



## Joint Committee of Public Accounts and Audit

### Public Hearing on the Defence Major Projects Report 2020-21 and 2021-22 and Procurement of Hunter Class Frigates

19 May 2023

#### Opening Statement – MPR

1. The annual Defence Major Projects Report (MPR) is prepared by the Department of Defence and the ANAO at the request of the JCPAA. The MPR commenced in 2007–08. The 2020–21 MPR was the 14th in the series, and the 2021–22 report was the 15th. Both recent reports covered 21 projects.
2. The committee has stated that the objective of the MPR is to improve the accountability and transparency of major Defence acquisitions for the benefit of Parliament and other stakeholders. The Committee commissions the MPR in the public interest, for the benefit of users of the report inside and outside the Parliament. The MPR informs parliamentary scrutiny and the national conversation on major Defence acquisitions, and has helped drive acquisition governance reform in Defence. The MPR is intended to assist users by adopting a consistent reporting format over time and through the inclusion of summary and longitudinal analysis prepared by the ANAO.
3. The MPR contains key information on the status of selected Defence major capital acquisition projects each year. Defence prepares a 'Project Data Summary Sheet', or PDSS, for each of the projects. These include information on cost, schedule, progress towards delivery of required capability, and risks and issues. Key PDSS information is reviewed for accuracy by the ANAO. The ANAO's review informs the conclusion provided to Parliament by the Auditor-General on the Defence information.
4. The ANAO provides 'limited assurance' over the PDSS information. This contrasts with the

‘reasonable’ but not absolute level of assurance provided in performance audits. The level of assurance that can be provided is informed by auditing standards. The ANAO procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than those performed for, a reasonable assurance engagement.

#### 2020-21 MPR

5. The total approved budget for the 21 projects in the 2020–21 MPR was approximately \$58 billion, or 48 per cent of the total budget of active major and minor capital equipment projects of \$121.6 billion.
6. For the 2020-21 MPR my overall conclusion was positive.
7. In terms of specific key observations regarding projects, we provided some commentary on the Battlefield Airlifter in the context of Defence’s reporting on capability performance. We observed that there had been substantial change in capability delivery, as the capability was no longer intended to be a Battlefield Airlifter. It was being treated as a Light Tactical Fixed Wing aircraft. In that context, and in light of the committee’s past interest in capability reporting, we highlighted that notwithstanding the ‘pivot’ relating to this project, which represented a substantive change in capability delivery, the relevant pie chart in the PDSS included only a slim red wedge representing a three per cent reduction in capability delivery (see paragraph 2.61, pp. 71-2)
8. In terms of schedule, we undertook our normal analysis. We reported that: total schedule slippage was 405 months; average schedule slippage across the projects was 23 months; and in-year schedule slippage was 73 months (see Table 6, p. 17). For the ten projects which experienced slippage, the range was 2 to 95 months of total slippage (see Table 6, p. 17, note 4a).
9. Slippage refers to a delay in the current forecast date compared with the original government approved date of Final Operational Capability, or FOC. Slippage can occur due to late delivery, increases in scope or at times can be a deliberate management decision (see Table 6, p. 17, note 4). Information on total schedule slippage is useful for looking at the acquisition system as a whole and over time, rather than what happened in one year or in respect to one project. Stepping back from the individual components of the program in this way enables consideration of whether there may be systemic issues or changes. The MPR has therefore included ANAO longitudinal analysis, including on schedule, for a three year period (see Table 6, p. 17).

#### 2021-22 MPR

10. The total approved budget for the 21 projects in the 2021–22 MPR was approximately

\$59 billion, or 45 per cent of the \$130.5 billion budget for active major and minor capital equipment projects.

11. For the 2021–22 MPR, my overall conclusion was also positive. However, I did make an emphasis of matter, drawing attention to disclosures within the Defence Secretary’s Statement that some information in certain PDSSs was not for publication. This followed a Defence security classification review in November 2022. However, the not for publication information was provided to the ANAO for review and my overall conclusion was not modified.
12. For eight projects, Defence reported that certain milestone and/or variance information was not available, or was not for publication, in the relevant PDSS. This was the first time that available milestone and variance information has not been included by Defence. In consequence, the ANAO was not in a position to publish a complete analysis of schedule performance for the suite of MPR projects, as in the past. This is because key elements of the ANAO analysis are based on available milestone information appearing in the PDSSs, principally the Final Operational Capability milestone, or FOC.
13. Seven PDSSs, representing 33 percent of the 21 MPR projects, either did not disclose their FOC date this year, or did not have a settled FOC date. The combined effect of the Defence non-disclosures and the more limited ANAO analysis is that the most recent MPR does not provide the user with the same level of information as in the past. This reduces the level of transparency and accountability over the MPR projects as a whole. For example, Table 5, which sets out the ANAO’s summary longitudinal analysis, does not include an update on total schedule slippage, average slippage across projects, and in-year schedule slippage (see Table 5, pp. 17-18).
14. Noting that the forthcoming MPR is being prepared against comparable guidelines, and given that the project mix is much the same, similar non-disclosures are likely to occur in the next MPR.
15. As requested by the Committee, we continued our governance review of the Projects of Concern regime and reported that a number of initiatives were underway. We also included, as recommended by the Committee, a new Figure 1 showing all MPR projects identified as Projects of Concern (see p. 28). Further, as requested by the Committee, we continued our review of Defence’s treatment of project caveats and deficiencies relating to the declaration of significant capability milestones. We reported that Defence issued a policy in October 2022 defining these terms (see paragraph 1.106, p. 42). We also reported on developments in risk management. Defence has completed its risk reform program, therefore in the next MPR we will be able to include major risks and issues in the scope of our review (see paragraphs 1.90–1.95, pp. 37-39).

16. We also observed that a number of project offices reported that they were experiencing challenges with expected capability and/or scope delivery (see Table 12, pp. 69-71). For example, MRH90 Helicopters, Hawkei, and the Battlefield Command System reported that they were unable to deliver all the required capability and/or scope. In the case of the MRH90 Helicopters, the capability outcomes were unlikely to be fully met, and the cost of ownership was reported to be unacceptably high. It was reported that Army was developing an option for rapid replacement of this capability. For the Hunter class frigates, Defence reported significant issues and risks in its PDSS. These were described as both tactical and strategic, on quite a broad front (see p. 139).
17. We would be happy to answer any questions the committee may have.