

Audit Summaries

ANAO Audit Reports tabled from 8 February 2019 – 26 March 2019

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Closing the Gap
No.27 2018–19
Department of the Prime Minister and Cabinet
Productivity Commission

Summary and recommendations

Background

1. In 2006 the Council of Australian Governments (COAG) agreed to an intergovernmental approach to ‘closing the gap in outcomes between Indigenous Australians and other Australians’, which led to the establishment of the *National Indigenous Reform Agreement (Closing the Gap) (NIRA)* in 2008. The NIRA committed the Australian, state and territory governments to a detailed framework of Closing the Gap objectives, outcomes, outputs, performance measures, and targets, as well as service delivery principles to guide the coordinated design and delivery of programs and services for Aboriginal and Torres Strait Islander peoples.
2. There have been various mechanisms for monitoring and reporting on progress towards Closing the Gap over the duration of the framework. Until it was dissolved in 2014, the COAG Reform Council prepared an annual independent assessment of progress in each jurisdiction against the Closing the Gap targets and indicators. For the duration of the Closing the Gap framework, the Productivity Commission, with oversight from the Steering Committee for the Review of Government Service Provision, has compiled and published the underlying data for each indicator in the NIRA Performance Information report, drawing on datasets managed by the Australian Bureau of Statistics (ABS), Australian Curriculum, Assessment and Reporting Authority and Australian Institute of Health and Welfare. In addition, successive Prime Ministers have published an annual *Closing the Gap Prime Minister’s Report*, which has included high-level analysis of progress towards the Closing the Gap targets.
3. In late 2016 COAG announced a refresh of the Closing the Gap framework, which was intended to be completed by June 2018. This timeframe was subsequently pushed back to October 2018, and then December 2018. In December 2018 COAG committed to finalising new targets and implementation arrangements by mid-2019.
4. Since 2013, the Department of the Prime Minister and Cabinet (PM&C) has been the lead agency for Aboriginal and Torres Strait Islander Affairs within the Australian Government. The majority of Australian Government Indigenous-specific program funding is provided by PM&C through the Indigenous Advancement Strategy and the Department of Health through the Indigenous Australians’ Health Programme.

Rationale for undertaking the audit

5. Aboriginal and Torres Strait Islander Affairs is a policy area with a high level of Parliamentary and community interest. In particular, there is strong interest in ensuring funding provided through government programs achieves intended outcomes. The Australian Parliament and COAG rely on the monitoring and reporting arrangements led by PM&C and the Productivity Commission to understand the level of progress that is being made towards achieving the Closing the Gap targets.
6. The audit was undertaken to provide assurance that the Closing the Gap framework is appropriately governed, and that monitoring and reporting arrangements are being managed effectively and draw on accurate and appropriate data. It also sought to provide assurance that PM&C

has maintained an appropriate leadership role in managing the framework and ensuring Australian Government programs contribute to Closing the Gap objectives. As the audit was undertaken at an early stage of the Closing the Gap Refresh process, its findings can inform the development of new implementation and monitoring arrangements for the refreshed framework.

Audit objective and criteria

7. The objective of the audit was to assess the effectiveness of arrangements for monitoring, evaluating and reporting progress towards Closing the Gap in Aboriginal and Torres Strait Islander disadvantage.

8. To form a conclusion against the audit objective, the Australian National Audit Office (ANAO) adopted the following high level criteria:

- Have appropriate governance arrangements for implementing and monitoring the Closing the Gap framework been maintained?
- Have appropriate processes been established for reporting progress towards the Closing the Gap targets?
- Have effective processes been established to monitor and evaluate the impact of Australian Government programs on Closing the Gap?

Conclusion

9. Arrangements for monitoring, evaluating and reporting progress towards Closing the Gap have been partially effective. Reporting on the high-level Closing the Gap targets has been maintained, but little work has been undertaken to monitor and evaluate the contribution of Australian Government programs towards achieving these targets.

10. Governance arrangements established for monitoring progress towards Closing the Gap have been partially effective. While oversight has been maintained over the collation and reporting of data for the Closing the Gap targets, the overall effectiveness of the framework has been reduced by a lack of oversight of its implementation and limited stakeholder engagement. Reflecting this, the intergovernmental agreement that established the Closing the Gap framework has not been updated since 2012 and is out of date.

11. Entities responsible for collating data and reporting against the Closing the Gap targets have established and maintained appropriate processes to manage the quality and timeliness of data. Reporting against the Closing the Gap targets has predominantly drawn on appropriate information, analysis and interpretation.

12. Most Australian Government programs which reference the Closing the Gap framework were implemented in its first years, and there is alignment between current programs and elements of the framework. Arrangements for monitoring and evaluating the contribution of the Australian Government's programs to the Closing the Gap targets are not effective and do not provide an objective assessment of performance.

Supporting findings

Governance of the Closing the Gap framework

13. Following the dissolution of key Closing the Gap oversight bodies in 2013 and 2014, oversight of the implementation of the Closing the Gap framework has been limited. An independent performance assessment of progress in implementing the framework has not been undertaken since 2015. Oversight of the collation and reporting of data for the Closing the Gap targets has been

maintained through the NIRA Performance Information Management Group and the Steering Committee for the Review of Government Service Provision.

14. The NIRA has not been updated since 2012 and does not reflect changes to the framework, including changes to the Closing the Gap targets, oversight responsibilities and delivery mechanisms.

15. Engagement with Aboriginal and Torres Strait Islander stakeholders on the design and implementation of the original Closing the Gap framework was limited. There has been improved engagement undertaken by PM&C on the refreshed Closing the Gap framework and COAG has committed to establishing a new formal partnership between COAG and Aboriginal and Torres Strait Islander peoples by February 2019.

Reporting against the Closing the Gap targets

16. Robust processes have been established to administer Closing the Gap data. The Productivity Commission, data owners and the NIRA Performance Information Management Group have worked together effectively to manage annual updates to technical specifications.

17. Entities responsible for collating and reporting data for the Closing the Gap targets have established effective arrangements for managing data quality and timeliness, although the ABS did not adequately document its quality assurance processes.

18. Reporting against the Closing the Gap targets by PM&C has predominantly drawn on appropriate information, analysis and interpretation.

Monitoring and evaluating the Australian Government contribution to Closing the Gap

19. In the early years of the Closing the Gap framework, a large number of national partnership agreements and Australian Government programs were implemented with explicitly stated links to the Closing the Gap framework. In recent years, fewer agreements and programs have been directly linked to the framework. There is alignment between current major Aboriginal and Torres Strait Islander programs and the Closing the Gap 'building blocks' and targets.

20. The Australian Government has not developed an overarching implementation plan to focus its contribution to achieving the Closing the Gap targets.

21. From 2008 to 2014 monitoring of the Australian Government's contribution towards Closing the Gap was only partially effective. Since 2015, monitoring has not been effective, as mechanisms for monitoring whole-of-government performance in Aboriginal and Torres Strait Islander Affairs have ceased. The *Closing the Gap Prime Minister's Report* does not provide an objective assessment of contribution towards Closing the Gap.

