

Chapter 4

Projects and project management

I have a saying which goes, ‘No process saves you from a dumb idea.’ It does not matter what process you have in place, there is a personal element to it and if the people running that process and those controls are not up to the mark or prepared to let it go, then there is nothing we can do about it. All I can say is that the PMM process, which is the structure upon which we are based, is a very sound project management system. It is widely used throughout the world. If you follow it correctly, we should at least know the problems are coming. We can therefore highlight that they are coming and not put them under the carpet for two years until they really come and hit us hard. Again, it comes down to the people and the judgments of those people. If those people are not at the point where they do that, then we are still going to have those sorts of problems you have talked about.¹

4.1 The Committee regards the above statement, by a System Program Office Director working at the sharp end of acquisition and logistics, to be extremely insightful as well as down-to-earth.

4.2 The well publicised failures of many Defence projects will not be rehearsed again here by the Committee. It is worth noting here the following remarks from a 2003 Canadian report *Legislative Audit for National Defence*:

It is unlikely that any part of the public sector can rival weapons procurement for waste and loss. No country is immune from a history of weapons that cost far more than expected, took far too long to field, and were ineffective when put into service. Certainly Canada has not been an exceptional case in this race to the bottom.²

4.3 This chapter of the Report will focus on what it is about the management of those projects that seems to have caused them to fail; what is being done by the DMO to address and rectify those problems in a systematic way; and what else needs to be done to ensure that the remedies are effective and will result in successful projects in the future.

4.4 In this context the Committee is again struck by the remarks of the aforementioned Canadian auditor.

While Tolstoi remarked that while all happy families are the same, each unhappy family is unhappy in its own way, failed weapons projects tend to

1 *Committee Hansard*, p. 115 (Colonel Peter Acutt)

2 Kasurak, P. *Legislative Audit for National Defence—The Canadian Experience*, The Claxton Papers, Queen’s University (2003), p. 26

have quite a bit in common. Generations of ... auditors have identified most (though likely not all) of the high risk areas.³

4.5 He went on to nominate developmental projects, poor capability definition, lack of strong doctrinal concept, shortage of funds, poor risk assessment and risk management, and inadequate test and evaluation as key characteristics of projects that fail.

4.6 Knowing the features of projects that fail is very useful. It is also useful to explore the positive suggestions which have emerged from the plethora of analysis, audit and debate that surrounds Defence projects, and to consider the principles of sound project management which have emerged. The Committee draws heavily on the submission and oral evidence from the ANAO in formulating that account.

4.7 The Committee notes, as it pursues this formulation, that:

Defence acquisition project management has been the focus of consideration by the Australian National Audit Office (ANAO) and the Joint Committee of Public Accounts and Audit (JCPAA) for some time, beginning with a 1983 Audit Office report on this topic.⁴

4.8 Defence projects require expenditure of substantial amounts of public funds. The private sector is contracted to deliver the equipment, but Defence remains accountable for overall project outcomes. Projects must be managed in a business-like manner, consistent with the statutory requirement (*Financial Management and Accountability Act 1997*) that Defence's Chief Executive must manage Defence's affairs in a way that promotes efficient, effective and ethical use of Defence resources. The management of the 'time, cost and quality' aspects of these projects is a substantial task, involving significant corporate governance issues.

4.9 Audit Report No. 24 2001–2002 *Status Reporting of Major Defence Equipment Acquisition Projects* was an interim report, pending a full audit that was postponed in 2001 at the request of DMO, which was concerned to be able to progress its reform agenda prior to the audit being conducted. The report commented that periodic and accurate reporting of project status is an important element of good project management. DMO project status reports have in the past not always indicated whether major projects are meeting agreed timeliness, cost performance or quality criteria, or report against key performance indicators.

4.10 The Committee is pleased to hear that the DMO has been developing a new system for reporting project progress on cost and time performance. A sound project reporting system will obviously assist DMO's reform program and in managing risks in major projects.

3 Kasurak, P. *Legislative Audit for National Defence—The Canadian Experience*, The Claxton Papers, Queen's University (2003), p. 27

4 *Submission 2*, p. 1 (ANAO)

We have ... a project under way at the moment to improve our project scheduling and reporting. The process we use is to adopt the same methodologies that we ask our contractors to use to develop good quality work breakdown structures, develop a schedule against the work breakdown structures, allocate resources in terms of our own people's time to those work breakdown structures and also integrate our work breakdown structures with those that we get from industry through their reporting. This will also allow us to use an earned value approach of looking at cost and performance of schedule variances to monitor our project performance in a more holistic way.⁵

4.11 The Committee notes that the process described in the above quote is already specified in the *Capability Systems Life Cycle Management Manual 2002*.

