

From: [DLO DPM](#)
To: [Sears, Jason CDRE](#)
Cc: s22
Subject: 250625:1741 - [DLO DPM]-[Sears, Jason CDRE] DPM Briefing for the Australian National Audit Office Audit - Sustainment of Canberra Class Amphibious Assault Ships
Date: Wednesday, 25 June 2025 5:41:52 PM

Good evening Jason,

Thank you for your email. Confirming I have passed your offer for a verbal brief to the office, and will advise if there is any follow-up action requested.

Kind regards,

s22

s22

Departmental Liaison Officer

Office of the Deputy Prime Minister | Minister for Defence
Parliament House | Canberra | Australia
Ph: s47E(d)

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From: Sears, Jason CDRE s47E(d) @defence.gov.au>
Sent: Wednesday, 25 June 2025 5:20 PM
To: DLO DPM s47E(d) @defence.gov.au>; s22 @defence.gov.au>; s22 @defence.gov.au>
Cc: s22
s22
s22
Subject: DPM Briefing for the Australian National Audit Office Audit - Sustainment of Canberra Class Amphibious Assault Ships
Importance: High

Good Evening Defence Liaison Office,

The Australian National Audit Office (ANAO) has completed a performance audit on the Sustainment of Canberra Class Amphibious Assault Ships (Landing Helicopter Dock) (the audit), which is to be tabled in Parliament on Friday 27 June 2025.

Noting there are some criticisms related to the sub-standard condition of the vessels, inadequate sustainment performance management, inadequate risk management and poor management of procurement activities and

contracts, Defence would like to know if the Deputy Prime Minister, or his staff would like a verbal brief on this matter.

Both RADM Tiffen (Deputy Secretary, Naval Shipbuilding and Sustainment Group (NSSG)) and RADM Smith (Head of Maritime Sustainment Division, NSSG) would make themselves available at a time suitable for ODPM.

If you have any further queries, please contact me on s22 .

Regards,

Jason Sears

Jason Sears

Commodore RAN

Director General Major Surface Ships

Department of Defence | Naval Shipbuilding and Sustainment Group

Telephone: s47E(d) Mobile: s22

E-mail: s47E(d) @defence.gov.au

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Australian Government
Defence

Ministerial Background Brief

MS25-000695

FOR: Deputy Prime Minister

CC: SEC, CDF, VCDF, ASSOCSEC, CN, A/DEPSEC NSSG, DEPSEC GOV, FASMECC

AUDITOR-GENERAL PERFORMANCE AUDIT – SUSTAINMENT OF CANBERRA CLASS AMPHIBIOUS ASSAULT SHIPS (LANDING HELICOPTER DOCK)

Key Issues:

The Australian National Audit Office (ANAO) completed a performance audit on the Sustainment of Canberra Class Amphibious Assault Ships (Landing Helicopter Dock) (the Audit). It will be tabled in Parliament on 27 June 2025. The Auditor-General, Dr Caralee McLiesh PSM, proposed nine recommendations, all of which are agreed to by Defence ([Attachment A](#)).

Media Considerations:

This issue is expected to generate media interest. Key messages are provided at [Attachment B](#).

Minister Comments:

Cleared by: Rear Admiral Steven Tiffen AM CSM RAN
Deputy Secretary
Naval Shipbuilding and Sustainment Group
s22
26 June 2025

Primary Contact Officer:
Rear Admiral Bradley Smith CSC RAN
Head Maritime Sustainment
Naval Shipbuilding and Sustainment Group
s22

Secondary Contact Officer:
Commodore Jason Sears RAN
Director-General Major Surface Ships
Naval Shipbuilding and Sustainment Group
s22

