
The Parliament of the Commonwealth of Australia

Report 442

Inquiry into the 2012-13 Defence Materiel Organisation Major Projects Report

Joint Committee of Public Accounts and Audit

May 2014
Canberra

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Foreword

This report constitutes the first Defence Materiel Organisation (DMO) Major Projects Report (MPR) reviewed by the Joint Committee of Public Accounts and Audit (JCPAA) in the 44th Parliament and the sixth to be reviewed by the JCPAA overall. This year's report covers 29 projects with a combined approved budget of \$44.325 billion.

The DMO MPR constitutes the ANAO's review and analysis of the progress of selected major Defence acquisition projects managed by DMO, and aims to consider cost, schedule, and capability performance and to function as a longitudinal analysis of procurement projects over time.

The JCPAA assesses the overall content, accessibility and transparency of the information provided in the MPR, and also reviews and endorses the guidelines that constitute the MPR.

The Committee is committed to ensuring the information presented in the Major Projects Report helps to maximise transparency and accountability in the Defence acquisition process for major projects managed by DMO.

Specific areas of focus in the Committee's review of this year's report include cost, schedule, and capability performance, and governance and business processes.

Defence Major Projects are inherently complex, a point acknowledged by the Auditor-General in his opening remarks in this year's MPR. Meeting cost, schedule and capability targets must be considered in this context, particularly for developmental projects.

DMO has previously summarised the range of issues affecting the completion of Major Projects. These include managing induced schedule delays as a result of budgetary constraints; employing and maintaining an appropriately skilled workforce where the skills required are in high demand by other industries; acquiring new equipment presenting multiple integration challenges; contractor overestimation of the technical maturity of proposed equipment solutions; contractor underestimation of the level of effort and complexity required to deliver new equipment; unavailability of in-service equipment (due to operational requirements) limiting the ability of projects to install, and test new or upgraded

equipment in accordance with the original planned project schedule; complying with increasingly demanding certification and regulatory requirements; and ensuring access to intellectual property to enable continued further enhancement and improvement of systems.

The Committee acknowledges these various challenges.

The creation of DMO and the evolving improvements in how it operates were a significant step forward for Australia. The MPR is an important element of this progression along with the corresponding parliamentary scrutiny.

The Committee's report makes recommendations directed at:

- Improving the reporting of budget estimates and actual expenditure;
- Improving the line of sight between the MPR, the Portfolio Budget Statements and Portfolio Budget Estimates Statements;
- Developing a more effective methodology for reporting sustainment activity and expenditure;
- Improving the reporting of slippage post Second Past Approval and acquisition type by approval date;
- Improving the assessment and reporting of statements relating to capability;
- Retaining the publication of project maturity scores until they are no longer required by the JCPAA; and
- Improving reporting on exited major projects.

On behalf of the Committee, I would like to express my appreciation for the work done by the DMO and the Australian National Audit Office in producing the Major Projects Report each year.

I also thank the witnesses from the DMO and the ANAO for their participation in the Committee's review.

Dr Andrew Southcott MP
Chair



Membership of the Committee

Chair Dr Andrew Southcott MP

Deputy Chair Mr Pat Conroy MP

Members	Ms Gai Brodtmann MP	Senator Cory Bernardi
	Mrs Jane Prentice MP (from 25/02/14)	Senator Alex Gallacher
	Mr Craig Laundry MP	Senator the Hon Kate Lundy
	Mr Andrew Giles MP (from 18/03/14)	Senator Anne Ruston
	Dr Peter Hendy MP (from 18/03/14)	Senator Dean Smith
	Mr Michael Sukkar MP	
	Mr Angus Taylor MP	
	Mr Tim Watts MP	
	Ms Lisa Chesters MP (until 18/03/14)	
	The Hon Tony Smith MP (until 18/03/14)	
	The Hon Dr Sharman Stone MP (until 25/02/14)	