22. An evaluation framework has not been established to measure the impact of programs on Closing the Gap targets. As part of the Government's 2017 Aboriginal and Torres Strait Islander research and evaluation package, the Productivity Commission was tasked with the development of a whole-of-government evaluation strategy. This work has not formally commenced as an Indigenous evaluation commissioner was not appointed until December 2018. PM&C's evaluation framework for the Indigenous Advancement Strategy does not include any references to Closing the Gap.

Recommendations

Recommendation no.1
Paragraph 3.20 The Australian Bureau of Statistics develop and implement procedures to systematically document quality assurance checks and internal approvals for data extracted for Closing the Gap reporting.

Australian Bureau of Statistics response: *Agreed.*

Recommendation no.2
Paragraph 4.20 The Department of the Prime Minister and Cabinet ensure the Australian Government action plan for the refreshed Closing the Gap framework clearly identifies the links between program inputs, outputs and outcomes and the framework's higher-level outcomes and targets.

Department of the Prime Minister and Cabinet response: *Agreed with qualification.*

Recommendation no.3
Paragraph 4.34 The Department of the Prime Minister and Cabinet establish arrangements to prepare an annual Australian Government Closing the Gap performance report that transparently and objectively reports on:

- the links between program-level expenditure and outputs and outcomes for Aboriginal and Torres Strait Islander peoples; and
- the contribution of programs towards Closing the Gap targets.

Department of the Prime Minister and Cabinet response: *Agreed with qualification.*

Summary of entity responses

23. The proposed report was provided to the Department of the Prime Minister and Cabinet, Productivity Commission, Australian Bureau of Statistics, Australian Curriculum, Assessment and Reporting Authority, Australian Institute of Health and Welfare and Department of Health. Full responses from these entities are provided. Summary responses from entities that provided one are set out below.

Department of the Prime Minister and Cabinet

The Department notes the Report's overall conclusions and findings and agrees with its Recommendations Two and Three with qualifications.

The Department notes the draft Closing the Gap framework agreed by COAG in December 2018 is consistent with the recommendations and areas for improvement outlined in the Report. The new draft Closing the Gap framework will be further developed in partnership with Indigenous Australians through their representatives, placing them at the heart of its development and implementation. The draft framework includes draft targets, accountabilities, reporting requirements and a way forward for the development of Commonwealth, state and territory action plans. It will enable a greater level of accountability and independence in governments' reporting against progress.

The framework and draft targets will be finalised through a new Ministerial Council on Closing the Gap, with Ministers nominated by jurisdictions and representation from Aboriginal and Torres Strait Islander peoples, ahead of endorsement by COAG in mid-2019. A review of the National Indigenous Reform Agreement will be informed by the framework.

Australian Bureau of Statistics

The ABS acknowledges the National Indigenous Reform Agreement (NIRA) for Closing the Gap in outcomes between Aboriginal and Torres Strait Islander Australians and other Australians and the importance of high quality data for reporting against the Closing the Gap targets. The ABS has comprehensive quality assurance processes in place across all aspects of its statistical business, from data collection through to dissemination. Significant efforts are applied in the collection, coding and processing of statistical information to create quality assured datasets from which Closing the Gap data is extracted.

The ABS has custodial responsibilities for 13 of the 16 datasets used in the Closing the Gap framework. While quality assurance processes were fully completed when extracting the data from the numerous datasets, the ABS accepts there have been some inconsistencies in the written recording of these processes for the 2017 Closing the Gap report and actions are already underway to remedy this. It is

expected that the ABS' Statistical Business Transformation Program currently underway will assist in delivering a consistent documentation process.

Australian Institute of Health and Welfare

The AIHW notes the conclusions of ANAO's proposed audit report on Closing the Gap, and in particular welcomes the finding that AIHW has the appropriate processes in place to ensure quality and timely data is provided for Closing the Gap reporting from the National Perinatal Data Collection.

The AIHW assisted with the development of the CtG trajectory modelling, and as such can support the ANAO's recommendation to provide the methodology for determining if the CtG targets are on track.

The AIHW will continue to play an active role in the National Indigenous Reform Agenda Performance Information Management Group, and will publish updated CtG data specifications on METeOR, which is currently being enhanced.

The AIHW would support efforts in the research synthesis function following the closure of the Closing the Gap Clearinghouse.

The AIHW will support the outcomes of the Closing the Gap refresh.

Department of Health

The Department of Health (the Department) welcomes the audit and the report extract supplied.

The Department notes the ANAO's finding where the Indigenous Australians' Health Programme (IAHP) program guidelines explicitly refer to the Closing the Gap framework, referencing the two health related targets: life expectancy and childhood mortality. The Department further notes the ANAO's finding where the IAHP guidelines explicitly reference the service delivery principles articulated in the National Indigenous Reform Agreement, and the guidelines state the Department's administration of the IAHP will comply with these principles.

Key messages from this audit for all Australian Government entities

24. Below is a summary of key messages, including instances of good practice, which have been identified in this audit that may be relevant for the operations of other Australian Government entities.

Policy/program design

- When designing major policy initiatives, it is good practice to establish high-level outcome targets and robust mechanisms for monitoring and reporting against them. This has been a strength of the Closing the Gap framework. The effectiveness and transparency of the outcome targets is enhanced by ensuring the methodologies to measure outcome achievement are published.
- Major policy initiatives require a robust implementation plan. Good practice indicates that activities outlined in the plan should be closely aligned with the achievement of performance measures and the plan should be kept up-to-date over time as new initiatives are incorporated or experience informs program adaptations.

Policy/program implementation

- Major policy initiatives that have long term targets (such as in the Closing the Gap initiative) require long term governance and focus to ensure policy objectives are delivered. They also require clear and ongoing assignment of accountability to a lead agency and establishment of regular performance reporting arrangements. This may require adaptation of programs over time and the alignment of new related initiatives to the achievement of the long term objectives.

Management of Smart Centres' Centrelink Telephone Services – Follow-up

No.28 2018–19

Department of Human Services

Background

1. The Department of Human Services (Human Services) delivers payments and associated services on behalf of partner agencies, and provides related advice to government on social welfare, health and child support delivery policy.¹ Through its Social Security and Welfare Program, Human Services delivers payments and programs that support families, people with a disability, carers, older Australians, job seekers and students.² In 2017–18, Human Services delivered \$112.4 billion in social security payments to recipients.³

2. Human Services offers a variety of service delivery options to customers including face-to-face services for Centrelink and Medicare in service centres⁴, as well as telephony and digital services. In 2017–18, Human Services received approximately 17 million visits to service centres and handled approximately 52 million calls for Centrelink, Child Support and Medicare Program services.⁵ In 2017–18, there were also 49.1 million Centrelink transactions for digital and self-service.⁶

3. In 2017–18 the Average Speed of Answer⁷ for calls to Centrelink was 15 minutes and 58 seconds against a target of less than or equal to 16 minutes.⁸

Rationale for undertaking the audit

4. This audit is to follow up on recommendations made in Auditor-General Report No. 37 of 2014–15 *Management of Smart Centres' Centrelink telephone services*.⁹ The Joint Committee of Public Accounts and Audit (JCPAA) has shown interest in performance reporting relating to Centrelink telephony, specifically recommending more complete and publicly available data on the performance of these services. The Community Affairs Legislation Senate Committee also maintains ongoing interest in call wait times and performance reporting. There is regular media interest in the call wait times experienced by Centrelink customers.

