



Australian Government

Defence

Joint Committee of Public Accounts and Audit

**Inquiry into the Defence Major Projects Reports 2020-21
and 2021-22 and Hunter Class Frigate Procurement**

**Department of Defence
Supplementary Submission**

February 2024

Defence welcomes the opportunity to provide a supplementary submission to the Joint Committee of Public Accounts and Audit (the Committee) in consideration of the 2020-21 and 2021-22 Defence Major Projects Reports, specifically improving the external assurance on Defence major projects for the benefit of Parliament.

Defence routinely reports on the performance of its major projects and undergoes assurance activities to ensure accountability and transparency in the performance of investments in military capability. Defence considers there is a robust reporting regime on Defence major projects, allowing for external assurance through a variety of mechanisms including by the Parliament and more broadly by the public. Defence reports on the performance of major projects in accordance with parliamentary requirements and at the direction of Defence portfolio Ministers.

From a statutory reporting perspective the Defence Annual Report, Portfolio Budget Statements and Portfolio Additional Estimates Statements include performance information on Defence's Top 30 military equipment acquisition projects. As outlined in the Defence Annual Report 2022-23 the Top 30 projects constitute the majority of the budget for all Defence military acquisition projects (\$80.992 billion of the \$144.953 billion approved project expenditure (gross plan)). The focus of Portfolio Budget Statements and Portfolio Additional Estimates Statements is on in-year and overall cost performance, including reasons for variations in project performance. The Defence Annual Report also provides an assessment of Defence's performance on delivering future capability. This includes scope, schedule and cost performance assessments across the Integrated Investment Program for approved projects.

The reports provide performance information three times across a financial year and are published in the period May to September of the following calendar year. However, the natural overlapping of the subsequent budget cycles means that five public reports are available across that period.

External audit and assurance activities facilitated through the Australian National Audit Office (ANAO) Major Projects Report (MPR) and individual ANAO project performance audits cover all aspects of project delivery, scope, schedule, costs and risks. The annual MPR is the most detailed aggregation of performance information across a collective group of Defence projects in the public domain. From 2007-08 to 2022-23, the MPR featured 61 Defence major projects. Furthermore, the ANAO conducted 51 other Defence capability, acquisition and or sustainment-related performance audits in the same period.

Both the reports and audits form a regular and detailed assessment of major project performance. For example, the Joint Strike Fighter project has featured in the MPR since 2010-11 while simultaneously featuring in other statutory reports and undergoing two ANAO performance audits.

Statutory reporting, the ANAO's MPR and the ANAO performance audits provide comprehensive, detailed performance information on Defence major projects and are regularly used by parliamentary committees. Defence major projects are considered at hearings held by the Committee, the Senate Standing Committee on Foreign Affairs, Defence and Trade and the Joint Standing Committee on Foreign Affairs, Defence and Trade. Defence officials also provide private briefings on classified matters.

Parliamentary oversight, and broader consideration of Defence's performance and planned activities also occurs via the:

- Parliamentary Standing Committee on Public Works, to which Defence is required to present proposals for new and upgraded facilities at Defence establishments, many of which are in support of major equipment acquisitions;
- Senate Legislation Committee on Finance and Public Administration hearings under the Finance portfolio, which include ASC Pty Ltd and Australian Naval Infrastructure Pty Ltd; and
- Senate References Committee on Economics, which led the inquiry into Australia's sovereign naval shipbuilding industry (final report released on 24 May 2022) with the potential to call other inquiries.

The Defence Strategic Review determined that the challenging strategic environment and reduced warning times necessitates revision of many current policy settings. Australia's strategic circumstances require consideration of Defence's performance reporting to ensure there is an appropriate balance between providing sufficient transparency to the public and the Parliament, while carefully considering the heightened national security requirements. With regards to the MPR, the ANAO is supplied with all information deemed not suitable for publication to conduct its assurance review.

The upcoming establishment of a new Joint Statutory Committee on Defence provides an opportunity to review the balance. Work is underway to determine the precise scope, powers and functions of the new committee, particularly to avoid the potential for duplication and/or overlapping responsibilities with existing parliamentary committees.

Defence will continue to actively work with the Committee and the ANAO to improve the MPR and uplift project information to make it easier for public consumption while also considering security implications. There are opportunities to improve how information and analysis is presented in the MPR to better focus attention on the key performance issues in the major projects.

Key indicators for assessing performance include:

- cost pressures, particularly those resulting in a real cost increase;
- schedule delays that impact on the achievement of operational capability milestones; and
- risks to the achievement of project scope or scope changes as a result of performance issues.

The key indicators are separate from changes to project budgets and schedules that occur as a result of additional project scope approved by the Government. Defence wants to work with the ANAO to refine the longitudinal analysis of the aggregate project data. The end result will be a more meaningful and insightful understanding of financial performance, schedule delays and risks associated with project complexity and capability delivery. It will include ensuring strategic lessons learnt are gleaned and applied across all projects.

Working with the ANAO, Defence intends to propose changes to the format of the Project Data Summary Sheets as part of developing the 2024-25 Major Projects Report Guidelines for the consideration of the Committee. The aim is to automate processes where cost effective to do so and to better visualise the data to improve the insights and conclusions that can be drawn from the information, thereby improving the accessibility and transparency of the performance of the major projects.

Overall, Defence considers there is a robust reporting regime on Defence major projects that allows for external assurance, including by the Parliament and parliamentary committees. The submission details the

extensive reporting and assurance activities for major projects that are routinely used by parliamentary committees to assess and inquire into Defence's performance.