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**Joint Committee of Public Accounts and Audit
Answer to Questions on Notice**

Department/Agency: Australian National Audit Office

Inquiry: Inquiry into Defence Major Projects 2019–20

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Question 1: Project Directives and the Capability Life Cycle Management Tool

According to the MPR, following a June 2020 update to the Capability Lifecycle Manual, Defence no longer uses Project Directives as key project governance documents. Instead, Government approvals and decisions are recorded in the Capability Lifecycle Management Tool. However, the ANAO found that of the five new projects in this year's MPR, three - Future Subs, the Combat Reconnaissance Vehicles, and Battlefield Comms - did not have access to Government approvals through the Tool.

- The ANAO has previously stressed the importance of Project Directives aligning with government decisions, and with Materiel Acquisition Agreements. What impact, if any, does the ANAO consider the move away from Project Directives may have on MPR projects?

The MPR also found that ANAO validation of project requirements is impaired when it does not have access to Government approval documents.

- How is the ANAO's work affected by the lack of access to original approval documents? How would any detriment to its work best be addressed?

Response

These issues were discussed in paragraphs 1.23 to 1.28 of Auditor-General Report No.19 of 2020-21, *2019-20 Major Projects Report*.

In respect to impact, paragraph 1.26 stated that the risk of misalignment or error is reduced if Defence has appropriate access to Government records, such as that previously provided by the Project Directive. Paragraph 1.24 reported on Defence advice that its internal Cabinet Liaison Services area can provide advice on government approvals, and that where a Project has not been identified as having a need to know, the Project can request access to relevant Cabinet documents via a business case. If MPR projects access Cabinet documents in this way, there is no residual impact.

The effect on the ANAO was outlined in paragraph 1.27, which stated that the ANAO requires access to original approval documents to validate the requirements of projects, and validation based on internal Defence documentation is not always possible. The ANAO sources original approval documents from Defence's Cabinet Liaison Services area and the Department of the Prime Minister and Cabinet.

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Question 2: Project maturity scores

Project maturity scores have been the subject of ANAO and JCPAA recommendations in past MPRs. Defence reviewed the scores and found 'intractable problems' with them, noting that they are not a reliable indicator and that they are difficult to apply to mega projects. Following the review process, Defence has said it no longer intends to use the scores. Project progress will instead be monitored via an ongoing review process using the Project Performance Review Information Platform (PPRIP), supported by the Monthly Reporting Module (p. 97).

- What is the ANAO's view on the discontinuation of reporting on project maturity scores, and the suitability/advantages of Defence's revised approach to monitoring and reporting on project progress?
- The ANAO currently analyses cost performance partly by comparing budget expended with project maturity (see p. 40). What impact will this change to the MPR have? How will this analysis be replicated in future MPRs without a project maturity score?

Response

These issues were discussed in paragraphs 1.69 to 1.72 of Auditor-General Report No.19 of 2020-21, *2019-20 Major Projects Report*.

The ANAO agreed to support the removal of project maturity scores from the 2020–21 MPR Guidelines, as proposed by Defence, because they were no longer being used by Defence for the management of Major Projects. As discussed in paragraph 1.72, an alternative to replace the Project Maturity Score has not been implemented.

At page 97 of the MPR, Defence stated that it has implemented the Project Performance Review Information Platform (PPRIP), supported by the Monthly Reporting Module (MRM). Defence advised that 'whilst this platform is unable to produce a maturity or performance score, it does provide a comprehensive monthly review of projects covering cost, risk, schedule and FIC, leading to managers having a good understanding of project performance.'

The ANAO reported, at paragraph 1.33 of the MPR, that as the MRM was implemented in the 2020–21 financial year, the ANAO would review Defence's use of the MRM in the 2020–21 MPR.

Analysis of cost performance, by comparing budget expended with project maturity, and schedule performance, by comparing time elapsed and project maturity, has not been replaced and is not replicated in future MPRs as Defence does not utilise an alternative to the Project Maturity Score to manage its Major Projects (paragraph 1.72 of the MPR refers). The analysis in the MPR going forward will focus on comparisons of cost performance and time elapsed, as well as being supplemented by analysis of schedule performance against acquisition type and categorisation.

Question 3: Capability performance analysis

The MPR notes that Defence has a longstanding tendency toward 'optimistic' capability forecasts. The ANAO noted that 'Over time, the JCPAA has sought the use of a more robust measure of capability performance' (p. 68).

- What progress, if any, has been made by the ANAO and Defence in reviewing and updating Defence's capability forecasting, towards a more robust and empirical capability reporting model?

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Response

These issues were discussed in paragraphs 2.48 to 2.59 of Auditor-General Report No.19 of 2020-21, *2019-20 Major Projects Report*.

Paragraph 2.51 states that capability reporting has been based on Defence's prediction of the final capability that would be achieved on the basis of deliverables and/or activities completed. This assessment of capability performance (Expected Capability) is measured against the Materiel Release Milestones (MRMs) and Completion Criteria specified in each project's Materiel Acquisition Agreement (MAA). This is distinct from an assessment of whether milestones will be achieved on schedule. This data involves making certain assumptions in forecasting achievements and is therefore subjective in approach. Paragraphs 2.52 and 2.53 went on to give a number of examples of Major Projects where Defence's earlier level of confidence in the ability to achieve the required capability may have been overly optimistic.