¹ Department of Human Services, *2017–18 Annual Report*, page 7, available from <https://www.humanservices.gov.au/sites/default/files/2018/10/8802-1810-annual-report-web-2017-2018.pdf> [accessed November 2018].

² *ibid.*, page 36.

³ *ibid.*, page 36.

⁴ Human Services has 349 service centres across Australia.

⁵ Department of Human Services, *2017–18 Annual Report*, page 190.

⁶ *ibid.*, page 31

⁷ Human Services defines the Average Speed of Answer as the average length of time a customer waits to have a call answered through the department's telephony services.

⁸ Department of Human Services, *2017–18 Annual Report*, page 23, available from <https://www.humanservices.gov.au/sites/default/files/2018/10/8802-1810-annual-report-web-2017-2018.pdf> [accessed November 2018]

⁹ Auditor-General Report No. 37 2014–15 *Management of Smart Centres' Centrelink Telephone Services*.

Audit objective and criteria

5. The objective of the audit was to examine the extent to which Human Services has implemented the recommendations made by the Australian National Audit Office (ANAO) in Auditor-General Report No. 37 of 2014–15 *Management of Smart Centres' Centrelink Telephone Services*; as well as Human Services' performance against call wait time and call blocking¹⁰ metrics.

6. To form a conclusion against the audit objective, the ANAO adopted the following high level audit criteria:

- Human Services has implemented a channel strategy that effectively supports the transition to digital service delivery and the management of call wait times.
- Human Services has implemented an effective quality framework to support the quality and accuracy of Centrelink telephone services.
- Human Services has implemented effective performance monitoring and reporting arrangements to provide customers with a clear understanding of expected service standards.

7. The audit did not include an examination of Smart Centres' processing services, other than the processing that is done as part of the telephone service; or Smart Centres' Medicare and Child Support telephone services.

8. The audit did not directly follow up on the implementation of the JCPAA recommendations. However, the audit considered the intent of the JCPAA recommendations and their relationship with the original ANAO recommendations.

Conclusion

9. As at November 2018, Human Services has fully implemented one and partially implemented two of the three recommendations made in Auditor-General Report No. 37 of 2014–15 *Management of Smart Centres' Centrelink Telephone Services*. Human Services performance against the Average Speed of Answer Key Performance Indicator (KPI) has remained largely stable since the previous audit.

10. In response to the recommendation in the previous Auditor-General report, Human Services has developed two channel strategies. The first was not effectively implemented. Human Services is currently developing mechanisms to support the implementation of the revised strategy. The transition to digital service delivery and the management of call wait times are supported by individual projects within the department.

11. Human Services has effectively applied the department's Quality Framework to Centrelink Smart Centres' telephony staff supporting the quality and accuracy of telephone services.

12. Human Services telephony program has appropriate data and largely effective internal performance reporting for management purposes. External reporting provides limited insight into the overall customer experience.

¹⁰ A call is 'blocked' when the caller hears a 'busy' signal and cannot enter the telephone network.

Supporting findings

Managing call wait times and supporting digital service delivery

13. In late 2016 Human Services developed the *Channel Strategy 2016–19*, however the strategy was not used to guide decision-making activity across the various channels. A revised channel strategy was endorsed in June 2018 that more clearly articulates initiatives that will be completed and how these link to the strategy's key objectives of reducing preventable work, increasing digital take up, and improving customer experience and staff engagement. Governance and reporting arrangements have not yet been fully implemented and it is too early to assess the effectiveness of the revised channel strategy.

14. Human Services does not have appropriate mechanisms in place to monitor and report on the effectiveness of its transition to digital services, with only one high-level performance measure in place. The measure, which is the percentage increase in the total number of interactions conducted via digital channels compared to the previous year, does not examine the effectiveness, intended outcomes or the impact on other channels of the shift to digital services across the department. Human Services has identified a need to improve indicators in this area and is working to address these limitations.

15. Human Services has developed a strategy to assess the benefits to its telephony services made under its Telephony Optimisation Programme. Although the strategy details the management, metrics, targets and reporting for each sub-project, the current benefits realisation approach does not clearly articulate how each individual sub-project contributes to the Programme's overall objectives and key performance measures. This potentially hinders prioritisation of future telephony improvement activities. The Telephony Optimisation Programme remains underway and Human Services intends to assess its impact on the management of call wait times and increased call capacity at the end of 2018 and again in mid-2019.

16. Human Services has undertaken an evaluation of its pilot program to test whether use of an external call centre provider was feasible to increase call capacity. Additional resources have been allocated following the evaluation, which found the model was effective and comparable to the department's telephony service delivery workforce. The direct impact this approach has had on the number of busy signals and call capacity is unclear due to a range of other factors influencing these outcomes, such as seasonal variations, other policy changes, and impacts from the Telephony Optimisation Programme projects.

Quality and accuracy of Centrelink telephone services

17. Quality assurance activities for Centrelink Smart Centres' telephony services are undertaken in accordance with the Human Services Quality Framework. There are largely effective quality assurance mechanisms in place to support the consistency of service and information provided to customers, except that not all required evaluations are currently completed and calibration activities have not been applied consistently across all sites.

18. The Quality Call Framework and the Quality On Line processes apply to all staff who provide Centrelink telephone services regardless of staff classification, employment status or work type. Human Services is actively exploring options to further improve quality processes, such as a pilot currently underway to trial Remote Call Listening evaluations. Monitoring and analysis of quality assurance activities occurs regularly within Smart Centres and at the strategic level to inform continuous improvement activities.

Performance monitoring and reporting

19. Human Services collects appropriate performance data for internal operational management of its telephony services. Performance information is regularly reported to Smart Centre management and used to identify local performance trends, adjust resource allocation and consider staff development needs. Human Services' Executive receive performance reporting to inform monitoring against call wait times and call blocking to support achievement of the external Average Speed of Answer Key Performance Indicator. Reporting to Executive does not provide full insight into the overall customer experience – such as the time spent waiting before customers abandon calls or the number of calls answered within specified timeframes. This information would support Human Services to continue improvements in the telephony channel and the transition to digital services.

