

**JOINT COMMITTEE OF PUBLIC
ACCOUNTS AND AUDIT**

**Report 417: Review of Auditor-General's
Reports tabled between February 2009 and
September 2009**

Government Response

**Department of Defence
Recommendations 6 to 7 and 15 to 17.**

Recommendation 6

That the Defence Materiel Organisation (DMO) provide a brief report to the Joint Committee of Public Accounts and Audit (JPCAA) within six months of the tabling of the committee's report on the steps taken to ensure DMO staff adhere to the existing processes to inform decision makers of scope changes.

Government Response

Agreed.

To ensure DMO staff adheres to the existing processes to inform decision makers of scope changes in projects, Defence and the DMO have in place the following controls, processes and awareness training.

The primary controls are exercised through the Project Directive and Materiel Acquisition Agreement. The Project Directive, based on the project approval decisions made by Government, is issued by Defence following Government approval at Second Pass. The Project Directive provides top level direction from the Secretary and the Chief of the Defence Force to the Capability Manager to introduce the full operational level capability into service by the date agreed by Government. It also articulates the respective roles of the Defence Groups, the Services and the DMO in delivering their respective elements of the project. Any proposed significant change that alters specific scope, cost or schedule parameters originally agreed by Ministers or NSC requires reconsideration by Government.

Each Materiel Acquisition Agreement (MAA) is developed in partnership between the DMO, Capability Development Group and the relevant Capability Manager(s), in line with the related Government approval. The MAA defines more specifically the responsibilities and deliverables of these stakeholders and includes detail on the project deliverables in terms of capability, supplies, specifications, cost, schedule and customer furnished supplies. The new MAA template, released in January 2010, further clarifies the timing for transition of the materiel element of capability from the DMO to the Capability Manager, consistent with Government decision.

The regular MAA review, management and sign-off process throughout the life of a project enables Defence and DMO staff to be aware of any proposed scope changes, and to seek the necessary approvals.

The DMO has continued the six-monthly MAA awareness sessions to Defence and DMO staff involved in project development and management. The briefing material specifically states an MAA cannot be amended outside the basis of the Government's project approval. The last awareness sessions were held in the period September-November 2010.

Recommendation 7

That the Department of Defence and the Defence Materiel Organisation (DMO) provide the Joint Committee of Public Accounts and Audit (JPCAA) with a brief report detailing the progress of the M113 upgrade process, and the likelihood of the project being completed by the revised target of December 2010.

Government Response

Agreed.

December 2010 is the date by which the originally contracted 350 vehicles were to be delivered to Defence. The project completion date at that time was forecast to be June 2011. However, two separate project scope changes have impacted the original LAND 106 contract delivery date of December 2010, and as a consequence project completion has also changed.

In October 2008 the National Security Committee (NSC) considered and approved Army's initiative under the Enhanced Land Force to procure an additional 81 M113 AS4 Armoured Personnel Carrier (APC) vehicles. The ensuing contract change to reflect the scope change was agreed in December 2008. The impact on the date for final vehicle delivery under the contract was extended from December 2010 to December 2011.

In July 2009 the Prime Minister granted approval for the only remaining un-stretched M113 variant, the Armoured Mortar, to be stretched from AS3 to AS4 standard. This change in scope extended the final contracted delivery date of all 431 vehicles from December 2011 to April 2012.

In July 2010 the contractor advised the Project Office of the likelihood that the final vehicle delivery would slip by four months from the currently contracted date in April 2012 to August 2012. The primary cause of delay is the inability of the Bandiana hull stretch facility to meet the required production rate. In an attempt to address this issue, the contractor has established additional facilities at Williamstown in Victoria, and Wingfield in South Australia, with each facility allocated a range of stages and variants to optimise production output. Defence assesses the revised contract completion date for the last production vehicle of August 2012 as achievable, with a reasonable level of confidence. Based on this date the forecast project completion date is December 2012.

As at 13 August 2010 the project has delivered 150 vehicles: 119 APCs, 21 fitters variants, and 10 recovery vehicles. An additional 12 Initial Production Vehicles (prototypes) were built previously for testing and training purposes. These vehicles will be converted to the final production standard prior to project closure. The production rate over the next 24 months is forecast to average 12 vehicles per month.

Deliveries of major drive system sub-assemblies for all variants remain ahead of schedule. Crew and maintenance training is continuing. Spares, special tools and test equipment to support the introduction into service are being delivered on schedule to meet fleet sustainment requirements.

Recommendation 15

The Committee recommends that when preparing submissions Defence develop a procedure to ensure that any divergence from the generic guidance provided in the Defence Capability Development Manual (DCDM) is authorised at an appropriate level and to record:

- Any modifications to the capability development approval process contained in the Defence Capability Development Manual (DCDM) for a project; and
- Reasons for diverging from the generic model.

Government Response

Agreed.

