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2015–16 Major Projects Report

ANAO Report No.40 2016–17

Opening statement by the Auditor-General

JCPAA Public Hearing 31 March 2017

1. Good morning Chairman and committee members.
2. The 2015–16 Major Projects Report is the ninth review by the ANAO of selected major Defence equipment acquisition projects (Major Projects) and associated sustainment activities. It provides assurance on the reported progress on 26 of the most significant Defence projects, with an approved budget totalling \$62.7 billion as at 30 June 2016.
3. The review was tabled on 28 February 2017, and I provided a qualified *Independent Assurance Report* relating to the progress and performance of the ARH Tiger Helicopters and LHD Landing Craft, as reported in the Project Data Summary Sheets (PDSSs).
4. The Defence PDSSs and the Defence Secretary's covering Statement are representations to the Parliament on the status of the 26 selected projects.
5. The Parliament has asked the ANAO to review key elements of the representations made in the PDSSs and provide independent assurance, through the Auditor-General's opinion, that they are fit for purpose.
6. In this context, fitness for purpose means that the PDSSs inform the Parliament on the state of play of the selected projects as at 30 June 2016.
7. On this occasion, I have concluded that two PDSSs do not fully describe the state of play, in terms of progress and performance, as at 30 June 2016

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8. The matters which informed my qualified opinion were discussed at length with the Department of Defence (Defence); however, the matters were unable to be resolved. In the *Statement by the Secretary of Defence*, the Secretary of Defence 'acknowledge[s] the difference of view between Defence and the ANAO in relation to the AIR 87 Phase 2 – Armed Reconnaissance Helicopter (Tiger) and the JP2048 Phase 3 LHD Landing Craft (LLC)'.
9. The Major Projects Report Guidelines, which are endorsed by the Committee, define a project as the acquisition or upgrade of Specialist Military Equipment. The Guidelines provide that the scope of Defence reporting includes the performance of selected major equipment acquisitions and associated sustainment activities, where applicable.
10. The ANAO's view is that the ARH Tiger Helicopters PDSS has been prepared on the basis of the Defence acquisition project, which is narrower than the scope established in the MPR Guidelines.
 - The Project Financial Assurance Statement in Section 1.2 of the PDSS reports that sufficient funding is available to complete the acquisition project. The statement does not address the significant caveats, capability deficiencies and obsolescence issues identified in the declaration of Final Operational Capability (FOC), in April 2016. As identified in the PDSS additional funding for these elements would need to be provided separately to the acquisition project, the amount of which is unable to be quantified.
 - The project maturity score in Section 6.1 of the PDSS reports a total of 67 out of a maximum of 70 (95.7 per cent) at the end of the acquisition project. Noting the

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significant caveats, capability deficiencies and obsolescence issues at FOC, this score does not accurately or completely represent the project's maturity as at 30 June 2016.

11. In addition, the following material inconsistencies have been identified in the forecast information:

- Section 4.1 in the ARH Tiger Helicopters PDSS reports that materiel capability delivery performance is at 99.8 per cent, indicating that there is a high degree of confidence that materiel capability performance will be met. Expert analysis commissioned by Defence indicates that the program will remain incapable of fully meeting expectations relating to reliability, availability, maintainability and rate of effort.
- Section 4.1 in the LHD Landing Craft PDSS reports that materiel capability delivery performance is at 99 per cent, indicating that there is a high degree of confidence that materiel capability performance will be met. Evidence to support the estimated 99 per cent was not available during the review.

12. With the exception of the matters above, my review conclusion was that ‘...nothing has come to my attention that causes me to believe that the information in the 26 PDSSs in Part 3 and the *Statement by the Secretary of Defence*, excluding the forecast information, has not been prepared in all material respects in accordance with the *2015–16 Major Projects Report Guidelines* (the Guidelines), as endorsed by the Joint Committee of Public Accounts and Audit.’

13. The review team and I would be happy to answer any questions the Committee may have.

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