, delivered, invoiced or paid;
- Contract amendment procedures: CCPs were not approved within the required time; and
- Engineering change proposals: the process was being bypassed with changes being made to the vehicles without appropriate approval.

NOTE: (1) FMA Act Regulation 13 states: A person must not enter into a contract, agreement or arrangement under which public money is, or may become payable (including a notional payment within the meaning of Section 6 of the Act) unless a proposal to spend public money for the proposed contract, agreement or arrangement has been approved under Regulation 9.

Source: Defence Commercial Assurance Review April 2005.

Financial Framework

4.5 The *Financial Management and Accountability Act* 1997 (FMA Act) provides the Australian Government's legislative framework for the management of public money and public property. The provisions that apply in the context of the payment of Defence accounts include:

- Section 44 (promoting efficient, effective and ethical use of Australian Government resources); and
- Section 48 (accounts and records are to be kept as required by the Finance Ministers Orders).

4.6 These are supplemented by:

- FMA Regulations, and in particular Regulations 9, 10 and 13 relating to the approval to spend public money. Regulation 9 requires that officers must only approve the spending of public money when they are satisfied, after making such enquiries as are reasonable, that it accords with the policies of the Australian Government, will be an efficient and effective use of public money and the proposal to spend the money is

consistent with the terms under which the funds have been provided to the agency;

- FMA Order 2.3 (accounts and records must properly record and explain the transactions);
- Agency instructions, notably 3.2 – Payment of Accounts of the Chief Executive's Instructions; and
- DMO Manual of Financial Delegations (Defence Reference Book 47).

Payment of Accounts

4.7 The existence of appropriate documentation to support payments is important to enable DMO to:

- meet its FMA Act and FMA Orders obligations to maintain proper accounts and records;
- provide assurance to Ministers and Parliament that the departmental administrative procedures are adequate, reliable and authentic;
- provide assurance to management that the payment administrative processes have the necessary integrity to support the drawdown of Parliamentary appropriations; and
- provide support for the Australian Government's position in the event of legal proceedings.

4.8 Up until June 2004, a number of incorrect payments had been made against the Contract. Ten credit notes were supplied by the Contractor to DMO due to errors made when paying eight invoices. The errors involved: making duplicate payments; paying against the wrong currency (ie in Australian dollars rather than Canadian dollars); and processing errors. The total amount of these credit notes was \$7.15 million.

4.9 Credit notes were being managed by the Contractor and Defence manually. The Contractor would maintain the list in conjunction with the Program Office and request that specific invoices be offset against the credit notes at a point in time. The credit notes were not on the electronic financial management system used by Defence (ROMAN). As part of the new process implemented by the Program Office to manage its finances, all outstanding credit notes were entered into ROMAN. These credit notes were then automatically offset against invoices provided by the Contractor. The ANAO has been informed that there are no remaining credit notes.

4.10 To assist Defence in managing the payment of invoices, the ANAO considers that Defence contracts should be written to require the use of a sequential numbering system for invoices. The ANAO also considers it desirable that a standard claim for payment form be used across the DMO to ensure appropriate sign off and invoices should be signed by an appropriate approvals officer to ensure that the invoices are for the correct service received.

Financial records

4.11 Cumulative expenditure for Phase 3 at March 2006, according to Defence records, was \$555.61 million (see Table 4.2). Of this, \$442.53 million related to Prime Contract costs and \$113.08 million was for Project related expenditure.

Table 4.2

Actual expenditure for each financial year—Phase 3 Project

	1999–2000 \$m	2000–01 \$m	2001–02 \$m	2002–03 \$m	2003–04 \$m	2004–05 \$m	2005–06 \$m
Prime Contract Costs	N/A	31.23	69.96	140.21	146.25	38.93	15.95
Project Costs	21.19	20.16	18.62	14.67	9.24	11.13	18.07
TOTAL	21.19	51.39	88.58	154.88	155.49	50.06	34.02
Cumulative Total	21.19	72.58	161.16	316.04	471.53	521.59	555.61

Source: DMO documentation (as at 31 March 2006).

4.12 An internal DMO Minute, dated 29 March 2006, states that all transactions on the corporate finance system (ROMAN) had been analysed and checked to ensure that the financial data is correctly recorded. This position was also supported by the forensic accounting consultancy.