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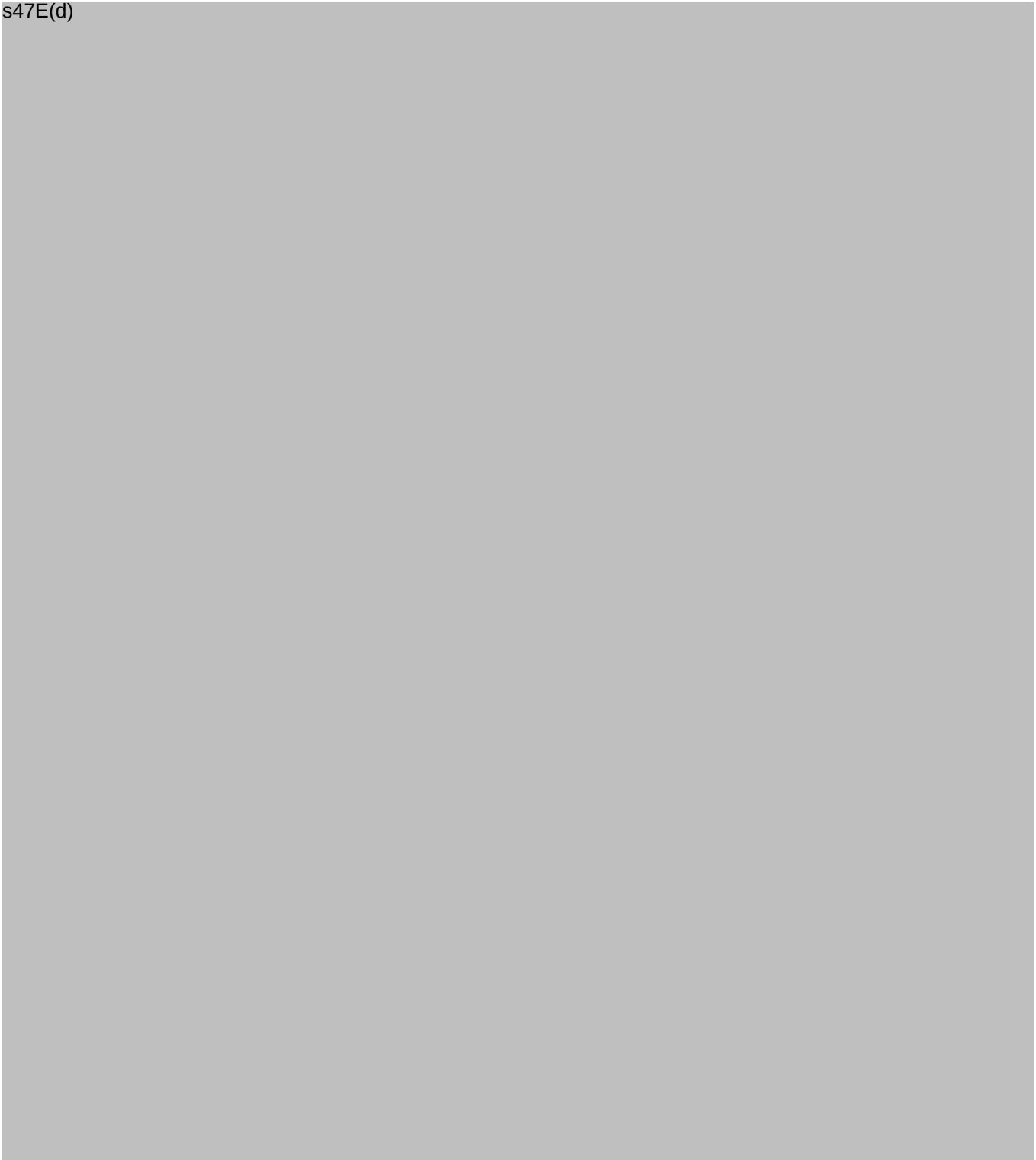
Sensitivity: Yes.

1. The audit identifies Defence's sustainment of the Landing Helicopter Dock (LHD) capability as partly effective. The main criticisms relate to the substandard condition of the vessels, inadequate sustainment performance management and risk management, and poor management of procurement activities and contracts. Defence has acknowledged that the identified shortfalls were below expectations. While the audit made nine recommendations, Defence intends to conduct additional activities to support improved governance and contract management practices.
2. The audit found that Defence did not fully consider if anonymous substantive claims made of fraudulent activity in subcontracting arrangements existed or warranted formal investigation. Defence has committed to further action under recommendation five to ensure that all Defence personnel are aware of their obligations to report and manage suspected fraud or unethical conduct, and that Defence's response conforms to Defence policies and the Commonwealth Fraud and Corruption Control Framework. This will continue significant effort underway over the last 18 months to uplift integrity and further encourage a strong fraud and corruption reporting culture through greater communication campaigns and improved face-to-face training delivery for Defence and contracted personnel.
3. The audit criticises and names suppliers involved in the acquisition and in-service phases. ANAO provided excerpts of the draft report to the following three suppliers (and included their response letters in the final report). The suppliers and main criticisms are:
 - a. BAE Systems Australia Defence Pty Ltd – for delivering the LHDs with defects and deficiencies in the acquisition phase, for delivering a substandard tender for the Transition In-Service Support Contract (TISSC), and for not delivering value for money under the TISSC;
 - b. Babcock Pty Ltd – a former joint venture partner with UGL Limited that formed Naval Ship Management (Australia) Pty Ltd (NSM). NSM failed to meet contractual obligations and performance standards under the LHD Asset Class Prime Contractor contract, and there were allegations of systemic poor procurement practices and fraudulent activity; and
 - c. Kellogg Brown and Root Pty Ltd (KBR) – indirectly, as Defence failed to adequately manage a probity issue during the procurement of the Capability Life Cycle Manager Contract and failed to take appropriate action after receiving an unsolicited proposal.
4. The Auditor-General approved the release of extracts of the proposed report (under section 19 of the *Auditor-General Act 1997*) to the Chief Executive Officers of the three suppliers named above. s47E(d)

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5. s47E(d)



6.

