



Auditor-General for Australia



9 April 2009

Ms Kris Veenstra  
Inquiry Secretary  
Joint Committee of Public Accounts and Audit  
Parliament House  
CANBERRA ACT 2600

Dear Ms Veenstra

**Major Projects Report 2007-08**

I refer to your correspondence of 23 March 2009 enclosing the list of questions the Committee put on notice, following the public hearing into the Major Projects Report 2007-08 on 19 March.

Please find enclosed the responses to the questions directed to the Australian National Audit Office.

Should you have any further queries please feel free to contact Mr Michael White on 6203 7393.

Yours sincerely



Ian McPhee

## ANAO Response to the JCPAA's Questions on Notice 23 March 2009

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### LESSONS LEARNED ON EACH PROJECT

**1. (For DMO only)**

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### SELECTION OF PROJECTS FOR REVIEW

**2. What are the current criteria for inclusion in the MPR?**

ANAO answer:

The DMO Guidelines for the preparation of the 2008-09 Major Projects Report (MPR) provide the following criteria.

New projects for inclusion in the 2008-09 MPR will be proposed by DMO in consultation with the ANAO and provided to the JCPAA for comment. The JCPAA may also propose projects for inclusion in the MPR. The final list of new projects for inclusion in the MPR will be endorsed by CEO DMO.

MPR Projects for the 2008-09 MPR are selected from the largest DMO Projects by total approved budget.<sup>1</sup>

Projects included in each year's MPR are:

- projects included in the previous year's MPR subject to:
  - being closed because the project has been completed; or
  - being cancelled by Government.

In both of the above instances, the MPR will explain the rationale and reasons for exclusion.

Projects will be selected using the above criteria up to a total of 30. The rate at which new projects are added each year will be decided on a year by year basis, in consultation with the JCPAA.

NB: Projects with less than \$20 million, or less than five per cent of their remaining budget (excluding afters) are not considered for inclusion in the MPR.

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<sup>1</sup> Largest DMO Projects by total approved budget are based on the latest Approved Major Capital Investment Program Gross Plans at the time of selection.

## Audit-in-Confidence

### **3. *When will the Committee be consulted about projects for inclusion in the 2009-10 MPR?***

ANAO answer:

The ANAO considers it would be appropriate to, in conjunction with DMO, consult with the JCPAA on the selection of the 2009-10 MPR projects after the Commonwealth budget is tabled in May 2009. The ANAO proposes that the ANAO and DMO meet with the JCPAA by say, the end of September 2009, to allow the projects to be reported on in the 2009-10 MPR to be settled in sufficient time to allow for the preparation of the PDSSs.

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### **4. *How can we ensure that projects that are still part of the DMO's 30 largest but are almost complete will not be included in future MPRs?***

ANAO answer:

The ANAO considers it would only be appropriate to not report projects listed within DMO's largest 30 projects when the JCAA has been consulted and agrees to their exclusion.

Arguments for exclusion would be primarily based on the project's achievement of its capability requirements. A prime example is the Anzac Ship Project (SEA 1348 Phase 2), which has less than three per cent of its budget remaining, and the eighth and last Anzac Ship (HMAS *Perth*) was commissioned into the RAN in August 2006. However, it remains within DMO's 30 largest projects list because it has some minor lingering issues of a kind that do not prevent the acquired capability from achieving release into full operational service.

The ANAO considers it would be appropriate to, in conjunction with DMO, consult with the JCPAA on the MPR projects by say, the end of September each year as noted above. This would enable the outcome of those discussions to be factored into the following year's MPR.

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## RECONCILIATION WITH FINANCIAL INFORMATION

### **5. *What could impede the capacity for the financial information contained in the MPR to be reconciled with other documents such as DMO's annual reports etc.?***

ANAO answer:

The ANAO considers that the reconciliation of the MPR with other DMO documents will be impacted by a range of factors, including:

- the basis of the respective data, i.e. accrual or cash basis;
- the level of materiality applied to the respective data; and
- the nature of the assurance provided with the respective data.

The ANAO expects the MPR data to reconcile with the DMO annual report, when there is a direct relationship with data contained in each report. The ANAO would be happy to discuss the reconciliation of specific items as necessary with the JCPAA.