20. Human Services' external reporting of telephone service performance is not appropriate as it does not provide a clear understanding of the service a customer can expect. The Average Speed of Answer Key Performance Indicator does not consider the various possible outcomes of a call such as abandoned calls. Human Services has undertaken several reviews of its performance metrics, however it has not yet identified and finalised its preferred set of updated metrics. Therefore, it has only partially implemented recommendation three of Auditor-General Report No. 37 of 2014–15. No changes have yet been made to external performance information to provide a clearer understanding of the service experience a customer can expect.

21. External reporting on the performance of Centrelink telephony services remains limited to annual reporting of the single Average Speed of Answer Key Performance Indicator within the department's Annual Performance Statement.

Recommendations

Recommendation no. 1
Paragraph 2.14 The ANAO recommends that Human Services further develop implementation plans and monitoring and reporting arrangements to provide its executive with a holistic view of the effectiveness of the Channel Strategy to support the transition to digital service delivery and assist with the management of call wait times.

Department of Human Services response: *Agreed*

Recommendation no. 2
Paragraph 4.32 Human Services finalise its review of Key Performance Indicators and implement updated external performance metrics for the 2019–20 Portfolio Budget Statement.

Department of Human Services response: *Agreed*

Summary of entity response

22. The proposed audit report was provided to the Department of Human Services, which provided a summary response that is set out below.

The Department of Human Services (the department) welcomes this report, and considers that implementation of its recommendations will enhance the delivery and management of telephony and digital services by reducing preventable work, increasing digital take-up and improving customer experience and staff engagement.

The department agrees with the Australian National Audit Office's (ANAO's) recommendations and has commenced the work necessary to implement them. The Department has implemented improvements to monitoring and reporting arrangements, which will provide the Department's executive leadership team with enhanced visibility of progress in delivering its digital transformation strategy. In addition, the Department is currently reviewing performance measures relevant to

telephony services, including consulting with relevant stakeholders. Any changes are expected to be in place to support the 2019-20 Portfolio Budget Statement.

Key messages from this audit for all Australian Government entities

23. Below is a summary of key messages, including instances of good practice, which have been identified in this audit that may be relevant for the operations of other Commonwealth entities.

Policy / program implementation

- To maximise the benefits of internal strategies and improvement initiatives, entities should demonstrate clear follow through on endorsed strategies. This includes appropriate implementation planning and regular monitoring and reporting to the executive to maintain visibility of action.

Performance and impact measurement

- Entities should develop performance criteria that address the accountability needs of the Parliament and the public and that are relevant, reliable and complete.
- Entities should clearly describe the method of measurement or assessment for each performance criteria in the corporate plan.

Background

1. The Australian Transport Safety Bureau (ATSB) was established by the *Transport Safety Investigation Act 2003* (TSI Act) as Australia's national transport safety investigation agency. It seeks to improve safety and public confidence in the aviation, marine and rail modes of transport through:

- independent investigation of transport accidents and other safety occurrences;
- safety data recording, analysis and research; and
- fostering safety awareness, knowledge and action.

2. Under the TSI Act, the ATSB focusses on the prevention of future accidents and the improvement of safety. It is not a function of the ATSB to apportion blame or provide a means for determining liability. The ATSB does not investigate for the purpose of taking administrative, regulatory or criminal action.

3. In 2017–18, the ATSB received 15,766 aviation notifications¹, 518 rail notifications and 238 marine notifications in the form of telephone calls, emails and website contact. This resulted in 6,350 being assessed as a safety occurrence and so came under consideration for investigation. Under the TSI Act (section 21), the ATSB may investigate any transport safety matter, and must investigate a transport safety matter if directed in writing by the Minister to do so. While not all of the reported occurrences are investigated, the details of each occurrence are retained within the ATSB's occurrence database, which is analysed to identify emerging trends and issues.

4. The ATSB is a non-corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).² In 2017–18, the ATSB had a full time Chief Commissioner; three part-time Commissioners and 109 staff across its offices within Australia. The staffing profile included 53 aviation, marine and rail safety investigators.

5. There has been growth across all three of the transport modes the ATSB is responsible for investigating. The May 2017 Budget included additional funding of \$11.9 million for the ATSB over five years from 2016–17. The increase in funding was provided to the ATSB to replenish its workforce, and re-profile its capital investment strategies to meet its projected needs in technical equipment, data warehousing and core enterprise systems.

¹ A range of stakeholders (such as transport operators) are required by law to report transport accidents and incidents to the ATSB. The ATSB can receive multiple reports (notifications) of the same occurrence, and at times, also receives reports of non-transport safety related matters. The ATSB assesses every notification received.

² The ATSB also receives cost recovery revenue from the states in relation to the ATSB's roles as the national rail investigator, funding for the ATSB's support to Papua New Guinea and Indonesia, along with cost recoveries for training delivery.

Rationale for undertaking the audit

6. This topic was selected for audit as part of a series of performance audits focussing on the efficiency of entities. The audit was undertaken in the early stages of a significant organisational change program within the ATSB that is aimed at enhancing operational efficiency and effectiveness.

Audit objective and criteria

7. The objective of this audit was to examine the efficiency of the ATSB's investigation of transport accidents and safety occurrences.

8. To form a conclusion against the audit objective, the following high-level criteria were adopted:

- Has the ATSB put in place efficient processes for the investigation of transport accidents and safety occurrences?
- How well does the ATSB's investigation efficiency compare to its own previous performance, as well as relevant international comparator organisations?

9. The scope of this audit covered the ATSB's activities and processes for the conduct of investigations. The ATSB's operations support functions, systems and processes such as financial and workflow management were also included given the influence they have on operational efficiency.

Conclusion

10. The efficiency with which the ATSB investigates transport accidents and safety occurrences has been declining. The ATSB has recently been focussing its attention on reducing the backlog of old investigations, improving investigation timeframes and taking steps to benchmark its performance against transport investigation entities in some other countries.

11. The ATSB has established key elements of an overall framework to promote efficient investigation processes. There is a focus on clearing the backlog of investigations that have been underway for some time, applying sound processes to decide which notifications merit a safety investigation, and adjusting key performance indicators to identify more realistic completion timeframes for the more complex investigations. The ATSB has also taken a number of actions to give greater attention to the efficiency with which it undertakes transport safety investigations.

12. The efficiency of the ATSB's investigation activities has declined over time both in relation to the length of time taken to complete investigations, and the amount of investigation resources required. The ATSB has recently started taking steps to benchmark its performance against transport safety investigators in some other countries. Analysis of the available data indicates that averaged across the last three years the ATSB has performed well in comparison to the selected countries on a range of efficiency metrics. On an annualised trend basis, the analysis indicates that the ATSB's efficiency has been declining relative to the selected comparators, particularly in relation to resource efficiency.

Supporting findings

Measuring and supporting operational efficiency

13. The ATSB has performance measures in place addressing time efficiency. Timeframe targets have not been achieved by the ATSB, and work is underway to develop more realistic timeframe targets. The ATSB does not publicly report on its resource efficiency.