4.12 According to the ANAO, a recent Defence analysis indicated that the risk of failure of Defence's major capital equipment acquisition projects was very high, and will continue to be so for several years. The ANAO expects to conduct a full audit of status reporting in 2003–04.

4.13 In its submission to the Committee the ANAO listed what it considers to be the factors in successful project outcomes. It is worth presenting these in some detail:

- Given that each project is unique, with its own construction method and contract form, it is important that projects are managed under a standardised method, preferably one recognised internationally such as the Standard Project Management Method. This should be accompanied by a standardised process for internal reporting that gives Defence's senior management a clear view of project progress and early warning of any need to take remedial action.
- External reporting is important, too. Frank disclosure of project progress enhances accountability and helps to promote good project management.
- Equipment to be produced from other than an established design may need prior development as a prototype model before full production, in order to learn from prototype testing and to avoid producing units that may need costly and time-consuming correction or modification later. A research and development contract may need to precede a production contract.
- Experienced commercial legal advisers are needed at the critical stages of tender preparation, contract negotiation and contract preparation. Such advisers should be available during contract management. The client Service should also participate at those stages.
- Contracts should have adequate provision to encourage performance and to deal with any under-performance. This could be by provision for prompt payment on achieving costly milestones. Liquidated damages are unlikely to recognise fully that the costs to the Commonwealth of delayed delivery of military equipment are in the form of lost military capability. Accordingly,

5 *Committee Hansard*, p. 250 (Ms Shireane McKinnie)

Defence contracts need to be clear that progress payments will be paid only on contract performance.

- Although each project is unique, project management can benefit from the experience gained on similar projects. Project managers should disseminate lessons to be learned from their projects and, in turn, be alert to lessons from other projects. Future project managers would benefit from having access to a database of lessons to be learned from previous experience on projects.
- Through-life support costs tend to exceed the original acquisition cost, and should be estimated and budgeted in conjunction with acquisition cost. Arrangements for through-life support need to be considered early in a project. Equipment tenderers' assertions relating to reliability, operating costs and life-cycle support costs could be translated into contractual arrangements, with incentives for reliability and lower costs and recourse in the event of unserviceability and higher costs.
- Contract milestones should be expressed in terms of substantive progress and paid only on evidence of achieved performance or earned value. Without such evidence, the project manager should withhold relevant progress payments until the terms of the contract have been met. The contractor's system for assessing progress on the project needs to be validated by Defence at the outset of the contract and validated periodically to ensure that Defence can rely on it.
- Project managers should act decisively when problems arise. Experience shows that it is unsafe to postpone such action in the expectation that a fixed price contract will require the contractor to meet requirements after all payments have been made. Delayed action involves risks in delayed military capability and risks that the contractor will have inadequate resources to complete the contract.
- Senior management should be alert, at key review points, to the need to decide whether a project experiencing significant cost increases, delays or other problems should proceed, be modified or be cancelled. Similarly, care needs to be taken that any changes to capability requirements or specifications that emerge after contract signature do not significantly add to cost or delay delivery.
- Project management should proceed on the basis of a systematic risk analysis, since complex technology projects are inherently risky. Problems can be expected to arise, but management should aim to be in a position to foresee risks and forestall them.
- Defence's project managers (in effect, contract managers) should have appropriate training and experience in project management, knowledge of contract law and a close familiarity with their project requirements as expressed in the contract. Managers need to be alert to project developments.
- Documentation of equipment test and evaluation during the acquisition phase needs to be adequate for the Service to conduct its final testing for acceptance into service.

- Project management costs should be collated for benchmarking with industry work of a similar kind and to demonstrate that the services represent good value.⁶

4.14 The *Capability Systems Life Cycle Management Manual 2002* devotes a substantial section to Project Management and embraces many of the best practice principles described above.

4.15 For example, the *Manual* highlights as reasons why projects often fail such things as inadequate planning and control of resources, activities and timings; lack of communication between stakeholders; lack of control over project progress and consequent lack of insight into project status; poor quality management.

