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Joint Committee of Public Accounts and Audit  
Public Hearing on the 2019 – 20 Major Projects Report  
15 September 2021  
Opening Statement

1. The Committee has previously stated that the objective of the Major Projects Report (MPR) is ‘to improve the accountability and transparency of Defence acquisitions for the benefit of Parliament and other stakeholders’. The ANAO has conducted assurance reviews of Defence’s reporting on major projects since the pilot of the MPR in 2008. The first report contained nine projects. The 2019–20 MPR was presented for tabling in the Parliament on 30 November 2020 and provided assurance on the reported progress of 25 of the most significant Defence projects. As at 30 June 2020, these projects had a total approved budget of \$78.7 billion.
2. The Auditor-General concluded in the Independent Assurance Report for 2019–20 that ‘nothing has come to my attention that causes me to believe that the information in the 25 Project Data Summary Sheets in Part 3 (PDSSs) and the Statement by the Secretary of Defence, excluding the forecast information, has not been prepared in all material respects in accordance with the 2019–20 Major Projects Report Guidelines (the Guidelines), as endorsed by the Joint Committee of Public Accounts and Audit.’
3. In terms of project performance, Defence continues to maintain cost performance within budget. Capability performance is consistent, with Defence continuing to declare some major capability milestones with caveats and some transfers of scope in prior years. However, total schedule slippage for the 25 selected Major Projects, as at 30 June 2020, was 507 months when compared to the initial schedule. This represents a 21 per cent increase since Second Pass Approval. Longitudinal analysis indicates that while the reasons for schedule slippage vary, it primarily reflects the underestimation of both the scope and complexity of work, particularly for Australianised Military Off the Shelf and developmental projects. The ANAO has sought to illustrate, in Figure 7 (p.57) the trend where developmental projects have become more common since 2014.
4. The 2019-20 MPR made a number of key observations regarding the status of JCPAA recommendations and requests, and Defence’s acquisition governance, including:

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- a. Following a JCPAA recommendation made in May 2016<sup>1</sup>, Defence is yet to implement a system of materiel capability delivery performance/scope reporting, with a robust methodology applicable to materiel acquisition.
  - b. Following a JCPAA recommendation made in September 2018<sup>2</sup>, Defence advised the Committee in May 2020 that Predict! will be mandated as the risk management system. Defence advised the ANAO in October 2020 that there have been no updates to Defence policy to reflect that Predict! is now the mandated risk management tool. Defence has indicated that an update was due in May 2021. Further, the Capability Acquisition and Sustainment Group's (CASG) Risk Management Reform Program (initiated by the Deputy Secretary CASG in 2017) and establishment of the CASG Risk Management Framework are yet to be completed.
  - c. Following a JCPAA request made in 2018 'on how Defence major project cost variations and the costs of retaining project staff over time might be reported annually in future Major Projects Reports', Defence advised that it is not yet in a position to provide the staff cost component of projects and its systems are not capable of calculating the cost of retaining project staff over time.
  - d. Defence has not defined, in its internal policies and procedures, the terms 'caveat' or 'deficiency' relating to the declaration of significant capability milestones. The ANAO has observed the use of these terms by Defence to represent exceptions to the achievement of significant milestones.
  - e. Defence's implementation of the Smart Buyer Framework to support strategic decision making in the acquisition of major projects. The framework was not utilised at the Second Pass government approval stage for projects in the current MPR.
5. As reported in the MPR last year, the Department of Defence had proposed a review of the MPR process. Defence subsequently undertook an internal Smart Buyer review of the MPR and provided a copy of the review report to the ANAO.
  6. As the MPR is principally prepared for the Parliament at the request of the JCPAA, the Committee has taken the lead in direction-setting and review from the outset. It remains appropriate for the Committee to drive any review activity going forward. The ANAO would continue to provide the Committee with advice on both the auditability of any proposals for change and their impact on transparency.

