

## Joint Committee of Public Accounts and Audit

### Answers to Questions on Notice

**Department/Agency:** Australian National Audit Office

**Inquiry:** Inquiry into the 2018-19 Defence Major Projects Report and the Future Submarine Project – Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))

**Committee Member:** Ms Lucy Wicks MP

**Type of question:** Written

**Date set by the committee for the return of answer:** 4 August 2020

#### *Questions regarding MPR format*

1. Defence state that the MPR Guidelines are submitted in August each year, 11 months prior to the end of the reporting period, meaning opportunities to adapt to change or shift focus in the report are limited.
  - b. **ANAO** – What is the ANAO's view on this issue? Could changes be made to address any issues arising from this?

#### **Answer:**

As part of its review of the 2007-08 Major Projects Report (MPR), the JCPAA recommended that 'no later than 31 August each year, the ANAO and DMO will consult the Committee on the projects to be included in, and where appropriate, excluded from, the following year's MPR.'<sup>1</sup> The Committee further noted 'that the ANAO requires an efficient schedule that distributes the work the ANAO is required to complete for the MPR (i.e. reviewing DMO projects and evidence supporting the data and narratives provided by the DMO) as evenly as possible from February to September each year'<sup>2</sup>.

Thus, formalised updates to the MPR Guidelines are scheduled for submission in August each year to best facilitate ANAO, Defence and JCPAA input, consideration and endorsement timelines. This does not preclude either the ANAO or Defence from submitting specific change requests to the JCPAA throughout the review year. For example, the 2014–15 MPR Guidelines were originally endorsed by the JCPAA in September 2014 and subsequently re-endorsed by the JCPAA in October 2015 to reflect the delisting of the Defence Materiel Organisation and the transfer of its responsibilities to the Department of Defence.

The current annual timetable for updating the Guidelines distributes the work required to produce the MPR as evenly as possible throughout the year, allowing the bulk of the work to be done in June and July when the ANAO and Defence MPR teams have capacity. Delaying the start of this work would inevitably delay the tabling date and the currency of information provided to the Parliament. However, any necessary changes can be accommodated after the 31 August deadline.

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<sup>1</sup> Joint Committee of Public Accounts and Audit, 'Report 416: Review of the Major Projects Report 2007-2008', pg.19

<sup>2</sup> Joint Committee of Public Accounts and Audit, 'Report 416: Review of the Major Projects Report 2007-2008', pg.20

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2. In Defence's submission to this inquiry, footnote 9 explains that, on average, 400 pieces of evidence are provided to the ANAO for reviewing new projects listed in the MPR, and approximately 100-150 pieces of evidence for returning projects.

**b. ANAO** – Can you please describe why you require this volume of information when collating 10-page summaries for each project? Do you believe this amount of time and resources is achieving efficiency and effectiveness in defence procurement?

**Answer:**

The ANAO's review is designed to enable the ANAO to obtain sufficient appropriate evidence for the Auditor-General to form a conclusion. The ANAO reviews the PDSSs in accordance with the Australian Standard on Assurance Engagements (ASAE) 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

The ANAO does not collate PDSSs. As stipulated in the MPR Guidelines, the Department of Defence (Defence) is responsible for preparing PDSSs and providing supporting evidence packs. In practice, the number of documents supplied by Defence as evidence is greater than the number of documents the ANAO utilises to support disclosures in the PDSS. In a limited assurance engagement such as the MPR, the ANAO will only request additional evidence if relevant evidence is missing from Defence's supporting evidence pack, or the evidence provided is incomplete.

**Questions regarding changes to the MPR**

4. **ANAO** – In the previous hearing, the Auditor-General stated (page 16 of the transcript):

"There tend to be no recommendations in the report itself, but during the process of the audit there's always engagement between the auditors and the auditees about how things could be improved in their internal process to get more accurate, effective reporting done."

With reference to the above, were there any issues identified throughout the course of the MPR that were noted for improvement in future MPRs? If issues were identified, what was the rationale for not including these as recommendations in the MPR?

**Answer:**

As noted in the 2018-19 Major Projects Report, the ANAO's review includes Defence's project management and reporting arrangements contributing to the overall governance of Major Projects. The ANAO made observations regarding the following areas, to bring them to the reader's attention:

- the status of the implementation of recommendations from Auditor-General Report No. 31 2018-19 *Defence's Management of its Projects of Concern* (see paragraph 1.14 to 1.17);
- the status of the implementation of recommendations from Auditor-General Report No. 3 2019-20 *Defence's Quarterly Performance Report on Acquisition and Sustainment* (see paragraph 1.18 to 1.24);
- the importance of ensuring that Project Directives properly reflect the relevant Government decision, and that MAAs are appropriately aligned with the relevant Project Directive (see paragraphs 1.25 to 1.29); observed project's use of contingency funds (see paragraph 1.44) and

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that a number of projects had not fully met the requirements of *Defence's Project Risk Management Manual* Version 2.4 (PRMM V2.4) (see paragraph 1.46);

- Defence is not yet in a position to provide the staff cost component of projects and its systems are not capable of calculating the cost of retaining project staff over time (see paragraph 1.53 to 1.55);
- the status of CASG's Risk Management Reform Program (initiated by DEPSEC CASG in 2017), with the effect that projects will not remedy non-compliances until the outcomes of the reform are known (see paragraph 1.47, 1.58 to 1.59);
- Defence's use of spreadsheets as a primary form of record for risk management is a high risk approach. Spreadsheets lack formalised change/version control reporting, thereby increasing the risk of error (see paragraph 1.61 to 1.62);
- the ANAO's previous observation that the policy guidance underpinning the attribution of maturity scores would benefit from a review for internal consistency and the relationship to Defence's contemporary business; and the implementation status of JCPAA recommendations (Report 473 *Inquiry into the Defence Major Projects Report 2016-17*) on Defence's project maturity score policy (see paragraphs 1.63 to 1.67);
- that Defence has not defined the terms 'caveat' or 'deficiency' to the declaration of significant milestones in its internal policies and procedures. The ANAO has observed use of these terms by Defence to represent exceptions to the achievement of significant milestones declared by Defence (see paragraphs 1.68 to 1.73); and
- a system of capability reporting with a robust methodology applicable to materiel acquisition does not exist within Defence. The ANAO also noted the implementation status of JCPAA recommendations (Report 442 *Inquiry into the 2012-13 Defence Materiel Organisation Major Projects Report*) relating to Defence's capability reporting (see paragraphs 2.55 to 2.61).

The majority of these observations were in the nature of updates on Defence activity or developments in Defence's administration.

As noted at the public hearings, the type of assurance provided on the MPR is similar to a financial statements audit, that is, for an attest engagement. It involves the Auditor-General providing an opinion on whether Defence is reporting accurately, rather than commenting on Defence's performance. In this respect the MPR differs from a performance audit, which provides a strong evidentiary basis for recommendations to the audited entity. Therefore, the ANAO provides commentary and observations on Defence's policies and processes where it touches on project acquisition governance in the MPR and identifies areas requiring improvement. The ANAO also provides a site report to each project in the MPR following the review of each individual project's PDSS, which includes observations and suggestions for improvement.

In its report on the 2007-08 MPR, the JCPAA stated that the committee's review 'reflects the commitment made by the Committee to continuously monitor Defence's acquisition processes and outcomes and to provide input and guidance where necessary.' The ANAO's commentary and observations are intended to assist the committee to fulfil this role. The JCPAA has reviewed the MPR and made recommendations as the primary user of the report.

***Questions regarding the United Kingdom's varying approach to MPRs***

5. The latest Annual Report on Major Projects of the United Kingdom focussed on whole of government projects rather than exclusively Defence initiatives. The move away from a detailed Defence Major Projects framework was made as it was deemed 'unsustainable'.
  - a. **ANAO** – Can you describe the key differences between the UK's approach and the current framework in Australia?
  - b. **ANAO** – Has the ANAO considered how this approach might look in an Australian context?

**Answer:**

The ANAO conducts the MPR as a priority assurance review as identified by the JCPAA under subsection 19A(5) of the *Auditor-General Act 1997* (Cth). The ANAO has agreed to undertake the review as endorsed by the JCPAA in the MPR Guidelines. The ANAO has not reviewed the approach adopted in the United Kingdom.

The ANAO notes that on 31 May 2018, Defence provided a response to the JCPAA addressing Recommendation 3 of Report 468 – Inquiry into the 2015-16 Major Projects Report, that Defence examine the guidelines and methodology used by the United Kingdom's Ministry of Defence to report on major projects and report back to the committee within six months of the tabling of its report. The committee also requested that Defence's report back to the committee should consider whether any features of the United Kingdom's guidelines and methodology would enhance major projects reporting in Australia, and that if Defence found the United Kingdom's guidelines and methodology unsuitable, the committee requested that Defence provide reasons why it reached this conclusion.

***Questions regarding schedule slippage of current and previous projects in MRP***

8. **ANAO/Defence** – Does schedule slippage vary depending on the type of acquisition a project reported in the MPR is? Would averages in schedule slippage based on acquisition type be a more helpful and informative measure, rather than an overall, total slippage?

**Answer:**

Chapter 2 of the ANAO's review and analysis in the MPR includes analysis of schedule slippage, based on the acquisition type of a project.

Following implementation of the recommendations of the *Defence Procurement Review 2003*, in 2005 Defence began focusing on MOTS (military off the shelf) and Australianised MOTS acquisitions. Figure 8 in the MPR shows that the inclusion of MOTS acquisitions contributed, prima facie, to a reduction in schedule slippage in the Major Projects portfolio. As noted in paragraph 2.32 of the Major Projects Report, for projects that have exited the MPR, MOTS projects report an average of 11 months of slippage per project, while Australianised MOTS projects report an average of 45 months and developmental projects report an average of 105 months.

Figures 7 and 8 in the MPR illustrate that older projects have experienced the most slippage. These projects tended to be more developmental (complex) in nature. More recent developmental projects (Hawkei and ANZAC Air Search Radar Replacement) are yet to experience slippage to their Final

Operational Capability (FOC) dates. However, these projects have experienced slippage to design reviews, test programs, or material release milestones.

It is difficult to separate the effects of acquisition type from the effects of project age on schedule slippage (as older projects, regardless of acquisition type, report more slippage than recent projects). The ANAO does not propose to report average slippage per acquisition type for projects currently in the MPR. This data is more relevant for projects that have exited the MPR, as the effects of project age are reduced when the projects have been completed, allowing a more focused analysis of the effects of acquisition type.

***Questions regarding audit framework, with reference to Projects of Interest***

10. **Defence/ANAO** – How would you define a Project of Interest? What makes this category different from a Project of Concern?

**Answer:**

Projects of Concern and Interest are Defence constructs. The ANAO reports on the Projects of Interest (POIs) and Projects of Concern (POCs) regimes in paragraphs 1.23 and 1.14 of the 2018-19 MPR. The ANAO has also reported on Defence's regime in a performance audit titled [Auditor-General Report No.31 2018-19 Defence's Management of its Projects of Concern](#). The audit assessed whether the Department of Defence's Projects of Concern regime was effective in managing the recovery of underperforming projects.

11. The ANAO outline that there were six Projects of Interest in the June 2019 Quarterly Performance Report, with Defence stating this categorisation is used for internal departmental and Ministerial reporting and management purposes.

- c. **ANAO** – Does the ANAO have any comment on how Defence lists Projects of Concern and Projects of Interest?

**Answer:**

As noted in the previous response, the ANAO has reported on Projects of Interest (POIs) and Projects of Concern (POCs) in the 2018-19 MPR and in a recent performance audit titled [Auditor-General Report No.31 2018-19 Defence's Management of its Projects of Concern](#). The audit assessed whether the Department of Defence's POC regime was effective in managing the recovery of underperforming projects. The report also provided information on Defence's Project of Interest framework. The audit concluded that while the regime is an appropriate mechanism for escalating troubled projects to the attention of senior managers, Defence was not able to demonstrate the effectiveness of the regime in managing the recovery of underperforming projects. A key audit finding was that there has been inconsistency in Defence's application of its POC regime. In particular, the application of processes for entry onto the list have been inconsistent. The audit recommended that:

- Defence introduce, as part of its formal policy and procedures, a consistent approach to managing entry to, and exit from, its Pol and PoC lists, and that to aid transparency, the policy and the list should be made public.
- Defence evaluates its Projects of Concern regime.