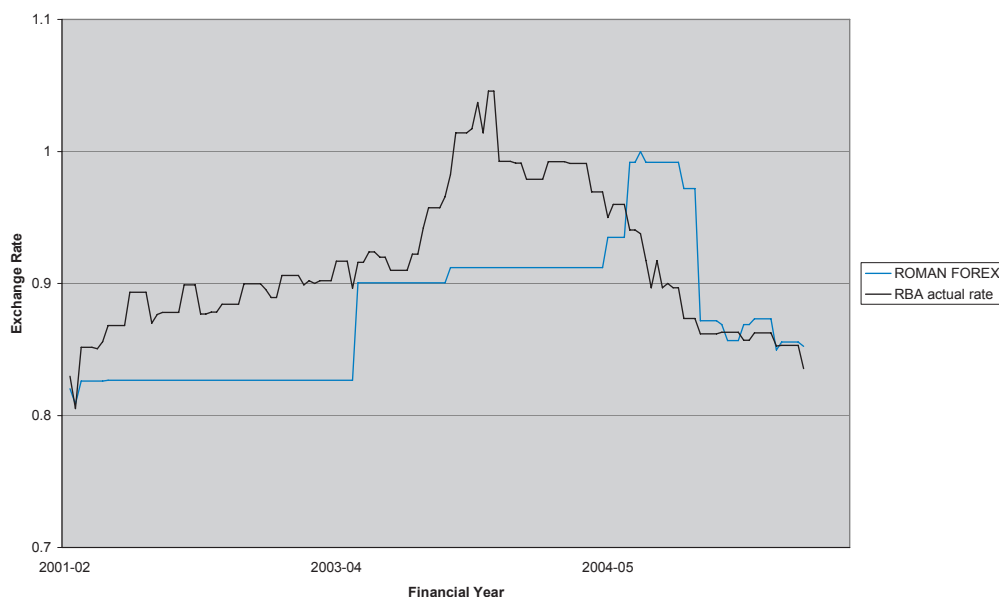
4.13 The ANAO notes that the foreign exchange payments for the Project used the RBA indicative daily foreign currency rates for USD and CAD payments. However, for periods of time ROMAN shows that the USD and CAD were fixed at low rates by the Program Office, not reflecting the actual cost to the DMO in purchasing currency from the RBA.

4.14 The ANAO has calculated that the Program could be over reporting the cost of Phase 3 of the Project by \$23 million compared to actual costs incurred. ANAO has been advised by DMO that the ASLAV Program Office, in conjunction with the Chief Finance Officer DMO, has prepared and posted the correcting journals to rectify the errors in the Asset Under Construction and Assets in Use balances caused by the fixing of the exchange rates.

4.15 For example, between September 2002 and July 2003, the Canadian dollar in ROMAN was fixed at 0.8265 on 60 occasions. The actual exchange rate fluctuated between 0.8682 and 0.9168 in that timeframe (see Figure 4.1), leading to a potential difference in actual expenditure as compared to ROMAN in that time period of over \$4.5 million (on an amount of \$66.5 million).¹⁶

Figure 4.1

Foreign exchange fluctuation of CAD



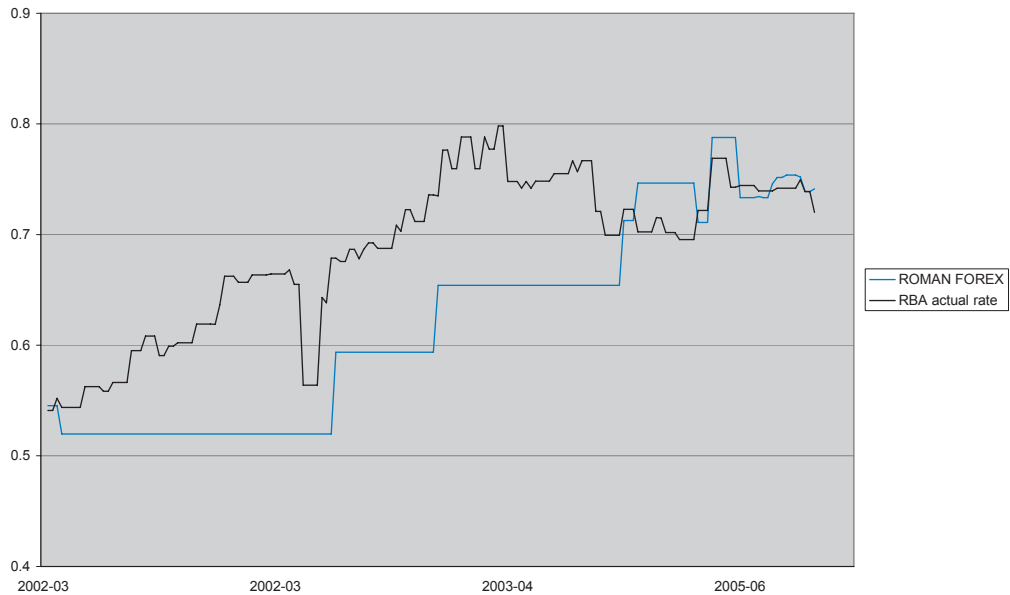
Source: ANAO interpretation of Defence documentation

