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Auditor-General for Australia



24 May 2021

Ms Lucy Wicks
Chair
Joint Committee of Public Accounts and Audit

By email: jcpaa@aph.gov.au

Dear Ms Wicks

Australian National Audit Office response to Joint Committee of Public Accounts and Audit Report 483 *Inquiry into the 2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))*.

I am writing in relation to the recommendations directed to the Australian National Audit Office (ANAO) contained in the Joint Committee of Public Accounts and Audit (JCPAA) Report 483 *Inquiry into the 2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))*.

Recommendation 1

2.26 The Committee recommends that the ANAO include a section in the MPR that clearly outlines any recommendations and/or key lessons learnt during the preparation of the MPR, which are systemic and interrelated in nature. This section is to build on the current summary of observations made in the course of the ANAO's review. The section should contain lessons that can be incorporated into future policy and practice across the Department of Defence and other Australian Government entities. In the situation where there are no recommendations or key lessons, a short statement should be provided by the ANAO explaining the reasons for not making any recommendations or identifying any key lessons.

ANAO Response

Agreed.

The ANAO included a new section in the [2019–20 Major Projects Report](#) (2019-20 MPR) Summary titled 'Key observations from the review' (see Part 1, ANAO Review and Analysis, pp.10-11). The purpose of this section is to provide a succinct summary of ANAO observations made during the course of the ANAO's review. For the 2019–20 review, these observations related to the status of JCPAA recommendations and requests; the status of Auditor-General report recommendations; and developments in Department of Defence acquisition governance. The ANAO will further develop this section in the 2020–21 MPR, to incorporate any key messages from the review for the Department of Defence (Defence) and other government entities.

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As suggested in paragraph 2.25 of the committee's report, the additional material will be modelled on the 'key messages' section included in ANAO performance audit reports. These contain a summary of key messages, including instances of good practice, which have been identified in the audit and may be relevant for the operations of other Australian Government entities.

The ANAO is open to making recommendations that are based on sound evidence and findings, address the cause of any significant issues identified, and are practical and cost effective to implement. As with performance audits, ANAO recommendations may not be necessary where Defence has itself identified issues requiring attention and has initiated appropriate remediation action.

Recommendation 3

2.90 The Committee recommends that the ANAO, in conjunction where appropriate with the Department of Defence, considers ways to improve the clarity of the MPR, with an emphasis on making the report more understandable to readers who may not have technical knowledge of defence terminology. This could include the following:

- A "Definitions" section in the MPR, with contextual descriptions of terms that may have specific technical meaning that is unique to the Department of Defence, such as constant costs, out-turned costs, risk, Projects of Interest, Projects of Concern, Initial Materiel Release, Initial Operational Capability, Final Materiel Release and Final Operation Capability, to improve the readability and accessibility of the MPR for the Parliament and the public. It is suggested that the ANAO consult with the Department of Defence to agree consistent definitions to be used in preparing the MPR;
- A description of 'total schedule slippage' to provide clarity to the Parliament and public as to the concurrent nature of defence acquisition and the meaning of this term;
- A section explaining the technical definitions of the use of the term 'risk' in the context of the MPR, including a brief description of the nature of high or extreme risks requiring disclosure. The explanation should have scope to allow the Department of Defence to discuss the risks of individual projects within the Project Data Summary Sheets.
- A contextual definition of 'caveat' or 'deficiency' in future Major Projects Reports, in the context of projects being described as having achieved significant milestones with caveats.

ANAO Response

Agreed.

The ANAO will work with Defence to improve the clarity of the MPR, with a view to making the report more understandable to readers who may not have technical knowledge of defence terminology.

Definitions

The ANAO will expand the glossary at the front of the MPR (see p.ix of the 2019-20 MPR) to incorporate the Capability Life Cycle definitions included by Defence in Part 2 of the MPR (see p.109 of the 2019-20 MPR) and the glossary included by Defence in Part 2 of the MPR (see pp.110-112 of the 2019-20 MPR).