14. The ATSB collects a range of information that can be used to inform an assessment of its investigation efficiency. Work is underway within the ATSB to improve its collection and analysis of data for this purpose.

15. The assessment and prioritisation processes support the ATSB focussing its investigation resources in the areas that are most likely to result in safety improvements. Action is underway to enhance the way those processes take into account the extent to which investigator resources are available.

16. Organisational change programs have been initiated and opportunities to improve investigatory processes have been identified and are being pursued.

17. The ATSB has had quality controls and processes in place, however they have not been conducive to the timely completion and review of investigations. Since 2017, the ATSB has implemented key review points earlier in the investigations process. As a result, the ATSB has identified improvements in quality and a reduction in the amount of rework required through the various review stages.

Comparing operational efficiency

18. The ATSB has undertaken limited analysis of changes in its investigation efficiency over time. This analysis has focussed on timeliness and the work effort required to complete an investigation.

19. Efficiency has declined over time. Over the last five years, the time taken and resources required by the ATSB to complete investigations has increased significantly.

20. Prior to 2018, the ATSB had not compared its investigation efficiency to other relevant transport safety investigation organisations. Steps are now being taken to benchmark performance against international comparators.

21. Data obtained in connection with this ANAO performance audit indicates that, averaged across the last three years, the ATSB is performing comparably across a range of efficiency metrics. On an annualised basis, the ATSB's efficiency has been declining particularly in terms of resource efficiency where it has fallen behind two of the three countries examined for which data was available.

Recommendations

22. Any findings in the report which the audit team feel warrant Executive accountability to remedy should be included as a recommendation.

Recommendation no.1 The ATSB implement strategies that address the decline in the timely completion of short investigations.

Paragraph 2.8 **Australian Transport Safety Bureau response:** *Agreed.*

Recommendation no.2 The ATSB report on the efficiency with which it uses resources in undertaking investigations.

Paragraph 2.18 **Australian Transport Safety Bureau response:** *Agreed.*

Recommendation no.3 The ATSB establish more realistic targets for investigation timeframes addressing both calendar and investigator (effort) days.

Paragraph 3.5 **Australian Transport Safety Bureau response:** *Agreed.*

Recommendation no.4 The ATSB continue to progress actions that it has recently commenced to benchmark its investigation performance against relevant international comparators and use the results to identify strategies to improve its performance.

Australian Transport Safety Bureau response: *Agreed.*

Summary of entity response

23. A summary response from the Australian Transport Safety Bureau is provided below, while the full response is provided at Appendix 1.

Australian Transport Safety Bureau

The Australian Transport Safety Bureau (ATSB) acknowledges the findings and recommendations of the ANAO. The ATSB recognises that efficiency is an essential factor in influencing improvements in transport safety. In recent years, the ATSB has undergone transformational change to improve efficiency and effectiveness.

The ANAO's report acknowledges that before the audit the ATSB was already engaged in program to improve efficiency. The ATSB sought and received funding to replenish its workforce and re-profile its capital investment strategies to meet the projected needs in essential technical equipment, data warehousing requirements and core enterprise systems. The ATSB has invested heavily in recruiting, training and mentoring new investigators that will result in enhanced efficiencies as their competencies develop and mature. Further, the ATSB has already commenced a program of work to apply a project management approach to investigations. This program is providing the ATSB with greater visibility of workloads and availability of skills across its workforce.

This audit has assisted the ATSB to make further efficiency improvements. The ATSB will soon release a varied Corporate Plan with more suitable key performance indicators for timeliness and demand/capacity. The ATSB is also working towards fostering further benchmarking work amongst accident investigation agencies around the world. While the ATSB has previously benchmarked the quality of investigations and recognised a best practice approach, a benchmarking focus on investigation efficiency should assist the ATSB and likeminded investigation agencies to learn from each other.

The ATSB continually strives for excellence in all that we do. The ATSB agrees with the recommendations in the ANAO report and has already begun implementing them. Greater efficiency and effectiveness will further enable us to fulfil our important function of improving transport safety in an operating environment of continuing change in the aviation, rail and marine industries.

Key messages from this audit for all Australian Government entities

24. Below is a summary of key messages, including instances of good practice, which have been identified in this audit that may be relevant for the operations of other Commonwealth entities.

Performance and impact measurement

- A well informed triage function aids organisational efficiency. This requires that decisions about which referrals to act upon take into account not only the particular merits of the referral, but also the entity's existing workload and capacity to take on additional work.
- Key performance indicators (including targets) identifying realistic completion timeframes for key outputs aids accountability and can inform entities when performance requires improvement.
- Identifying suitable comparators to assess efficiency against provides entities with a useful indicator of performance. Comparators can include: past performance; organisations with comparable functions or processes; or appropriate targets and benchmarks. When assessing efficiency the comparator benchmark does not need to be the same, particularly if you know what the differences are and the benchmark can be used to assess reasons for variations through time.

**ANZAC Class Frigates—Sustainment
No.30 2018–19
Department of Defence**

Background

1. The Royal Australian Navy (Navy) operates eight ANZAC class frigates. The frigates were commissioned between 1996 and 2006, and form part of Navy’s core surface warship capability. The ANZAC class is used to: conduct surveillance and patrols; protect shipping and strategic areas; provide naval gunfire in support of the Army; and undertake disaster relief and search and rescue activities.
2. The ANZAC class is half way through its original service life-of-type. The first frigate was expected to be withdrawn from service during 2024–25 and the last during 2032–33. In June 2018, the Australian Government announced that Hunter class frigates (under the SEA 5000 program) would replace the ANZAC class of ships, with the first Hunter class frigate scheduled to enter service in the late 2020s.¹ To accommodate the design, build and introduction into service of the Hunter class frigates, the ANZAC class’ original withdrawal dates have been extended, with the first frigate to now be withdrawn in 2029–30 and the last in 2042–43.
3. The Department of Defence’s (Defence) Capability Acquisition and Sustainment Group is responsible for the sustainment of the ANZAC class. Navy has advised the Capability Acquisition and Sustainment Group of its requirements and budget for the sustainment of the ANZAC frigates in a Materiel Sustainment Agreement. The budget for the sustainment of the eight ANZAC class frigates for 2018–19 is \$374.0 million — 15 per cent of Navy’s overall sustainment budget of \$2,422.4 million for that year. The approved budget to sustain the ANZAC class from 2018–19 to 2026–27 is \$3.4 billion.

Rationale for undertaking the audit

4. Defence’s sustainment of the ANZAC class frigates was selected for audit due to its cost and the importance of this capability until the Hunter class frigates enter into service. In addition, parliamentary committees have, over several years, stated their interest in Defence’s reporting of its sustainment performance and, in particular, obtaining greater insight into that performance.²
5. This audit is the fourth in a series of performance audits of Defence’s management of materiel sustainment:
 - Auditor-General Report No.44 2017–18 *Defence’s Management of Sustainment Products — Health Materiel and Combat Rations*;

¹ Prime Minister, Minister for Defence Industry, Minister for Defence and Minister for Finance Joint Media Release: *The Hunter Class — defending Australia and securing our shipbuilding sovereignty*, 29 June 2018. <https://www.minister.defence.gov.au/minister/christopher-pyne/media-releases/joint-media-release-prime-minister-minister-defence-2> [accessed 11 January 2019].