¹⁶ DMO advised the ANAO in July 2006 that: in the period January 2001 to April 2005 the fixed exchange rate functionality available in ROMAN had been applied to two Purchase Orders relating to the Prime Contract and an additional nine supporting purchase orders. During the period this functionality was used, exchange rates were not manually applied to individual transactions. Rather, the Defence global update exchange rate was applied and updated with each global update exercise.

4.16 Similarly, the US dollar was fixed from August 2002 to July 2003 at a rate of 0.5198 on 76 occasions, with the actual exchange rate fluctuating between 0.5438 to 0.6786 (see Figure 4.2). This has led to an incorrect reported amount, for that period, of over \$7.5 million (on an amount of \$58.3 million).

Figure 4.2

Foreign exchange fluctuation of USD



Source: ANAO interpretation of Defence documentation

4.17 For the ASLAV Program, due to the fixed exchange rate, the reported payment amount is significantly different to the actual payment amount. The exchange rate is able to be artificially fixed in ROMAN by users, and the ANAO suggests that DMO investigates the cost effectiveness of implementing system improvements to prevent this situation from occurring in the future.

4.18 The Defence Annual Report 2004–05 states that: *transactions denominated in foreign currency are converted at the exchange rate on the date of payment.*¹⁷ The ANAO has determined that this was not the case for the ASLAV acquisition or any foreign exchange transaction by DMO up to 30 June 2006. ROMAN reports the foreign exchange amount from an indicative rate on the day before the amount is entered into ROMAN (see Box 2 Figure 4.3) and not on the date of invoice.

¹⁷ Department of Defence Annual Report 2004–05, Note 1.18, p. 376.

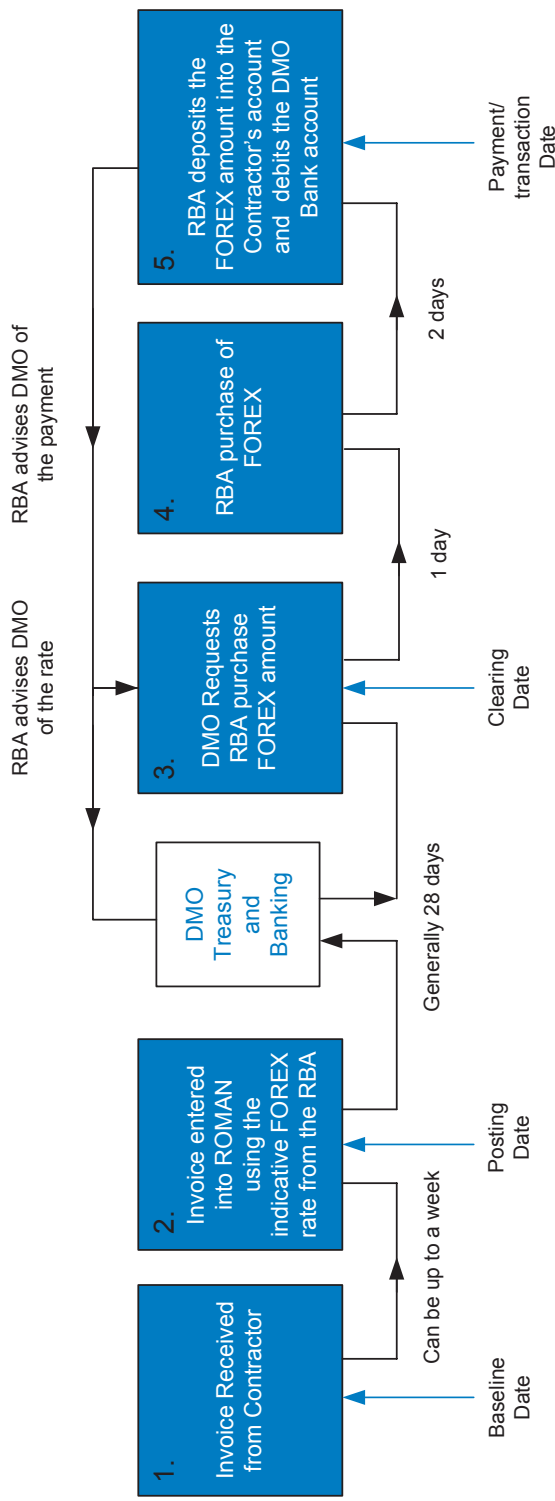
4.19 DMO advised the ANAO that the use of a fixed exchange rate for translation at initial recognition, as was applied to two Purchase Orders relating to the Prime Contract and an additional nine supporting purchase orders, does not comply with extant Defence policy that is based on the requirements of Australian Accounting Standards Board (AASB) 121. And that the ASLAV Program Office, in conjunction with the Chief Finance Officer DMO, has prepared and posted correcting journals caused by the fixing of the exchange rates on ROMAN.

