



Australian Government
Department of Defence
Defence Materiel Organisation

GMS DMO OUT 014/2009

14 April 2009

Kris Veenstra
Inquiry Secretary
Joint Committee of Public Accounts and Audit

Dear Kris

JCPAA PUBLIC HEARING INTO MAJOR PROJECTS REPORT 2007-08 ON 19 MARCH 2009

REFERENCE: Your Letter Dated 20 June 2008 (in error)

1. At the reference you requested responses to a list of questions that the Committee has put on notice to the DMO and ANAO arising from the public hearing held on 19 March 2009 into the Major Projects Report (MPR) 2007-08. My responses are in order of the questions directed to the DMO and are provided in Attachment 1 to this letter.
2. The Major Projects Report is an excellent means of providing transparency and accountability to Parliament on the status and progress of DMO's major projects and I fully support the initiative. The role that the ANAO plays in auditing the data that the DMO prepares provides assurance to Parliament on the veracity of the data presented and enables us to take comfort in the fact that our data has been verified by the Auditor-General.
3. Preparation of the Major Projects Report is a significant and intensive activity consuming substantial resources for the DMO and ANAO alike and one which will continue for many years into the future. In 2007-08, the MPR consumed some 1760 man days of DMO resources and cost the ANAO \$1.03m to report on nine projects. This effort will increase substantially as we build to 30 projects. Therefore it is important to take stock of the utility of the data we collect from the perspective of its informative value, materiality and how it contributes to in-project and cross project data analysis and the development of trends. Above all, we should look at this as not just a cost of reporting to Parliament, but as an investment of taxpayer dollars in helping improve project outcomes.
4. The UK National Audit Office and the US Government Accountability Office have developed project data sets that lend themselves to insightful analysis of project data. Apart from the individual project data disclosure, the individual and longitudinal analysis of the information contained in the reports prepared by these agencies assists to build a comprehensive picture of major projects performance and trends over time across the cost, schedule and capability dimensions of these projects.
5. In September 2007, when proposals were made by the ANAO to vary from the data set in the UK NAO's Major Projects report, the ramifications of these changes were not fully appreciated by the DMO because our attention was focussed on what can be published in the first year rather than what was useful, material and sustainable over time. Therefore, I would caution against making changes to data for the 2008-09 MPR until we are of the opinion that

any alterations will add value to the public accountability and transparency of information.

6. In my view the project data in the MPR should meet the following criteria:
- a. be meaningful to inform Parliament on the status of a project in the reporting year and over time;
 - b. consist of standard data that is developed across all MPR projects to facilitate longitudinal analysis across MPR projects and for a project itself as it progresses over its lifecycle;
 - c. be capable of being derived, to the maximum extent practicable, from the corporate and project specific data we collect or plan to collect in order to minimise the resource cost for both DMO and ANAO's verification of that data;
 - d. place a greater emphasis on quantitative data which, by its nature, lends itself to analysis and the development of trends over time;
 - e. contain data that is capable of being readily evidenced by the DMO in order to satisfy the ANAO's requirement to assure the data at minimal cost to both organisations; and
 - f. be useful to the DMO in identifying where it should focus business and project management improvement to deliver improved project outcomes.

7. I have tasked my staff to undertake a comprehensive review of the data set used in the current MPR against the criteria above and where they fall short, examine options for modifying the current data set. I expect to have these options ready to present by end May 2009 when I will approach the ANAO and JCPAA to consider these options. I would propose that any improvements are adopted for the 2009-10 MPR.

8. Some examples of where we could improve the data in the current MPR include:
- a. In Table 2.7 of project MPR data we quote base date contract expenditure. I explained at the 19 March public hearing how difficult and resource intensive the collection and ANAO's validation of this data is, especially for projects that have been running for many years and which did not need to collect base date data for payments. Stating the amount of contract expenditure in base date dollars is meaningless without a comparison of what has been achieved for this expenditure.
 - b. Other resource intensive data are the Tables in Section 3 of project MPR data dealing with design and test and evaluation progress. The number of Design Reviews and Test and Evaluation events gives rise to numerous events and dates for the systems and subsystems involved in a complex project. Publishing a full list of these would make the data cumbersome and of dubious value; so we have had to summarise the data in the MPR.
 - c. The base data and how it is summarised places a significant burden on projects in terms of supporting evidence and on ANAO for its validation. The issue of materiality of such data becomes a significant matter e.g. the Bushmaster vehicles have been in operation since 2004, so a date when a Preliminary Design review of the Bushmaster design was conducted has dubious materiel value. However, when equipment deliveries were planned versus actually delivered is probably more relevant. Alternatively, for those projects which are still in the design development stage, a measure of progress on design reviews may be relevant.