² Parliamentary inquiries include: Joint Standing Committee on Foreign Affairs, Defence and Trade, *Procurement procedures for Defence capital projects*, August 2012, p. xxvii; Joint Standing Committee on Foreign Affairs, Defence and Trade, *Review of the Defence Annual Report 2011–12*, Canberra, June 2013, p. 90; Joint Committee of Public Accounts and Audit, *Report 442: Inquiry into the 2012–13 Defence Materiel Organisation Major Projects Report*, Canberra, May 2014, and *Report 448: Review of the 2013–14 Defence Materiel Organisation Major Projects Report*, Canberra, May 2015, pp. 27–32.

- Auditor-General Report No.2 2017–18 *Defence's Management of Materiel Sustainment*; and
- Auditor-General Report No.30 2014–15 *Materiel Sustainment Agreements*.

Audit objective and criteria

6. The audit objective was to examine whether the Department of Defence has effective and efficient sustainment arrangements for the Royal Australian Navy's fleet of eight ANZAC class frigates.

7. To form a conclusion against the audit objective, the ANAO adopted the following high-level criteria:

- Defence has a fit-for-purpose sustainment framework between Navy and the Capability Acquisition and Sustainment Group.
- Defence has an appropriate framework to monitor and report on the effectiveness and efficiency of operating the ANZAC fleet.
- Defence effectively administers the ANZAC sustainment strategic partnership to achieve specified availability and performance outcomes.

Conclusion

8. While the ANZAC class frigates are meeting Navy's current capability requirements and continue to be deployed on operations in Australian, Middle Eastern and Asia-Pacific waters, Defence has been aware since at least 2012 that sustainment arrangements have not kept pace with higher than expected operational usage. Further, Defence cannot demonstrate the efficiency or outcomes of its sustainment arrangements, as the necessary performance information has not been captured. Defence will need to address relevant shortcomings in its sustainment arrangements to meet the requirement that the ANZAC class remain in service for an extra 10 years to 2043, pending the entry into service of the replacement Hunter class.

9. The effectiveness of Defence's framework for sustaining the ANZAC class frigates has been reduced because the sustainment plans and budget outlined in the ANZAC class Product Delivery Schedule in Navy's Materiel Sustainment Agreement do not align with the frigates' higher than expected operational use. Defence has been aware of this misalignment since at least 2012.

10. Defence's advice to the government to extend the ANZAC class' life-of-type to 2043 was not based on a transition plan or informed by an analysis of the frigates' physical capacity to deliver the required capability until then. Navy will need to address potential risks, relating to the frigates' material condition, to maintain seaworthiness and capability.

11. Defence has established a performance framework for the ANZAC class frigates' sustainment, with performance measures included in the Materiel Sustainment Agreement and reports provided to senior Defence leaders. While the performance measures adopted by Defence are relevant, the performance framework is not fully effective because the performance measures are:

- only partially reliable — as targets and/or plans regularly change; and
- not complete — as the measures do not address sustainment outcomes and efficiency.

In 2017–18 most of the Key Performance Indicators reported against were consistently not met.

12. The transparency of external reporting on the ANZAC frigates' sustainment expenditure is reduced as it does not include Defence staffing costs or operational sustainment expenditure.

13. Defence entered into a sole sourced alliance contract with its existing industry partners, without a competitive process.

14. It is too early to assess the effectiveness of Defence's administration of the new contracting arrangements, known as the Warship Asset Management Agreement, which took full effect in January 2018 after an 18-month transition period. Defence's regular internal performance reporting and monitoring does not capture the performance of the Agreement.

Supporting findings

Sustainment framework

15. The ANZAC class Product Delivery Schedule in Navy's Materiel Sustainment Agreement established with the Capability Acquisition and Sustainment Group is not fit-for-purpose. Navy has not updated the document to reflect the current governance arrangements and sustainment needs. The current sustainment plan and available budget do not accurately reflect the operational use of the frigates, which is higher than planned.

16. The misalignment between operational use and sustainment funding, combined with difficulties in securing necessary parts (in part, a result of obsolescence), has caused Defence to defer maintenance activities and transfer items of equipment between frigates.

17. Defence has identified the effects of the current misalignment between sustainment planning, funding and actual operational use. The ANZAC class has experienced degradation of the ships' hulls and sub-systems, with successive reviews and performance information highlighting the link between lack of conformance to operating intent/requirement, reduced platform life and reduced sustainment efficiency.

18. In June 2018, Defence advised the Government of its intention to extend the planned withdrawal from service of the ANZAC class to 2043, indicating that a transition plan was due for completion in late 2019. The advice did not address the misalignment or assess the ANZAC class' physical capacity to deliver the required capability until 2043. Defence is preparing a transition plan, which is due to be completed in late 2019, to guide the transition from the ANZAC class to the replacement Hunter class.

Performance monitoring and reporting

19. The performance measures adopted for the sustainment of the ANZAC class frigates are relevant but only partly reliable, as targets and/or plans regularly change. Further, the performance measures are not complete, as they do not address sustainment outcomes or efficiency.

20. Defence has established arrangements to monitor and report on the sustainment of the ANZAC class frigates, with senior Defence leaders made aware of the sustainment risks and issues experienced by the ANZAC class. The performance reporting indicates that there was underperformance for most of the Key Performance Indicators for the sustainment of the ANZAC class frigates during 2017–18. External reporting on the ANZAC class frigates' sustainment expenditure would be more transparent if it included Defence staffing costs and operational sustainment expenditure.

Administration of the sustainment strategic partnership

21. Defence entered into a sole sourced alliance contract (the Warship Asset Management Agreement) with its existing industry partners, under an exemption from the Commonwealth Procurement Rules.

22. In the absence of a competitive process, Defence determined that value-for-money had been achieved after considering cost, the expertise of the industry partners, and their previous experience in sustaining the ANZAC class.

23. It is too early to assess the effectiveness of the contracting arrangements for ANZAC class sustainment, which took full effect in January 2018 after an 18-month transition period. The strategic partnership arrangement is expected to: drive efficiency; transfer risk to industry; reduce Defence's cost of ownership; simplify contract administration; and reduce contract disputes. However, the arrangements may reduce Defence's leverage over industry participants.

24. Defence entered into the new sustainment contract without seeking endorsement from the Defence Investment Committee or the Minister for Finance, on the assumption that ANZAC class sustainment had been approved at the time of the ships' acquisition in the 1980s or possibly when they were introduced into service in the 1990s. Defence should have sought advice from central agencies on the most appropriate handling of this matter, given the high value of this procurement and the uncertainty over past approvals.