PROJECT MATURITY SCORES

6. (For DMO only)

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EARNED VALUE MANAGEMENT SYSTEMS

7. *Section 4 of the draft MPR templates provided for comprehensive information on Earned Value Management Systems (EVMs) to be contained in the MPR (see tables below). The information contained in the final MPR is not as comprehensive as that shown in the draft template. What is the rationale for excluding the extent of this information in the 2007-08 MPR? Can this information be included in future MPRs?*

ANAO answer:

Payments for .... Acquisition Contract (Table 4.1)

For standard commercial acquisition contracts that specify a mix of EVM payments, Milestone Payments and Performance Incentive fees, DMO could include the amounts paid against those payment categories. The rationale for their inclusion is that these payments constitute the total payments made to the contractors for progress achieved.

However, there are DMO projects that do not specify EVM payments or performance incentive fees. For example, the C-17 project is predominantly a US Government Foreign Military Sales (FMS) project, where payments are structured in accordance with Letters of Offer and Acceptance. These LOAs typically contain mobilisation and milestone payments scheduled to align with major deliveries. This would then create an inconsistency across PDSSs in the MPR.

Materiel Acquisition Agreement Event and Delivery Schedule (Table 4.2)

Table 4.2 of the original PDSS template was revised by DMO in an effort to improve the overall structure and generic nature of the PDSS:

- each project's Government Approval and acquisition contract dates now appear in Tables 1.3 and 1.4;
- the dates and variance explanations design reviews, and test and evaluation, and progress toward initial and final dates and variance explanations now appear in Tables 3.1 to 3.4.

Other changes to 4.2 resulted from the MPR pilot work in 2008. That work included consideration of not only the PDSS structure, but also what data provided the most cost-benefits terms of collection and assurance review costs and the benefits in presenting each project's project cost, schedule and capability progress.

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## Audit-in-Confidence

**8. The Committee believes it would be useful for the MPR to contain clear information that shows the Parliament and the Australian public how far the project's cost and schedule have varied from the project's EVM plan. The Committee notes that this type of information has been included in performance audits conducted by the ANAO. For example the following graph (Figure 2.1) can be found at page 48 of the ANAO's Report No. 11 2007-08 Management of the FFG Capability Upgrade. This graph would provide the Parliament with a clear picture of where problems may or may not be occurring. Can a graph showing cumulative monthly project cost and schedule variance be included for projects in future MPRs?**

ANAO answer:

The ANAO agrees that there are benefits from including Earned Value Management System (EVMS) data in the PDSS, in instances where that data is available in particular projects, as EVMSs provide an indication of a project's cost and schedule variance and emerging trends.

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### CONTINGENCY BUDGET FUNDS

**9. The draft template for the MPR (see Section 3.1 Project Financials – Contract vs Current) included information about Contingency Budget funds. The 2007-08 PDSSs do not appear to include information about contingency budgets for each project. Given that contingency budgets would inform an accurate assessment of financial performance, why has information about contingency budgets been excluded from the PDSS? If dollar figures are classified can this information be presented in text in future MPRs?**

ANAO answer:

There are some sensitivities in disclosing any contingency allowances. However, the ANAO will take up with DMO where there are opportunities to provide higher level disclosures in relation to contingencies. ANAO and DMO could report back to the Committee on any options when we next meet.

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TREND DATA

**10. As is noted in the MPR (p 55), the Senate Foreign Affairs, Defence and Trade References Committee Report on the Inquiry into Materiel Acquisition and Management in Defence, March 2003, recommended that a report such as the MPR should include 'such analysis of performance and emerging trends as will enable the parliament to have high visibility of all current and pending projects'. The Committee appreciates that discerning trends across the current small sample size of MPR projects is difficult, however, how will trend information be presented and dealt with in future reports?**

ANAO answer:

The ANAO accepts the need to include in future MPRs analysis of performance and emerging trends. Properly maintained Earned Value Management Systems (EVMSs) provide accurate indications of an individual project's cost and schedule variance and emerging trends. However, projects using Milestone-based progress measures without an accompanying EVMS, would experience difficulty in providing emerging trend data with regard to a contractor's cost performance. In those instances, the ANAO will need to work with DMO to arrive at a suitable trend data collection, analysis and presentation system.

