

Committee Inquiry Recommendation
Joint Committee of Public Accounts and Audit

**Inquiry into the Defence Major Project Reports 2020-21 and 2021-22 and
Procurement of Hunter Class Frigates**

Recommendation #3

The Committee recommends that the Department of Defence provide an update on the requirements and consideration process to close recommendations from the Australian National Audit Office and the Joint Committee of Public Accounts and Audit, including an explanation as to why Recommendation 4 of Report 489: Defence Major Projects Report 2019-20 has been closed without meeting its intended purpose.

Defence Response: Agreed.

With regard to Recommendation 4 of Report 489: Defence Major Projects Report 2019-20, Defence understood the Committee was seeking Defence to better define the declaration of operational capability milestones. Defence determined that, going forward, there would be only two authorised terms describing a delta or deviation from achievement of project milestones - 'caveats' and 'deficiencies'. These were updated in Defence policy in December 2022.

Defence acknowledges that "the definition of the two terms does not meet the intention of the Committee's recommendation to clarify any term relating to a deviation from project milestones being achieved". Recommendation 4 of Report 489 was closed in accordance with Defence's recommendation closure policy and process, with Defence advising the Joint Committee of Public Accounts and Audit of audit closure of Recommendation 4 of Report 489, via a tabling document on 1 June 2023.

Defence's intention in responding to Recommendation 4 was to identify to the Committee that there would only be two terms going forward. Defence intended to define any remaining legacy references in the 2022-23 Major Projects Report via its glossary and accepts that the response to the recommendation would have benefited from that clarification. There are three projects that use the legacy term 'exception' from 2021 in relation to achievement of project milestones in the 2022-23 Major Project Report. Definitions of 'exception', 'issue' and 'risk' were included in the 2022-23 Major Projects Report glossary.

All projects will adhere to the endorsed terms of 'caveats' and 'deficiencies' going forward.

With regard to the process to close recommendations from the Australian National Audit Office (ANAO) and the Joint Committee of Public Accounts and Audit, responsible Groups and Services submit a closure pack to Defence Integrity Division, who undertake independent and objective assessment of the provided evidence to determine whether the requirements of the recommendation have been met. This assessment is presented to the Chief Audit Executive who approves the closure of ANAO audit recommendations and endorses progression of Defence's response to parliamentary recommendations back to the relevant Committee.

The status of recommendations, including when they are considered implemented, is reported regularly to the independent Defence Audit and Risk Committee, of which the ANAO are permanently invited guests.

In 2021 the ANAO conducted the *Implementation of ANAO and Parliamentary Committee Recommendations Audit (Audit 34 of 2020-21)* to examine whether Defence implemented a selection of agreed parliamentary committee and ANAO performance audit recommendations. One of the key criteria was to assess if Defence had appropriate governance arrangements in place to respond to, monitor and implement recommendations. The ANAO audit acknowledged Defence had “appropriate” governance arrangements for responding to, monitoring and implementing ANAO recommendations and “partially appropriate” governance arrangements for parliamentary recommendations.

In response Defence reviewed its existing recommendation management processes and revised them to establish with clarity of roles and responsibilities for responding to and implementing recommendations for internal audit, ANAO and parliamentary committee recommendations. The parliamentary committee recommendations process is discussed annually at the Defence Audit and Risk Committee.

Action required to Implement: Nil. Action is Complete.

CASG had updated the Capability Product Life Cycle Guidance Policy by including the definition of terms ‘caveat’ and ‘deficiency’ in relation to capability milestones. That policy has now been implemented. Defence considers that this closes the JCPAA recommendation #4 of Report 489: Defence Major Projects Report 2019-20.

Status Update: Ready for closure.

In support of JCPAA recommendation #4 of Report 489, a refreshed Capability Product Life Cycle Guidance policy was released. The policy has been updated to include the definitions of ‘caveat’ and ‘deficiency’ in relation to capability milestones. These definitions have also been included in the Defence Glossary.

Amendments have been made to the definitions of Initial Operating Capability (IOC) and Final Operating Capability (FOC) in the One Defence Capability System (ODCS) to include clarity around the terms ‘caveat’ and ‘deficiency’. The policy was disseminated across Defence via DEFGRAM 603/2022, effective from 19 December 2022.

The revised policy introduces the terms ‘caveat’ and ‘deficiencies’ where a delivered capability may not meet the original requirements as outlined in the Government approval. Caveats and Deficiencies are used in circumstances where seeking a project variation prior to nominally achieving IOC, FOC or some other significant milestone agreed by Government was not possible. Causes of this scenario may include: achieving the agreed capability requirements is not technically possible; achieving an agreed capability requirement may not offer sufficient value in return for the additional time and resources invested; or changes in the strategic environment mean that achieving some requirements of the capability are no longer fit for purpose or as high a priority.

Revised policy includes definitions for ‘caveat’ and ‘deficiency’ as follows:

Caveat. In relation to the declaration of Initial or Final Operational Capability or other capability milestone, is a plan, stipulation, condition or limitation to mitigate the capability impact of a Deficiency.

Deficiency. In relation to the declaration of Initial or Final Operational Capability or other capability milestone, is a shortfall between the Government agreed requirements and that which is provided at the milestone.

For Closing:

CASG considers that actions from this recommendation have been implemented and that this recommendation can be closed.

The Minister of Defence Industry submitted a letter dated 14 May 2024 to Prime Minister seeking the tabling of the Government Response to the JCPA Report 496. This response was subsequently tabled 24 Jun 24.

The evidence pack to support closure of this recommendation at Objective Reference: fBM100071921.