4.20 The ANAO's examination of the ASLAV foreign exchange payments for Phase 3 expenditure, in the best case, includes a one month difference between the reported amount and the actual payment amount. Each DMO foreign currency transaction has two elements (see Figure 4.3):

- conversion from Australian dollars to the foreign currency on an agreed value date (refer to Box 3); and
- ensuring that the foreign currency reaches the Contractor's bank accounts (refer to Box 5).

Figure 4.3

General foreign exchange payment process



NOTE: FOREX is Foreign Exchange

Source: ANAO interpretation of Reserve Bank of Australia documentation

4.21 AASB 121: The Effect of Changes in Foreign Currency Rates 'requires that a foreign currency transaction should be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot rate.' The spot exchange rate is the exchange rate for immediate delivery.

4.22 The recording and reporting of the foreign exchange transactions of the DMO, including those issues raised during this audit and the subsequent correcting entries applied, were reviewed during the financial statement audit of 2005–06. Whilst the financial statement audit confirmed DMO had incorrectly applied the system posting date as the date of transaction, as identified in earlier audits of the Department of Defence and communicated again in 2005–06, the effect of this has been assessed as immaterial in the context of the 2005–06 financial statements.

4.23 The foreign exchange gains and losses for the Department, reported in the Annual Report, are determined at a global budgetary level. Individual projects which make foreign exchange payments do not have their budgets changed in accordance with foreign exchange gains or losses. There is no process for the foreign exchange losses and gains to flow through to project level budgeting in DMO.

Goods and Services Tax (GST)

4.24 Australian Government agencies generally pay GST on the same basis as other Australian entities and are entitled to claim input tax credits for the GST component of the price when acquiring goods and services or when importing goods in the course of carrying on that enterprise.¹⁸ One of the implications of the introduction of the GST regime from 1 July 2000, was a requirement for all contracting entities to review their commercial contracts. However, in respect to the ASLAV Program, a clause to specifically provide for dealing with GST was not incorporated into the Prime Contract until November 2005.

4.25 In November 2000, the Prime Contractor and Defence signed a Reverse Charge Agreement to allow for any GST payable on taxable supplies to be paid by the recipient of the supplies (Defence) and not by the Prime Contractor. Defence documentation shows that this was a way to move forward in the

¹⁸ ANAO, A Better Practice Guide for the Management of GST Implementation, May 2003.

short term as the Prime Contractor was not willing to agree to any GST clauses as part of the Contract Amendment negotiations.¹⁹

4.26 In February 2002, the Program Office wrote to the Prime Contractor requesting that they register for GST with the Australian Taxation Office for an Australian Business Number. The reason cited was that the Program was required to pay the GST (as per the Agreement) but was unable to claim input tax credits. This, according to the letter, would lead to a real cost increase to the program.

4.27 In December 2002, the Prime Contractor advised Defence that they were now registered for GST and the Reverse Charge Agreement had been cancelled. The Australian Government's Australian Business Register records that the Prime Contractor had an active Australian Business Number from 24 November 2000.²⁰

4.28 From 24 November 2000 to 25 November 2002, a total of \$124.3 million was paid to the Prime Contractor by Defence. These payments were made against invoices which did not include a GST component, in accordance with the Reverse Charge Agreement. Defence as the recipient of the supplies was obliged to pay the GST, however, according to Defence ROMAN records, no GST was paid between November 2000 and January 2003.