The emerging trends across multiple DMO projects would need to be obtained from the analysis of trends in similar project groups and comparing those trends across all groups. For example, FMS projects would be grouped together, as would projects containing large amounts of developmental work. Again, the ANAO will work with DMO to arrive at a suitable multiple-project (program) trend data collection, analysis and presentation system.

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CAPABILITY

**11. The UK NAO and Ministry of Defence Major Projects Report 2008 provides a clear indication of whether key user requirements have been met (see page 5 UK NAO Ministry of Defence Major Projects Report 2008). In its summary of Post Main Gate Projects, the UK NAO's report also identifies Key User Requirements at risk in individual projects (e.g., see p 9). In the Major Projects Report 2007-08 prepared by the ANAO and the DMO, measures of effectiveness (MOE) 'represent key capability performance attributes of a project which if not satisfied would have a significant effect on the eventual suitability for operational service' (p 242). The Major Projects Report 2007-08 provides a Traffic Light Analysis Breakdown of the Nine Projects for Capability MOE (%). Can future MPRs include a traffic light analysis for each project to facilitate a more accurate assessment of what percentage of the capability is at risk, what can reasonably be assured as being achievable and what will not be achieved?**

ANAo answer:

The ANAO is keen to see the inclusion in future MPRs of unclassified and standardised capability achievement information, in terms of risk categories to capability achievement as presented in the annual UK National Audit Office MPR. That information would best be based on the capability requirements set out in the Materiel Acquisition Agreements (MAAs) between Capability Development Group and DMO.

The 2007-08 MPR experienced problems in terms of national security classifications, as well as problems associated with the MAAs referring to capability in systems engineering terms, ie Measures of Effectiveness, rather than user-based Key User Requirements terms. As at March 2009, DMO was still working to assess whether these issues could be overcome.

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**12. (For DMO only)**

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ANALYSIS

**13. (For ANAO only) The UK NAO and Ministry of Defence Major Projects Report 2008 provides a comprehensive yet clear and succinct analysis of the Department of Defence's major projects. Of particular use is the information contained in Findings related to cost, schedule and capability. The Committee notes from page 89 of the MPR that the report would be enhanced through an 'improved analysis regarding project management performance across all MPR projects both in year and across years'. The Committee would like to see an analysis similar in style to that of the UK NAO's in future MPRs. Can the ANAO undertake this type of analysis for inclusion in future MPRs?**

ANAO answer:

The ANAO is planning to undertake this type of analysis for inclusion in future MPRs and is currently considering ways of analysing and presenting project cost, schedule and capability data, with the view to provide an ANAO Summary and Key findings in the 2008-09 MPR. Progress to date has been limited given the challenges with cost and performance trends and capability outlined above.

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PROJECT SCHEDULE

**14. The Australian National Audit Office's Submission to the Joint Committee of Public Accounts and Audit: Defence Materiel Organisation Major Projects Report 2007-08 dated 13 March 2009, makes the following comment:**

**3.8 In reporting to Parliament each year, the ANAO will work with DMO to ensure the annual project review schedule is efficient so that the ANAO can complete its independent review of all project data within the agreed timeframe. As the number of projects in the Major Projects Report will increase from 15 this year to up to 30 next year, an efficient project review schedule will be critical.'**

**What improvements can be made to ensure 'an efficient project review schedule' is achieved for future MPRs?**

ANAO Answer:

The 2007-08 MPR demonstrated that schedule management was of critical importance to the report's overall quality. With 15 projects included in the 2008-09 MPR, the schedule management has proven more critical, as the schedule is now more compressed. The ANAO expects the schedule issues become even more acute in successive years as the number of projects build up to 30 projects. Some efficiencies may be had in future years, in line with improvements in DMO information systems, DMO QA and ANAO experience. However, in the mean time the compressed assurance review schedule places significant demands on key ANAO personnel involved with the reviews and with the MPR preparation.

The immediate aim for 2009-10 is to agree to an efficient schedule with DMO that distributes, as evenly as practicable from February to September each year, ANAO's review of the DMO projects and evidence that support the data and narratives provided by DMO in the MPR.