

Overview

- 1.1 The Major Projects Report (MPR) is published annually and provides a performance overview of selected major defence capital acquisition projects (projects) managed by the Defence Materiel Organisation (DMO). This information is presented in a collection of Project Data Summary Sheets (PDSS), accompanied by an overview of the performance of these projects. Once prepared, this information is then subject to formal review by the Australian National Audit Office (ANAO).
- 1.2 The DMO's collection of PDSS and associated ANAO review findings and conclusions are then combined and presented to the Parliament as a single document. On presentation to the Parliament, the MPR is automatically referred to the Joint Committee of Public Accounts and Audit (JCPAA) for possible inquiry or review.¹
- 1.3 The 2009-10 MPR is the third report of its kind to be produced and contains cost, schedule and capability information for 22 active projects.² As at 30 June 2010, the projects included in the MPR represented \$40.8 Billion or just over half of DMO's approved capital investment program budget.³
- 1.4 Projects included in the 2009-10 MPR are either updated repeat projects or new projects which have not been included in previous MPRs.⁴

1 Pursuant to Subsection 8(1)(c) of the *Public Accounts and Audit Committee Act 1951* (Cwlth), the Joint Committee of Public Accounts and Audit is tasked with examining all reports of the Auditor-General (including reports of the results of performance audits) that are tabled in each House of the Parliament.

2 Australian National Audit Office (ANAO), *2009-10 Major Projects Report: Defence Materiel Organisation*, Australian National Audit Office, Canberra, p. 26.

3 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 13.

4 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 382.

- 1.5 Since the previous MPR, the number of projects reported on has increased by seven to include a total of 22 projects. As jointly proposed by the DMO and the ANAO and subsequently endorsed by the committee, the total number of projects incorporated into the next MPR (2010-11) will increase to 28.⁵ Consecutive MPRs are expected to report on a maximum of 30 projects.⁶

Background

- 1.6 The process to produce a MPR was made on recommendations by the Senate Foreign Affairs, Defence and Trade References Committee⁷ and the JCPAA.⁸
- 1.7 In March 2003, the Senate Foreign Affairs, Defence and Trade References Committee recommended that the progress report on projects should:
- Individually detail cost, time and technical performance data.
 - Follow the same reporting process as that ordered by the British House of Commons of the Comptroller and Auditor-General.
 - 'Include in the report, analysis of performance and emerging trends as will enable the Parliament to have high visibility of all current and pending major projects.'⁹
- 1.8 In May 2006, the JCPAA supported funding for the ANAO to produce an annual audit on the progress of projects¹⁰ contained in the MPR.
- 1.9 Further, in its 2008 report entitled *Progress on equipment acquisition and financial reporting in Defence*, in regard to the MPR, the committee found that:

5 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, pp 11 and 16.

6 Joint Committee of Public Accounts and Audit, August 2008, *Report 411: Progress on equipment acquisition and financial reporting in Defence*, Canberra, p. 172.

7 Senate Foreign Affairs, Defence and Trade Committee, March 2003, *Materiel Acquisition and Management in Defence*, Canberra, Parliament of Australia.

8 Joint Committee of Public Accounts and Audit, August 2008, *Report 411: Progress on equipment acquisition and financial reporting in Defence*, Canberra, p. 158.

9 Senate Foreign Affairs, Defence and Trade Committee, March 2003, *Materiel Acquisition and Management in Defence*, Canberra, Parliament of Australia, p. xv.

10 Joint Committee of Public Accounts and Audit, May 2006, *Audit Office Budget Estimates for 2006-07*, Canberra, p. 2.

- More could be done to address transparency and accountability across the Defence portfolio.
 - Procedures and processes for documenting lessons learned on all major projects should be accessible, consistent in their format, and communicated effectively.
 - Procurement-related terminology required standardisation.
 - That Projects included in the MPR [should] continue to be reported on until full operating capability is achieved.¹¹
- 1.10 Following in November 2008 was the presentation to the Parliament of the first or pilot MPR covering the period 2007-08. The 2007-08 MPR incorporated previous committees' findings and recommendations. Since that time, two further MPRs covering the periods of 2008-09 and 2009-10 have been presented to the Parliament.