4.29 On the basis of information on GST payments provided by Defence, there was no evidence that some \$12.4 million of GST payments that should have been made by Defence to the Australian Taxation Office were made. The ANAO notes that Defence and DMO's GST activities are not exempt under Commonwealth taxation legislation. To draw down from an appropriation under the FMA Section 30A²¹ requires the actual payment of GST and the lodgement of a correct business activity statement, which on the available documentation did not occur in this case.

4.30 Since May 2005, the ANAO has reported adversely on GST administrative arrangements by DMO System Program Offices in three audits.

¹⁹ This agreement allowed that the Prime Contractor was a non resident in Australia for GST purposes; was not making the supply through an enterprise in Australia; and Defence was registered in Australia for GST purposes. The Agreement states that the Prime Contractor did not have to issue Defence with a tax invoice for taxable supplies.

²⁰ www.abr.gov.au

²¹ Section 30A operates by increasing limited appropriation by the GST qualifying amount incurred by an FMA agency. In relation to the annual appropriation acts, section 30A has the effect of increasing an appropriation by the amount of the GST qualifying amount arising from acquisitions in respect of the appropriation. See Budget Paper No. 4, Agency Resourcing 2006–07, p. 8.

The previous audits that have highlighted shortcomings in GST administration have related to the Fast Frigate Guided Upgrade Program and M113 Upgrade Project.

4.31 In the audit of the Fast Frigate Guided Upgrade, the ANAO recommended that Defence review, on a regular basis, System Program Office acquisition contracts administrative processes for the payment of GST. DMO advised the ANAO that the Defence Tax Management Office conducts audits of Tax Invoice processing requirements, in particular, the correct use of tax codes against claims. In 2005–06, DMO is estimated to have GST input credit receipts of \$648.74 million.

4.32 In view of the apparent underpayment to the Australian Taxation Office of \$12.4 million and failure to claim input tax credits for the same amount, the ANAO would be supportive of a program of internal audits to check compliance with GST legislation across the 46 System Program Offices.

Reimbursement of Contractor GST Expenses

4.33 In November 2004, the Prime Contractor wrote to Defence stating that the company was appreciative of the Commonwealth's cooperation in agreeing to reimburse them for GST related expenses. At the November 2004 Program Status Review it was noted by the Prime Contractor that most of the GST related expenses were attributed to being audited by the Australian Taxation Office.

4.34 An invoice for GST related expenses was provided to Defence in November 2004, and was supported by a series of invoices from the Prime Contractor's GST consultants and their Senior Legal Counsel. Internal Defence advice to the Program Office states that 'ASLAV has no contractual obligation to make any such reimbursement unless the contract is varied'. The Defence Chief Finance Office Group also provided advice which supported this position.

4.35 During September 2005, negotiations were conducted and a Contract Change Proposal was provided to DMO in October 2005. The CCP was to incorporate a new milestone for GST registration into the Contract at a cost of \$213 638. The CCP was approved in February 2006.

4.36 As part of the value for money requirement in the DMO approval documentation for the CCP, the Program Office stated that:

the proposed costs have been investigated by CCC [Canadian Commercial Corporation] and have been certified as conforming with contract cost principles ... as being fair and reasonable, and as such it is considered that the provision of these requirements will provide value for money to the Commonwealth.

4.37 The ANAO requested that DMO provide the legal advisings, reports and other documentation which formed the advice to the Prime Contractor in relation to GST for which DMO paid \$213 638. DMO advised the ANAO in July 2006 that:

the Program Office has sought legal advice from DMO's General Counsel in order to determine the legal right to obtain the information requested ... [DMO] General Counsel has advised the Program Office that '... there is no contractual requirement upon [the Prime Contractor] to provide documents to Defence which form part of a transaction entered into between [the Prime Contractor] and Deloitte in regard to GST administrative costs.' As such, the Program Office is unable to provide the documentation that ANAO has requested from the Prime Contractor.

4.38 As indicated above, \$213 638 was spent by the Program Office to reimburse the Prime Contractor for GST registration, which included costs expended in dealing with an Australian Taxation Office audit. While such decisions are within the authority of DMO to make, it is questionable as to whether the full extent of this expenditure was in the best interests of the Commonwealth.