As noted in paragraph 1.15 and 1.16 of the 2018-19 MPR, these recommendations had not been implemented by Defence as at December 2019. The ANAO will continue to monitor Defence's implementation of these recommendations and report on progress in the next MPR.

12. The Project Data Summary Sheets contain different project costs for each report, including signature price, in-year costs, constant and out-turned costs.

a. **ANAO/Defence** – Can you please explain each of these cost terms and how they apply in the context of the MPR?

**Answer:**

Defence is best placed to respond to how it defines its cost terminology.

Section 2.1 of the Project Data Summary Sheet reports project budgets and expenditure history in Defence out-turned dollars.

As per the MPR Guidelines, the price at signature is the value stipulated in the contract at signature date. Contract prices at signature are reported in Section 2.3 – Details of Project Major Contracts of the PDSSs. In-year cost expenditure is incurred during the reported financial year. In-year costs are reported in the following sections of the PDSS:

- Section 1.2 – Cost performance – In-year;
- Section 2.1 – Project Budget and Expenditure History (out-turned) – FY to Jun 2019;
- Section 2.2A – In Year Budget Estimate Variance; and
- Section 2.2B – In Year Budget/Expenditure variance

c. **Defence/ANAO** – Is there a way that the reporting of 'costs' could be simplified, or clarified?

**Answer:**

The reporting of project costs and budgets are set out in the MPR Guidelines and focuses on the key elements of cost performance, to provide transparency regarding Defence's use and management of public resources. The Guidelines have been amended over time to incorporate information requests from the committee, most recently in relation to the reporting of budget variations since second pass government approval. The 2018-19 Guidelines required projects to report on the following cost-performance information:

- Section 1.2 – Cost performance including the Project Financial Assurance Statement, and information regarding the contingency budget of a project;
- Section 2.1 – Project Budget (out-turned) and Expenditure History;
- Section 2.2A – In Year Budget Estimate Variance;
- Section 2.2B – In Year Budget/Expenditure variance; and
- Section 2.3 – Details of Project Major Contracts.

The reporting for the 2019-20 Guidelines has not changed. The ANAO and Defence are currently updating the MPR Guidelines for the 2020-21 MPR, for the JCPAA's consideration. As part of considering the 2020–21 MPR Guidelines submission, the JCPAA may wish to consider changes on the reporting of program cost and budget information that have been suggested to the ANAO by Defence.

***Questions regarding audit framework, with reference to Projects of Concern***

13. In Table 9 (page 100) of the MPR, the Deployable Defence Air Traffic Management and Control System is also listed as a Project of Concern.
- a. **Defence/ANAO** – Could you please explain why this was listed as a Project of Concern? What was the rationale for not including it in the MPR and what strategies are being implemented to address concerns arising from this project?
  - c. **ANAO/Defence** – For a project such as this not covered in the report, how is accountability and transparency being ensured by both the ANAO and Defence?

**Answer:**

- a. The project referred to in Defence's chapter of the MPR was declared a Project of Concern in August 2017 due to significant schedule delays. The total approved budget for the AIR5431 Ph. 1 project is \$95 million, which is below the \$300 million budget entry criterion stipulated in the MPR Guidelines.
- c. In addition to the MPR, the ANAO conducts audits of Defence's financial statements and performance audits. Auditor-General Report No.31 2018-19 Defence's Management of its Projects of Concern contained numerous references to this project (see paragraph 1.4, Table 1.1, Figure 1.1, and paragraphs 3.7 (Box 1), 3.9–3.11, 3.35, 3.37 and 3.45). The audit was tabled in the Parliament in March 2019.



## **Public Accounts and Audit**

### **Inquiry into the 2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20)) – 13 July 2020**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA Auditor General's Defence Major Projects Reports 19 & 22 – 13 July 2020 - Q1 - Hawkei Protected Mobility Vehicle Light (LAND 121 PH4) - Conroy

**Question reference number:** 1

**Senator/Member:** Pat Conroy

**Type of question:** Written

**Date set by the committee for the return of answer:** 03 August 2020

#### **Question:**

Hawkei Protected Mobility Vehicle Light (LAND 121 PH4):

1. What is the current IOC and FOC for this project?
2. The Project Data Summary Sheet in the MPR says:  
“Some capability requirements have not been met by Thales’ current design at this stage of the decision process.” (MPR, p 250)  
What capability requirements were not been met by the design?
3. How has this been dealt with – will all the originally-planned capabilities be delivered?
4. The PDSS’s section on emergent risks says:  
“There is a chance that the LAND 121 Phase 4 Program may be discontinued impacting on cost, schedule, performance and reputation. This will result in the PMV-L capability not being acquired.” (MPR, p 249)  
Why did Defence identify a risk that the whole project would be discontinued?
5. Is Defence now confident that the problems with the engine maker are completely resolved?

#### **Answer:**

1. Initial Operating Capability is scheduled for December 2020 and Final Operational Capability is scheduled for June 2023.



2. In the context of the 2018-19 Major Projects Report, the capability requirements not met related to vehicle payload (cargo carrying capacity) and crew comfort (Heating Ventilation and Air Conditioning – cabin cooling).
3. This is dealt with as part of the ongoing Hawkei Verification and Validation program that will confirm the capability to be delivered before entry into Full-Rate Production.
4. Thales Australia advised Defence in November 2018 that the Hawkei engine supplier, Steyr Motors Group (Austria), had filed for voluntary administration. Given the lightweight performance requirements of the vehicle, there was a risk that an alternate engine manufacturer would not be identified, thereby impacting the continuity of engine supply and the long-term sustainability of the Hawkei program. This risk has been downgraded and is no longer assessed as a major risk.
5. Thales Australia advised Defence that it had acquired Steyr Motors in August 2019. Thales' procurement of Steyr Motors will ensure the continuity of engine supply and the long-term sustainability of the Hawkei program. This risk has been downgraded and is no longer assessed as a major risk.

## **Public Accounts and Audit**

**Inquiry into the 2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20)) – 3 July 2020**

### **ANSWER TO QUESTION ON NOTICE**

#### **Department of Defence**

**Topic:** JCPAA - Auditor General's Defence Major Projects Reports 19 & 22 - 3 July 2020 - Q1 - Future Submarines Costs - Conroy

**Question reference number:** 1

**Senator/Member:** Pat Conroy

**Type of question:** Spoken

**Date set by the committee for the return of answer:** 24 July 2020

#### **Question:**

Mr CONROY: I understand that, Mr Dalton. You can talk about government approval, but this project has been announced many times. We have media releases from the Prime Minister and Department of Defence. We have testimony from the secretary of the department about what they think the cost is, and they thought the cost was \$50 billion in outturn dollars. Six months later, it's higher. There could be very solid justification for why they have chosen a more expensive option than before, and all I'm seeking on notice, so we can move on, is an explanation for why that cost increase occurred. I'm not asking for anything beyond that and I think it's a very reasonable thing to ask for an explanation of why the Department of Defence thought this project would cost \$50 billion in outturn dollars and six months later it cost \$78 billion. I'll move on, but I still would like that question answered. I haven't received an answer so far.

Mr Dalton: We will take that on notice. Would you like us to go back to the 2009 white paper as well?

Mr CONROY: I'm very happy for whatever options, but I am particularly keen for the movement from Secretary Richardson's testimony to the Senate on 21 October 2015 because that seems to be a pretty critical six-month period.

Senator PATRICK: I would like it back to 2009 because I think the number back then was about \$9 billion. That would be helpful.

#### **Answer:**

Work on the Collins class replacement program commenced in the 2000s. A number of different options were developed over the ensuing years with different costing assumptions, different numbers of submarines, and different construction strategies covering on- and off-shore builds. The 2016 Defence White Paper set out this Government's plan to acquire 12 future submarines to meet our capability requirements, all of which will be built in Australia. This is the plan we are following today and there has been no cost blow out.

## **Public Accounts and Audit**

### **2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20)) – 20 May 2020**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA Future Submarine Project – 20 May 2020 – Q1 – Out-turn costs – Conroy –  
SUPPLEMENTARY RESPONSE

**Question reference number:** 1

**Senator/Member:** Pat Conroy

**Type of question:** Spoken

**Date set by the committee for the return of answer:** 3 August 2020

#### **Question:**

**Mr CONROY:** Mr Sammut, I'll come back to this later—because other people have questions in this area, quite naturally—but can you take on notice to provide a breakdown, or reconciliation, showing each specific factor or reason that has caused the out-turned dollar estimate to rise from the \$50 billion, from Mr Richardson, to what it is now? I know you've said some of this verbally but I'd like a response in writing, if that's practical, providing that breakdown. Some will be forex and some will be the competitive evaluation process, but I'd like a breakdown if that's doable.

**Mr Sammut:** I shall do that. I take that on notice.

#### **Answer:**

Work on the Collins class replacement program commenced in the 2000s. A number of different options were developed over the ensuing years with different costing assumptions, different numbers of submarines and different construction strategies, including on- and off-shore builds. Defence officials at the same 21 October 2015 hearing explained that details of the Future Submarine Program, including refined costs, remained subject to the outcomes of the then-ongoing Competitive Evaluation Process. The Competitive Evaluation Process that was undertaken in 2015 and 2016 informed the Government's decision in 2016 to acquire 12 future submarines built on-shore in Australia. This is the plan we are following today and there has been no cost blow out. Prior to this, since the 2000s no Government decision had been made on the Future Submarine Program that allowed the design and build to commence within an agreed and funded budget envelope.

Following the release of the Defence White Paper in 2016, Government provided second pass approval for the Future Submarine Program. At this point, the projected total acquisition cost over the life of the project, which will run through until the mid-2050s, was \$50 billion in 2016 constant dollars and \$78.9 billion in out-turned dollars (Pre-ERC 2015-16 price and

exchange). The projected total acquisition cost for the Future Submarine Program remains \$50 billion 2016 constant dollars, which in today's out-turned dollars is \$89.7 billion (MYEFO 2019-20 price and exchange).

## **Public Accounts and Audit**

### **2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA Auditor General's Defence Major Projects Reports 19 & 22 – 21 July 2020 -  
Q1 - MPR Format - Wicks

**Question reference number:** 1

**Senator/Member:** Lucy Wicks

**Type of question:** Written

**Date set by the committee for the return of answer:** 4 August 2020

#### **Question:**

1. Defence state that the MPR Guidelines are submitted in August each year, 11 months prior to the end of the reporting period, meaning opportunities to adapt to change or shift focus in the report are limited. Can you elaborate on this and what impact Defence believes this has on the effectiveness of the MPR?
2. In Defence's submission to this inquiry, footnote 9 explains that, on average, 400 pieces of evidence are provided to the ANAO for reviewing new projects listed in the MPR, and approximately 100-150 pieces of evidence for returning projects.
  - a. Can you explain why so much evidence is required for the MPR?
  - b. How much time does this typically take to collate?
  - c. How many staff members are required to work on collating this evidence?
3. Defence note on page 74 that the MPR is "expected to be published five months after the end of the financial year but has not met this timeframe for a number of years".
  - a. Can Defence elaborate on this and the reasons why this has occurred?
  - b. Do you have any suggestions as to how the timeliness of reporting may be improved?

#### **Answer:**

1. Defence understands the submission of the Guidelines in August has been a long standing requirement of the JCPAA. Submitting the Guidelines for the next report prior to completion of the current report results in up to two years delay in innovating with the presentation of data and analytics. This potentially is a missed opportunity to incorporate lessons learned from the current report, adapt the report to reflect enhancements to the Defence Project Management Framework, or incorporate JCPAA recommendations into

subsequent MPRs in a timely manner. There is a graphic attached (Attachment A) to more clearly explain the issue

2.

- a. Defence provides evidence as requested by ANAO. To assist Defence prepare for the review, ANAO provide an 'evidence checklist' detailing the evidence requirements (Attachment B). The evidence requirements are rarely consolidated and are obtained from a variety of sources including single page briefs and minutes, multi-page technical documents, spreadsheets and a number of different IT platforms. Project teams are required to extract from these sources the evidence required and consolidate into a package of artefacts for ANAO to review.
- b. In 2019 CASG undertook an activity to cost Defence's effort in producing the MPR. The activity looked at a sample of eight projects out of the 2018-19 MPR, chosen based on ACAT and risk profile. Across the sample projects there was an average of approximately 23 person day's effort per project to collate the information, which extrapolates out to approximately 600 working days across the 26 projects in the report.
- c. The number of staff per project involved in preparing for the review varied depending on project complexity, however based on the eight sample projects, contributions ranged from two staff to 16 staff.