9. We should also acknowledge that the data presented in the MPR can never substitute for an in-depth performance audit by the ANAO and we should carefully distinguish between data that is appropriate for a performance audit and an ANAO assurance activity such as is undertaken in the MPR. We should apply a sensible level of discipline and not allow the scope of MPR data to vary from year to year, otherwise the resource cost will become prohibitive over time and our capacity for analysis and production of trend data compromised.

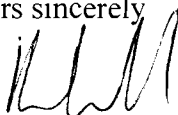
10. In summary, I will incorporate the following changes to data in the 2008-09 MPR:

- a. provide a breakdown of project maturity scores against their constituent elements and include the benchmark score; and
- b. as we previously did, provide ANAO with access to project contingency logs but not declare remaining contingency in the MPR.

11. Development of the MPR for 2009-10, would be based on a comprehensive review with the ANAO of data which will set a baseline for future MPRs and a solid basis on which to undertake analysis of data and develop trends in project performance.

12. I would welcome the opportunity of meeting with Committee members with the Auditor-General in attendance to explain and explore means by which we can achieve the best value for money outcomes for this endeavour.

Yours sincerely



Mr Kim Gillis

General Manager Systems DMO

Attachment 1: Responses to JCPAA Questions on Notice

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JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT QUESTIONS ON NOTICE ARISING FROM THE PUBLIC HEARING ON 19 MARCH 2009 - MAJOR PROJECTS REPORT (MPR)

LESSONS LEARNED ON EACH PROJECT

1. The Committee is keen to ensure that future projects will benefit from lessons learned on current projects and that the ANAO will be in a position to provide assurance to the Committee about the outcome of lessons learned. In that light, can the following information be incorporated into future PDSSs (e.g., in Section 5)?:
 - date issue identified;
 - lesson description;
 - project management aspects relevant to the issue; and
 - a statement as to how the lessons learned will be incorporated into policy and practice.

DMO response:

As I explained at the 19 March public hearing, the lessons learned on projects are, in the main, systemic in nature and may be interrelated across projects requiring a whole of organisation approach to address. Remediation measures might also include non-DMO players such as Defence principals and Defence industry, and some may take considerable consultation, time and effort to address. As such, reporting on lessons learned implementation in each project's data sheet would result in duplication and, by the time the MPR gets up to reporting on 30 projects, could result in an unwieldy document.

My preference would be to include a section at the front of the DMO project data sheets that addresses remediation measures from a corporate perspective rather than on a project by project basis in the individual project data sheets. Furthermore, noting that the project data in the 2007-08 MPR was not compiled with explaining how remediation would be implemented, I propose that we report on remediation of Lessons Learned from the 2009-10 MPR onwards. In regard to the date a lesson was learned, this would be the first time it appeared in the MPR.

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DMO response:

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SELECTION OF PROJECTS FOR REVIEW

2. What are the current criteria for inclusion in the MPR?
3. When will the Committee be consulted about projects for inclusion in the 2009-10 MPR?
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?

DMO response:

The criteria for including projects in the MPR are stated in the 2008-09 Major Project Report Guidelines developed in consultation with the ANAO and are as stated below:

*MPR Projects for the 2008-09 MPR are selected from the largest DMO Projects by total approved budget**.*

Projects included in each year's MPR are:

- *projects included in the previous year MPR subject to:*

- *if a project is closed because it has been completed it will be excluded from the MPR;*
- *if a project is cancelled by Government it will be excluded from the MPR;*
- *in both of the above instances, the MPR will explain the rationale and reasons for exclusion.*
- *new projects will be added to the MPR from the remaining largest DMO Projects.*

Projects are selected using the above criteria until the total number of projects, nominally a total of 30, is reached. The rate at which new projects are added each year will be decided on a year by year basis, but the expectation is that in subsequent years up to 30 DMO Projects will be included in a Major Projects Report.

***Largest DMO Projects by total approved budget are based on the latest AMCIP Gross Plans at the time of selection. New projects with less than \$20million, or less than 5% of their remaining budget (excluding afters) will not be considered for inclusion in the MPR.*

ANAO and DMO will discuss and propose a list of projects for 2009-10 to the Committee in September 2009 to obtain Committee endorsement before commencing planning for the 2009-10 MPR in November 2009. Our current planning is to add a further eight new projects to the 2009-10 report which would report on a total of 23 projects and build to up to 30 projects in 2011-10. This will enable both the DMO and ANAO to consider the resources required for this significant undertaking.