4.39 While the documentation reviewed by the ANAO suggested that the expenses related, in the main, to an Australian Taxation Office audit, Defence and DMO advised the ANAO that:

this payment was made to the Prime Contractor under Clause 3.1A.3 of the Conditions of Contract, which states that, 'the parties shall negotiate in good faith an appropriate modification of the Contract Price, consistent with the actual impact of the tax change on the Contractor'. The payment was made to reimburse the Contractor for the administration costs associated with the set up of the GST and costs necessarily incurred to resolve disagreements over the interpretation and application of the Australian GST statute to the Contract.



Ian McPhee
Auditor-General

Canberra ACT
26 October 2006

Appendix

Appendix 1: Defence and DMO Response



Australian Government
Department of Defence



IG 0318/06

25 September 2006

Mr John Meert *9/10*
Group Executive Director
Performance Audit Services
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Dear Mr Meert

**ANAO PERFORMANCE AUDIT ON THE MANAGEMENT OF THE ACQUISITION OF
THE AUSTRALIAN LIGHT ARMoured VEHICLE CAPABILITY – SECTION 19**

1. On 25 Aug 2006 the ANAO sought a Defence response to the draft Section 19 Report on the Management of the Acquisition of the Australian Light Armoured Vehicle Capability.
2. Attached is the Defence response to the draft report and recommendations, including a short summary to be used in preparation for the brochure (see Annex A). Also attached at Annex B is a list of additional information and proposed amendments.
3. In summary, Defence agrees with the recommendation contained in the section 19 draft report.
4. My point of contact in this matter is Mr Joel Goodisson (Tel: (02) 6266 4192, or email: joel.goodisson@defence.gov.au).

Yours sincerely

C Neumann

Claude Neumann
Inspector General

Annexes:

- A. Defence Combined Response to the ANAO Report on the Management Of The Acquisition Of The Australian Light Armoured Vehicle Capability
- B. Proposed Amendments

**DEFENCE COMBINED RESPONSE TO THE ANAO REPORT ON THE
MANAGEMENT OF THE ACQUISITION OF THE AUSTRALIAN LIGHT
ARMoured VEHICLE CAPABILITY**

No	Recommendation	Management Response
Recommendation No.1 Para 2.25	The ANAO recommends that the DMO review measures for document management and control, particularly in relation to ensuring that all versions of equipment acquisition contracts are retained and maintained.	Agree. DMO will strengthen the policy guidance on document management and control contained within the Defence Procurement Policy Manual (DPPM), the primary reference document for all Defence procurement.

Defence Comment:

The acquisition of the 257 ASLAVs by the Defence Materiel Organisation (DMO) has involved three phases, spanning a combined total of 16 years. This has included many ASLAV variants and the integration of a range of capabilities and upgrades to the original base vehicles.

Defence has been very satisfied with the performance of the ASLAV fleet. The vehicles were deployed at short notice to East Timor in 1999 where they made a significant contribution to the success of the mission. The vehicles maintained a high level of availability and achieved great effect with their mobility, protection, firepower and night time capability.

The 50 ASLAVs deployed to Iraq today are the best-equipped and most capable light armoured vehicle in their class. The turreted 25mm cannon and Remote Weapon Station 12.7mm machine gun systems have day sights, thermal night weapon sights and integrated laser range finders. The turrets are stabilised and the vehicles have been successful in completing missions under fire utilising these accurate and capable systems. In terms of protection, the bar armour systems assist in the defeat of rockets, the ballistic steel armour is enhanced with the addition of spall liners to both reduce the effect of rockets and improve protection against blast and bullet. This package of offensive and protective systems, combined with high levels of training and sound tactics, have allowed the ASLAV fleet to perform thousands of kilometres of patrolling and escorts, while securing their areas of responsibility.

In 2004, the ASLAV Program identified a range of contractual and financial management issues that required attention. Defence initiated an internal review and developed a detailed rectification program that has been implemented and successfully completed. The issues identified and details of the remediation work completed were presented to the ANAO for consideration on commencement of the performance audit.

Phase 4 of the Project is planned for first pass approval in 2006-07 for a mid-life upgrade to enhance the survivability and situational awareness capabilities of the existing ASLAV fleet. This is to be achieved through: mine protection; battlefield management; signature management; spall liners; and ballistic protection at a cost of between \$200 and \$250 million.

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