

EXECUTIVE MINUTE

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT REPORT No. 483 INQUIRY INTO THE 2018-19 DEFENCE MAJOR PROJECTS REPORT AND THE FUTURE SUBMARINE PROJECT – TRANSITION TO DESIGN

Response to the recommendations

Recommendation No. 1 paragraph 2.26

The Committee recommends that the ANAO include a section in the MPR that clearly outlines any recommendations and/or key lessons learnt during the preparation of the MPR, which are systemic and interrelated in nature. This section is to build on the current summary of observations made in the course of the ANAO's review. The section should contain lessons that can be incorporated into future policy and practice across the Department of Defence and other Australian Government entities. In the situation where there are no recommendations or key lessons, a short statement should be provided by the ANAO explaining the reasons for not making any recommendations or identifying any key lessons.

Response: N/A – recommendation directed to ANAO

Recommendation No. 2 paragraph 2.84

The Committee recommends that Defence commission a performance review or independent external audit of the entire helicopter acquisition program in advance of upcoming helicopter acquisitions by Navy and Army.

Response: Agreed

Defence will conduct a performance review to consolidate all existing findings, analysis and lessons learnt across helicopter acquisition. The performance review will include an assessment of the success of recent procurement activities by reviewing the application of prior lessons learned to contemporary programs. Defence will use the consolidated performance review to inform future and ongoing helicopter and other complex aerospace acquisitions.

The prior reviews into Defence helicopters include:

- ANAO Performance Audit Report: Defence's Management of its Projects of Concern (Appendix 5: Major case study 2 – AIR 9000 Phases 2, 4 and 6, Multi-Role Helicopter) – March 2019
- ANAO Performance Audit Report: Tiger – Army's Armed Reconnaissance Helicopter – September 2016
- ANAO Performance Audit Report: Multi-Role Helicopter Program – June 2014
- ANAO Performance Audit Report: The Super Seasprite – June 2009
- ANAO Performance Audit Report: Management of the Tiger Armed Reconnaissance Helicopter Project-Air 87 – May 2006
- Annual Defence Independent Assurance Review Reports

These reviews have produced a comprehensive body of analysis and have highlighted the risk of procuring developmental helicopters that have not yet achieved a suitable level of maturity before being introduced into service. The analysis and findings resulting from these reviews has already prompted Defence to apply lessons learnt broadly across Navy and Army helicopter acquisition.

As a result, Defence has significantly shifted its approach to helicopter acquisition and has implemented a procurement strategy that involves seeking out proven, mature, off-the-shelf helicopters with robust supply chains in place. This strategy also applies the Government's clear policy on Australian Industry Capability at the outset to ensure a viable sovereign support capability.

Recommendation No. 3 paragraph 2.90

The Committee recommends that the ANAO, in conjunction where appropriate with the Department of Defence, considers ways to improve the clarity of the MPR, with an emphasis on making the report more understandable to readers who may not have technical knowledge of defence terminology. This could include the following:

- *A "Definitions" section in the MPR, with contextual descriptions of terms that may have specific technical meaning that is unique to the Department of Defence, such as constant costs, out-turned costs, risk, Projects of Interest, Projects of Concern, Initial Materiel Release, Initial Operational Capability, Final Materiel Release and Final Operational Capability, to improve the readability and accessibility of the MPR for the Parliament and the public. It is suggested that the ANAO consult with the Department of Defence to agree consistent definitions be used in preparing the MPR;*
- *A description of 'total schedule slippage' to provide clarity to the Parliament and public as the concurrent nature of defence acquisition and the meaning of this term;*
- *A section explaining the technical definitions of the use of the term 'risk' in the context of the MPR, including a brief description of the nature of high or extreme risks requiring disclosure. The explanation should have scope to allow the Department of Defence to discuss the risks of individual projects within the Project Data Summary Sheets.*
- *A contextual definition of 'caveat' or 'deficiency' in future Major Projects Reports, in the context of projects being described as having achieved significant milestones with caveats.*

Response: N/A – recommendation directed to ANAO

Defence will work with the ANAO to ensure that technical terms used within the ANAO chapter are consistently applied and reflect the authoritative document, such as the Defence Glossary for Defence specific terms and recognised project and financial management frameworks.