4.16 The *Manual* goes on to describe project management as:

...several distinct but related processes including:

- a) establishing a project organisation;
- b) preparing a Project Management Plan;
- c) exercising control over a project by monitoring progress, reviewing plans and the achievement of milestones, solving problems and, if necessary, outsourcing further work;
- d) partitioning projects into stages with clear decision points;
- e) managing risk;
- f) ensuring the quality of the project outcome is consistent with sponsor and customer requirements; and
- g) managing changes to the project.⁷

4.17 Such requirements seem, to the Committee, to be little more than commonsense ways to approach a project. Having the approach set out clearly in a manual is a basic, but important, preliminary. But what bothers the Committee when it reflects on the failures that have prompted the recent DMO reforms is the fact that commonsense management strategies have long been embedded—or should have been—in public service practices. There have no doubt been earlier incarnations of the *Manual* that have set those strategies out with equal clarity and eloquence. Yet projects have frequently come unstuck.

4.18 Is it simply the fact that information systems within Defence have been so inchoate that project managers have not had access to the information needed to exercise the control and manage the risk? Has staff turnover been so rapid that any information that *is* available does not get passed on to newcomers? Or have people simply not been diligent in performing their duties? The Committee is unable to

6 *Submission 2*, pp. 7–9 (ANAO)

7 *Capability Systems Life Cycle Management Manual 2002*, para 3.93

pursue these questions in detail, but suspects that the combined result of at least two or more of these factors would commonly be found in the rubble of a collapsed project.

4.19 Much of what the Committee has heard from the Defence in the course of this inquiry suggests that the good project management practices have been clearly reinforced by the DMO, and that it has modified its structures, procedures and training accordingly.

We have put a huge amount of effort into improving our project management... accountability and responsibility. We have changed the government approval process to the two-pass process. We have put significant effort into better reporting. Reporting is a real challenge... In my experience over the last three years it is not the case every time that a project management system would indicate the problems to you at an early enough stage. Certainly project management systems will tell you if you are missing milestones or possibly even if you are likely to miss a milestone, but many of the project problems that we run into would need alternative methods to assess what is likely to go wrong to manage the risk and to do something about it before it becomes a major problem... The Defence Committee gets a comprehensive report each month on the top 20 projects and other projects of concern, and they discuss those. The minister gets a report on a monthly basis, and we are in the process of instituting new arrangements for reporting to government twice a year on the same projects.

We are introducing new project management methodologies to the SAMS. I mentioned project governance boards. ... The board can actually make some decisions but... [w]e have shifted... to a much clearer responsibility on the project manager. We deal with the stakeholder input in a different way, and the governance board acts almost like a company board. It covers financial expertise, project management expertise and legal expertise; it has a user and a capability person on it.⁸

Software expertise: ...we have gone down the path of the Capability Maturity Management model for assessment of companies. That... effectively assesses the ability of companies to deliver workable software solutions... It is quite a complicated assessment basis. It rates companies... We have been assisting companies in Australia to get that sort of accreditation. ...

We have put all of our senior staff through either a one- or two-week course which takes you through the basics you need to be looking for to assess the structure of a software system. It is not going to turn us all into software experts, but it does mean that we are able to make some reasonably informed judgments about whether what we are being told is sensible. We have also invested a huge amount in the Electronic Systems Division, in people that are well qualified in these areas and are able to get involved in the acquisition of software projects... We are putting people out of that division into another division, so that, if a division is buying a weapon that

8 *Committee Hansard*, p. 147 (Mr Michael Roche)

involves a considerable amount of software, we will move in somebody from that Electronic Systems Division to work on it.⁹

Among DMO's training initiatives for middle managers are its Leadership Program and Project Managers Development Program. The DMO Project Managers Development Program provides advanced qualifications (Master of Engineering Studies, with a Project Management major) and experience to become project managers. In its fourth year, 41 people have completed the program and 39 are still in the organisation. As for the future, DMO has formed a strategic partnership with the US Defense Acquisition University to cooperate in other tertiary level acquisition training and education.¹⁰

4.20 The Committee received mixed accounts from industry concerning the extent to which DMO is regarded as being successful in implementing standard Project Management Methodology (PMM). On balance, however, the Committee considers that the DMO has made genuine progress in this respect. One submission from a firm specialising in project management consultancy judged that:

PMM (Project Management Methodology) has been central to improvements in project management in DMO. Implementation of PMM has been patchy but where implemented properly has delivered real benefits to the projects and the Australian Defence Organisation.¹¹

DMO are attempting to re-invigorate PMM implementation through the creation of a Standard Acquisition Management System (SAMS). SAMS has potential to be positive if implemented properly but there are risks that the integration will fail if links between elements are not properly recognised.¹²

4.21 The Committee expects that the DMO will continue to monitor the effectiveness of PMM/SAMS and adjust it as required. The following example is indicative of the need for diligence in fine-tuning project management processes.