On 1 February 2010 Defence replaced the previous 2006 Defence Capability Development Manual (DCDM) with the Interim Defence Capability Development Handbook (DCDH). The final version of DCDH currently awaits final inputs from the Strategic Reform Program (SRP), including aspects related to the Government's Response to the Defence Procurement and Sustainment Review (also known as the Mortimer Review). This is expected to be finalised by the end of 2010.

The Interim DCDH 2010 is designed as a guide to personnel, organisations, agencies and industry involved in or supporting Defence's capability development and acquisition. Importantly the Interim DCDH 2010 is a complete revision of the DCDM 2006. Moreover, apart from SRP initiated reforms, the Interim DCDH integrates advice from the Defence Budget Audit (also known as the Pappas Review) and feedback from the Australian National Audit Office Performance Audit No 48 2008-09 – *Planning and Approval of Defence Major Capital Equipment Projects*.

With respect to tailoring the capability development approval process, the Interim DCDH advises Defence staff that tailoring of the process is to be recorded and authorised via a document called Project Guidance (PG). The PG comes after the project's initiation and after staff have had time to consider the project's major issues and proposed way ahead. The project's proposed tailoring is presented to the Option Review Committee (ORC) after being agreed at the Capability Development Stakeholder Group, which has representatives from relevant Defence Groups and Services. The ORC is chaired by the Chief of Capability Development Group. Once endorsed by ORC and signed by the relevant Director General responsible for the project, the PG provides the boundaries in which the project will operate.

Within the scope of the PG, further minor tailoring can then be done through the Project Management Plan. For significant adjustments, agreement would be sought, on a case by case basis, dependant on the magnitude of the proposed change at either the ORC; the Defence Capability Committee; the Defence Capability Investment Committee; or if necessary from the Government.

Recommendation 16

The Committee recommends that Defence work with the Department of the Prime Minister and Cabinet (PM&C) to amend the *Cabinet Handbook* to accurately reflect the more specific risk measurement process developed by Defence which should be included in submissions for both first and second pass assessment. (Page 114)

Government Response

Agreed in principle.

PM&C is presently conducting a review of Cabinet processes, including rewriting the *Cabinet Handbook*. Defence is working with PM&C and will seek amendments to the *Cabinet Handbook* to accurately reflect Defence's more specific risk measurement process.

Recommendation 17

The Committee recommends that Defence ensure that Cabinet submissions for future major capital equipment projects provide advice that is clear and consistent, and include the following:

- Technology Readiness Level (TRL) and Systems Readiness Level (SRL) scores for each option; and
- Description of likelihood and consequences of risk based on these ratings.

The Committee further recommends that Defence develop a procedure to ensure that staff involved in Technical Risk Assessments (TRAs) have a clear understanding of SRL measurements so that the figure provided precisely reflects risk levels. (Page 115)

Government Response

Agreed in part.

Defence notes that the Cabinet submission process and requirements are subject to the PM&C Cabinet processes review and the stage of the Cabinet Submissions agreed as a result of that review. Defence agrees that there needs to be a clear and consistent description of technical risks in all Cabinet submissions for future major capital equipment decisions. This needs to be based on a rigorous assessment of the risks that is based on the TRLs and SRLs for each option, and which describes the likelihood and consequence of the technical risks. Defence has implemented procedures to ensure that all future major capital equipment decisions include a description of the key areas of technical risk along with a statement of the overall risk level for each presented option.

Defence does not include the readiness levels in cabinet submissions because readiness levels are a measure of maturity not of risk and hence can be potentially misleading; rather these are described in the TRA for the project. The TRA is one of the Defence developed supporting documents for Defence committee consideration and describes the TRLs and SRLs for a project. The TRA also provides clear descriptions of likelihood and consequence for each technical risk identified.

The methodology used by Defence to determine the technical risk of a project begins by evaluating the maturity of the technology and the system integration for each option using TRLs and SRLs respectively. From these maturity levels, the likelihood of the technology or systems integration not maturing in the timeframe required by the project is then assessed. This takes account of the technical complexity involved, that is whether this is an adaptation or extension of previous technology or is completely novel, and the expertise available. For those technologies or sub-systems that may not mature or be successfully integrated in time, the consequences of that on achieving the aims of the project are then assessed. Finally, the technical risks are assessed based on the assessed likelihood and consequence.

Defence recently developed a procedure to ensure that staff involved in the preparation of TRAs have a clear understanding both of the methodology to be used, and of SRLs and TRLs. To support this, the Defence Science and Technology Organisation issued a TRA Handbook on 24 June 2010 which provides guidance on the risk assessment process and procedures for major capital acquisition projects. The TRA Handbook was developed in close consultation with capability development staff to ensure it is consistent with the Defence Capability Development Handbook. The TRA Handbook provides clear definitions of technical and system readiness levels and how they are to be used in assessing technical risk, including on the use of clear figures to reflect maturity levels. The TRA Handbook is currently available to Defence staff on the Defence Restricted Network, with a public release version being developed. The TRA Handbook is supplemented by training provided regularly to staff.