Recommendation No. 4 paragraph 2.91

The Committee recommends that the Department of Defence provide an update on the progress of the implementation of the Risk Reform Program across the Major Projects, including information on risk management practices and resolution of the issues that render data unable to support 'reliable auditing'

Response: Agree

The Risk Management Reform Program is progressing to plan. A single software application, called Predict!, previously in use by some projects, has been mandated in Capability Acquisition and Sustainment Group for capturing business, project and product risks.

The system is being implemented in four tranches: Policy, Practice, Tools and Cultural Change. Progress to date includes:

- Initial release of the system, including DEPSEC Directive, Strategy, Framework and a series of handbooks
- Continued support for the 108 projects and products in Predict! v5, created under the previous risk management methodology
- Release of the Predict! v6 software into the production environment, and the alignment of business practices to a consistent approach to risk across the Major Projects. This will enable a strong, well-governed risk process across Major Projects
- Release of the Annual Risk Program Plan
- Commencement of internal Risk Management Working Groups
- Design of an internal Risk Management Community of Practice, established in March 2021
- Drafting the transition approach for projects and products migrating across as part of the next phase of implementation.

Defence has provided an update on the Risk Reform Program in Part 2 of both the 2018-19 and 2019-20 Major Projects Report. It is Defence's intention to continue to provide this update in future reports.

Recommendation No. 5 paragraph 2.94

The Committee recommends that the ANAO insert a subsection in Part 1 of future Major Projects Reports detailing the schedule variation for projects over the previous financial year, with explanation of why projects have experienced delays or gains in scheduling between the previous report and the current report.

Response: N/A – recommendation directed to ANAO

Recommendation No. 6 paragraph 2.120

The Committee recommends that Defence and the ANAO use clear and accessible language in future Major Projects Reports when reporting on and describing costs, scope and capability variations.

Response: Agree

Defence agrees with the importance of ensuring that the Major Projects Report is accessible and easy to understand. In 2019-20, Defence commenced work to improve the readability and accessibility of the report and acknowledges that this will be an ongoing focus.

Recommendation No. 7 paragraph 3.74

The Committee notes that the Future Submarine Project will be included in future MPRs and recommends that Defence provide advice to the Committee as to what thresholds are required for any Defence Major Project to be listed as a Project of Concern.

Response: Agree

The Future Submarine Project was included in the 2019-20 Major Projects Report.

Performance metrics for all post second pass approved projects and all sustainment products are monitored in the Defence reporting systems against agreed tolerances to identify issues early. The quantitative data is analysed against the qualitative monthly reporting commentary and issues. If not already held, an Independent Assurance Review board may be called to conduct a diagnostic review. On review, a recommendation for senior executive consideration to escalate management may be based on a combination of factors or drivers including but not limited to:


- failure to enter into contract after Government approval;
- delay to, or divestiture of, allied partner program;
- the contractor is not meeting contracted capability and/or milestones or are exceeding approved costs (e.g., stop payments, claim for excusable delay);
- the schedule for meeting Initial or Final Operational Capability is forecast as unrecoverable (baseline review may be required);
- the project's costs will exceed its approved budget (or access to contingency may be subject to management of other portfolio pressures);
- policy or legislative changes are likely to increase the project's schedule or cost;
- an essential capability requirement will not be met;
- emerging requirements or regulatory or safety standards are different to those at the time the project was approved by Government and will materially affect the project;
- industry engaged in the project has not been able to develop the required workforce or financial capacity, organisational maturity or management commitment to meet critical project milestones; or
- project risks have increased beyond the parameters agreed by Government.

Every acquisition project and sustainment product is different and monitoring performance is complex. An assessment of the complexity or diversity of factors includes consideration of whether there is commercial leverage to be gained from listing as a Project of Concern. This is a consultative approach considering the views of the Capability Manager and Industry partners.

The Department seeks ministerial approval to a recommendation for entry to the Projects of Concern list.

The Projects or Products of Interest list is where underperformance warrants heightened oversight and monitoring. It is preferable to raise delivery issues early by entry to this list and potentially avoid becoming a Project of Concern.

As remediation objectives are achieved, projects and sustainment activities exit the 'lists' and resume usual performance and reporting management.

Greg Moriarty
Secretary
Department of Defence
 May 2021