Format of the Major Projects Report

- 1.11 The annual assessment of the MPR is modelled on the United Kingdom of Great Britain's (UK) process of annual review a selection of its major defence projects. This process has been ongoing in the UK for the past twenty years.
- 1.12 In the UK, by order of the British House of Commons, the Comptroller and Auditor-General reviews Ministry of Defence acquisition projects and then presents the findings of the review in a report to the Parliament.
- 1.13 The UK's MPR includes cost, time and performance data for 30 military equipment projects across the Ministry of Defence, for the period ending on 31 March each year. Information in the UK National Audit Office MPR is presented as a collection of project summary sheets.¹²
- 1.14 In its current MPR, and following previous committees' recommendations, DMO has adopted a similar format to the UK in reporting on projects.
- 1.15 Information specific to each project selected for incorporation into the MPR is reported on in individual PDSS. In addition to a collection of

11 Joint Committee on Public Accounts and Audit, August 2008, Report 411: *Progress on equipment acquisition and financial reporting in Defence*, Canberra, pp xvii-xviii.

12 National Audit Office, *Ministry of Defence Major Projects Report 2010: Report by the Comptroller and Auditor-General*, 15 October 2010, London, UK, p. 4.

PDSS, the MPR contains agency specific information in the management of these projects. The second major component of the MPR report is the ANAO's assurance review report on the PDSS and overview.

- 1.16 PDSS were developed through Guidelines prepared by the DMO in conjunction with the ANAO and subsequently endorsed by the JCPAA.¹³
- 1.17 Specifically, in reporting on project information in PDSS, emphasis is placed on the three components of project performance:
- approved budgeted cost
 - schedule, and
 - progress towards delivery of planned capability.¹⁴

Auditor-General's review

- 1.18 The Auditor-General's review of the MPR provides a more limited assurance standard to that of a regular performance audit. The aim of the Auditor-General's review of the MPR is to ascertain whether the MPR provides clear and consistent information to enhance transparency and accountability for projects.
- 1.19 The Auditor-General has made a qualified conclusion on the MPRs for the years 2007-08, 2008-09 and also in the recent 2009-10 MPR. In 2007-08 and 2008-09, the qualification was made as the DMO could not provide the appropriate base date price and expenditure information for a number of projects. The qualification in 2009-10 has again been given in regard to: expenditure in base date dollars; and contract price in base date dollars.

Role of the committee

- 1.20 Through its annual MPR review, the role of the JCPAA is to assess the utility of the MPR in regard to its content, accessibility and the transparency of information it provides to the Parliament and the wider Australian community. Through this process, the accountability of the DMO in the management and reporting of projects is also scrutinised.

13 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 26.

14 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, pp 17 and 26.

- 1.21 In addition, during the planning cycle for each MPR, the committee has a role in endorsing the MPR Work Plan. The key elements of the MPR Work Plan include: the criteria for project selection; the roles and responsibilities of DMO in the production and review of the MPR; Guidelines for producing the PDSS; format for the PDSS template; and an indicative program schedule.¹⁵
- 1.22 While information contained in the MPR allows for scrutiny of the progress of selected projects, the committee's role is to make recommendations which focus on improving the presentation and content of information contained in the MPR, not on the progress or performance of individual projects. In this way, the committee's focus is on improving the transparency of project information and the DMO's accountability in the management of these projects.

Scope of the review

- 1.23 The findings of the previous committee's review of the 2007-08 DMO MPR are contained in Report 416. Review of the 2008-09 MPR was well progressed with a private briefing and a public hearing held on 15 March 2010 with representatives of the DMO and ANAO. However, the review was not completed prior to the proroguing of the 42nd Parliament.
- 1.24 Where relevant to issues included in the current review, this report includes discussion on a selection of the ongoing issues highlighted during the reviews of the 2007-08 and 2008-09 MPRs. This report also includes discussion on future additions for the MPR.
- 1.25 The focus of the review is to examine ways to present information in the MPR which improve the transparency and accountability of DMO's reporting on selected projects. Importantly, the review also aims to improve accessibility to information on selected projects without compromising confidentiality.

Conduct of the review

- 1.26 The committee received four submissions to the inquiry, which are listed at Appendix A.
- 1.27 On 28 February 2011, the committee held a public hearing with representatives from the DMO and the ANAO. Witnesses who appeared
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¹⁵ ANAO, *Submission 2*, p. 2.

before the committee at this hearing are listed at Appendix B. The Transcript of Evidence received at this hearing is available from the committee's website at: www.aph.gov.au/jcpaa.

Report structure

- 1.28 Chapter 2 provides an overview of the major capital acquisition projects included in the 2009-10 MPR and discusses issues in connection with the 2010-11 DMO MPR.
- 1.29 Chapter 3 provides a summary of the findings and conclusion of the ANAO's review of the 2009-10 MPR. Inclusions in the 2009-10 MPR arising from the previous committee's findings and recommendations from Report 416 are also discussed.