25. Defence's regular internal performance reporting and monitoring does not capture the performance of the Warship Asset Management Agreement. The current misalignment of performance measures in the Warship Asset Management Agreement with the framework set out in the ANZAC class Product Delivery Schedule of the Materiel Sustainment Agreement may result in a lack of clarity around the achievement of outcomes.

26. Defence's initial assessment of the performance of the Warship Asset Management Agreement indicates that all measures had been met or exceeded as at late 2017. Defence plans to evaluate the value-for-money of its contracting arrangements in 2020.

Recommendations

Recommendation no. 1
Paragraph 2.25 Defence update the ANZAC class Product Delivery Schedule of the Navy Materiel Sustainment Agreement to align sustainment plans for the ANZAC class frigates with their operational use and material condition.

Department of Defence response: *Agree.*

Recommendation no. 2
Paragraph 2.49 In the context of developing its transition plan for the ANZAC class life-of-type extension, Defence review the capital and sustainment funding required to maintain the ANZAC class frigate capability until 2043, and advise the Government of the funding required to meet the Government's capability requirements for the class or the capability trade-offs to be made.

Department of Defence response: *Agree.*

Recommendation no. 3
Paragraph 3.10 Defence review the key performance measures for the ANZAC class frigates' sustainment to ensure they are reliable and complete.

Department of Defence response: *Agree with qualification.*

Recommendation no. 4
Paragraph 4.21 To align with the strategic planning approach outlined in the Defence Integrated Investment Program, Defence develop guidance in the Capability Life Cycle Manual on when a proposal to establish or amend a sustainment program should be provided to the Defence Investment Committee and the Minister for Finance for consideration.

Department of Defence response: *Agree with qualifications.*

Recommendation no. 5
Paragraph 4.33

Defence refine its performance reporting and management arrangements for the ANZAC class frigates by aligning Key Performance Indicators in the Warship Asset Management Agreement and those in the ANZAC class Product Delivery Schedule of the Navy Materiel Sustainment Agreement.

Department of Defence response: *Agree.*

Summary of the Department of Defence's response

27. The proposed audit report was provided to the Department Defence, which provided a summary response that is set out below.

Defence welcomes the ANAO Audit Report into the ANZAC Class Frigates - Sustainment and agrees with the recommendations. Recommendations three and four have been agreed with qualifications.³

Defence would like to highlight the reliable performance and operational effectiveness of the ANZAC Class Frigates, and their ability to consistently achieve whole of government requirements during the previous two decades. Throughout the life of the ANZAC Class Frigates, Defence has effectively managed upgrades and subsequent sustainment of these warships in order to achieve the strategic requirements that have evolved since the introduction of the capability.

Defence is confident the assurance provided through this Seaworthiness regime affirms the warships are operational, seaworthy and capable of performing all assigned tasks. Furthermore, Defence is continually assessing options to optimise sustainment funding for the ANZAC Class Frigates to ensure operational availability and effectiveness continues to be met.

The Warship Asset Management Agreement (WAMA) has seen the implementation of greater cost oversight and improved performance based measures that encourage collaborative behaviours and a solutions focus within the industry partners. In line with the First Principles Review, the WAMA seeks to support long term relationships with industry that will underpin the sovereign capabilities essential to deliver continuous shipbuilding and sustainment.

Defence is actively planning and making preparations for the transition from the ANZAC Class Frigates to the Hunter Class Frigates to ensure effective operational coverage in a complex and ever changing strategic environment.

Key messages for all Australian Government entities

28. Below is a summary of key messages, including instances of good practice, which have been identified in this audit and may be relevant for the operations of other Australian Government entities.

Procurement

- Where contractual arrangements provide for non-Commonwealth personnel to exercise delegations, such as authority to enter into contracts, those delegations should be in place at the commencement of the contract.

Program implementation

- When misalignment between planned and actual activities becomes known, risks and impacts should be assessed, monitored and remediated.

³ ANAO comment: As noted at paragraph 4.23, the effect of Defence's comments on Recommendation no. 4 is to disagree to the recommendation.

Performance and impact measurement

- Clear linkages between the Key Performance Indicators monitored internally and the performance requirements in contracts support entities in driving contracts to achieve value for money.

**Defence's Management of its Projects of Concern
No.31 2018–19
Department of Defence**

Background

1. The Department of Defence's (Defence) Projects of Concern regime was established as a framework to manage the remediation of underperforming materiel acquisition projects. The objective of the regime is:

to remediate the project by implementing an agreed plan to resolve any significant commercial, technical, cost and/or schedule difficulties. Projects of Concern receive targeted senior management attention and must be reported regularly to the government.¹

2. Of the 25 projects listed as Projects of Concern since 2008, Defence has cancelled two of these projects and returned most of the remainder to normal management arrangements. The period spent by individual projects on the list has ranged from a few months to over eight years. Thirteen are reported to have reached Final Operational Capability.² As of December 2018, there were two projects on the Projects of Concern list.

3. Entry to the Projects of Concern list, and exit from it, is decided by ministers. For most of the history of Projects of Concern, Defence has used specific criteria to provide a basis to recommend that a project be placed on the list. From 2017, a set of principles has been followed rather than specific criteria.

Rationale for undertaking the audit

4. The reason for undertaking the audit is that Projects of Concern include projects that contribute substantial capability to the Australian Defence Force and involve a major resource commitment by the Australian Government. As a mechanism for resolving difficulties with Defence projects, there is a clear link between the effectiveness of the Projects of Concern regime and Defence's strategic priorities as stated in one of its purposes under the *Public Governance, Performance and Accountability Act 2013 (PGPA Act)*: 'Deliver and sustain Defence capability and conduct operations'.³ Further, the Projects of Concern regime regularly receives Parliamentary attention and this audit is intended to provide insight into how Defence operates and manages the Projects of Concern regime, comprising the small number of projects requiring an increased level of management and support.

Audit objective and criteria

5. The objective of the audit is to assess whether Defence's Projects of Concern regime is effective in managing the recovery of underperforming projects. The following high-level criteria were adopted for the audit:

¹ Department of Defence, *Annual Report 2017–18*, p. 123.

² Final Operational Capability is the point where the relevant Capability Manager has certified their satisfaction that the delivered system has satisfied tests and evaluation, and performs as approved at Second Pass approval by government.

³ Department of Defence, *Annual Report 2016–17*, Chapter 2.

- Defence has established an appropriate framework for the Projects of Concern regime, including processes for the entry, management and exit of projects.
- Defence applies the Projects of Concern regime with an appropriate degree of consistency.
- Defence has established appropriate internal and external reporting arrangements on the progress of Projects of Concern.
- Defence can demonstrate that the Projects of Concern regime contributes materially to the recovery of underperforming projects and products.