List of abbreviations

AMOTS	Australianised Military Off-The-Shelf
ANAO	Australian National Audit Office
COTS	Commercial Off-The-Shelf
DMO	Defence Materiel Organisation
FMR	Final Materiel Release
FOC	Final Operational Capability
IPA	Independent Project Analysis, Inc.
JCPAA	Joint Committee of Public Accounts and Audit
JPD	Joint Project Directive
MAA	Materiel Acquisition Agreement
MOTS	Military Off-The-Shelf
MPR	Major Projects Report
PDSS	Project Data Summary Sheet



List of recommendations

3 The Committee's Review

Recommendation 1

The Committee recommends that starting from the 2013-14 Major Projects Report, the Defence Materiel Organisation and the Australian National Audit Office publish expanded information on each Major Project's budget estimates and actual expenditure during the financial year. Additional details for each Major Project could include:

- Comparison of variation citing specific dollar amounts;
- Percentage of variance; and
- Overall totals and averages, where calculable.

Additionally, ANAO should analyse DMO's reasons and explanations for projects' in-year budget variance.

Recommendation 2

The Committee recommends that the Australian National Audit Office and Defence Materiel Organisation consult as necessary and amend Section 2.2 of the PDSSs, in time for submission of the draft 2014-15 MPR Guidelines to the JCPAA, to ensure that the following are reported:

- (a) each Major Project's 1 July budget estimates, as published in the Portfolio Budget Statements;
- (b) mid-year estimates, as published in the Portfolio Additional Estimates Statements;
- (c) if necessary, any more subsequent estimates since the mid-year estimates; and
- (d) 30 June actual expenditure; along with
- (d) explanations of variance between each of the above.

Recommendation 3

The Committee recommends that Defence and the Defence Materiel Organisation take the necessary actions to ensure there is improved line of sight between the Major Projects Report and the Portfolio Budget Statements and Portfolio Budget Estimates Statements. For example, by improving the consistency of project names and groupings between the documents.

Recommendation 4

The Committee recommends that the Defence Materiel Organisation prepares a suitable and separate methodology for reporting sustainment activity and expenditure, and that this methodology be reported to the Committee within six months of the tabling of this report.

Recommendation 5

That starting from the 2013-14 Major Projects Report, ANAO publish a similar version of Figure 8 (on page 64 of the 2012-13 MPR), relating to Major Project total slippage post Second Pass Approval and acquisition type by approval date.

Recommendation 6

That the Australian National Audit Office and Defence Materiel Organisation consult as necessary to ensure that statements or graphs relating to capability in the PDSSs, particularly Section 1.2 and 5.1, be appropriately qualified in the 2013-14 Major Projects Report, by noting that:

- The graphs in Section 5.1 do not necessarily represent capability achieved; and
- The capability assessments and forecasts in the PDSSs are not subject to ANAO's assurance audit.

Recommendation 7

To improve the robustness of capability performance information, that the Australian National Audit Office and Defence Materiel Organisation consult as necessary and propose amendments to Section 5.1 and 1.2 in the 2014-15 MPR Guidelines, to:

- Apply a more objective method to assessing capability performance; and
- Distinguish capability achieved from capability yet to be achieved, capability unlikely to be achieved, and capability exceeded.

ANAO and DMO should provide a specific proposal to the Committee preferably by the end of August 2014 in line with submission of the 2014-15 MPR Guidelines.

Recommendation 8

That DMO maintain the ability to publish project maturity scores in future Major Projects Reports until these are no longer required by the guidelines endorsed by the Joint Committee of Public Accounts and Audit.

4 Guidelines for the 2013-14 Major Projects Report**Recommendation 9**

That all future Major Projects Reports, including the 2013-14 Major Project Report, include information on recently exited Major Projects, at a level similar to Tables 2.1 to 2.3 on pages 114 to 116 of the 2012-13 Major Project Report.

Recommendation 10

The Australian National Audit Office and Defence Materiel Organisation consult as necessary to propose amendments to the 2014-15 MPR Guidelines to make provision for information on exited Major Projects.