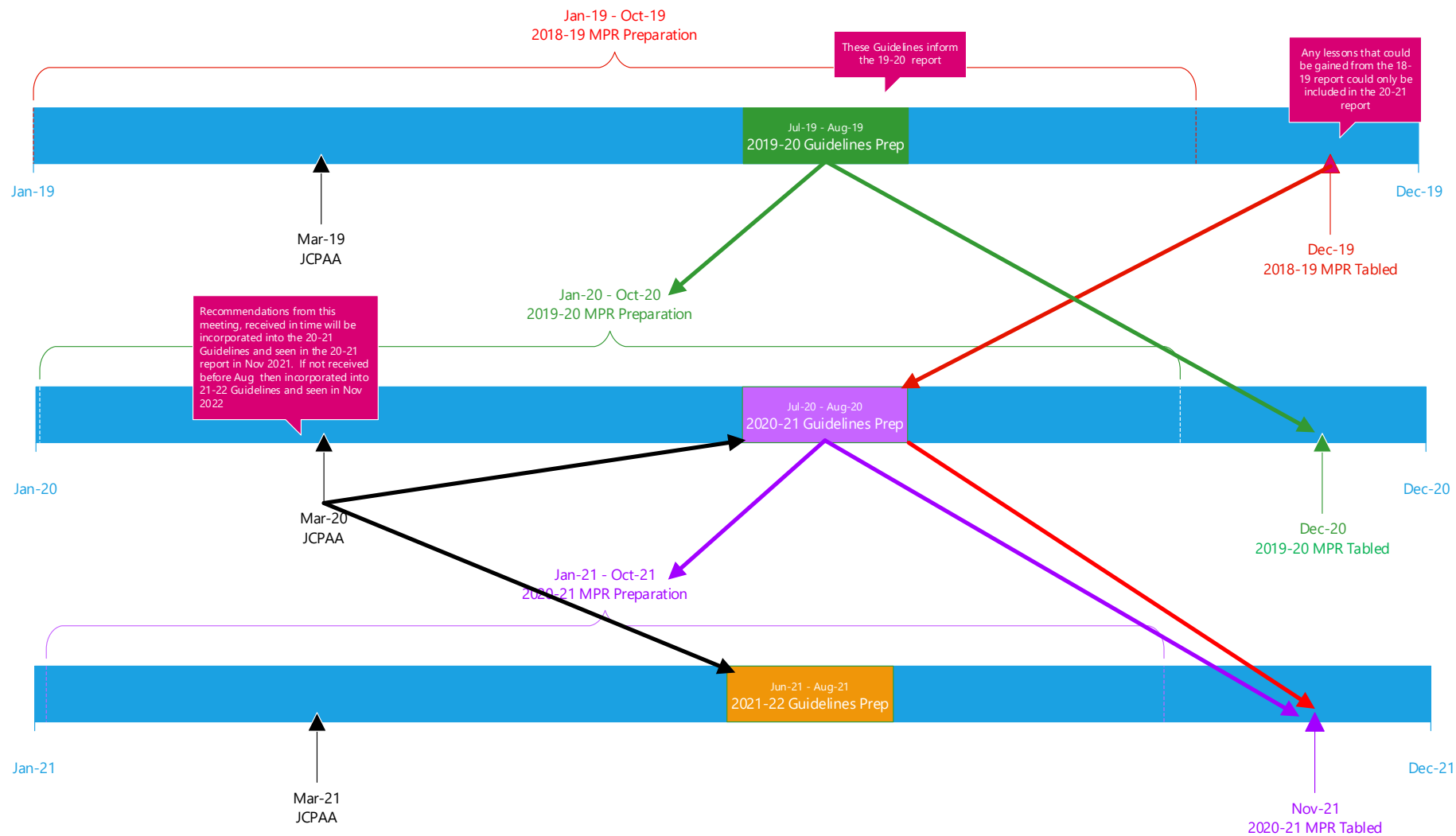
In addition, CASG has three full time staff dedicated to preparation of the MPR, plus additional staff as required during high tempo periods. CASG also relies on input from Defence Finance Group, Vice Chief of Defence Force Group, Audit and Fraud Control Division and the Capability Managers in preparing the report.

3.

- a. Defence is of the view the key reasons as to why a November deadline has been met only twice in 12 years are:
  - i. Increased number of projects included in the MPR – nine projects included in 2007-08 growing to 25-30 projects for all reports since 2011;
  - ii. Increased complexity of projects due to the changing nature of the investment program, and
  - iii. The MPR assurance activity may have grown larger than originally envisioned.
- b. Given the constraints of current Defence systems, Defence suggests the following possible courses of action to make a November tabling more achievable:
  - iv. A reduction in the number of projects included in the MPR;
  - v. An appropriate moderation in the level of assurance sought by the ANAO to better align with the standards for a "limited assurance activity"; and/or
  - vi. Increased resourcing by the ANAO of this activity.

## MPR three year battle rhythm

## Attachment A





## Attachment B

### 2019–20 Major Projects Report—Project Data Summary Sheet Evidence Template

- *The following is an indicative list only of the primary and most common documents sourced for evidence, to assist in the efficient completion of the 2019–20 Major Projects Report (MPR) review. Please note this is not an exhaustive list of necessary documents. Different circumstances and projects may require the supply of documents not necessarily listed below.*
- *Please note also that substantive changes to the Project Data Summary Sheet (PDSS) must be supported by credible evidence. The Defence MPR team should ensure that a complete and up to date evidence pack is provided to the ANAO to promote fieldwork efficiency.*
- *Please be as specific as possible when referencing evidence, e.g. “Section 1.2 Schedule Performance”.*

DOCUMENTATION	RELEVANT FOR PDSS SECTIONS	EVIDENCE PROVIDED (Project/Defence MPR team to populate and link to the specific PDSS section e.g. “Section 1.2 Schedule Performance”)
<b>Reports/Submissions</b>		
• Cabinet Submissions/Briefings (or reference numbers if unavailable)	Various	
• Ministerial Submissions/Briefings (or reference numbers if unavailable)	Various	
• Project to provide a copy of their original contribution to the CASG Monthly report	Various	
<b>Financials</b>		
• Budget Review documents (Budget Brief, Supplementary Estimates Review Return (SERR), Budget Estimates Review Minute, Project Estimates Risk Model (PERM))	1.2 Cost Performance, 6	
• Budgetary and Output Reporting Information System (BORIS) Project Cost Approval History	Header, 1,2	
• Approved Budget Minutes and Variations	2	
• Contingency Log (including links to project risks and issues as required by the Project Risk Management Manual V2.4)	1.2 Cost Performance, 2	
• Financial Management Plan	2	
• MRS (Majors Budget Performance)	Header, 2	
• BORIS Year-To-Date (YTD) and Life-To-Date (LTD) Actuals. The figures should be able to be tied back to the PDSS including the breakdown of expenditure listed in Section 2.1.	2.1	

DOCUMENTATION	RELEVANT FOR PDSS SECTIONS	EVIDENCE PROVIDED (Project/Defence MPR team to populate and link to the specific PDSS section e.g. "Section 1.2 Schedule Performance")
NOTE: as per the prior year, a reconciliation from BORIS to ROMAN will need to be performed for the "In year" figures at the end of the financial year.		
<ul style="list-style-type: none"> <li>Contract Change Proposal Register</li> </ul>	2	
<ul style="list-style-type: none"> <li>Documentation or correspondence supporting any Liquidated Damages or stop payments that have occurred this financial year.</li> </ul>	1.2 Cost Performance, 2	
<b>Contracts</b> <ul style="list-style-type: none"> <li>New projects: Original contracts (to verify Top 5 contracts disclosed in the PDSS)</li> <li>Repeat projects: New major contracts only (to verify new contracts disclosed in the PDSS)</li> </ul>	1,2,3	
<ul style="list-style-type: none"> <li>New projects: All Contract Change Proposals since Original Contract signature and relevant s23 approvals</li> <li>Repeat projects: All Contract Change Proposals since the prior year and relevant s23 approvals</li> <li>If the above is applicable, please also provide documentation showing how the CCPs/HDS/Section 23 approvals etc. have been incorporated into the contract value and ROMAN.</li> </ul>	1,2,3	
<ul style="list-style-type: none"> <li>Contract Delivery/Payment Schedule</li> </ul>	1,2,3	
<ul style="list-style-type: none"> <li>Foreign Military Sales (FMS) Case Amendments (LOA's)</li> </ul>	1,2,3	
<ul style="list-style-type: none"> <li>Deed of Settlement and Amendments</li> </ul>	1	
<ul style="list-style-type: none"> <li>Letters of Offers and Acceptance (LOA) (and Amendments) – and relevant s23 approvals</li> </ul>	2	
<ul style="list-style-type: none"> <li>Documentation to support contract price as at 30 June. This should include the breakdown of expenditure to date and remaining commitment on the contract (including FOREX rates).</li> <li>Documentation may include ROMAN LTD and outstanding commitment report screen dumps showing current value for each contract reported in Section 2.3. Projects may also need to further support the information in the PDSS with Excel information, linking to figures able to be verified in CASG's corporate systems (i.e. screenshots of ROMAN Purchase Orders or Higher Delegate Submissions).</li> </ul>	2	
<b>Design Reviews</b> <ul style="list-style-type: none"> <li>New projects: Documentation (e.g. Price and Delivery schedule) to support original planned</li> </ul>	1,3	

DOCUMENTATION	RELEVANT FOR PDSS SECTIONS	EVIDENCE PROVIDED (Project/Defence MPR team to populate and link to the specific PDSS section e.g. "Section 1.2 Schedule Performance")
<ul style="list-style-type: none"> <li>dates for design reviews disclosed in the PDSS.</li> <li>Repeat projects: Documentation for new design review milestones since prior year.</li> </ul>		
<ul style="list-style-type: none"> <li>Design Certificates (e.g. SG001 Supplies Acceptance certificates) to support Achieved dates</li> <li>Other milestone accomplishment documentation (e.g. meeting minutes).</li> </ul>	1,3	
<b>Schedule</b> <ul style="list-style-type: none"> <li>Capability Manager's (CM) declaration (to confirm achievement of materiel release and operational capability milestones, e.g. CN Signal/Minute)</li> </ul>	1,3,4	
<ul style="list-style-type: none"> <li>Integrated Master Schedule (IMS)</li> </ul>	1,3,4	
<ul style="list-style-type: none"> <li>MRS (Majors Schedule)</li> </ul>	1,3,4	
<ul style="list-style-type: none"> <li>Project Schedule (e.g. Open Plan Professional (OPP))</li> </ul>	1,3,4	
<b>Test and Evaluation</b> <ul style="list-style-type: none"> <li>Supplies Acceptance Certificates (SG001, DD250, DD1149)</li> </ul>	1,2,3	
<ul style="list-style-type: none"> <li>Australian Military Type Certification</li> </ul>	1,3	
<ul style="list-style-type: none"> <li>Acceptance Certificate (TI388 for Navy)</li> </ul>	1,3	
<ul style="list-style-type: none"> <li>Sea Acceptance Trial Reports</li> </ul>	1,3	
<ul style="list-style-type: none"> <li>Special Flight Permits</li> </ul>	1,3	
<ul style="list-style-type: none"> <li>Test Acceptance Reports</li> </ul>	1,3	
<b>Risks and Issues</b> <ul style="list-style-type: none"> <li>Acquisition Risk Log/Register, Sustainment Risk Log/Register (where applicable), Predict Senior Management Summary, individual Risk Proformas (including the register and/or the proformas of all closed risks) and a mapping of all risks from project risk logs to the PDSS (e.g. Predict! / Changepoint risk ID number to PDSS risk number)</li> <li>Mapping document of all high and extreme risks from project risk log to the PDSS.</li> </ul>	1,5	
<ul style="list-style-type: none"> <li>Acquisition Issues Log/Register, Sustainment Issues Log/Register (where applicable), Predict Senior Management Summary, individual Issues Proformas (including the register</li> </ul>	1,5	