While the required capabilities were often technically well-defined, the acquisition schedules have not been based on the products that need to be delivered to meet that capability and the constraints faced by the project (as PMM recommends). For example, acquisition schedules have supposed that RFTs will be released immediately upon or very soon after approval, contracts will be signed within one month of the RFT, production will start immediately upon contract signature and acceptance will occur immediately after production. This approach did not recognise, for example, the time to create and clear RFT, design and design acceptance, testing and operational

9 *Committee Hansard*, p. 160 (Mr Michael Roche)

10 *Submission 10*, p. 14 (Defence Materiel Organisation)

11 *Submission 8*, p. 1 (Tanner James Management Consultants)

12 *Submission 8*, p. 1 (Tanner James Management Consultants)

transition. Additionally, it was very rare that any allowance was made for contingencies or changes of Government direction.¹³

These problems appear to be becoming less common. The use of Integrated Project Teams (IPTs) which combine resources of Capability Systems Division and DMO, and the application of improved project management in the capability definition phase appear to be improving the estimation of acquisition schedules. While Capability Systems Division has not formally adopted PMM, many of the IPTs are using a PMM approach to developing schedules.¹⁴

4.22 The Committee notes that Integrated Project Teams (IPTs) are specified in the *Capability Systems Life Cycle Management Manual* as responsible for managing a capability from First Pass Approval to Second Pass (Project) Approval. Of particular significance is the *Manual*'s requirement that 'the IPT leader, whether civilian or military, should typically expect to remain in appointment for several years to provide continuity.'¹⁵

4.23 The Committee also notes that, when it comes to the establishment by the DMO of the Project Management Team (PMT) to handle the acquisition phase, the *Manual* states:

Ideally, the Project Manager should be a member of the Requirements Phase IPT. Similarly, there are considerable benefits in having the IPT leader transfer to the PMT as the sponsor representative during the Acquisition Phase.¹⁶

4.24 Before proceeding to its final assessment of DMO's performance in the project management area, and prior to specifying recommendations in relation to it, there were a handful of particular issues raised in evidence that require discrete attention.

Enforcement of contract provisions

4.25 Projects will never be delivered on time and within budget if the various provisions relating to cost and timeliness are not taken seriously by either the contractor or the project manager—or both. The essence of the Committee's concerns in relation to the enforcement of contract provisions is encapsulated in this extract from a submission by a witness with a 30 year history of monitoring and analyzing Defence policy and procedures.

There seems little point in writing performance milestone and penalty clauses into contracts if they are not going to be enforced. Without

13 *Submission 8*, p. 6 (Tanner James Management Consultants)

14 *Submission 8*, p. 7 (Tanner James Management Consultants)

15 *Capability Systems Life Cycle Management Manual 2002*, para 3.96

16 *Capability Systems Life Cycle Management Manual 2002*, para 3.105

enforcement, such clauses become mere *proforma* provisions of no practical significance. Repeated failure to enforce such clauses sends entirely inappropriate signals to industry. A would-be contractor can be justified in concluding that a low-priced bid, which it suspects it cannot meet at the quoted price, might secure it the contract. Because it believes that any penalty clauses will probably not be enforced, it can then anticipate that when it fails to perform, the Commonwealth will eventually come up with the necessary supplementary funding or its equivalent.¹⁷

4.26 The Committee was concerned to hear from industry people that Defence had a reputation for being soft on contractors who failed to deliver.

There is a widely held perception in industry that Defence is most reluctant to exercise its right to enforce contract terms. It seems that Defence would rather renegotiate price and schedule. On the rare occasion when penalty clauses are incorporated in a contract, the amount of the penalty amounts to a potential slap on the wrist rather than any real financial pain. It is the prospect of real financial pain which would deter contractors from bidding unrealistically low prices in the knowledge of being able to negotiate high prices when they judge the project has progressed beyond the point of no return. For example, with respect to Project Air 87, in a parliamentary report it was stated that the cap on liquidated damages of that \$1.4 billion plus contract was something less than five per cent of the contract value; most likely a lot less than the expected escalation.¹⁸

4.27 The Committee recalls the view of the ANAO that ‘liquidated damages are unlikely to recognise fully that the costs to the Commonwealth of delayed delivery of military equipment are in the form of lost military capability.’ However, the parliament takes a very strong view of its responsibilities to the taxpayer in terms of ensuring value for money and protecting public dollars.

