



**Australian Government**  
**Department of Defence**

**Mr Dennis Richardson**  
**Secretary**

**General David Hurley, AC, DSC**  
**Chief of the Defence Force**

**Mr David Brunoro**  
**Committee Secretary**  
Joint Committee Public Accounts and Audit  
Parliament House  
CANBERRA ACT 2600

Dear Mr Brunoro,

**REQUEST FOR FURTHER INFORMATION - DEFENCE RESPONSE TO THE  
JCPAA REPORT 436 AND 2013-14 MAJOR PROJECTS REPORT DRAFT  
GUIDELINES**

Thank you for your letter of 20 December 2013 (Attachment A), in which you sought clarification on Defence's Executive Minute (Attachment B). As requested, further information to the response to Recommendations 2, 3 and 5 of Report 436 is provided as follows:

**1. Recommendation 2, contingency funding**

**Committee Request**

The Committee seeks clarification about Defence's intention to disclose quantitative expenditure information from previous years for individual projects.

**Defence Response**

It is not Defence's intention to disclose quantitative expenditure information for individual projects as this could be prejudicial to taxpayers' interests. DMO experience indicates that knowledge of contingency provisions encourages some contractors to find ways to gain access to the funds, which can have negative implications for good project governance.

A contingency statement similar to: "As at the 30 June 2014, project [project Number and Phase] has/has not drawn down contingency funds in this financial year" is planned to be included in the PDSS for each individual project.

**2. Recommendation 3, project maturity scores**

**Committee Request**

The Committee seeks clarification about the intended timing of the review (into the linkages between maturity scores and Materiel Implementation Risk Assessment

(MIRA)) and possible implications for the 2013-14 MPR guidelines.

### **Defence Response**

Firstly, please note that there are no implications on the 2013-14 MPR Guidelines.

In the response to Recommendation 3, Defence advised that *'the future of Maturity Scores and their linkages to the MIRA is under review'*.

As background, Maturity Scores were developed in the 2004-05 timeframe to provide a numerical indication of the risk profile of each project being considered by government for approval. Over the last decade, the usefulness of the Maturity Scores as a risk management indicator has proven to be less effective and therefore the Maturity Scores, as previously advised to the Committee, have not been incorporated in project approval submissions to government for some time. Government approval submissions now contain the Materiel Implementation Risk Assessment (MIRA) narrative which outlines the materiel implementation risks as they are assessed by the DMO. No separate review of maturity scores is planned.

Defence intends to review the linkages between Maturity Scores and MIRA within the context of the already commenced review of the DMO Project Risk Management Manual (PRMM). Our intent is to update the PRMM to consider a coordinated and holistic approach to risk management across the organisation (incorporating strategic and business level, acquisition, and sustainment, risk management) and to bring all risk management guidance into the one source document. It is intended that this review, and publication of the revised Risk Management Manual (RMM), will occur in 2014-15. We would be pleased to provide advice on the progress of the RMM review to the Committee and the ANAO during this year.

### **3. Recommendation 5, sustainment**

#### **Committee Request**

The Committee seeks Defence's view regarding the reporting of sustainment projects (or equivalent) by comparable jurisdictions and whether this might be replicated in Australia.

#### **Defence Response**

Comparative analysis indicates that sustainment reporting by other jurisdictions is maintained within those organisations and is not for public disclosure. Countries treat this information in a classified manner as disclosure would reveal strategic intent, preparedness and operational capability.

Transparency International lists Australia, Germany, the United Kingdom and Norway as its top performers, none of which disclose any information in relation to sustainment (or equivalent) activities, other than financial information. Australia's other main allies, the United States, Canada and New Zealand; also do not disclose information in relation to sustainment (or equivalent) activities.

Australia releases more information on sustainment to the public than most countries by listing our planned sustainment expenditure in the annual Portfolio Budget Statements along with the achieved expenditure for the top 30 sustainment activities in the Defence Annual Report. Defence believes that any increase to this level of

transparency in relation to sustainment activities could risk disclosure of classified preparedness information.

It is noted that the Committee has deferred endorsement of the Draft 2013-14 Major Projects Report Guidelines to March 2014 and we await the Committee's feedback at that time.

Yours sincerely,

**Mr Dennis Richardson**  
Secretary

28 FEB 2014

**Enclosures:**

- A JCPAA Letter of 20 Dec 2013 regarding (Defence) Response to JCPAA Report 436 and 2013-14 Major Projects Report Draft Guidelines.
- B Executive Minute (Report 436 Recommendations and Defence Responses)

**D.J. HURLEY, AC, DSC**  
General  
Chief of the Defence Force

28 FEB 2014



JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

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20 December 2013

Mr Dennis Richardson  
Secretary  
Department of Defence

General David Hurley SC DSC  
Chief of the Defence Force

Via email

cc. Auditor-General  
CEO, DMO

Dear Mr Richardson and General Hurley,

**Response to JCPAA Report 436  
and  
2013-14 Major Projects Report Draft Guidelines**

The Committee has recently considered Draft Guidelines for the 2013-14 Major Projects Report and the Executive Minute comprising the response to JCPAA Report 436, relating to the 2011-12 MPR. The Committee has deferred endorsement of the Draft Guidelines to allow further time to consider the issues below. The Committee seeks clarification from Defence of the following:

**1. Contingency funding**

Defence's response to Recommendation 2 of Report 436 states that DMO "will report on Projects which have invoked Contingency" though "contingency at the individual project level... will not be publicly disclosed." The Committee seeks clarification of whether Defence's intention is to disclose quantitative expenditure information from previous years for individual projects.