DOCUMENTATION	RELEVANT FOR PDSS SECTIONS	EVIDENCE PROVIDED (Project/Defence MPR team to populate and link to the specific PDSS section e.g. "Section 1.2 Schedule Performance")
<ul style="list-style-type: none"> <li>and/or the proformas of all closed issues)</li> <li>Mapping document of all issues from project issues logs to the PDSS (e.g. Predict! issue ID number to PDSS issue number)</li> </ul>		
<ul style="list-style-type: none"> <li>Risk and Issues Management Plan</li> </ul>	1,5	
<ul style="list-style-type: none"> <li>Risk/Issues Management Meeting Minutes</li> </ul>	1,5	
<ul style="list-style-type: none"> <li>Project Briefs (that reference risks and issues for the entire year)</li> </ul>	1,5	
<ul style="list-style-type: none"> <li>Executive Committee Minutes (Defence MPR team to provide)</li> </ul>	Various	
<ul style="list-style-type: none"> <li>Risk assessments conducted as part of Budget Estimates processes</li> </ul>	1,5	
<ul style="list-style-type: none"> <li>Risk assessments conducted as part of any Contract Change Proposals and/or Engineering Change Proposals</li> </ul>	1,5	
<b>Other Documents</b> <ul style="list-style-type: none"> <li>Project Directive</li> </ul>	Header,1,2,3	
<ul style="list-style-type: none"> <li>Materiel Acquisition Agreement (MAA) (the latest signed version, previous versions for new projects, and any current draft versions)</li> </ul>	Various	
<ul style="list-style-type: none"> <li>MAA status summary spreadsheet (Defence MPR team to provide)</li> </ul>	Various	
<ul style="list-style-type: none"> <li>MRS (Majors Capability)</li> </ul>	1,4	
<ul style="list-style-type: none"> <li>MRS (Majors Masters Data)</li> </ul>	Header, 6,8	
<ul style="list-style-type: none"> <li>Acquisition Performance Report (APR) (latest version, and the previous two reports) (Defence MPR team to provide)</li> </ul>	Various	
<ul style="list-style-type: none"> <li>Quarterly Performance Report (QPR) (latest version, and the previous two reports) (Defence MPR team to provide)</li> </ul>	Various	
<ul style="list-style-type: none"> <li>Schedule Compliance and Risk Assessment Method (SCRAM) reports</li> </ul>	1,5	
<ul style="list-style-type: none"> <li>Memorandum of Understanding (MoU)</li> </ul>	1,2,3	
<ul style="list-style-type: none"> <li>Independent Assurance Review (previously Gate Review) Agendum Papers, Signed</li> </ul>	Various	

[illegible]

## Project Data Summary Sheet Template

Project Number		Project Image	Examples of Evidence  MAA/Project Directive MRS (Majors Budget Performance) MRS (Majors Master Data) BORIS APR/QPR
Project Name			
First Year Reported in the MPR			
Capability Type			
Acquisition Type			
Capability Manager			
Government 1st Pass Approval			
Government 2nd Pass Approval (or key Government pre-Second Pass Approval)			
Budget at 2nd Pass Approval (or key Government Second Pass Approval)			
Total Approved Budget (Current)			
2019–20 Budget			
Project Stage			
Complexity			

### Section 1 – Project Summary

#### 1.1 Project Description

	Examples of Evidence
	MAA/Project Directive Equipment Acquisition Strategy

#### 1.2 Current Status

	Examples of Evidence
<b>Cost Performance</b> <u>In-year</u>  <u>Project Financial Assurance Statement</u>  <u>Contingency Statement</u>	APR/QPR Contingency Log Documentation or correspondence supporting that Liquidated Damages are owed (including the related amounts) MRS (Majors Capability and Schedule) Project of Concern Report (if applicable) CM Declaration (if applicable) Independent Assurance Review/Gate Review documentation Budget Review documents PMSG meeting minutes IMS, OPP Schedule
<b>Schedule Performance</b>	

<b>Materiel Capability Delivery Performance</b>	
Note	
Forecast dates and capability assessments are excluded from the scope of the Auditor-General's Independent Assurance Report.	

### 1.3 Project Context

	Examples of Evidence
Background	MAA/Project Directive APR/QPR Deed of Settlement and Amendments Test and Evaluation documentation Ministerial Submissions/Briefings Risk and/or Issues Log/Register PMSG Meeting Minutes PMP EC Minutes SCRAM reports
Uniqueness	
Major Risks and Issues	
Other Current Related Projects/Phases	
Note	
Major risks and issues are excluded from the scope of the Auditor-General's Independent Assurance Report.	

## Section 2 – Financial Performance

### 2.1 Project Budget (out-turned) and Expenditure History

Date	Description	\$m	Notes	Examples of Evidence
	Project Budget			
	Original Approved (Government First/Interim/Second Pass)			BORIS



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	Approval)			Approved Budget Minutes and Variations MAA
	Real Variation – Scope			
	Real Variation – Transfer			
	Total at Second Pass Approval (or key Government pre-Second Pass Approval)			
	Real Variation – Budgetary Adjustment			
	Real Variation – Real Cost Increase / Decrease			
Jul 10	Price Indexation*			
Jun 20	Exchange Variation			
Jun 20	Total Budget			
	Project Expenditure			
Prior to Jul 19	Contract Expenditure – Contractor 1			BORIS reports supporting all figures in this section
	Contract Expenditure – Contractor 2			
	Contract Expenditure – Contractor 3			
	Contract Expenditure – Contractor 4			
	Contract Expenditure – Contractor 5			
	Other Contract Payments / Internal Expenses			
FY to Jun 20	Contract Expenditure – Contractor 1			
	Contract Expenditure – Contractor 2			
	Contract Expenditure – Contractor 3			
	Contract Expenditure – Contractor 4			
	Contract Expenditure – Contractor 5			
	Other Contract Payments / Internal Expenses			
Jun 20	Total Expenditure			
Jun 20	Remaining Budget			
Notes				Examples of Evidence
1				As per reference points above.
2				
3				
4				

\*Note – Those projects approved in 'out-turned' dollars will not contain any entry for 'Price Indexation'. In these instances this line can be removed.

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## 2.2A In-year Budget Estimate Variance

Estimate PBS \$m	Estimate PAES \$m	Estimate Final Plan \$m	Explanation of Material Movements	Examples of Evidence
				Portfolio Budget Statements
Variance \$m			Total Variance (\$m): XXX	Portfolio Additional Estimates Statements
Variance %			Total Variance (%): XXX	MRS (Majors Budget Performance)

## 2.2B In-year Budget/Expenditure Variance

Estimate Final Plan \$m	Actual \$m	Variance \$m	Variance Factor	Explanation	Examples of Evidence
			Australian Industry		BORIS report to support the "Actual \$m" figure (This should align to Section 2.1 above)  MRS (Majors Budget Performance)
			Foreign Industry		
			Early Processes		
			Defence Processes		
			Foreign Government Negotiations/Payments		
			Cost Saving		
			Effort in Support of Operations		
			Additional Government Approvals		
			Total Variance		
			% Variance		

### 2.3 Details of Project Major Contracts

2.3 Details of Project Major Contracts							
Contractor	Signature Date	Price at		Type (Price Basis)	Form of Contract	Notes	Examples of Evidence
		Signature \$m	30 Jun 20 \$m				
Contractor 1							Approved Budget Minutes & Variations Contracts ROMAN in Excel/Screen dumps showing current contract value (Via LTD expenditure and outstanding commitment) ROMAN Purchase Orders in Excel/Screen dumps showing current contract value for each contract Work paper showing the linkage between the: CCP/HDS/Section 23 Approvals/Purchase Order etc. and the amount in the PDSS (including FOREX rates).
Contractor 2							
Contractor 3							
Contractor 4							
Contractor 5							

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							Excel Reconciliation of Prime Contract; and Excel Reconciliation of FMS Contract Values CCP Register MAA/Project Directive LOA (and Amendments) HDS/Section 23 Approvals
Notes							Examples of Evidence
1							As per reference points above.
Contractor	Contracted Quantities as at		Scope	Notes	Examples of Evidence		
	Signature	30 Jun 20			MAA/Project Directive LOA (and Amendments) Contract documentation Record of receipt of equipment		
Contractor 1							
Contractor 2							
Contractor 3							
Contractor 4							
Contractor 5							
Major equipment accepted and quantities to 30 Jun 20							Examples of Evidence
							Record of receipt of equipment
Notes							Examples of Evidence
1							As per reference points above.

Section 3 – Schedule Performance

3.1 Design Review Progress

Review	Major System/Platform Variant	Original Planned	Current Contracted	Achieved/Forecast	Variance (Months)	Notes	Examples of Evidence
System Requirements							IMS, OPP Schedule
							MRS (Majors Schedule)
							Contract Delivery/Payment Schedule
Preliminary Design							Test and Evaluation documentation
							APR/QPR
							LOA (and Amendments)
Critical Design							MAA/Project Directive

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Submission 6 - Supplementary Submission

Notes							Examples of Evidence
1							As per reference points above.
2							
3							
4							

### 3.2 Contractor Test and Evaluation Progress

3.2 Contractor Test and Evaluation Progress							
Test and Evaluation	Major System/Platform Variant	Original Planned	Current Contracted	Achieved/Forecast	Variance (Months)	Notes	Examples of Evidence
System Integration							MAA/Project Directive IMS, OPP Schedule MRS (Majors Schedule) Test and Evaluation documentation Ministerial Submission/Briefing Cabinet Submission
Acceptance							
Notes							Examples of Evidence
1							As per reference points above.
2							
3							
4							

### 3.3 Progress Toward Materiel Release and Operational Capability Milestones

2.3.4 Progress Toward Materiel Release and Operational Capability Milestones						
Item		Original Planned	Achieved/Forecast	Variance (Months)	Notes	Examples of Evidence
Initial Materiel Release (IMR)						MAA/Project Directive IMS, OPP Schedule MRS (Majors Schedule) Ministerial Submission/Briefing Cabinet Submissions CM's Declaration
Initial Operational Capability (IOC)						
Final Materiel Release (FMR)						
Final Operational Capability (FOC)						
Notes						Examples of Evidence
1						As per reference points above.
2						
3						
4						
Schedule Status at 30 June 2020 Defence MPR Team to insert graph						

Note
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Forecast dates in Section 3 are excluded from the scope of the Auditor-General's Independent Assurance Report.

## Section 4 – Materiel Capability Delivery Performance

### 4.1 Measures of Materiel Capability Delivery Performance

Pie Chart: Percentage Breakdown of Materiel Capability Delivery Performance		Examples of Evidence
Defence MPR Team to insert Pie Chart	Green:	APR/QPR MRS (Majors Capability) MAA Preview – Project Performance Report  MAA
	Amber:	
	Red:	
Note		Examples of Evidence
This Pie Chart represents Defence's expected capability delivery. Capability assessments and forecast dates are excluded from the scope of the Auditor General's Independent Assurance Report.		As per reference points above.