4.28 The Committee sought the views of Defence about its attitude towards the enforcement of penalty provisions in contracts, and the extent to which the Commonwealth had already acted to recover damages.

First of all, it might be worth clarifying that, under the terms of contract law, we do not have penalties as such; we have liquidated damages, which are meant to compensate the Commonwealth for the costs we might incur as a result of delays or other problems. So we need to be careful when we use the word ‘penalty’. In terms of liquidated damages, yes, there have been cases where we have exercised that where a company has clearly defaulted. In some cases it will be grey because there will be issues where the company argues there was some excusable problem that, for example, could have been our provision of equipment.

17 *Submission 12*, p. 9 (Mr Gary Brown)

18 *Committee Hansard*, p. 236 (Mr Joseph Moharich)

...We prefer to negotiate rather than to litigate. We find that damages are really not an adequate remedy for us. We tend to want to seek capability rather than tie up a contractor in a court for five or 10 years and have nothing at the end of it but a lot of hassle in the meantime. We also tend to want to establish long-term relations with our suppliers, and that is another reason we tend to negotiate out of any difficulties that arise. In our contracting templates we prefer ADR, alternative dispute resolution. Loosely, that might mean negotiation, mediation, arbitration before you get to litigation. Whatever we do, we always seek legal advice, and we usually find that that legal advice is a bit messy and inconclusive, regrettably. Liquidated damages is a damages provision as distinct from a penalty, and we might have half a dozen of those each year on our major capital projects. We normally fix those issues by amending the contract to get additional capability to the value of the liquidated damages. Sometimes we take the dollars; not very often.

We rarely terminate contracts—perhaps one a year. In terms of terminating a process—a tendering process, for example—or restarting a tendering or contracting process, we have a few of those. We might have a couple a years for major capital projects; sometimes they are restarts, sometimes they are hiatuses or whatever. We have provisions in our contracts for default, for companies going bankrupt or into liquidation and things like that, for breaches of intellectual property provisions, for maintenance of export licences and for what you might call wilful non-progress on a contract. We have a process that establishes those sorts of things. There is a raft of remedies and approaches that we use. Normally, we negotiate to get a resolution to fix the issue so that we can get a capability for our fighting folk.¹⁹

4.29 The Committee appreciates the preference for Defence to focus on acquiring capability, rather than have it languish while the contractor and the Commonwealth battle over the dollars in court. Nevertheless, the Committee has some sympathy with those who take a harder view of what is required.

To improve contractor performance, contracts need certain requirements as standard provisions—not some fixed form of words, but provisions that protect the Commonwealth interest in risk management, milestones for payment, non-performance. It is vital, of course, that both the government and the department enforce these contractual provisions. Non-enforcement encourages underbidding. Let one or two non-performing contractors be hit with substantial legal penalties and I guarantee that future bids will be realistic and closer attention paid to meeting targets.²⁰

4.30 The Committee notes that representatives of peak defence industry bodies are similarly concerned that poor performance by suppliers is not adequately dealt with.

19 *Committee Hansard*, pp. 287–288 (Dr Ian Williams, Mr John Fitzgerald)

20 *Committee Hansard*, p. 28 (Mr Gary Brown)

Defence as a customer has been too timid in applying its legitimate contractual options. For example, suppression of progress payments when milestones are not achieved has been under-utilised as a tool.²¹

4.31 The Committee agrees that a rigorous monitoring by project managers of the achievement of project milestones is a key factor in ensuring that contractors stay focused on their contractual responsibilities. There may well be a place for bonuses to be paid when contractors deliver consistently on, or ahead of, time. But where milestones, or key deliverables are not met during a project, the project manager should inform the SPO Director and Branch Head, who should immediately report in writing to that effect to the USDM. Copies of the report should go to the Project Governance Board and the relevant single Service Capability Management Board.