Financial Impacts: Yes.

7. The audit contains the following financial information:
- The value of LHD sustainment contracts to March 2025 (\$3.21 billion);
 - The value of the LHD sustainment 2024–25 budget (\$180 million); and
 - The \$300 million increase to Navy sustainment funding in 2024–25 post consultation with you in 2024 (\$36 million of which was allocated to LHD sustainment).

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Systems/legislation/deregulation: No.

Consultation: Yes.

8. Ms Leonie Neiberding, Assistant Secretary Finance – Navy.
9. Rear Admiral Stephen Hughes AM CSC RAN, Head Navy Capability, Navy.
10. Rear Admiral Rachel Durbin AM CSC RAN, Head Navy Engineering, Navy.
11. Rear Admiral Christopher Smith AM CSM RAN, Commander Australian Fleet, Navy.
12. Mr Ben Wright, First Assistant Secretary Defence Integrity, Governance Group.

Attachments:

Attachment A Defence Response to Australian National Audit Office Recommendations.

Attachment B Key messages.

Background

13. The Royal Australian Navy's (Navy) amphibious warfare fleet includes two Canberra Class amphibious assault ships, also known as LHDs. These are HMA Ships *Canberra* and *Adelaide*, commissioned in November 2014 and December 2015 respectively. The LHDs' role is to provide capabilities in amphibious warfare, humanitarian assistance, disaster relief and sealift, and to contribute to broader defence and Australian Government activities. Effective sustainment of the LHDs, including maintenance and support, is essential for the effective delivery of these capabilities.
14. NSSG has been responsible for the sustainment of the LHDs on behalf of the Navy (the capability manager) since October 2022 (as the successor to the Capability Acquisition and Sustainment Group and Defence Materiel Organisation). Since entry into service in 2014, Defence has contracted its core LHD sustainment delivery activities to industry.
15. Defence's contracting model for the LHDs has changed on three occasions corresponding to the following phases: the transition from acquisition to sustainment (from 2014 to 2019); under the asset class prime contractor model (from 2019 to 2024); and under the Maritime Sustainment Model (MSM) (as of 1 July 2024).

Audit objective

16. The audit examined the effectiveness of Defence's sustainment arrangements for Navy's Canberra Class fleet of amphibious assault ships (or LHDs) from 2014 to 2024. However, its analysis into the formation and establishment of sustainment arrangements goes back much further, capturing events back to the LHD acquisition contract in 2007, representing almost 20 years of Defence activity.
17. The audit provides assurance to the Parliament of Defence's sustainment of naval capability, building on the Auditor-General Report No. 30 2018–19 ANZAC Class Frigates – Sustainment.

Audit findings

18. The audit found that Defence's sustainment arrangements for Navy's LHDs have been partly effective. Risks arising from an accumulation of defects and maintenance backlogs over several years have materialised. The audit also found that the at-times substandard condition of the vessels and personnel workforce shortages have resulted in instances of critical failure and impacts to the Navy's delivery of operational outcomes.

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19. The audit found that Defence did not implement fit-for-purpose planning and value for money procurement arrangements to support LHD sustainment. Defence's future sustainment requirements, including access to important intellectual property for the LHDs, were not sufficiently developed during the acquisition phase. In addition, Defence's remediation activities did not achieve the required outcomes, resulting in additional work being transferred to the sustainment phase or managed as part of the capability improvement phases.
20. Value for money and the intended sustainment outcomes were not achieved through Defence's procurement processes. Early cost estimates for the sustainment of the LHDs were underdeveloped and did not anticipate the impact of the protracted acquisition deficiencies extending into sustainment and continuing into 2025. Defence has regularly reviewed and adjusted its sustainment budget.
21. Defence did not effectively manage sustainment of the LHDs through its prime contractor arrangements. Governance arrangements, contract management guidance and risk management practices were not implemented in a timely manner, and contract-specific probity arrangements were not developed. Defence did not take reasonable steps, as required by the *Public Governance, Performance and Accountability Act 2013*, to manage systemic poor procurement practices by the prime contractor or to fully consider if substantive claims made of fraudulent activity in subcontracting arrangements existed or warranted formal investigation, in accordance with its own policies and the requirements of the Commonwealth Fraud and Corruption Control Framework.
22. Defence did not use the full range of contractual levers available to manage its primary sustainment contract. This approach impacted the quality of service delivery and undermined the achievement of value for money through the contract.
23. Defence has established partly appropriate performance monitoring and reporting arrangements for LHDs. While the sustainment outcomes have largely met Navy's requirements for the operational use of the platforms, the long-term availability and reliability of the LHDs is at risk primarily due to the accumulation of urgent defects, maintenance backlogs and shortfalls in personnel to undertake organic level maintenance. As a result, the LHDs have experienced critical failures, impacting on Navy operations.
24. Finally, the audit also found that Defence's transition to the new MSM lacked reliable and complete information on the expected performance of sustainment contractors. Value for money outcomes for the procurements under the new model were limited by poorly implemented probity arrangements and the procurements commencing later than planned, reducing the time available to resolve issues during contract negotiations.