### 4.2 Constitution of Material Release and Operational Capability Milestones

Item	Explanation	Achievement	Examples of Evidence
Initial Materiel Release (IMR)			MAA/Project Directive IMS, OPP Schedule MRS (Majors Schedule) Ministerial Submission/Briefing Cabinet Submissions CM's Declaration
Initial Operational Capability (IOC)			
Final Materiel Release (FMR)			
Final Operational Capability (FOC)			

## Section 5 – Major Risks and Issues

### 5.1 Major Project Risks

Identified Risks (risk identified by standard project risk management processes)		Examples of Evidence
Description	Remedial Action	
		<p>Note: Only major project risks that are rated high or extreme pre-mitigation are disclosed in the PDSS. However, a complete acquisition and sustainment (where applicable) risk log/register containing all risks is required as evidence.</p> <ul style="list-style-type: none"> <li>* Senior Management Summary from Predict!</li> <li>* Individual risk proformas from Predict!</li> <li>* Risk Log (Excel)</li> <li>* Mapping of risk documentation (e.g. Predict! risk ID number) to the risks disclosed in the PDSS</li> <li>* Risk Management Meeting Minutes</li> <li>* Register of closed risks and/or closed risk proformas from Predict!</li> <li>* Independent Assurance Review/Gate Review documentation</li> <li>* Project Briefs (that reference risks and issues for the entire year)</li> <li>* SCRAM reports</li> </ul>
Emergent Risks (risk not previously identified but has emerged during 2019–20)		
Description	Remedial Action	

### 5.2 Major Project Issues

Description	Remedial Action	Examples of Evidence
		<p>Note: Only issues that are rated high or extreme pre-mitigation are disclosed in the PDSS. However, a complete acquisition and sustainment (where applicable) issues log/register containing all issues is required as evidence.</p> <ul style="list-style-type: none"> <li>* Senior Management Summary from Predict!</li> <li>* Individual issues proformas from Predict!</li> <li>* Issues Log (Excel)</li> <li>* Mapping of issue documentation (e.g. Predict! ID number) to the issues disclosed in the PDSS</li> <li>* Risk/Issues Management Meeting Minutes</li> <li>* Register of closed issues and/or closed issue proformas from Predict!</li> <li>* Independent Assurance Review/Gate Review documentation</li> <li>* Project Briefs (that reference risks and issues for the entire year)</li> <li>* SCRAM reports</li> </ul>

#### Note

Major risks and issues in Section 5 are excluded from the scope of the of the Auditor General's Independent Assurance Report.

## Section 6 – Project Maturity

### 6.1 Project Maturity Score and Benchmark

Maturity Score		Attributes							Total	Examples of Evidence
		Schedule	Cost	Requirement	Technical Understanding	Technical Difficulty	Commercial	Operations and Support		
Project Stage	Benchmark									
	Project Status									
	Explanation									
Defence MPR Team to insert graph										

## Section 7 – Lessons Learned

### 7.1 Key Lessons Learned

Description	Categories of Systemic Lessons	Examples of Evidence
		Various, meeting minutes, lessons learned register/log etc

## Section 8 – Project Line Management

### 8.1 Project Line Management as at 30 June 2020

Position	Name	Examples of Evidence
Division Head		Current project-level organisational chart Defence/CASG Senior Leadership Chart Opening Presentation  MRS (Majors Master Data)
Branch Head		
Project Director		
Project Manager		



## **Public Accounts and Audit**

### **2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA Auditor General's Defence Major Projects Reports 19 & 22 – 13 July 2020 -  
Q2 - Battle Comms System (LAND 2B) - Conroy

**Question reference number:**

**Senator/Member:** Pat Conroy

**Type of question:** Written

**Date set by the committee for the return of answer:** 27 July 2020

#### **Question:**

Battle Comms Sys (Land) 2B:

1. What is the current FOC for this project?
2. What issues drove the need to draw upon contingency?
3. 24 Month delay occurred. Why?

#### **Answer:**

1. Final Operational Capability (FOC) is forecast for September 2022.
2. LAND 2072 Phase 2B needed to draw upon contingency within its approved budget to fund postponement claims submitted by its prime contractor due to delays incurred with interfacing projects.
3. The expected 24-month delay to declaration of FOC is due to dependencies on interfacing projects and to allow more time to undertake operational testing and evaluation activities. This will ensure these systems are interoperable with Defence's wider Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) architecture in a joint and enterprise approach to operations. Despite this delay, the first of three capability releases (comprising most of the equipment) has been delivered and is in full operational use. Rollout of the second capability release is underway with full operational use due Q2 2021. The final capability release is undergoing testing ahead of delivery to close out the project.

## **Public Accounts and Audit**

### **2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA - Auditor General's Defence Major Projects Reports 19 & 22 – 3 July 2020 -  
Q2 - IOC and FOC - Conroy

**Question reference number:** 2

**Senator/Member:** Pat Conroy

**Type of question:** Spoken

**Date set by the committee for the return of answer:** 3 August 2020

#### **Question:**

Mr CONROY: I move on to the other question on notice. There was a joint strike fighter question on notice where the particular question wasn't answered properly. That was question 14. I'll leave that for the committee secretariat to talk to the Department of Defence on. I now want to go to questions 1 and 3 of 2 June 2020, where I, in an attempt to make today's hearings more efficient, asked for the current dates of final operational capability and initial operating capability for 19 projects. Does Defence have that answer in front of them?

Mr Fraser: I will just find that for you.

Mr CONROY: Thank you, Mr Fraser. That's very kind of you.

Mr Fraser: I do have the answer in front of me now.

Mr CONROY: I have asked for FOC and IOC dates, and the Department of Defence's response has basically been to refer me to a document that was subject to an FOI.

Mr Fraser: The quarterly performance report?

Mr CONROY: Yes. First off, I think that, as a matter of good procedure, the department should answer questions from the committee, even if it's a cut and paste from another document rather, rather than refer the committee on to another report. But is the department aware that, of the 19 projects that I asked about, only two of them have FOC or IOC dates contained within that document—redacted or non-redacted?

Mr Fraser: I'm sorry that we did not provide you the information in the way in which you were to seek that. I will pause for a second and pull that up. But I have no reason to doubt what you're stating there—it hasn't met your requirement. Can I take it on notice and take another look at it, please?

#### **Answer:**

Please refer to the following table for the achieved or forecast achievement of Initial Operational Capability (IOC) and Final Operational Capability (FOC) dates. The 25 projects listed are featured in the 2018-19 Major Projects Report, which also includes information on the 19 projects requested previously.

Projects			2018-19 Major Projects Report	
No.	Project Number	Project Name	Achieved/ Forecast IOC	Achieved/ Forecast FOC
AIR CAPABILITIES				
Aerospace Systems				
1	AIR 6000 Phase 2A/2B	New Air Combat Capability	Dec-20	Oct-23
2	AIR 7000 Phase 2B	Maritime Patrol and Response Aircraft System	Jan-18	Jun-22
3	AIR 5349 Phase 3	EA-18G Growler Airborne Electronic Attack Capability	Feb-19	Aug-22
4	AIR 8000 Phase 2	Battlefield Airlift – Caribou Replacement	Dec-16	Dec-19
5	AIR 7403 Phase 3	Additional KC-30A Multi-role Tanker Transport	Apr-18	Dec-19
Helicopter Systems				
5	AIR 9000 Phase 2/4/6	Multi-Role Helicopter	Dec-14	Dec-21
6	AIR 9000 Phase 8	Future Naval Aviation Combat System Helicopter	Sep-15	Dec-23
7	AIR 5431 Phase 3	Civil Military Air Management System	Nov-22	Oct-25
8	JP 9000 Phase 7	Helicopter Aircrew Training System	Jan-19	Dec-20

Projects			2018-19 Major Projects Report	
JOINT CAPABILITIES			Achieved/ Forecast IOC	Achieved/ Forecast FOC
Joint Systems				
9	LAND 2072 Phase 2B	Battlespace Communications System	Mar-18	Sep-22
10	LAND 2072 Phase 2A	Battlespace Communications System Phase 2A	Apr-14	Sep-19
11	SEA 1442 Phase 4	Maritime Communications Modernisation	Jul-20	Jan-25
12	JP 2008 Phase 5A	Indian Ocean Region UHF SATCOM	Jul-12	Dec-21
LAND CAPABILITIES			Achieved/ Forecast IOC	Achieved/ Forecast FOC
Land Systems				
13	LAND 121 Phase 3B	Medium Heavy Capability, Field Vehicles, Modules and Trailers	Dec-19	Dec-23
14	LAND 121 Phase 4	Protected Mobility Vehicle – Light	Dec-20	Jun-23
15	LAND 53 Phase 1BR	Night Fighting Equipment Replacement	Dec-18	Sep-23

Projects			2018-19 Major Projects Report	
MARITIME CAPABILITIES			Achieved/ Forecast IOC	Achieved/ Forecast FOC
Maritime Systems				
16	JP 2048 Phase 4A/4B	Amphibious Ships	Nov-15	Dec-19
17	JP 2048 Phase 3	Amphibious Watercraft Replacement	Aug-15	Dec-19
18	SEA 1448 Phase 2B	Anzac Class Anti-Ship Missile Defence Upgrade	Sep-15	Jun-19
Ships				
19	SEA 4000 Phase 3	Air Warfare Destroyer Build	Dec-18	Jun-21
20	SEA 1180 Phase 1	Offshore Patrol Vessel	Dec-22	Jun-30
21	SEA 1654 Phase 3	Maritime Operational Support Capability	Mar-21	Dec-22
22	SEA 1448 Phase 4B	ANZAC Air Search Radar Replacement	Jun-20	Jun-24
23	SEA 3036 Phase 1	Pacific Patrol Boat Replacement	Nov-18	Nov-23
Submarines				
24	SEA 1439 Phase 5B2	Collins Class Communications and Electronic Warfare Improvement Program	Jun-21	Dec-27
25	SEA 1439 Phase 3	Collins Class Submarine Reliability and Sustainability	May-14	Jun-23

## **Public Accounts and Audit**

### **2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA Auditor General's Defence Major Projects Reports 19 & 22 – 21 July 2020 -  
Q2 - Schedule Slippage (current and former projects) - Wicks

**Question reference number:** 2

**Senator/Member:** Lucy Wicks

**Type of question:** Written

**Date set by the committee for the return of answer:** 4 August 2020

#### **Question:**

1. What were some of the common reasons for schedule slippage across the 26 projects in the MPR? What mechanisms and strategies does Defence use to minimise schedule slippage?
2. Why does Defence preference schedule slippage figures being reported in a parallel format, rather than longitudinally? How does this impact on the way schedule slippages are perceived?
3. Does schedule slippage vary depending on the type of acquisition a project reported in the MPR is? Would averages in schedule slippage based on acquisition type be a more helpful and informative measure, rather than an overall, total slippage?
4. Are there any alternative approaches which Defence believe would assist in understanding project schedule slippages?

#### **Answer:**

1. Defence Tables 5A, 5B and 5C (p.92-93) attempt to explain the reasons for schedule variance for those projects with a greater than 10 per cent variance. Some key themes include:
  - underestimation of the complexity of the project / program.
  - changes to the Navy maintenance timings for the Collins Class and Anzac Class to align with an increased operational tempo and wider systems changes that changed the way the project would be delivered. In this instance, Navy changed maintenance timings for these platforms to align with increased operational tempo and to meet the Coles Review recommendations. This has produced a better overall outcome for the Collins Class in particular.
  - changes to key assumptions in the acquisition strategy, including where the level of development required was not fully understood, and

- technical challenges.

Defence schedules are driven by the fundamental need to get new capabilities to the ADF as quickly as possible. Defence project teams strive to find the balance between an ambitious approach and risk of schedule slippage. The intended outcome is a better result for both the ADF and the taxpayer.

Table 5B also shows schedule variance due to increase in scope due to subsequent Government second pass approvals.

It is important to note that most projects reported in the MPR received Government Approval prior to the First Principles Review (FPR) reforms. As more projects enter the MPR under the FPR framework, it is expected that the benefits from FPR reforms will include improved schedule baselining and management.

2. It is Defence's preference that the MPR utilises a methodology that provides insights for the reader as to changes to, and causes of, schedule variation rather than adding individual project schedule variation in absolute terms (both delays and gains). For example, each MPR continues to report the historical schedule performance as if it is new data. A more practical measure may be to look at what schedule variance occurred between the last report and current report and why this occurred. A more informative data point could also be to look at whether any variances could be traced to identified risks in the previous report, to test the efficacy of identified mitigations of those risks.

Defence considers that improved analysis of cost, schedule, scope and risk interdependencies would produce more meaningful insights, and better articulates the status and progress of a project, while providing opportunity to view holistically any systemic concerns around project management.

3. Yes. However, it should be noted that 'acquisition type' does not cover the full complexity of the projects. A 'Developmental' project can be managed in various ways (such as through an international cooperative program vs Australian-led development), which may attract different risk profiles. Defence considers the use of the ACAT categorisations provides a more informative measure than acquisition type.
4. Defence is seeking to improve the level of project transparency. There are significant interdependencies between cost, schedule and scope performance, that are underpinned by the way risk is managed. Defence considers that improved analysis of the performance in these four areas and their relationships in Parts 1 and 2 of the MPR may assist in understanding project performance.