4.32 Should agreement about how to remedy a delay or failure not be arrived at within 15 days of the failure being reported to the USDM, a case manager from Industry Division should be commissioned to embark on a dispute resolution process similar to that recommended for the handling of a grievance by a contractor against the DMO.

Recommendation

4.33 **The Committee recommends that:**

(a) in the event that a project milestone is missed or that a supplier flags a delay in the provision of a contracted deliverable, then the project manager shall instigate a written report on the matter to the USDM, with copies to the Project Governance Board and the relevant Service Capability Management Board; and

(b) should agreement between project manager and contractor about how to remedy the matter not be arrived at within 15 days of such a report being submitted, a case manager from Industry Division shall be commissioned to negotiate a remedy. The case manager shall report to the USDM within 15 working days. In the event that a remedy has not been negotiated, the matter shall be referred to the Project Governance Board for a determination as to how to proceed. The USDM shall then make a final decision taking into account the advice of the Project Governance Board.

Project Governance Boards

4.34 Project Governance Boards have been established to

...review the technical, financial, contractual, risk, and schedule performance of projects. The boards provide independent advice to delegated decision makers, to relevant Division Heads and to the Under

21 *Submission 20*, p. 7 (Australian Industry Group Defence Council)

Secretary Defence Materiel, in a manner that assures the governance principles of accountability, transparency, disclosure and independence.²²

4.35 The Committee has received evidence indicating some disquiet about the extent to which these boards will achieve their purpose. This disquiet arises from perceived structural and procedural inadequacies.

Project Boards, when properly constituted, have proven an excellent mechanism for engaging stakeholders in the decision making processes. Accordingly, the strongest support for DMO's PMM often comes from outside of the DMO. Some Project Boards have been incorrectly constituted, sometimes leaving out user representation altogether. Others have been created but have never actually sat in a PMM context. That is the Boards may have met to discuss particular issues but have never considered the plans for the project, to give approval for progression of plans or to consider problems achieving plans. Far from increasing the confidence of the organisation, Boards acting in this way have potential to detract from that confidence in the project and in PMM itself.²³

4.36 A confidential submission to the Committee outlined a series of alleged shortcomings with the competence and independence of Project Board members.

The major failings to date have not been with the system, but with the individuals on Project Boards. The major failings:

- Project Board Executives who hide behind the Board and will not make decisions (every time a decision is deferred, money and time are lost);
- Project Executives who see themselves as day to day managers and who insist on interfering with the P[roject] M[anager] as s/he manages a Project Stage;
- The appointment of DMO staff as Project Board Executives;
- Project Board Executives who are also the 'Senior Supplier' on the Board and who cannot discriminate between making a DMO oriented decision (eg. to defer spending to make the Project meet its forecast spend spread) and the best interest of the ADF (eg. spending now to deliver capability);
- Senior Users (a position on the Project Board) who are disinterested, too busy with their own priorities and lack direction from within their own chain of command;
- Sponsors (also a position on the Project Board) who consider that their work is done once they have passed their vague requirements and funding to the DMO; and
- USDM seeking counsel from his Senior Management, not from his PMs and the end user.²⁴

22 *Submission* 10, p. 8 (Department of Defence)

23 *Submission* 8, p. 12 (Tanner James Management Consultants)

24 *Submission* 14, p. 3 (Confidential)

4.37 The Committee has been unable to determine the extent to which these alleged shortcomings actually apply. Another witness expressed concerns along similar lines:

I would suggest the committee might inquire as follows: who appoints the members to the board, who are the members of these boards, how independent are they and, really, how can they be independent if they are insiders to the DMO? The National Audit Office can comment—and, I believe, should comment—and investigate Defence contracting and existing Defence contracts, but it seems to me they are able or willing to do so only after major project problems have become apparent.²⁵

4.38 The Committee draws all these remarks to the attention of the VCDF and the USDM for their consideration. The Committee will seek a response to the matters raised by these witnesses in the course of its ongoing scrutiny of the performance of the DMO.

Transparency of projects and project management

4.39 One of the most frequently expressed criticisms coming to the Committee concerned the lack of transparency about the progress of projects.

