

Submission No. 1

(Rec'd 22Oct09)

Planning and Approval of Defence Major Capital Equipment Projects

Audit Report No. 48; 2008-09

Opening Statement by Peter White, Group Executive Director ANAO

JCPAA Review 28 October 2009

1. Thank you Chair. The audit's main objective was to assess whether the strengthened two-pass approval process for major capital equipment projects is being implemented effectively.
2. Recommendation No. 3 of the 2003 Defence Procurement Review (also known as the Kinnaird Review) was that 'Government should mandate, and enforce via revised Cabinet rules, a rigorous two-pass system for new acquisitions with government considerations dependent on comprehensive analyses of technology, cost (prime and whole-of-life) and schedule risks subjected to external verification'. The ANAO found that collectively, the Defence Capability Development Manual and its supporting documents and tools provide a sound framework to deliver more effective administrative outcomes over the original two-pass approval process, provided the framework is adhered to and underpinned by adequate and appropriate resourcing, support and training for Capability Development Group staff. The ANAO also noted that the *Cabinet Handbook* requirements for submissions to Government in relation to Defence major capital equipment projects had been amended in accordance with the Review's recommendations.

3. The audit's scope included an examination of key capability development documentation prepared for a sample of 20 projects and a review of the submissions to Government seeking first and/or second pass approval for these 20 projects. Defence was unable to provide the ANAO with a significant number of key documents demonstrating that the processes outlined in its manual and process map had been followed.
4. Defence advised the ANAO that the strengthened two-pass approval system has evolved since the manual and process map were promulgated, and that it has, at times, deviated from these documented processes when undertaking capability development activities. However, poor recordkeeping practices in Capability Development Group meant that the ANAO was unable to determine, in many cases, whether key documents had been prepared, or whether alternative processes had been authorised and followed.
5. The ANAO's review of the sample of submissions to Government indicated a significant level of non-adherence to the requirements of the *Cabinet Handbook*, most importantly in relation to the assessment and description of technical risk, and the presentation of cost estimates. The ANAO observed that, in a number of cases, the description of technical risk did not provide sufficient guidance for decision-makers or provide confidence that an adequate assessment of risk had been conducted. In relation to cost estimates, the ANAO observed that the majority of submissions expressed cost estimates in terms of net personnel and operating costs, rather than the transparent, understandable whole-of-life cost information envisaged by the 2003 Defence Procurement Review and required by the *Cabinet Handbook*.
6. An important element of the new process was to be the early and continuous involvement of the Department of Finance and Regulation in developing and agreeing

cost estimates. The ANAO found that no agreed processes and procedures exist for this to occur. Finance informed the ANAO that it does not receive the relevant information early in the process, that the information provided is often limited and of questionable quality, and that for some projects Finance has no advance information from Defence, or engagement at a working level prior to the formal consideration process by Ministers.

7. The ANAO made four recommendations, agreed by Defence, aimed at facilitating Finance's early and ongoing involvement in the evaluation of capability development proposal costings; ensuring submissions to Government for first or second pass approval include explicit acquisition and whole-of-life cost estimates, agreed by Finance; refining the methodology for assessing and describing technical risk; and improving records management in Capability Development Group.
8. Finally, I have with me today two members of the audit team to assist the Committee in its inquiry: Ms Fran Holbert, Executive Director, who had oversight of this audit and Mr Greg Dare, the Audit Manager.