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Attachment A

AUDITOR-GENERAL REPORT No 50 2024-25: SUSTAINMENT OF CANBERRA CLASS AMPHIBIOUS ASSAULT SHIPS (LANDING HELICOPTER DOCK)

RECOMMENDATIONS

No.	ANAO (Potential) Recommendation	Defence Response
1	The Department of Defence ensures that appropriate arrangements are in place for its transition and remediation programs to improve the rigour with which these activities are managed, and provide assurance that the relevant objectives have been achieved.	Defence agrees to the recommendation.
2	To support the future requirements for the LHDs, the Department of Defence develop and maintains class-specific lifecycle sustainment plans for the Navy fleet, including funding requirements for the planned life of type, to ensure that the required capability is maintained across the classes' whole of life, at a rate of agreed availability.	Defence agrees to the recommendation.
3	The Department of Defence promptly reviews and updates, Navy's Materiel Sustainment Agreements with the Capability Acquisition and Sustainment Group and Naval Shipbuilding and Sustainment Group, following significant changes in organisational structures, or at least every three years.	Defence agrees to the recommendation.
4	The Department of Defence reviews and documents its LHD risk management arrangements, including the use of various ICT systems and oversight forums, with a view to identifying efficiencies, where possible, and ensuring that risks are appropriately identified, and actively managed with clear line of sight.	Defence agrees to the recommendation.
5	Where the Department of Defence is notified of incidents such as suspected fraud or unethical conduct, the Department of Defence ensures that its response is fully documented and conforms to Defence policies and the <i>Commonwealth Fraud and Corruption Control Framework</i> .	Defence agrees to the recommendation.
6	Where the Department of Defence's contracts with industry include mechanisms to obtain assurance over the completion of activities under the contract and the performance of suppliers, the Department of Defence ensures that contractual mechanisms are implemented.	Defence agrees to the recommendation.
7	The Department of Defence review the performance measures for the sustainment of the LHDs to support a more reliable and complete assessment of sustainment performance.	Defence agrees to the recommendation.
8	The Department of Defence establishes arrangements to ensure that its internal policies for the establishment of appropriate probity processes commensurate with the size, scale and risk of its procurement activities are complied with.	Defence agrees to the recommendation.

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Attachment A

No.	ANAO (Potential) Recommendation	Defence Response
9	The Department of Defence benchmarks and monitors sustainment performance under the Maritime Sustainment Model to enable an assessment of the achievement of its strategic objectives.	Defence agrees to the recommendation.

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KEY MESSAGES

ANAO PERFORMANCE AUDIT – Sustainment of Canberra Class Amphibious Assault Ships (Landing Helicopter Dock)

- Defence acknowledges that the planning and procurement processes, sustainment management arrangements, and performance monitoring and reporting of the Canberra Class Amphibious Assault Ships (Landing Helicopter Dock), were assessed as partly effective.
- Defence accepts all nine of the recommendations made in this audit report and is committed to rectifying the issues identified.
- Shipbuilding and sustainment are complex activities, and Defence has proactively sought improvements in processes to better support current and future maritime capabilities.
- Defence is committed to delivering the best possible capability outcomes for the Australian Government and the Australian public.

Contact officer Rear Admiral Brad Smith CSC RAN
Head Maritime Sustainment
Naval Shipbuilding and Sustainment Group
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Clearance	Name	Appointment	Date and time
Cleared by: (Group/Service)			
MECC embedded communications team	s22	Media and Communication Manager, NSSG	19 June 2025
	s22	Media and communication advisor, NSSG	19 June 2025
Naval Shipbuilding and Sustainment Group	Rear Admiral Steven Tiffen AM CSM RAN	Deputy Secretary	26 June 2025

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