Defence has proposed a Smart Buyer workshop to review the processes, focus and content of the MPR. The First Principles Review shifts Defence to be more outcomes focussed and look for ways of streamlining the way information is reported. To that end, Defence would welcome a corresponding shift in the MPR that focuses on the analysis of data, rather than the data itself. This could also provide project management insights that could be applied across the Whole of Government.

## **Public Accounts and Audit**

### **2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA Auditor General's Defence Major Projects Reports 19 & 22 – 13 July 2020 -  
Q3 - ANZAC Anti-Ship Missile Defence (SEA 1448 Phase 2B) - Conroy

**Question reference number:** 3

**Senator/Member:** Pat Conroy

**Type of question:** Written

**Date set by the committee for the return of answer:** 3 August 2020

#### **Question:**

ANZAC Anti-Ship Missile Defence (SEA 1448 Phase 2B):

1. What is the current FOC for this project?
2. I have a question on the ANZAC Anti-Ship Missile Defence project. This is a world-leading Australian technology – CEA Technologies' phased array radar. Final Materiel Release and Final Operational Capability have been achieved. However, the MPR says:

“MAA [Materiel Acquisition Agreement] closure is delayed as activities have not yet been planned and costed – This issue relates to the closure of the FMS [Foreign Military Sales] case which when first addressed was delayed by a United States Navy (USN) purchase of spares related to the case which had taken 6 years to order. The consequence was a delay in Foreign Military Sales (FMS) Case Closure and at this stage it is unknown if further purchases are expected.” [MPR, p 306]

Can someone explain to me what that means – what is the Foreign Military Sale aspect of this project?

3. Why an additional 10 month delay bringing total delay to 77 months?

#### **Answers:**

1. Final Operating Capability was declared on 17 June 2019.
2. As part of the project's testing phase, HMAS Perth was sent to the US Navy Pacific Missile Range Facility in Hawaii to conduct subsonic and supersonic target tracking and engagement trials. The provision of the range, targets and facilities were funded through a Foreign Military Sales case with the US Government. This case was subject to an



extended closure process due to US Government priorities over which Defence had little control. The case has now been closed and the project is in its final stages of closure.

3. This delay was directly related to the extended closure period of the Foreign Military Sales case. This delay has no bearing or impact on the capability delivered.

## **Public Accounts and Audit**

### **2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA 2018-19 Auditor Generals Reports 19 & 22 – 21 July 2020 - Q3 - Audit Framework and Projects of Interest - Wicks

**Question reference number:** 3

**Senator/Member:** Lucy Wicks

**Type of question:** Written

**Date set by the committee for the return of answer:** 4 August 2020

#### **Question:**

1. How would you define a Project of Interest? What makes this category different from a Project of Concern?
2. The ANAO outline that there were six Projects of Interest in the June 2019 Quarterly Performance Report, with Defence stating this categorisation is used for internal departmental and Ministerial reporting and management purposes.
  - a. Could you briefly explain what criteria or method is used to identify if a project should be listed as a Project of Interest?
  - b. What proportion of projects listed as a Project of Interest end up becoming a Project of Concern? How does this figure compare to those for the previous decade?
3. The Project Data Summary Sheets contain different project costs for each report, including signature price, in-year costs, constant and out-turned costs.
  - a. Can you please explain each of these cost terms and how they apply in the context of the MPR?
  - b. In assessing whether a project is a Project of Interest or Concern, on what basis are costs and budgets measured? If a project is listed because of heightened risk in cost, what evidence does it use to come to that conclusion?
  - c. Is there a way that the reporting of 'costs' could be simplified, or clarified?

#### **Answer:**

1. A Project of Interest is one where heightened oversight and monitoring by senior management would be beneficial. This may be due to the scale, complexity or strategic significance of the project; and/or issues with performance, including within Defence internal management. It is preferable to escalate issues early by entry to this list and potentially avoid becoming a Project of Concern because of the benefit of more senior management intervention and oversight. Entry and exit to the Projects of Interest list is

decided by Deputy Secretary CASG in consultation with the relevant Capability Manager, whereas the Projects of Concern list is a Ministerial decision to list. Projects of Interest are distinct from the Projects of Concern in that an assessment for entry includes consideration whether there is commercial leverage to be gained from listing as a Project of Concern.

Figure 1. Assessment matrix

	Assessment process	Entry and Exit Decision-maker
<b>Projects/Products of Interest</b>	<ul style="list-style-type: none"> <li>Quarterly Performance Report analysis</li> <li>Independent Assurance Review diagnostic</li> <li>CASG Division Head assessment (in consultation with Capability Manager representative)</li> </ul>	DEPSEC CASG
<b>Projects of Concern</b>	<ul style="list-style-type: none"> <li>Quarterly Performance Report analysis</li> <li>Independent Assurance Review diagnostic</li> <li>CASG Division Head and Capability Manager assessment</li> <li>DEPSEC assessment (in consultation with Industry partner)</li> </ul>	MINDEF/MINDI

Defence has responded to recent audits by the ANAO on Defence's Management of its Projects of Concern and the Quarterly Performance Report. Both the ANAO and Defence have found the POC/POI escalation framework to be an effective mechanism for managing projects that are at risk of achieving scope, schedule and cost milestones. Defence has taken steps to ensure a consistent approach to managing entry to, and exit from, its Projects of Interest and Projects of Concern lists. Improvements to the Quarterly Performance Report include identifying emerging candidates for the Projects of Concern/Interest lists.

2. As a point of clarification, there were six projects reported in the 2018-19 Major Projects Report that were Projects of Interest in the June 2019 Quarterly Performance Report. In total, as at June 2019 there were 14 Projects of Interest.
  - a. The assessment criteria for a Project of Interest has both a quantitative and qualitative component. Quantitative performance metrics are set against the approved project scope, schedule and cost. Where the scale, complexity or strategic significance of the project; and/or a continuing decline in performance is identified, qualitative assessments through robust assurance processes are undertaken. The project performance metrics are available in the released Quarterly Performance Report on the Defence FOI Disclosure Log (also detailed at Attachment A).

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 contract after Government approval;
- delay to or divestiture of allied partner program;

- the contractor is not meeting promised capability or schedule milestones or exceeding approved costs (e.g., stop payments, claim for excusable delay);
- the schedule for meeting Initial or Final Operational capability is forecast unrecoverable (baseline review required);
- the project's costs will exceed its approved budget;
- 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 does not have the required workforce or financial capacity, organisational maturity or management commitment to meet critical project milestones;
- project risks have increased beyond the parameters agreed by Government; or
- there is a communication and relationship breakdown at the working and middle management levels.

b. In the last six years three of the 26 Projects of Interest have become Projects of Concern. It is difficult to compare Projects of Interest across decades as the formality of remediation pathways and internal reporting in its current form is relatively recent. Historically, potential Projects of Concern have been monitored internally for declining performance ahead of the Minister's decision to list as a Project of Concern, in addition to the monthly performance reporting.

3.

a. Cost terms and their definition in the Major Projects Report include:

<b>Cost Term</b>	<b>Definition</b>	<b>MPR reference</b>
Signature price	The value of the contract at signature	Section 2.3 Details of Project Major Contracts
In-year costs	The estimated budget for the current financial year, as published in the Portfolio Budget Statements and the Portfolio Additional Estimates Statements	Sections 2.2A, 2.2B Financial Performance
Constant cost	Not defined in the MPR. Total project costs expressed in the current year value. For foreign currency sourced estimates, the Australian dollar price is fixed at the Foreign Exchange rate at that time.	No explicit reference
Out-turned costs	A Commonwealth budget methodology used for project approvals which factors in variables for future years due to inflation, calculated at 2.98% per annum for Specialist	Section 2.1 Total Budget (out-turned); Price indexation definition

	<p>Military Equipment.</p> <p>The out-turned price also takes into account Foreign Exchange rate changes and Treasury projections at the FOREX rate over time.</p> <p>Projects approved pre-July 2010, refer to “Price Indexation” which was a different methodology for factoring in inflation.</p> <p><i>JCPAA Report 422: Review of the 2009-10 Defence Materiel Organisation Major Projects Report</i> refers to the implementation of out-turned dollars in the Major Projects Report.</p>	
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Budget and expenditure is comprehensively detailed in the Major Projects Report. The guidelines published at Part 4 of the Major Projects Report explain the full list of cost terms used in the Project Data Summary Sheets and their application in the report.

b. Cost is measured and reported in accordance with the standardised metrics at Attachment A. Performance measures are set to trigger adverse traffic light ratings should the estimated cost at completion be forecast to exceed the total approved budget including contingency. It is unlikely that a project would be listed as a Project of Interest for heightened risk in cost alone. Defence mitigates cost risk prior to Second Pass approval. Various contract pricing mechanisms such as firm, capped, incentive – based, variable with cost and risk managed under pain/gain arrangements, and foreign military sales arrangements are used. Details on contract types are listed in table 2.3 of the Project Data Summary Sheets. Historically, there have been few real cost increases in Defence major capital equipment projects. Table 2C in the Defence chapters of the 2018-19 Major Projects Report details the MPR projects with real cost increases. These are all current or former projects of concern.

c. Defence believes there is an opportunity to remove some of the duplication in cost information within the Project Data Summary Sheets and provide simpler cost analysis within the covering chapters. Defence will work through potential changes with the ANAO.




## Attachment A - Explanation of Performance Measures

Major capability acquisition activities and their performance metrics are defined in the Materiel Acquisition Agreements, agreed between the CAS Group Division Heads and Capability Manager Representatives. Performance against these measures is reported in the acquisition Monthly Reporting System.

### Measuring the Performance of Acquisition Projects

Project performance is assessed against a set of quantitative and qualitative measures.

The Key Acquisition Project Dashboard and Performance Summaries for Key Acquisition Projects use a traffic light system to rate performance. The Capability traffic light rating is a qualitative assessment. Schedule and Cost performance are data driven against specific parameters as below.

	<b>Green =</b> Acceptable performance  	<b>Amber =</b> Emerging risks and issues  	<b>Red =</b> Risks and issues realised  
<b>Capability</b>	On track to deliver approved scope.	Major elements of scope are about to fail against the baseline.	Major elements of scope have not been achieved as baselined.
<b>Cost</b>	On track to deliver within approved budget.	Latest Cost Estimate exceeds budget by up to 5%.	Latest Cost Estimate exceeds budget by more than 5%.
<b>Schedule</b>	Delivery before, on, or up to no more than 14 days after the Baseline Date.	Delivery more than 14 days after the Baseline Date, but less than 5% slippage.	Delivery on or later than 5% slippage.

## **Public Accounts and Audit**

Inquiry into the 2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20)) – 03 July 2020

### **ANSWER TO QUESTION ON NOTICE**

Department of Defence

**Topic:** JCPAA Auditor General's Defence Major Projects Reports 19 & 22 - 03 July 2020 - Q3 - Public AIC Plans - Patrick

**Question reference number:** 3

**Senator/Member:** Rex Patrick

**Type of question:** Spoken

**Date set by the committee for the return of answer:** 24 July 2020

#### **Question:**

Senator PATRICK: Okay. Can I ask, on notice, of the projects in the major projects list that were signed within the last four years, how many of them have AIC plans that are public, and, if they're not public, when they will be available?

Mr Fraser: Yes, I'll take that on notice. Thank you.

#### **Answer:**

Five of the six projects in the 2018-19 Major Projects Report that were signed (received Government approval) within the last four years have Australian Industry Capability (AIC) plans that are public on the Defence website.

The Department has received the updated Plan for the sixth project and is in the internal clearance process before publication on the Defence website. This public AIC Plan is expected to be available on the website within the coming month.

## **Public Accounts and Audit**

### **2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA Auditor General's Defence Major Projects Reports 19 & 22 – 13 July 2020 -  
Q4 - Night Fighting Equipment Replacement - Conroy

**Question reference number:** 4

**Senator/Member:** Pat Conroy

**Type of question:** Written

**Date set by the committee for the return of answer:** 3 August 2020

#### **Question:**

##### **NIGHT FIGHTING EQUIPMENT REPLACEMENT**

1. What is the current IOC and FOC for this project?

#### **Answer:**

1. For the LAND 53 1BR Night Fighting Equipment Replacement project the Initial Operational Capability was achieved in December 2018 and the Final Operational Capability is forecast for September 2023.



