



Joint Committee of Public Accounts and Audit

Inquiry into the 2018-19 Defence Major Projects Report and the Future Submarine Project – Transition to Design (Auditor-General Reports No. 19 and 22 (2019-20))

27 May 2020

Opening Statement by the Auditor-General — Auditor-General Report No. 19 2019-20 2018-19 Major Projects Report

1. The 2018–19 Major Projects Report (MPR) was presented for tabling in the Parliament on 16 December 2019.
2. It is the twelfth review by the ANAO of selected major Defence equipment acquisition projects and associated sustainment activities. The 2018–19 review provides assurance on the reported progress of 26 of the most significant Defence projects. As at 30 June 2019, these projects had a total approved budget of \$64.1 billion.
3. The Committee has stated that the objective of the MPR is ‘to improve the accountability and transparency of Defence acquisitions for the benefit of Parliament and other stakeholders’ (*Report 473: Defence Major Projects Report (2016-17)*). Key features of the MPR process reflect that the report is principally prepared for the Parliament, which is the main user of the report.
4. The MPR process was conducted in accordance with Guidelines endorsed by the Committee in September 2018. The Guidelines set out requirements for the format and the content of each project’s Project Data Summary Sheet (PDSS), which is the Defence representation (attestation) provided to the ANAO for review. The Guidelines also set out the criteria for the entry and exit of projects from the MPR, as well as listing the projects to be included in each year’s MPR.
5. As agreed by the Committee in 2012, the ANAO’s review was conducted as a ‘priority assurance review’ under subsection 19A(5) of the *Auditor-General Act 1997* (the Act). By identifying this work as a priority assurance review, the Committee enabled the ANAO to access the full information gathering powers under the Act.
6. As requested by the Parliament, the ANAO has reviewed the representations made by Defence in its PDSSs and the Statement by the Secretary of Defence. PDSSs contain information on each

project's cost, schedule, materiel capability delivery performance, risks and issues, maturity and lessons learned. The ANAO's review involves sighting evidence that supports the information in each PDSS.

7. The outcomes of the review are reported in my independent assurance report to the Presiding Officers. My conclusion in the 2018-19 assurance report is that:

Based on the procedures I have performed and the evidence I have obtained, nothing has come to my attention that causes me to believe that the information in the 26 Project Data Summary Sheets in Part 3 (PDSSs) and the Statement by the Secretary of Defence, excluding the forecast information, has not been prepared in all material respects in accordance with the 2018–19 Major Projects Report Guidelines (the Guidelines), as endorsed by the Joint Committee of Public Accounts and Audit.

8. The conclusion is expressed in the negative, because the MPR is conducted as a limited assurance review under the Standard on *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, ASAE 3000. This Standard is issued by the Auditing and Assurance Standards Board, and states that the nature, timing and extent of audit procedures performed is limited compared with that necessary in a reasonable assurance engagement (such as a performance audit).
9. As noted in the independent assurance report, the purpose of the MPR is to report on the performance of the selected projects. This includes the achievement of outcomes. For example, I was unable to provide an unqualified independent assurance report for 2016–17 as a number of matters were identified, in the course of the ANAO's review, that resulted in the qualification of progress and performance as reported in the PDSS for the ARH Tiger Helicopter. Examining Defence's processes and compliance against government policy is an essential part of the review procedures required to form an opinion on the achievement of outcomes.
10. At present I do not provide assurance on certain forecast information included by Defence in its PDSSs. The parts of each PDSS that are excluded from scope are those that contain forecast information relating to: materiel capability delivery performance; major risks and issues; and future dates.
11. The multi-year character of the MPR means that it has been possible for the ANAO to undertake longitudinal analysis on the performance of the selected projects. This has two benefits:
 - a. it enables the Parliament and other stakeholders to track and compare projects' progress on a consistent basis over several years by undertaking analysis on the key

elements of the Defence PDSSs for each project—cost, schedule, progress towards delivery of required capability, project maturity and risks and issues; and

- b. the MPR enables the Parliament to compare the performance of different types of military acquisition projects—Military Off the Shelf or ‘MOTS’ projects, ‘Australianised MOTS’ projects, and developmental projects. These classifications are a general indicator of the difficulty associated with the procurement process, with Australianised MOTS and developmental projects generally having more technical complexity and risk than MOTS projects.

12. Turning to future directions, I would make three observations.
13. In the past, the MPR Guidelines have required that projects may only be admitted to the MPR one year after Second Pass approval. The 2019–20 Guidelines, which were endorsed by the Committee in September 2019, allow for a project to enter the MPR prior to Second Pass approval where the project has spent more than \$500 million. The intent is to provide transparency in the reporting of significant packages of Defence activity which have not achieved Second Pass approval. A practical effect of this change is that the design phase of the Future Submarine Project has entered the 2019 - 20 MPR, which is currently being prepared. Inclusion of this project was requested by the Committee.
14. Second, the Department of Defence has proposed that select PDSSs include information on Australian industry involvement in Defence projects. For the ANAO, a key issue in doing so is the auditability of information included in a PDSS. As discussed, parts of each PDSS are currently excluded from the scope of the ANAO’s review due to a lack of Defence systems from which to provide complete and accurate evidence in a sufficiently timely manner to facilitate the review. Methodological issues could be explored by Defence and the ANAO in the first instance, with a view to including such information on a pilot basis for selected projects in the 2020-21 MPR. The 2019-20 MPR review, which is currently in progress, is being conducted on the basis of the endorsed JCPAA Guidelines.
15. Finally, the Department of Defence has proposed a review of the MPR process. As discussed, the MPR is principally prepared for the Parliament, and the Committee has taken the lead in direction-setting and review from the outset. It would be appropriate for the Committee to drive any review activity, including by establishing objectives, setting terms of reference, and overseeing any review process.