One thing that strikes us at ASPI, particularly from our perspective on these issues, is that the level of transparency—the amount of information available to the public on the way in which major projects are being developed, the problems they are facing, the successes they are having, the issues and so on—is much lower than it could be.²⁶

My principal criticism of current reporting arrangements is that they provide insufficient information as to how projects are progressing or how well they meet their objectives and how they were assessed at completion. There has not been adequate feedback to designers, to builders and to taxpayers in regard to project outcomes. I think there is some need to learn from the past and it is not evident that this is occurring. The many reviews from the department of audit emphasise this shortfall.²⁷

4.40 The Committee is alert to the fact that there is a very large number of projects being managed by the DMO, and that the so-called ‘knowledge systems’ relating to financial and other data are still not sufficiently integrated to allow ready access to information. However, the principle remains that access to information is the *sine qua non* of accountability, and the Committee shares the concerns of witnesses who are frustrated at the limited visibility of the vast bulk of Defence projects.

25 *Committee Hansard*, p. 235 (Mr Joseph Moharich)

26 *Committee Hansard*, p. 58 (Mr Hugh White)

27 *Committee Hansard*, p. 292 (Rear Admiral (Retired) W J Rourke)

The question was asked, ‘Please tell us, for the projects in the capital program, how the schedule is going and how the cost is going.’ A response came back for the top 20 projects, but it also said, ‘We don’t have the resources to go through and generate this information for the remaining projects.’ The point is that sort of information should be readily available within Defence. Unless that information is constantly updated and visible to the people managing the program, they do not have the information at their hands—on the dashboard, so to speak—to allow them to manage and discharge their responsibility.²⁸

4.41 The DMO has repeatedly affirmed its commitment to better reporting of projects.

[W]e are reporting now at the Defence Committee level. The Defence Committee get a comprehensive report each month on the top 20 projects and other projects of concern, and they discuss those. The minister gets a report on a monthly basis, and we are in the process of instituting new arrangements for reporting to government twice a year on the same projects.²⁹

4.42 But the Committee remains concerned that while the internal reporting of projects may have been enhanced, and the minister and cabinet are increasingly well-briefed about them, the projects still remain largely invisible both to the parliament and to the public—including the tens of thousands of people involved in Australia’s defence industries. This concern is not helped by remarks which cast doubt on the integrity of the reports themselves.

I might say that I was surprised at some of the evidence I heard this morning about how well Project Air 87 is going. To the best of my knowledge, which is limited because of the secretive nature of the project, there have been no deliverables available yet, and industry sources—and industry does tend to leak—quite markedly tell us that things are not as bright as some of the reports may have indicated.³⁰

4.43 In the Committee’s view there must be a significant improvement in both the quantity and quality of information available to interested parties and to the public generally.

There are some effective models overseas, particularly the UK MOD, which publishes an annual survey with an update of the state of a range of major capability development projects. We think this could serve as an effective model for much higher levels of transparency. I think that is good not just in terms of what you might call general public policy and public administration processes but because it would help to strengthen an environment of

28 *Committee Hansard*, p. 59 (Dr Mark Thomson)

29 *Committee Hansard*, p. 147 (Mr Michael Roche)

30 *Committee Hansard*, p. 234 (Mr Joseph Moharich)

accountability and results orientation, which would be good for the organisation more broadly.³¹

4.44 The Committee has examined the UK approach and is impressed by its comprehensiveness and utility. The UK Comptroller and Auditor General, with the active involvement of the Ministry of Defence, produces each year a substantial report on progress with major defence projects. The report is produced by order of the House of Commons.

4.45 These Major Project Reports ‘provide cost, time and technical performance data for 30 projects split, in accordance with Smart Acquisition principles, between the 20 largest projects on which the main investment decision has been taken (post–Main Gate) and the 10 largest projects yet to reach that point (pre–Main gate).’³² The report also includes the Comptroller’s analysis of the key themes and trends emerging during the procurement process.

4.46 Given that the DMO has drawn heavily on British models for the reforms it has undertaken (e.g. the introduction of the two pass process and Smart Acquisition principles and templates) the UK Major Project Reports are patently relevant as models for Australia.

Recommendation

4.47 The Committee recommends that the Senate request the Auditor General:

- (a) to produce, on an annual basis, a report on progress in major defence projects, detailing cost, time and technical performance data for each project;**
- (b) to model the report on that ordered by the British House of Commons and produced by the UK Comptroller and Auditor General; and**
- (c) to include in the report such analysis of performance and emerging trends as will enable the parliament to have high visibility of all current and pending major projects.**

31 *Committee Hansard*, p. 58 (Mr Hugh White)

32 UK Comptroller and Auditor General, *Ministry of Defence Major Projects Report 2002*, p. 1