## **Public Accounts and Audit**

### **2018-19 Defence Major Projects Report and the Future Submarine Project – Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA Auditor General's Reports 19 & 22 – 21 July 2020 – Q4 – Audit Frameworks (projects of Concern) – Wicks

**Question reference number:** 4

**Senator/Member:** Lucy Wicks

**Type of question:** Written

**Date set by the committee for the return of answer:** 4 August 2020

#### **Question:**

1. In Table 9 (page 100) of the MPR, the Deployable Defence Air Traffic Management and Control System is also listed as a Project of Concern.
  - a. Could you please explain why this was listed as a Project of Concern? What was the rationale for not including it in the MPR and what strategies are being implemented to address concerns arising from this project?
  - b. Is this project currently operational and, if so, how is it currently being used?
  - c. For a project such as this not covered in the report, how is accountability and transparency being ensured by both the ANAO and Defence?

#### **Answer:**

- a. The Deployable Defence Air Traffic Management and Control System was declared a Project of Concern in August 2017 due to poor contractor performance from Indra Australia which led to significant schedule delays. The project was not reported in the MPR as it did not meet the criteria for project selection in the MPR guidelines. Strategies being implemented to address performance and schedule concerns are a re-baselined delivery schedule, reallocation of contract scope to the Commonwealth (predominately elements of air and road transportability) and the application of increased resources within both Indra Australia and the Commonwealth.
- b. This capability is not currently operational and the first system acceptance is not due until late 2021.
- c. As part of the Projects of Concern regime, the project reports to Government on a quarterly basis through the Capability Acquisition and Sustainment Groups' Quarterly Performance Report and is subject to ongoing Capability Acquisition and Sustainment Group Independent Assurance Reviews. Also as part of the Project of Concern regime, Ministerial/CEO level summits have been held.

## **Public Accounts and Audit**

**Inquiry into the 2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20)) Defence Major Projects Report— 03 July 2020**

### **ANSWER TO QUESTION ON NOTICE**

#### **Department of Defence**

**Topic:** JCPAA Auditor General's Defence Major Projects Reports 19 & 22 - 03 July 2020 - Q4 - AIC Audit Team - Patrick

**Question reference number:** 4

**Senator/Member:** Rex Patrick

**Type of question:** Spoken

**Date set by the committee for the return of answer:** 24 July 2020

#### **Question:**

Senator PATRICK: In relation to the audit that you're conducting, can you give some advice as to the status of that audit, what's happened to date, and the planned completion date for that AIC audit?

Mr Fraser: I can indicate to you that it will be in coming months, but we will have some more public information on the work that we have done. We've looked at many of the contracts, a sample of them as well as all of the larger ones, and we've worked with Attorney-General's and others to assist us, to bring some rigor to it, and we are looking to increase—we will increase—and strengthen the contractual mechanisms by bringing it—rather than attachments, perhaps, to contracts, as they used to be—to the primary contract framework. I do have, online, someone who can assist us, if you'd like further detail about the work that we're doing with that. But I'll pause there.

Senator PATRICK: Can you give a description of the audit team and who they've engaged to date—that may be a question on notice—and can you indicate whether, here and now, whether or not you were intending to make that audit report public?

Mr Fraser: It's not an audit report, in a sense. It's our work back to government on how we're strengthening Australian industry capability, and from the Prime Minister down and through all the ministers this increased focus is very clear. We now look for every contract. We built it in to the Smart Buyer framework, I think I mentioned previously, where we look at capability, cost and schedule and, now, Australian industry capability, and where there are trade-offs that are required in any of those that we would bring those options to government for consideration.

**Answer:**

The Minister for Defence Industry publicly announced on February 6 2020, that she had instructed Defence to develop an Independent Australian Industry Capability (AIC) Audit Program. This program is still under development and advice is on track to be delivered to the Minister in the second half of the year.

## **Public Accounts and Audit**

### **2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA Auditor General's Defence Major Projects Reports 19 & 22 – 13 July 2020 -  
Q5 - Maritime Communications - Conroy

**Question reference number:** 5

**Senator/Member:** Pat Conroy

**Type of question:** Written

**Date set by the committee for the return of answer:** 3 August 2020

#### **Question:**

Maritime Communications Modernisation SEA 1442 Phase 4:

1. What is the current IOC and FOC for this project?
2. Why a 6 month delay bringing total delay to 13 months?

#### **Answer:**

- 1 & 2 The schedule forecast in the 2018-19 Defence Major Project Report was for Initial Operational Capability (IOC) to occur in July 2020 and Final Operational Capability (FOC) in January 2025. The date for FOC reflected a variance at that time of 13 months from the baseline milestone date.

Note 2 of Table 3.3 in the Major Project Report is inconsistent with the Table and incorrectly reports a variance of six months for both IOC and FOC milestones. Note 2 should have reported a slip of seven months to IOC and six months to FOC. If the note had been correct this would accord with the representation of total variance from baseline at Table 3.3 of 19 months for IOC and 13 months for FOC.

## **Public Accounts and Audit**

### **2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA Auditor General's Defence Major Projects Reports 19 & 22 – 3 July 2020 -  
Q5 - SEA5010 Active Electronic Scanned Array (AESA) Budget - Conroy

**Question reference number:** 5

**Senator/Member:** Pat Conroy

**Type of question:** Spoken

**Date set by the committee for the return of answer:** 24 July 2020

#### **Question:**

**Mr CONROY:** Okay. The PDSS says the radar attack budget for the AWD has been preserved and part of the funds will be used for the development of this project 5010. So what is the budget that's been preserved from the AWD project? What's the quantum?

**Rear Admiral Quinn:** We'll need to take that on notice.

**Mr CONROY:** Could you also take on notice—because I know you need to preserve commercial leverage—what is the range for the acquisition cost for 5010 that you're using for your planning purposes? I acknowledge it hasn't gone public yet, so that's why I'm asking for a range for your planning purposes. If you could take that on notice as well, that would be great. I'll just turn to the other issue noted in the PDSS, which is the integrated sonar system, which has been returned to the supplier for redesign and upgrade. Has that been rectified?

**Rear Admiral Quinn:** There has been considerable progress on rectifying the issues we've had with the integrated sonar system. The systems are now delivered back to Navy, and we are currently using those systems at sea, and the system is developing well. We still have further testing to do.

#### **Answer:**

A total of \$34.883 million (PBS 2019-2020 price basis, out-turned) has been preserved from the SEA4000 Phase 3 AWD budget for radar electronic attack system development.

SEA5010, now named DEF5010, has an approved funding stream of between \$150 – 190 million, including contingency.

## **Public Accounts and Audit**

### **2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA Auditor General's Defence Major Projects Reports 19 & 22 – 13 July 2020 -  
Q6 - Battle Comms System (LAND 2A) - Conroy

**Question reference number:** 6

**Senator/Member:** Pat Conroy

**Type of question:** Written

**Date set by the committee for the return of answer:** 3 August 2020

#### **Question:**

BATTLE COMMS SYS (Land) 2A:

1. What is the current FOC for this project?
2. Why a 9 month delay bringing total delay to 39 months?

#### **Answer:**

1. Final Operational Capability (FOC) was declared on 6 December 2019.
2. Although declaration of the FOC milestone was delayed, radios were introduced into service with Army and Air Force units on time with no adverse impact to their operational use. The overall delay in declaring FOC was due to administrative processes and additional time taken to finalise the design of the wider communications network used in the Land Domain.

## **Public Accounts and Audit**

2018-19 Defence Major Projects Report and the Future Submarine Project -  
Transition to Design (Auditor-General's Reports 19 and 22 (2019-20)) Defence  
Major Projects Report— 3 July 2020

### **ANSWER TO QUESTION ON NOTICE**

#### **Department of Defence**

**Topic:** JCPAA - Auditor General's Defence Major Projects Reports 19 & 22 - 3 July 2020 -  
Q6 - AWD REA System Contract Funds - Patrick

**Question reference number:** 6

**Senator/Member:** Rex Patrick

**Type of question:** Spoken

**Date set by the committee for the return of answer:** 3 August 2020

#### **Question:**

**Senator PATRICK:** I do, thank you, Chair. I have some further questions in relation to the REA system. Was that contracted directly or through the prime?

**Rear Admiral Quinn:** That particular capability was what, at second-pass approval, we call white-boxed—where there isn't a specific capability identified at second pass—and it was left to the alliance to determine what the capability solution would be.

**Senator PATRICK:** So have any contract funds been expended on that particular capability?

**Rear Admiral Quinn:** There has been some money expended on the alliance investigating various options, and, now that we have transferred some of the scope to 50-10, we have now expended under a different program some development costs to get towards achieving that capability.

**Senator PATRICK:** Can I ask again, for you to take on notice, what the value of the contract funds were for the original arrangement under the AWD program, and what you got for that money. I'm just a bit concerned that you may have gone down a pathway, spent Commonwealth money and then stopped, and gone off and done something else.

**Rear Admiral Quinn:** We'll take that on notice. But we did not spend a lot of money down a particular path. But we'll provide that on notice.

#### **Answer:**

Following a Critical Design Review in 2010, the AWD Alliance deferred procurement of the Radar - Electronic Attack (R-EA) capability, given the current state of technology being unable to provide the full capability sought by the Royal Australian Navy. No monies had been spent to acquire any R-EA capability at that time.

In 2017-18, the Alliance conducted a trade study of future R-EA options, including a Request for Tender (RFT), at the cost of \$275,000. Following the evaluation of the RFT responses, the Commonwealth decided not to proceed further with this capability under the AWD

Program. This study assisted in informing the decision to develop the technology separately under DEF5010.



## **Public Accounts and Audit**

### **2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA Auditor General's Defence Major Projects Reports 19 & 22 – 13 July 2020 -  
Q7 - ANZAC Air Search Radar Replacement - Conroy

**Question reference number:** 7

**Senator/Member:** Pat Conroy

**Type of question:** Written

**Date set by the committee for the return of answer:** 3 August 2020

#### **Question:**

ANZAC AIR SEARCH RADAR REPLACEMENT:

1. What is the current IOC and FOC for this project?

#### **Answer:**

Initial Operating Capability for ANZAC Air Search Radar Replacement (SEA1448 Phase 4B) is now scheduled to be achieved in March 2021. COVID-19-related restrictions on international travel, required for certification of certain elements of the system by the United States, has impacted the schedule to initial operational capability.

Final Operating Capability remains unchanged for June 2024.

## **Public Accounts and Audit**

### **2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA Auditor General's Defence Major Projects Reports 19 & 22 - 3 July 2020 -  
Q7 - AWD Sonar System - Patrick

**Question reference number:** 7

**Senator/Member:** Rex Patrick

**Type of question:** Spoken

**Date set by the committee for the return of answer:** 3 August 2020

#### **Question:**

**Senator PATRICK:** When Defence say 'not a lot of money', it can mean very different things. Okay. The other question is in relation to the sonar system. I think that was a British company, Ultra Electronics, that did that, wasn't it?

**Rear Admiral Quinn:** That's correct.

**Senator PATRICK:** Noting that there was a problem with the system, can you confirm there were no additional costs to the Commonwealth on the basis of a difficulty or problem with the system, and whether or not any penalties have been applied to the contractor because of the delay?

**Rear Admiral Quinn:** My understanding is that anything that has been done has been done under warranty, and we've actually had an additional system provided as part of our way forward with that particular system—an additional tail. We can provide some more detail on notice.

**Senator PATRICK:** Thank you very much. Those are my questions for AWD.

#### **Answer:**

Ultra has not received any further funding to remediate issues with the Integrated Sonar System, and has supplied an additional tail unit to reduce the operational impact of the remediation work.

## **Public Accounts and Audit**

### **2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA Auditor General's Defence Major Projects Reports 19 & 22 – 13 July 2020 -  
Q8 - LHD Landing Craft FOC - Conroy

**Question reference number:** 8

**Senator/Member:** Pat Conroy

**Type of question:** Written

**Date set by the committee for the return of answer:** 3 August 2020

#### **Question:**

LHD Landing Craft:

36. The Defence PDSSs report that 20 projects in this year's report will deliver all of their key capability requirements. Defence's assessment indicates that some elements of the capability required may be 'under threat', but the risk is assessed as 'manageable'. The five project offices experiences challenges with expected capability delivery (2017-18: three) are Joint Strike Fighter, MRH90 Helicopters, Hawkei, Battlefield Airlifter and LHD Landing Craft. One project office (AWD Ships) reports that it is unable to deliver all of the required capability by FOC.

