

**Opening Statement by
Mr Steve Chapman, Deputy Auditor-General**

JCPAA Public Hearing Thursday 20 March 2014

ANAO Report No.12 2013–14 2012–13 Major Projects Report

The 2012–13 Major Projects Report (MPR) is the sixth review by the ANAO of selected major Defence equipment acquisition projects (Major Projects), managed by the DMO. The MPR represents the continued commitment towards improving the transparency and public accountability across Defence's Major Capital Investment Program by the JCPAA, the ANAO and the DMO.

The ANAO has received positive feedback in support of the review from the media and other independent organisations, which has been reinforced by the external stakeholder survey the DMO undertook in 2012.

Acquiring and sustaining capability for the Australian Defence Force is critically important work and this report provides an update on 29 of the most significant projects managed by the DMO. Consistent with previous years, maintaining Major Projects on schedule remains the most significant challenge for the DMO; in turn affecting when the capability is made available for operational release and deployment by the Australian Defence Force.

ANAO analysis illustrates that older projects, which achieved Second Pass Approval prior to 2005, generally experienced the most slippage. These projects tend to be more developmental (complex) in nature and typically experienced schedule slippage in the past, and have continued to do so.¹ Additionally, ANAO analysis shows an ongoing trend of slippage in historically late projects

¹ ANAO Report No.12 2013–14, *2012–13 Major Projects Report*, Part 1, pp. 63–65.

including Collins RCS, Wedgetail, FFG Upgrade and HF Modernisation. While post-2005 projects may not have had time to realise all potential slippage, continued focus by the DMO will continue to provide benefits in slippage reduction.

For the second year, the 2012–13 MPR includes a project financial assurance statement within each PDSS, provided by the project. The project financial assurance statement is intended to provide readers with a clear articulation of a project’s financial position and to provide transparency in regard to whether there is ‘...sufficient remaining budget for the project to be completed...’²

Following the Committee’s recommendation, the DMO made arrangements for a third-party review of a selection of project financial assurance statements; based on factors including remaining budget, Projects of Concern listing, complexity, diversity across divisions and past history.³

Of particular interest, and noting the overarching assurance provided by the CFO that there is sufficient budget remaining to complete the projects, six projects separately identified areas of concern which will need to be carefully managed. Those projects were: AWD Ships⁴; MRH90 Helicopters; LHD Ships; Joint Strike Fighter; Hornet Upgrade and ANZAC ASMD 2B.⁵

Additionally, the DMO expects that the 29 Major Projects in this report will deliver all of their key capability requirements, recognising that some elements of the capability required may be under threat, but are considered manageable

2 JCPAA, Report 436, *Review of the 2011–12 Defence Materiel Organisation Major Projects Report*, May 2013, paragraph 3.4, p. 14.

3 JCPAA, Report 436, *Review of the 2011–12 Defence Materiel Organisation Major Projects Report*, May 2013, pp. xi–xii.

4 Source 1: The Minister for Finance, Senator the Hon. Mathias Cormann, and the Minister for Defence, Senator the Hon. David Johnston, *Review of the Air Warfare Destroyer Program*, 25 February 2014. Included.

Source 2: The Shadow Assistant Minister for Defence and Shadow Minister for Justice, David Feeney MP, *Air Warfare Destroyers on Budget and on Schedule*, 17 December 2013. Included.

5 ANAO Report No.12 2013–14, *2012–13 Major Projects Report*, Part 1, paragraphs 1.24 to 1.25, pp. 34–35.

(assessed as either green or amber). This is an improvement from last year, where both Wedgetail and MRH90 Helicopters were assessed as unlikely to meet all of their capability requirements.

This report builds on the earlier work by the DMO and the ANAO to improve the transparency of, and accountability for, the status of Major Projects for the benefit of the Parliament, the Government and other stakeholders. Additionally, with the number of projects having plateaued, (29 projects in 2012–13 and 2011–12, and 28 projects in 2010–11), the report now provides for the longitudinal analysis envisaged when it was conceived. I am confident that the increased transparency and public accountability will continue to assist the Committee, the Parliament and other key stakeholders, and assist the DMO in pursuing its project management improvement agenda.

This year's report, the 2013–14 MPR, will continue to build on the areas mentioned in addition to maturity scores, contingency, and business systems improvements, as well as referencing the learnings of other Defence related ANAO Performance audits including on the Air Warfare Destroyer project, tabled in March 2014, and the MRH90 Helicopter project which is due to be released this year.

In closing, I would like to acknowledge the strong working relationship between the ANAO and the DMO in the continued development of the Major Projects Report, and Defence and industry stakeholders who also provide valuable input in assisting the ANAO with the reviews. Thank you.