



File Reference:

22 December 2009

Ms Sharon Grierson MP
Chair
Joint Committee of Public Accounts and Audit
Parliament House
CANBERRA ACT 2600

Dear Ms Grierson

Inquiry into Auditor-General's Reports Nos 32 (2008-09) to 1 (2009-10) - Hearing of 28 October 2009 – Audit Report No.48 2008-09 Planning and Approval of Defence Major Capital Equipment Projects

At the Joint Committee of Public Accounts and Audit (JCPAA) hearing of 28 October 2009, Mr Georgiou sought advice on:

- the standard of assurance provided by ANAO Report No.9 2008-09 *Major Projects Report 2007-08* (the Major Projects Report); and
- why matters that are significant enough to be raised in the performance audit were not identified in the Major Projects Report.

These matters are discussed below.

The Standard of Assurance

The Major Projects Report is designed to provide improved transparency and public accountability for major acquisition projects through the presentation of clear and consistent information on the current status of projects. It includes information, prepared by both the Australian National Audit Office (ANAO) and the Defence Materiel Organisation (DMO) on the performance of major projects as well the Auditor-General's formal conclusion on the review of the Project Data Summary Sheets (PDSSs) prepared by DMO and contained in the report.

The ANAO's review of the individual PDSSs contained in Part 3 of the report was conducted in accordance with the Australian Standard on Assurance Engagements (ASAE) 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information* issued by the Australian Auditing and Assurance Standards Board.

The reviews are designed to provide limited assurance. Reviews are not as extensive as individual project performance audits conducted by the ANAO, in terms of the nature and scope of project issues covered, and the extent to which evidence is required by the ANAO. Consequently, the level of assurance provided by this review in relation to the 9 projects is less than that typically provided by ANAO's performance audits.

As the ANAO's Independent Auditor, Mr Geoff Wilson, advised the JCPAA on 11 March 2009:

The difference between limited assurance and reasonable assurance is the amount of work that you actually do. In a limited review you are doing certain discussions and reviewing certain documents. In terms of reasonable assurance you are increasing the level of work that you are doing, including reviewing and testing various systems. That is a choice that is part of the engagement.

Performance Audits and the Major Projects Reports 2007-08

There are a number of reasons why a performance audit may identify matters in relation to a major procurement exercise which are not identified in the Major Projects Report.

Firstly, performance audits are conducted to a different assurance standard. A performance audit is designed to provide reasonable assurance in relation to its conclusions, while the review processes underpinning the Major Projects Report are designed to provide limited assurance. As Mr Wilson noted in his evidence to the JCPAA on 11 March 2009, the level of work, including the extent of reviews and the testing of systems, is increased to provide reasonable assurance – that is, in the context of a performance audit.

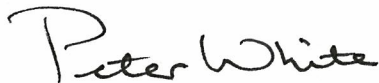
The higher level of work is reflected in the relative investment in the products. Audit Report No.48 2008-09 *Planning and Approval of Defence Major Capital Equipment Projects* was undertaken at a cost to the ANAO of \$650,000. Two major capital procurement reports tabled in 2008-09 (Report No.41 2008-09 *The Super Seasprite* and Report No.27 2008-09 *Management of the M113 Armoured Personnel Carrier Upgrade Project*) were undertaken at a cost to the ANAO of \$540,000 and \$385,000 respectively. By comparison, the Major Projects Report, which considered the performance of 9 major projects with approved budgets totalling \$13.5 billion, was undertaken at a cost of \$1,030,000.

The objective and approach of Audit Report No.48 2008-09 *Planning and Approval of Defence Major Capital Equipment Projects* was also markedly different from that of the Major Projects Report. The Major Projects Report seeks to provide internal consistency – that is, the objective and approach of each review is the same in any one year and results are comparable over time – but it does not seek to replicate the scope of any particular performance audit. The scope of the independent review included in the Major Projects Report is set out at pages 101 and 102 of that report. In short, the review is designed to provide assurance in relation to the current performance of equipment acquisitions, as set out by DMO in the included PDSSs. The criteria used for the review are the 2008-09 PDSS Guidelines.

The objective of Audit Report No.48 2008-09 *Planning and Approval of Defence Major Capital Equipment Projects* was noted in the report (page 44) as being “to assess whether the strengthened two-pass approval process for major capital equipment projects is being implemented effectively.” The ANAO’s approach was tightly focussed on the steps Defence has taken, and the processes it has put in place to implement the strengthened two-pass approval process. In this regard, the ANAO considered the extent of Defence’s compliance with the requirements of the Cabinet Handbook, and the incidence of project approvals outside the strengthened two pass approval process.

The two reports also looked at different projects, with the only project in common being the C-17 Globemaster III Heavy Airlifter, and as Report No.48 notes, the then Government decided that this project would not follow the standard two pass process.

Yours sincerely

A handwritten signature in black ink that reads "Peter White". The signature is written in a cursive, slightly slanted style.

Peter White
Group Executive Director