The ANAO will work with Defence to expand the glossary to include the terms suggested by the JCPAA that are not already included: constant costs, out-turned costs, risk, Projects of Interest, and Projects of Concern.

The ANAO will also incorporate definitions of technical terms in the ANAO Review and Analysis section of the MPR, which it prepares (ie. Part 1 of the MPR report), for example through use of footnotes and other cross-referencing.

The ANAO will encourage Defence to do likewise in Part 2 of the MPR, which it prepares.

Total Schedule Slippage

A definition of 'schedule slippage' was included in both the 2018-19 MPR and 2019-20 MPR (for the 2018-19 MPR, see p.11, Note 4 of Table 2; and for the 2019-20 MPR, see p.12, Note 4 of Table 2). In the next MPR, the definition will also be included in the expanded glossary and referenced at relevant points in the text (for example, as was done in footnote 24 of the 2019-20 MPR).

Slippage is defined as the difference between the original government approved date and the current forecast date of Final Operational Capability. Total schedule slippage refers to the aggregated schedule slippage across the projects included in the MPR and is presented in Table 4 in addition to total in-year schedule slippage. Aggregated figures are useful for looking at the acquisition system as a whole rather than what happened in one year or one project. The ANAO will include this observation in the next MPR.

Risk

As risk is addressed by Defence in its governance documentation, the ANAO considers that Defence is best placed to provide additional explanation of its risk definitions. The ANAO has suggested to Defence that this may be addressed through Defence including a summary of its Project Risk Management Manual (including the risk matrix) in the Appendices to Part 2 of the MPR, which Defence prepares. The Project Risk Management Manual sets out how Defence manages and assesses risk in the context of the MPR projects.

Caveat or Deficiency

The ANAO observed in the 2018-19 MPR (at p.32) and 2019-20 MPR (at p.34) that Defence has not defined the terms 'caveat' or 'deficiency' to the declaration of significant milestones in its internal policies and procedures. As the terms 'caveat' and 'deficiency' are used by Defence in the conduct of its business, the ANAO considers that Defence is best placed to define these terms in the abstract or in the context of individual projects and will work with Defence to include these definitions.

The ANAO does not require a definition in order to determine what remains outstanding in the delivery of a project milestone, as the project deliverables are generally clearly defined in Defence documentation.

The ANAO notes that the status of projects which have been removed from the MPR and which still have outstanding caveats, significant remaining materiel capability or milestones to be delivered, are required to be reported in the *Statement by the Secretary of Defence* until their status is accepted by the Capability Manager.

Recommendation 5

2.94 The Committee recommends that the ANAO insert a subsection in Part 1 of future Major Projects Reports detailing the schedule variation for projects over the previous financial year, with explanation of why projects have experienced delays or gains in scheduling between the previous report and the current report.

ANAO Response

Agreed.

The ANAO will expand Figure 11 in Part 1 of the MPR (found at p.65 of the 2019-20 MPR) to report on in-year schedule slippage and recovery for all MPR projects, and a comparison with prior year

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performance. The commentary relating to Figure 11 (found at pp.64-65 of the 2019-20 MPR) will be expanded accordingly.

Recommendation 6

2.120 The Committee recommends that Defence and the ANAO use clear and accessible language in future Major Projects Reports when reporting on and describing costs, scope and capability variations.

ANAO Response

Agreed.

The ANAO will review Part 1 of the MPR, which it prepares, for improved clarity and accessibility.

Noting that the Project Data Summary Sheets (PDSS) are made public, paragraph 1.27(c) of the 2020-21 MPR Guidelines require that in respect to PDSS, 'Where possible, acronyms and jargon are not to be used. When acronyms are used, the first use must be spelt out in full'. The ANAO will continue to promote this requirement in its engagement with Defence.

Yours sincerely

Grant Hehir

Auditor-General for Australia