1. What is the current FOC for this project?
2. Additional 13 month delay bringing total delay to 51 months, why?

#### **Answer:**

1. Final Operating Capability was declared on 4 November 2019.
2. As reported in the 2018-19 Major Projects Report (page 349), Final Operating Capability for the LHD Landing Craft was originally planned for February 2016. Following testing in 2014-15 safe carriage was demonstrated for all Army vehicles with the exception of the heaviest of Army vehicles, the M1A1 Abrams Tank. To ensure the LHD Landing Craft was able to safely carry the tank, the schedule for this milestone was revised to December 2019; a 46 month delay. These limitations were addressed collaboratively by Industry and Defence with the final heavy load trials successfully conducted in July 2019.

Despite this delay, HMA Ships *Adelaide* and *Canberra* have been deployed on amphibious operations without limitations to its required Landing Craft capability. This has included deployments to India, Sri Lanka and other countries across Southeast Asia, Papua New Guinea for the Asia-Pacific Economic Cooperation, and Exercise RIMPAC 2018 in Hawaii.

## **Public Accounts and Audit**

### **2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA Auditor General's Defence Major Projects Reports 19 & 22 - 3 July 2020 -  
Q8 - Future Submarine and Foreign Exchange - Patrick

**Question reference number:** 8

**Senator/Member:** Rex Patrick

**Type of question:** Spoken

**Date set by the committee for the return of answer:** 3 August 2020

#### **Question:**

**Senator PATRICK:** With the chair's indulgence I want to go back to another point Mr Conroy raised and, indeed, Mr Gillespie. This question goes to Mr Dalton. We were talking about the SEA 1000 Future Submarine forex changes. You have a \$50 billion constant value and, obviously, the forex is applied to a certain percentage of that \$50 billion. Can you please provide the committee—if you don't have it here, on notice—what percentage of the \$50 billion is subject to forex variation?

**Mr Dalton:** We'll take that on notice and endeavour to give you that response.

#### **Answer:**

For budget planning purposes, 40 per cent of the out-turned approved budget is subject to foreign currency exchange rate variation. For budget planning purposes, 30 per cent of the in out-turned projected total acquisition cost across the life of the program budget is subject to foreign currency exchange variation.

## **Public Accounts and Audit**

### **Inquiry into the 2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20) – 03 July 2020**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA Auditor General's Defence Major Projects Reports 19 & 22 - 03 July 2020 - Q9 - MRH-90 Self-Protection Weapons Systems - Conroy

**Question reference number:** 9

**Senator/Member:** Pat Conroy

**Type of question:** Spoken

**Date set by the committee for the return of answer:** 24 July 2020

#### **Question:**

Mr CONROY: Who's meeting the cost of redesigning the gun mount and the fast roping?

Mr Fraser: That's a Defence cost. We have a different requirement to what was originally envisaged.

Mr CONROY: What's the expected cost of that?

Mt Fairweather: I'll have to take that on notice. I just don't have those figures in front of me.

Mr CONROY: Yes, take that on notice. Can you indicate if that will be met through existing project funds or through the use of contingency or outside the project completely?

Mr Fairweather: Yes, I'll do that. There's a mix in there, but I'll get that done and get that back to you.

#### **Answer:**

1. The total cost of the new Taipan Gun Mount is \$21.9 million (GST inclusive). The total cost the of Fast Roping Rappelling and Extraction System (FRRES) is \$22.8 million (GST inclusive).
2. Funding was provided through MRH90 Program contingency. The Commonwealth of Australian (CoA) receives contract credits in lieu of royalties on sales of FRRES to other customers. To date the CoA has received \$0.6 million in credits from FRRES sales.

## **Public Accounts and Audit**

### **Inquiry into the 2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20)) – 03 July 2020**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA Auditor General's Defence Major Projects Reports 19 & 22 Report - 03 July 2020 - Q10 - MRH-90 Cargo Hook - Conroy

**Question reference number:** 10

**Senator/Member:** Pat Conroy

**Type of question:** Spoken

**Date set by the committee for the return of answer:** 24 July 2020

#### **Question:**

Mr CONROY: I appreciate that. I just want to turn to the infamous cargo hook. Defence has indicated, in response to Senate estimates questions, that the cargo hook did not meet Navy safety requirements. What was the problem with the delivered cargo hook?

Mr Fairweather: Navy had a requirement for what is called a 'rigid strop'. When external loads are hooked on to the bottom of a helicopter, normally it's quite soft—if you can, imagine a doughnut on the end of the straps that go to the load. For ground based operations it's quite safe to get out of the helicopter and hook that up. For operations on a ship where the deck is heaving that's very difficult and quite dangerous, so they use what's called a rigid strop that needs to slide on to the hook so that the person on the deck of a ship can be well clear. The original hook wasn't compatible with that and so it provided a risk to operation. We designed a new hook, which is getting very close to being ready. We expect to have it in service at Navy in quarter 3 this year.

Mr CONROY: And who's meeting the cost of redesigning the cargo hook?

Mr Fairweather: That's a cost to us because, again, the requirement was different to the original. The good news about that is there are some other countries who are interested and so we'll receive royalty payments if they take it on.

Mr CONROY: That is indeed good news. Could you take on notice the cost of the redesign and whether it will be met on the project or external to the project?

Mr Fairweather: Yes; I'm happy to do that.

#### **Answer:**

1. The total cost of the redesign and replacement of the current cargo hook with the Enhanced Cargo Hook System (ECHS) is \$17.2 million (GST inclusive).
2. Funding was provided through MRH90 Program contingency. Additionally, the Commonwealth of Australia receives contract credits in lieu of royalties on sales of the ECHS to other customers. To date the Commonwealth of Australia has received \$1.3 million in credits from ECHS sales.

## **Public Accounts and Audit**

### **2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20))**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA - Auditor General's Defence Major Projects Reports 19 & 22 - 03 July 2020 - Q11 - C27J Flight-Handling - Patrick

**Question reference number:** 11

**Senator/Member:** Rex Patrick

**Type of question:** Spoken

**Date set by the committee for the return of answer:** 24 July 2020

#### **Question:**

**Mr CONROY:** I'll skip ahead to the battlefield airlift Caribou replacement Air 8000. There has been an answer returned to a question by Senator Patrick that notes that the delayed FOC, which was originally 2017 and then was scheduled to December 2019, has not been achieved and 'Air Force is conducting assessment of FOC options for the aircraft and will advise government in quarter 4 2020'. Can Defence give us a rough outline? Advising government at the end of 2020 clearly means that the FOC has been delayed for at least another year. Do we have any idea of what the quantum of the delay is?

...

**Senator PATRICK:** Can you confirm whether or not there are flight-handling issues in some configurations for this aircraft?

**Air Vice-Marshal Roberts:** I would have to—to my knowledge, there are no flight-handling configurations. The aircraft achieved its certification in June this year and I'm not aware of any specific limitations on that, in terms of flight restriction.

**Senator PATRICK:** If you could take that on notice.

#### **Answer:**

Complications realised with achieving the full scope of Project requirements prevented Air Force from declaring Final Operating Capability as planned in December 2019. Capability Options are being considered with accompanying FOC definitions. Defence will advise Government of a preferred Capability Option in Quarter 4 2020.

A Military Type Certificate defines the safe operational limitations of an aircraft. A Military Type Certificate was issued for the C-27J in June 2020 covering basic flying roles including carriage of passengers and cargo. The issued Military Type Certificate combined with a Military Permit to Fly covering the expanded roles of the C-27J affords a suitable airworthiness basis to allow light tactical fixed wing operations – carriage of passengers and cargo. There are no flight handling issues within the bounds of the Military Type Certificate or Military Permit to Fly.



## **Public Accounts and Audit**

Inquiry into the 2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20)) – 3 July 2020

### **ANSWER TO QUESTION ON NOTICE**

Department of Defence

**Topic:** JCPAA Auditor General's Defence Major Projects Reports 19 & 22- 3 July 2020 - Q12 - Seahawk Damage - Patrick

**Question reference number:** 12

**Senator/Member:** Rex Patrick

**Type of question:** Spoken

**Date set by the committee for the return of answer:** 24 July 2020

#### **Question:**

Senator PATRICK: I will ask some more questions on that on notice and maybe at estimates. I think we're moving to Seahawk now. I have just one question on the Seahawk. What's happened to the aircraft that was damaged in the fire of the frigate?

Mr Fraser: Mr Fairweather, are you able to answer that please, or do we need to take it on notice?

Mr Fairweather: I think we need to take it on notice.

Mr Fraser: I'm not aware of the specific circumstances. Apologies, Senator.

Senator PATRICK: Thank you.

CHAIR: I have no objection to that and I'm conscious of time, so I'll go back to Mr Conroy. I just flag that we request that the answers be provided directly to these questions, which would be helpful, so that we don't need to convene another public hearing. Is that okay?

Mr Fraser: Understood; thank you. To Senator Patrick, the question was more around the MRH-90 associated with the fires as opposed to the Seahawk.

Senator PATRICK: Okay. I might have got my wires crossed on that. Could you give us some details on that?

Mr Fraser: Mr Fairweather, please.

Mr Fairweather: The aircraft has been repatriated to Airbus Australia Pacific in Brisbane, and they're assessing the damage at the moment. It's fairly extensive to the underside. They're working through the repair scheme for it now.

Senator PATRICK: Okay. On notice: can we go back to the Seahawk itself? I understand there was a Seahawk that was damaged in heavy weather, but please take that on notice.

Mr Fairweather: Yes, we're happy to. That one we do know about, but we'll take it on notice.

**Answer:**

On 9 October 2017, a MH-60R Seahawk helicopter was damaged on board HMAS Warramunga. Whilst in transit across the Great Australian Bight the aircraft came loose from its lashings in heavy weather and was subsequently unrestrained within the ship's hangar. Both the aircraft and ship were damaged as a result.

The aircraft damage was limited to removable subassemblies, with all damage rectified by the operating unit (816 Squadron) and deeper maintenance contractor (Sikorsky under contract to the United States Navy) and the aircraft returned to service.

## **Public Accounts and Audit**

### **2018-19 Defence Major Projects Report and the Future Submarine Project - Transition to Design (Auditor-General's Reports 19 and 22 (2019-20)) – 27 May 2020**

#### **ANSWER TO QUESTION ON NOTICE**

##### **Department of Defence**

**Topic:** JCPAA Defence Major Projects Report - 27 May 2020 - Q14 - Projection increase –  
Conroy – SUPPLEMENTARY RESPONSE

**Question reference number:** 14

**Senator/Member:** Pat Conroy

**Type of question:** Spoken

**Date set by the committee for the return of answer:** 3 August 2020

#### **Question:**

**Mr CONROY:** Okay; take on notice what the cost was before this increase occurred. So you're saying that this cost increase was identified last year, but that you don't have to go back to government to identify how big that cost is for another two years?

**Air Vice-Marshal Hoffman:** We've got approved funds out to 2024-25 for our sustainment. That's in the ramp-up period as we're growing through two FOCs, so we have sufficient funds at this current time. There is some pressure on those funds. Certainly, the projections produced by the Joint Project Office out across the decade were above what was affordable for us, but we've been working with them in partnership to reduce those costs. That's where we're at.

**Mr CONROY:** Are you able to take on notice how much those projections have increased?

**Air Vice-Marshal Hoffman:** We'll certainly take that on notice and get a response back to you on that, yes.

#### **Answer:**

The initial total cost of ownership estimates (operating and sustainment) approved by Government in 2014, were valued at an estimated \$4.6 billion (Pre-ERC 2014/15 out-turned) out to 2024-25 (first 10 years).

Subsequent cost projections have been subject to upward and downward fluctuations, and at times has indicated some potential cost pressures, however Defence remains within the initial approved estimate. As a result, the risk associated with sustainment cost pressure within the ANAO Major Projects Report 2018-19 has since been retired.

Defence is working closely with the F-35 Joint Program Office, US Services and Partners to drive further cost-efficiencies and reduce total JSF program cost.

Defence is currently developing final sustainment cost estimates for funding requirements post financial year 2024/25 and will return to Government for approval in 2021 – 2022.