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<sup>1</sup> Recommendation 2: To ensure consistency with project level risk information and to improve reliability, the Committee recommends that the Department of Defence review the procedure for development of expected capability estimates for future Major Projects Reports. [Report 458 – Parliament of Australia \(aph.gov.au\)](https://aph.gov.au/Report458)

<sup>2</sup> Recommendation 2: The Committee recommends that the Department of Defence plans and reports a methodology to the Committee which shows how acquisition projects can transition from the use of spreadsheet risk registers to tools with better version control measures. [Report 473: Defence Major Projects Report \(2016-17\) – Parliament of Australia \(aph.gov.au\)](https://aph.gov.au/Report473)

## **About the Major Projects Report**

### **The Major Projects Report**

The Major Projects Report (MPR) is prepared at the request of the JCPAA in order to improve the accountability and transparency of defence acquisitions to the parliament and other stakeholders. The MPR reports on the status of 20-30 Defence major acquisition projects through individual Project Data Summary Sheets (PDSSs), which are prepared by Defence. The ANAO undertakes a limited assurance review over the accuracy of information contained in the PDSSs under section 19A of the Auditor-General Act.

### **Structure**

The MPR is structured in four parts. Part One contains the ANAO's overview and analysis of the information in the PDSSs, as well as reporting on Defence's governance, business systems, and policies relevant to the review. Part Two contains Defence's report on its performance, including project data and acquisition governance. Part Three contains the PDSSs, the Auditor-General's Independent Assurance Report, and the Statement by the Secretary of Defence. Part Four contains the MPR Guidelines.

### **The MPR Guidelines**

The Guidelines are the review criteria for each reporting year. The Guidelines are updated annually in August each year for the coming review, and specify the list of projects to be included in the MPR, as well as the format of the PDSSs, instructions on preparing the PDSSs and supporting evidence, and the roles and responsibilities of each of the relevant parties. The ANAO has administrative responsibility for updating the Guidelines, in consultation with Defence. The JCPAA endorses the Guidelines each year. The JCPAA has had long-term ownership of the Guidelines and has driven key changes to the Guidelines through recommendations in its reports on previous MPRs, as well as direct written requests to the Auditor-General.

### **Scope**

Some information contained in the PDSSs is excluded from the scope of the Auditor-General's Independent Assurance Report, meaning that no assurance is provided over the accuracy of that information. Forecast information in each PDSS relating to capability forecasts, forecast dates, or project risks and issues, is out of scope. The forecast information has not been included in the scope of the ANAO's assurance engagement due to the lack of Defence systems from which to provide complete and accurate evidence, in a sufficiently timely manner to complete the review. However, material inconsistencies identified in relation to the forecast information are required to be considered in forming the Auditor-General's review conclusion.

### **Level of assurance**

The Independent Assurance Report provides limited assurance over the PDSSs. In contrast, the ANAO's performance audits provide a 'reasonable' (but not absolute) level of assurance. The nature of the limited assurance review conclusion is expressed in the negative, that is, 'Nothing has come to the Auditor-General's attention to cause him to believe that the PDSSs have not been prepared in accordance with the Guidelines'.

This conclusion has been modified, or qualified, six times in the history of the MPR, where the information in the PDSSs had not been prepared in accordance with the Guidelines. The first four MPRs were qualified as Defence's systems were not able to provide financial information in base-date dollars for all projects. The 2015–16 MPR was qualified as the PDSS for the ARH Tiger Helicopters project had been prepared on a basis narrower than that established in the Guidelines. In addition, a material inconsistency was identified in the forecast information for this project, as well as for the LHD Landing Craft project. In

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2016 – 17, the MPR was again qualified with respect to the preparation of the PDSS for the ARH Tiger Helicopters project.

**2019–20**

The 2019–20 MPR was the thirteenth MPR produced by the ANAO. The report included PDSSs for Defence’s largest and most complex acquisition projects, including the Future Submarine, Future Frigate, and Joint Strike Fighter. The report was presented for tabling in the Parliament on 30 November 2020.