Conclusion

6. While the Projects of Concern regime is an appropriate mechanism for escalating troubled projects to the attention of senior managers and ministers, Defence is not able to demonstrate the effectiveness of its regime in managing the recovery of underperforming projects. Defence remains confident of the regime's effectiveness but its confidence is based on management perception and anecdotal evidence, as it has not attempted any systematic analysis. Over the last five years, the transparency and rigor of the framework's application has declined.

7. Defence no longer has an appropriate framework for its Projects of Concern regime. The regime has two clear purposes: to resolve troubled capability development projects through remediation or cancellation with the explicit involvement of ministers; and to help keep ministers informed. However, its current implementation lacks rigour. From 2008 forward, ministers' involvement heightened the focus on troubled projects and strengthened the regime. It was more fully developed in 2011, with the introduction of regular summit meetings chaired by ministers to review progress and stimulate action. Over the last five years, transparency has reduced, the level of formality has declined with explicit criteria replaced by unpublished principles, and processes have become less rigorous with a greater emphasis on maintaining relationships with industry.

8. There has been inconsistency in Defence's application of its Projects of Concern regime. In particular, application of processes for entry onto the list have been inconsistent and summit meetings to address Projects of Concern have become less frequent. Greater consistency has been maintained in preparing remediation plans and removing projects from the list, though there have been exceptions to both.

9. Defence reporting on its Projects of Concern is appropriate, with regular reports provided to senior management within Defence, to ministers and to Parliament, as part of Defence's Quarterly Performance Report. Reporting provides useful quantitative and qualitative data though Defence has acknowledged that the timing and quality of its Quarterly Performance Reports could be improved.

10. Defence has not evaluated its Projects of Concern regime over the decade it has been in place, nor set criteria for assessing success. There is no basis, therefore, for Defence to show that the Projects of Concern regime contributes materially to the recovery of underperforming projects and products.

Supporting findings

The framework for the Projects of Concern regime

11. The Projects of Concern regime has a clear purpose and scope. Its purpose is to help keep senior Defence leaders and ministers informed of materiel acquisition projects in difficulty and resolve problems in the project's progress either through remediation or, where that is not practicable, cancellation. The regime has applied almost exclusively to underperforming materiel acquisition projects. Despite running in parallel for almost two decades, Defence has only recently

sought to align its contractor performance data across its Performance Exchange Program and the Projects of Concern regime to ensure that views on contractor performance are consistent.

12. Defence has established a policy for its Projects of Concern regime and procedures for the entry, management and exit of projects. In 2009 and 2011, Defence's approach was made more formal and rigorous at the instigation of ministers. In recent years, the transparency and formality of the process have diminished, regular summits chaired by ministers have been replaced by ad hoc meetings, and Defence no longer publishes its principles and procedures for Projects of Concern. Maintaining collaborative relationships with industry has become a more dominant element in the governance of the regime.

Application of the Projects of Concern regime

13. Defence does not apply a consistent process to the entry of projects to the Projects of Concern list with evidence of delays as well as advice being withheld from review processes and decision-makers. Procedures for Independent Assurance Reviews do not explicitly mention Projects of Concern even though such reviews are the primary occasion for nominating a project to be a Project of Concern. There was evidence that most reviews (75 per cent) had considered whether a recommendation should be made.

14. Broadly, Defence has applied a consistent process to the management of projects while on the Projects of Concern list. However, summit meetings involving the Minister, vendors and officials, a principal process devised in 2011 to help ensure that Defence can use its Projects of Concern regime to exert commercial pressure on vendors, are no longer regular and they have become less frequent. Another long-standing process, the preparation of remediation plans, has usually been followed.

15. Defence has generally applied a consistent process to the exit of projects from the Projects of Concern list. Defence's practice has been to recommend removal of a project from the list only when it has both fulfilled a specified set of expectations (or removal criteria) and satisfied Defence that it is on a sound trajectory, making it unlikely to return to the list. A 2018 decision to remove a project (CMATS) has not observed the second condition.

Reporting on Projects of Concern and evaluating the regime

16. Regular reports are provided on Projects of Concern to senior management within Defence, to ministers and to Parliament which contain useful quantitative and qualitative data. Projects of Concern are also reported on publicly through Defence's Annual Report and ministerial media releases. Defence has acknowledged that the quality of the data could be improved and that information technology systems have affected the timeliness of the reports. Notwithstanding its regularity, the reporting is not timely, taking nearly two months to complete.

17. Defence cannot demonstrate that the Projects of Concern regime contributes materially to the recovery of underperforming projects. Although Defence has consistently stated that its Projects of Concern regime is 'one of the Department's most successful management tools for recovering problem projects' it has not evaluated the regime and this view is based on management perception and anecdotal evidence.

Department of Defence's response

18. The proposed report was provided to the Department of Defence. The Department's summary response is below.

Defence maintains that the Projects of Concern regime is a significant material factor, and a strong commercial lever to influence the positive recovery of underperforming projects and products.

Defence considers that the ANAO's analysis and overall conclusion contained in the Proposed Report do not appropriately consider the evolving nature of the Projects of Concern regime, its role within the larger project management toolkit, and elevation of priority for attention by the Minister/Government of the day.

Defence does not agree with the ANAO's statements inferring that it has avoided adding to the Projects of Concern list in the interest of trying to maintain a positive relationship with industry, nor has this resulted in a less robust governance arrangement. The reduction in the number of projects on the Project of Concern list is linked to the changing nature of the Capital Equipment Program as well as the close out of legacy projects.

Nevertheless, Defence acknowledges that there is room to enhance the administrative arrangements supporting this program and has agreed to both recommendations.

Recommendations

Recommendation no.1 Defence introduce, as part of its formal policy and procedures, a consistent approach to managing entry to, and exit from, its Projects of Interest and Projects of Concern lists. This should reflect Defence's risk appetite and be made consistent with the new Capability Acquisition and Sustainment Group Risk Model and other, Defence-wide, frameworks for managing risk. To aid transparency, the policy and the list should be made public.

Paragraph 3.29

Department of Defence response: *Agreed.*

Recommendation no.2 Defence evaluates its Projects of Concern regime.

Paragraph 4.32

Department of Defence response: *Agreed.*

Key messages from this audit for all Australian Government entities

19. Below is a summary of key messages, including instances of good practice, which have been identified in this audit and may be relevant for the operations of other Australian Government entities.

Risk management

- In the management of large and complex projects involving major equipment acquisition or maintenance, it is good practice to identify risks early in the life of the project and select thresholds for the escalation of project risks to more senior management.
- It is also good practice, when projects approach identified risk thresholds, to escalate them promptly to the identified managerial level.

Governance and program evaluation

- Although there is merit in maintaining a flexible approach to managing a program remediation activity, there is still benefit in adopting a formal policy and procedures that can demonstrate to all stakeholders that a consistent and fair approach is being observed.
- When managing a program remediation activity, it is worthwhile undertaking a systematic evaluation both to establish the activity's merit and, potentially, provide learnings to the entity managing it.