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PROJECT MANAGEMENT AND RISK MANAGEMENT

7.1 The Audit Report raised several concerns about management of the new submarine project including the reliance on CMACS as an indicator of progress, increasing numbers of defects and deficiencies, slow progress in completing contractor sea trials, general concerns about the submarines' operational capacity and the lack of focus on systematic risk management.¹

7.2 The JCPAA drew Defence's attention to the ongoing concerns being expressed by the ANAO and asked Defence how its project management had improved in recent years.²

7.3 Defence outlined a number of areas in which it was concentrating its endeavours, concluding:

... I believe that the Defence Acquisition Organisation has made great strides since 13 years ago in terms of the way we do business and our effectiveness and efficiency.³

7.4 In response to the Committee's request for comment on its perception of changes in Defence, the Auditor-General stated:

... in recent years there has been a very large focus on the better management of risks in projects

The only way of trying to get a hold on what you do not know is to have a very systematic approach, to bring in the right kinds of experts in a timely way and to take action earlier rather than later.... I think Defence would agree that they,

1 Audit Report No. 34, 1997-98, p. 57.

2 Transcript, 29 April 1998, p. PA 49.

3 Mr Gilbert Watters, Acting first Assistant Secretary, Capital Equipment Program, DAO, Transcript, 29 April 1998, pp. PA 49-50.

*like the rest of us, are still learning and still putting in place those techniques.*⁴

7.5 Defence agreed that its performance would always have the potential for improvement and was very interested in criticism that led it to that end. Defence went on to outline in detail what it considered its strengths and its leading practice in the management of government projects, including:

- the high value placed on ethical behaviour and probity;
- thorough evaluation of tenders;
- predictability and consistency with which Defence does business;
- innovative contracting techniques;
- state-of-the-art contract development;
- earlier consideration of acquisition issues;
- industry involvement at the early stages of a project and project definition studies;
- strong, centralised funds control;
- state-of-the-art corporate and project finance systems;
- introduction of a comprehensive system of project reporting within DAO;
- continuously updated on-line capital equipment procurement manual;
- staff training and development, and improving arrangements for importing expertise;
- an excellent program of corporate governance; and
- a business process re-engineering project to trial new ways of project management.⁵

7.6 The Committee raised the issue of changes to key personnel being a problem for all Defence projects and asked Defence how they would address the issue in future.⁶

7.7 Defence agreed strongly that continuity of personnel was an issue, but admitted that it was still 'work in progress'. Defence stated that the Defence efficiency review had resulted in an increased emphasis on training and that it was desirable for program and project managers in Defence to have a higher

4 Auditor-General, *Transcript*, 29 April 1998, p. PA 51.

5 Mr Gilbert Watters, Acting first Assistant Secretary, Capital Equipment Program, DAO, *Transcript*, 29 April 1998, pp. PA 77-81.

6 *Transcript*, 5 March 1999, p. PA 133.

level of experience before they managed some of the Defence projects.⁷ Defence added:

... in some of our big Navy projects, we have actually had very good continuity of uniform people. Some of our best project managers in Defence are uniform people. But across the board there is a lot of turbulence of uniform...[and] civilian people in the organisation....

My organisation is currently about 200 people short of what I am authorised to have, and that is literally because I cannot go out and hire them for the amount I am allowed to pay them.... It is having some impact on my ability to deliver. We have a very aggressive program in bringing in young graduates and training them. We have the middle management program and all sorts of training programs. We set the competency standards for procurement and for project management for the Commonwealth. We bear those overheads. But even with all those things, it is still a major problem for me to keep the skill level of people that we would like.

... In contracting out, we contract out 95-plus per cent of what we do.... Our bit of the total project is actually very small.... There is not much scope to do less there. We really need more flexibilities—and we are working on some of these things—in how we obtain and retain our work force.⁸

7.8 In response to a request by the Committee for a final statement on project management and risk management, the Auditor-General said:

... the whole approach to project management is now oriented towards a proper assessment, prioritisation, review and monitoring of risks in those projects. Learning from commercially oriented practices, we need to have very firm and systematic approaches right from the outset if we are to be successful....

Recommendations 4 and 5 are really about prudent management and risk assessment.... in very complex projects with degrees of uncertainty ... [Defence needs] to put in place

7 Mr Garry Jones, Deputy Secretary, Acquisition, Defence, *Transcript*, 5 March 1999, p. PA 133.

8 Mr Garry Jones, Deputy Secretary, Acquisition, Defence, *Transcript*, 5 March 1999, p. PA 134.

appropriate strategies and to be prepared to be flexible as they go through the various project stages

I certainly endorse the high value being placed on probity, ethics and arms-length arrangements, but, at the same time, we have to be practitioners and we have to be very good. Where we have very large, complex projects, we have to be excellent.⁹

Committee comments

7.9 In 1998, Defence was confident that the project would deliver compliant submarines, within budget, despite schedule slippage.¹⁰ Defence stated in 1999 that while it was generally true that the submarines would be contract compliant before being accepted into service, not everything could be delivered exactly as was intended.¹¹

7.10 The Committee notes that compliance relates not to the original contract but to the contract as amended to date, and that unmet contract specifications may be traded against extra performance in other areas. The Committee also notes that Defence expects to get the product it currently requires for the current contract price.¹²

7.11 The Committee is concerned about specification variations and considers that Defence should exercise great care in granting concessions in relation to contract specifications, and agreeing to changes or improvements in their place.

7.12 Defence considers the size of the delay for a project of this complexity reflects favourably on ASC and Defence project management. Defence also believes that a point has been reached in the project where the level of risk exposure is much reduced and more easily managed.¹³

9 Auditor-General, *Transcript*, 29 April 1998, p. PA 83.

10 Defence, Submission No. 1, p. 3.

11 Mr Garry Jones, Deputy Secretary, Acquisition, Defence, *Transcript*, 5 March 1999, p. PA 111.

12 *Transcript*, 5 March 1999, p. PA 111.

13 Defence, Submission No. 1, p. 3.

7.13 The Committee is aware that the submarine project is complex and involves risks to the Commonwealth. However, while acknowledging that the task is complex, that slippage could have been expected, and that first of class problems are inevitable, the Committee considers that these facts only underline the greater need for diligence in relation to quality assurance and follow up of known problems at an early stage.

7.14 The Committee considers that Defence should have been able to react more quickly to problems as they arose than was reported in the audit. The longer it takes to correct deficiencies, the more costly they are to correct and the greater is the risk to the Commonwealth.

7.15 The Committee understands from Navy personnel that more extensive submariner assignment to the project at the specification and procurement stage might have prevented some of the submarines' problems.

7.16 The Committee remains concerned about the project risks and the doubt that remains about the final cost to complete. Risks still attach to the submarines' combat system, the diesel engines and some acoustic issues.

7.17 It is clear to the Committee that the risks in this project have not been handled as well as they might have been, and the number of defects which had to be corrected, particularly in the first two submarines, is evidence of this.

7.18 Despite the clearly impressive achievements of the submarine project, the Committee thinks that if Defence had had a more systematic and more highly developed risk management system, the risks could have been managed better than they have been, and a better outcome obtained.

7.19 The Committee is also concerned that the full expenditure of appropriations is still considered by Defence to be a performance indicator, and once again states that payments must be made only on reliable and objective evidence of real progress.

7.20 The Committee repeats that Defence needs to take every opportunity to assure itself that sufficient funds remain to ensure the successful completion of the submarine project.