- Paragraph 2.52 discussed the example of the Battlefield Airlifter project, which reported a 100 per cent Green capability prediction at its inclusion in the MPR in 2013–14, notwithstanding that the 2013–14 PDSS also reported major risks in the project.
- Paragraph 2.52 observed that: the inherent subjectivity of the capability prediction is also apparent through a comparison of a platform's predicted hours in service (sometimes referred to as 'rate of effort') and the actual hours achieved; and that this comparison further demonstrates that Defence's capability forecasts may be optimistic.

Paragraph 2.57 noted that the Deputy Secretary CASG had provided the following evidence to the JCPAA in a public hearing on 27 May 2020: 'I acknowledge the issues of the National Audit Office and would like to work with them, as we indicated in our submission, by perhaps reviewing the report and the way in which we articulate the information.' Defence has not provided further advice to the ANAO of its progress on this issue.

During the course of the 2020–21 MPR the ANAO observed that Defence does not have a standard methodology for the assessment of capability and a combination of methods are used, including an assessment based on the proportion of overall cost for each milestone, or the percentage the milestone represents in the overall capability. ANAO notes that weighting of the capability is not included in the assessment and reliance on material delivery only may result in limitations in the effectiveness of reporting.

Question 4: Integrated Investment Program

Defence noted in the MPR report that "With the increasing complexity of the Integrated Investment Program, there is a higher probability of Projects of Concern or management 'as if a Project of Concern' for discrete elements of highly integrated and developmental activities." (p. 95).

- What impact, if any, does highly integrated developmental activity have on MPR reporting, especially in relation to whether integrated project investments will be captured adequately by existing MPR reporting standards?

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- What does the ANAO understand is meant by managing discrete elements of a project ‘as if a Project of Concern’? How will this be reflected in the MPR?

Response

Paragraph 1.8 of the 2019–20 MPR Guidelines stated that the inclusion of projects in the MPR is generally based on the projects included in the Defence Integrated Investment Program (IIP). The Guidelines also required disclosure of a Project of Concern in Section 1.3 of the PDSS (see page 381 of the 2019-20 MPR). These requirements were retained in the 2020–21 MPR Guidelines endorsed by the JCPAA. On this basis, it is the ANAO’s view that integrated project investments will be captured adequately by existing MPR reporting standards

The ANAO suggests that it would be appropriate to seek Defence advice on the information provided, at page 95 of the Statement by the Secretary of Defence, that: ‘With the increasing complexity of the Integrated Investment Program potentially there is a higher probability of Projects of Concern or management “as if a Project of Concern” for discrete elements of highly integrated and developmental activities.’ The ANAO does not provide assurance in respect to this section of the MPR.

Question 5: Caveats and deficiencies

The 2017-18 MPR noted a declining trend of projects declaring major milestones with caveats, with only one project doing so in that year. However, four projects have declared major milestones with caveats or deficiencies in each of the two subsequent years. The 2019-20 MPR also notes that Defence has still not defined the terms ‘caveat’ or ‘deficiency’ in its internal policies and procedures (p. 34).

- How does the lack of robust definitions of caveat or deficiency affect the ANAO’s work assessing project progress, if at all?
- In the ANAO’s view, to what extent does the ongoing practice of declaring milestones with caveats or deficiencies undermine the usefulness of those milestones as measurements of project progress?

Response

These issues were discussed in paragraphs 1.76 to 1.80 of Auditor-General Report No.19 of 2020-21, *2019-20 Major Projects Report*.

Paragraph 1.78 reported that in 2018-19 Defence declared major milestones with caveats or deficiencies for four projects, and declared a similar number of milestones with caveats in 2019-20. Paragraph 1.79 reported that in addition, Defence accepted two ‘concessions’ to the declaration of FOC for a project.

This information is important for users of the MPR, in an environment where Defence continues to report very high achievement against capability delivery performance expectations. Robust definitions of terms such as ‘caveat’ and ‘deficiency’ would contribute to the transparency of Defence reporting in the MPR and would better inform the ANAO’s assessment of progress against key project milestones. This is particularly where caveats are placed on the Capability Manager’s declaration of significant milestones.

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For these reasons, the ANAO reported (in paragraph 1.76) that Defence has not defined the terms 'caveat' or 'deficiency' to the declaration of significant milestones, in its internal policies and procedures. The ANAO also noted, in paragraph 1.80, that it will continue to monitor Defence's declaration of caveats or exemptions to the achievement of significant capability milestones.

Paragraph 1.80 also mentions that the MPR Guidelines provide that in respect to projects which have been removed from the MPR with outstanding caveats, reporting will be provided in the Statement by the Secretary of Defence until their final status is accepted by the Capability Manager. This requirement was first included in the 2018–19 MPR Guidelines endorsed by the JCPAA in September 2018.

The practice of declaring milestones with caveats or deficiencies does not undermine the usefulness of capability milestones as indicators of project progress. Declaring milestones with caveats or deficiencies can provide clarity over the completeness of the delivery of materiel capability or milestones. It can also identify impacts on future stages of the project and issues to be managed, and the need to apply specific risk management strategies. However, the practice would benefit from more robust definitions, for the reasons discussed above.