When projects achieve a state of practical completion, DMO and ANAO will make recommendations to the JCPAA on ceasing to report these projects and the rationale for same.

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.?

DMO response:

DMO sources financial data for the MPR from a common financial reporting corporate system that is also the source of Annual Report data.

PROJECT MATURITY SCORES

6. The Committee notes that at the hearing on 19 March 2009, the DMO undertook to include information relating to *Attributes* (i.e., schedule; cost; requirement; technical understanding; technical difficulty; commercial; and operations and support) in the Project Maturity Score and Benchmark section of the PDSS. As was raised at that hearing, can the MPR also provide further information about how the DMO determines the benchmark as opposed to the maximum score that can be achieved?

DMO response:

As I indicated at the 19 March hearing, we will provide a breakdown of the maturity score against the seven attributes in project data for the 2008-09 MPR. We will also disclose the benchmark score against these attributes.

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?

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?

DMO response:

The original template ANAO provided to the JCPAA in September 2007 was intended as an example but not a definitive template of data because, as you are aware, the MPR for 2007-08 was conducted as a pilot to refine data and processes. All changes to the data in the MPR have been made in full consultation with the ANAO and the data presented in the 2007-08 MPR is the result of this consultation. Project data refinement is likely to continue over the next few years before we reach a state of maturity when the JCPAA, ANAO and DMO are satisfied that the data presented is a meaningful and relevant information set of project data to inform Parliament on the annual status of major projects.

On the matter of Earned Value Management Systems (EVM), because of the cost associated with implementing and maintaining EVM systems, only selected high value DMO contracts invoke these requirements. Therefore, we are unable to provide EVM data for those projects with contracts arrangements that do not have EVM requirements; Foreign Military Sales (FMS) procurements also fall into this category. Noting that the objective behind the MPR is to have a standardised set of data across all MPR projects to facilitate analysis across projects and develop project performance trends over time, presenting EVM data for selected projects would not meet this objective.

In addition, Tables 2.4 and 2.5 of MPR project data states all variances from plan and the reasons for same.

The payments types listed in Table 4.1 of Question on Notice number 7 would not be present in all contracts and consequently the price basis in Table 1.4 of the project data is stated in the MPR. In regard to Table 4.2 this was an example of an aerospace project's milestones in a Materiel Acquisition Agreement (MAA). Each project has its own MAA and the milestones in that document would be specific to that project. The majority of the common milestone events in Table 4.2 are included in the MPR project data.

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?

DMO response:

Exposing the remaining contingency budget of projects in the MPR is information that is commercial – in – confidence. We do however provide ANAO complete access to the contingency logs of our projects. In Section 1.2 of the project data (under current status), we make a statement about the adequacy of the current budget, which includes contingency, to deliver the project.

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?

DMO Response:

The sample size of the MPR for 2007-08, coupled with the fact that it was the first report of its kind, meant that it did not lend itself to any trend analysis. I would expect that as the data set grows over time, the capacity to analyse the data and produce trends will be possible with the right data set. I entirely support the development of trend data and its inclusion in future reports and we will engage with the ANAO on how best to portray this information.

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?

12. With regard to ‘Green’ in the Traffic Light Analysis, how is a “high level of confidence” determined?

DMO response:

I acknowledged at the 19 March public hearing that we need to improve in the area of information regarding capability Key Performance Indicators. We need to consult with the Chief of Capability Development in Defence as well as Capability Managers, and ensure that the approach we adopt to capture capability measures can be publically disclosed without

compromising security. Additionally, while the security implications of capability performance reporting for an individual project might be relatively benign, collectively over a large number of projects the information does have security implications.

The JCPAA ask how a high level of confidence can be determined with regard to “green” in Traffic Light Analysis. An individual capability statement might in some cases have thousands of related detailed specification requirements underpinning it. Consequently a forensic analysis down at the level of individual requirements is not practical and we need to rely on the professional judgement of our project teams and Capability Managers to make these assessments.

As an interim measure we could include the percentage data on traffic light counts for each project without listing individual capability measures, although the utility of this data is doubtful. Until we have had the opportunity to do more work in the area of capability KPIs I propose that we do not attempt quick fixes that will likely confuse consumers of the report when we later change reporting in this area.

ANALYSIS

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 to respond.

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?

DMO response:

We have worked in consultation with the ANAO to produce a Master Schedule for the 2008-09 MPR. The Schedule forms part of the Section 20 Agreement that will allow the ANAO to undertake this assurance audit activity.

In order to undertake the significant amount of work that DMO and ANAO have to accomplish each year to produce an MPR, DMO and ANAO work cooperatively in setting up the business rules which apply to the task to enable early commencement.