**2. Project maturity scores**

Defence's response to Recommendation 3 of Report 436 states that the next Defence Capability Plan "will not feature project maturity scores" and generally "the future of maturity scores... is under review." The possible implication of these remarks is that maturity scores will no longer be published in future MPRs. The Committee seeks clarification of the intended timing of the review and possible implications for the 2013-14 Guidelines.

**3. Sustainment**

Defence's response to Recommendation 5 of Report 436 raised concerns that publishing more detail of sustainment activities may disclose information of a

“highly sensitive nature”. The Committee seeks Defence’s views regarding the reporting of sustainment projects (or equivalent) by other comparable jurisdictions and whether this might be replicated in Australia.

The committee would appreciate a clarification on these issues by 1 March 2014. If there are any related modifications to the Draft Guidelines, the Committee asks that Defence work with the ANAO to facilitate the ANAO submitting updated draft Guidelines to the Committee also by 1 March 2014.

If you have any questions regarding the above or other aspects of the Committee’s review, please contact me on

Yours sincerely

David Brunoro  
Committee Secretary



**Australian Government**

**Department of Defence**

**Mr Dennis Richardson  
Secretary**

**General David Hurley, AC, DSC  
Chief of the Defence Force**

## **EXECUTIVE MINUTE**

on

**JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT**

**REPORT No. 436**

**REVIEW OF THE 2011-12 DEFENCE MATERIEL ORGANISATION MAJOR PROJECTS REPORT**

### **Response to the recommendations**

#### **Recommendation No. 1 paragraph 3.12**

*To help ensure that project financial assurance statements continue to be robust and meaningful, the Committee recommends that, in consultation with the Australian National Audit Office, the Defence Materiel Organisation continue to seek independent financial assurance during the development of future Major Project Reports for an appropriately selected sample of projects.*

#### **Response: Agree**

The Defence Materiel Organisation will continue to conduct an independent financial assurance for an appropriately selected sample of projects in the Major Projects Report.

#### **Recommendation No. 2 paragraph 3.25**

*The Committee recommends that, by 20 June 2013, the Defence Materiel Organisation submit a proposal, for incorporation into the 2013-14 Major Projects Report Guidelines, on how project-level contingency fund data could be disclosed in future Major Projects Reports without being significantly prejudicial to taxpayers' interests. At a minimum, projects that have utilised contingency funds during the previous financial year or are anticipated to use contingency funds in the forthcoming financial year, and the amount of such funds, should be identified in the reports.*

#### **Response: Partially Agreed**

The Committee should note that the \$1.1b total contingency applied to the projects reported in the 2011-12 Major Projects Report is the total amount across the life of all projects and not the amount applied in 2011-12.

Commencing with the 2013-14 Major Project Report, the Defence Materiel Organisation will report on Projects which have invoked Contingency during the financial year. The Major Projects Report will also report on the anticipated contingency in the forthcoming year in aggregate. To identify future contingency at the individual project level would

continue to prejudice the Commonwealth position and, as such, will not be publicly disclosed.

**Recommendation No. 3 paragraph 3.52**

*The Committee recommends that the Defence Materiel Organisation review its current approach to assigning maturity scores to projects to improve the consistency of their application and their consistency with the Defence Capability Plan.*

**Response: Disagree**

The next edition of the *Defence Capability Plan* will not feature project maturity scores. Project maturity scores have not been used in submissions to Government in recent times. Instead a Materiel Implementation Risk Assessment (MIRA) is summarised in the Government Approval Submissions. The MIRA covers similar matters to the maturity scores but provides a narrative description of the risks and their impacts. Defence Science and Technology Organisation also provides a Technical Risk Assessment. The future of maturity scores and their linkages to the MIRA is under review.

**Recommendation No. 4 paragraph 3.61**

*The Committee recommends that the Defence Materiel Organisation develop a business systems improvement plan which prioritises projects, assigns completion dates and allocates senior level ownership for implementation. A progress update on achievements against the plan should be included in the 2012–13 Major Projects Report.*

**Response: Agree**

The Defence Materiel Organisation has piloted an Integrated Project Management System which is intended to automate and integrate project management systems similar to industry best practice in order to improve productivity and data quality, reduce replication and mistakes, and minimise reporting through an automated project performance reporting system. There is currently a study underway to determine system and architecture requirements, and develop a business case for consideration by Defence and inclusion in the Chief Information Officer integrated program of work.

In addition, and noting the Committee's interest regarding risk management and records management systems, the Defence Materiel Organisation has developed a Defence Materiel Organisation Information Management Investment and Resource Plan 2013-18. The Defence Materiel Organisation will provide an overview on both the Integrated Project Management System and the Information Management Investment and Resource Plan 2013-18 in the 2012-13 Major Projects Report.

**Recommendation No. 5 paragraph 3.83**

*The Committee recommends that, by 20 June 2013, the Department of Defence reports to the Committee on how it intends to achieve greater transparency in relation to its spending on sustainment activities.*

Defence believes the current transparency in relation to its spending on sustainment activities is adequate. The Portfolio Budget Statements 2013-14 presents a greater degree of transparency of sustainment activities than has been reported previously.

Defence believes that providing performance details of DMO's sustainment activities consistent with the Major Projects Report would potentially be highly sensitive and of a classified nature.

Performance metrics against the Chief of the Defence Force's Preparedness Directive as well as measures of sustainment effectiveness would provide sensitive information concerning Defence's operational capability commitments and preparedness, and therefore could not be released to the Public.

The ANAO have been consulted with regard to the Recommendation, and note Defence's concerns in relation to the sensitivity of the sustainment activities, which may make more comprehensive reporting complex and resource intensive, however, in the future, would be open to further discussion in relation to reviewing the reporting transparency of Defence sustainment activities.

**Dennis Richardson**  
Secretary

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General  
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