

Introduction

Background

- 1.1 The Major Projects Report (MPR) is a consolidated review of 29 selected major defence acquisition projects ('Major Projects') being managed by Defence Materiel Organisation (DMO). Projects in the MPR include, for example:
- Air Warfare Destroyers;
 - Joint Strike Fighters;
 - Collins Class Submarines;
 - Armidale Class Patrol Boats; and
 - Bushmaster Vehicles.
- 1.2 The MPR reviews overall issues, risks, challenges and complexities affecting Major Projects and also reviews the status of each of the 29 selected Major Projects, in terms of cost, schedule and forecast capability. The MPR is a joint publication of the DMO and Australian National Audit Office (ANAO) and is prepared in accordance with Guidelines approved by the Joint Committee of Public Accounts and Audit (JCPAA).
- 1.3 The aim of the MPR is to improve accountability and transparency for the benefit of the Parliament and other stakeholders.
- 1.4 In 2003, the Senate Foreign Affairs, Defence and Trade Reference Committee recommended that the Department of Defence produce an annual report on the progress of major defence acquisition projects, detailing cost, time and technical performance data for each project.¹

¹ Senate Foreign Affairs, Defence and Trade References Committee, *Report into Materiel Acquisition and Management in Defence*, March 2003, pp.xv-xvi.

- 1.5 In December 2006, the JCPAA recommended that the ANAO receive additional funding to produce such a report. In August 2008, the Committee published *Report 411: Progress on Equipment Acquisition and Financial Reporting in Defence*, which provided a broad outline of the key features deemed critical for inclusion in the report. Thereafter, the ANAO and DMO have jointly published the MPR, which is usually released in December each year and covers the previous financial year.
- 1.6 Since the first iteration, the MPR continues to evolve. During 2011-12, a stakeholder survey found that “73 per cent of users agreed that the MPR was useful for understanding the DMO’s project performance, while around 44 per cent used it as a comparison tool and to produce further reports.”²
- 1.7 The 2012-13 MPR is the sixth produced by the DMO and ANAO. The JCPAA has reviewed five of the past six MPRs and produced reports on four (2007-08; 2009-10 to 2011-12).
- 1.8 The MPR comprises a series of Project Data Summary Sheets (PDSSs) for each of the 29 selected projects and analysis by ANAO and DMO. Project data (except forecasts of capability) is subject to an assurance audit by the Auditor-General.
- 1.9 In February 2012, the JCPAA identified the MPR as a priority assurance review.³ This allows ANAO to utilise information gathering powers available under the *Auditor-General Act 1997*.⁴

Role of the Committee

- 1.10 The MPR is automatically referred to the JCPAA in accordance with its statutory obligation to examine all reports of the Auditor-General that are tabled in each House of Parliament.⁵
- 1.11 The JCPAA assesses the content, accessibility and transparency of the information provided on Major Projects. The Committee concentrates its review on overall transparency, performance and governance, rather than specific details of individual projects.
- 1.12 More generally, the JCPAA has a duty under s.8(d) of its Act to report to Parliament on any matters in the “accounts, statements or reports” of the

2 JCPAA, *Report 436*, p.32. Based on a sample of 86 respondents.

3 *Major Projects Report 2011-12*, p.17; JCPAA, *Report 429*, p.33; *Auditor-General Act 1997* (Cth) s.19A(5).

4 *Major Projects Report 2011-12*, p.17; JCPAA, *Report 429*, p.33.

5 *Public Accounts and Audit Committee Act 1951* (Cth) s.8(1)(c).

Commonwealth or Auditor-General “or any circumstances connected with them, that the Committee thinks should be drawn to the attention of the Parliament.”⁶

- 1.13 As well as reviewing the MPR, the Committee annually reviews and endorses the MPR Guidelines. The MPR Guidelines include:
- criteria for project selection and removal (or ‘entry’ and ‘exit’);
 - a list of projects proposed for inclusion or removal from the MPR;
 - the roles and responsibilities of the DMO in the production and review of the MPR;
 - guidelines for the preparation of the PDSSs;
 - a PDSS template; and
 - an indicative audit program.
- 1.14 The Guidelines endorsed by the JCPAA and used to prepare the 2012-13 MPR can be found in Appendix 1 of the MPR on page 515.

Conduct of the review

- 1.15 The JCPAA has reviewed the MPR by way of a public hearing in Canberra with representatives of ANAO and DMO, which was held on 20 March 2014. Witnesses who appeared at the hearing are listed at Appendix B.
- 1.16 The Committee received three submissions to the inquiry, which are listed at Appendix A.

Correction

- 1.17 In *Report 436*, on the review of the 2011-12 MPR, the JCPAA stated at paragraph 3.13:
- The MPR disclosed that approximately \$1.1 billion had been drawn upon from major project contingency budgets in 2011-12 to retire project risks, equivalent to 2.3 per cent of the total approved project budget.
- 1.18 This statement was attributed to page 177 of the 2011-12 MPR. Paragraph 2.49 on that page stated:

⁶ *Public Accounts and Audit Committee Act 1951* (Cth) s.8(1)(d).

To 30 June 2012, of the total contingency allocated across the 29 projects, approximately \$1.1b (or 2.3% of total approved project budget of \$47.3b) has been applied to retire project risks.

- 1.19 In a letter dated 20 September 2013, Mr Warren King (CEO, DMO) wrote to the JCPAA advising that:

The \$1.1 billion is a valid summation of contingency expenditure, however, it should have been more clearly explained that it has been drawn down over the life of the projects since their various approval dates, and not just in the 2011-12 financial year.

- 1.20 In December 2013, after the Committee was re-formed following the 2013 general election, the JCPAA authorised publication of Mr King's letter.⁷
- 1.21 The JCPAA acknowledges that paragraph 3.13 of *Report 436* incorrectly attributed \$1.1 billion of contingency expenditure to the 2011-12 financial year, rather than over a longer period of time.

7 See JCPAA website:
<http://www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_Committees?url=jcpaa/defenceannual1112/govtresponses.htm>