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The Parliament of the Commonwealth of Australia

# Report 422

## **Review of the 2009-10 Defence Materiel Organisation Major Projects Report**

Joint Committee of Public Accounts and Audit

April 2011  
Canberra

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## Foreword

The 2009-10 Defence Materiel Organisation (DMO) Major Projects Report (MPR) is the third MPR to be produced, but only the second MPR to be reviewed and reported on by the committee. As a result, through this review, the committee has incorporated ongoing issues that were raised as part of the review of the pilot MPR (2007-08), but also provides discussion on the Auditor-General's major findings in relation to the 2008-09 MPR in addition to the 2009-10 MPR.

In particular, as qualified audit conclusions have been received for the 2007-08, 2008-09 and 2009-10 MPRs for the non inclusion of price and expenditure information expressed in base date dollars, the committee focused on evidence received in relation to this issue. Through its recommendations, the committee has requested the DMO to address the base date dollar issue associated with the qualified audit opinions given, with a resolution of the matter expected for the 2011-12 MPR.

Other areas of interest highlighted during the review included: timing of the preparation of the MPR Guidelines, determining the exit criteria for MPR projects, the impact of financial control frameworks on the cost, schedule and capability of projects, analysis of the Gate Review Assurance Boards process, and inclusion of Earned Value Management Systems data in the Project Data Summary Sheets for individual projects.

The 2009-10 MPR builds on the level and presentation of information provided in the previous MPRs which in turn improves the readability and utility of the document. As each successive MPR is intended to further progress and improve accountability and transparency in regard to the management of major defence capital acquisition projects, it is important that the concerns highlighted through the assurance audit process and consequently the committee's review be dealt with and addressed by the DMO.

On behalf of the committee, I acknowledge the officers of the Defence Materiel Organisation, and the officers of the Australian National Audit Office for their continuing development of the MPR and for contributing their knowledge and expertise to the committee's review.

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If implemented as agreed, the goal of cost savings and increased quality will be achieved in key major projects, making this a worthwhile contribution to better public policy outcomes.

I thank my fellow committee members for maintaining this bi-partisan focus.

Mr Robert Oakeshott MP  
Chair



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## Membership of the committee

Chair Mr Robert Oakeshott MP

Deputy Chair Mrs Yvette D'Ath MP

Members Hon Dick Adams MP

Mr Jamie Briggs MP

Ms Gai Brodtmann MP

Mr Darren Cheeseman MP

Mr Josh Frydenberg MP

Ms Deb O'Neill MP

Ms Laura Smyth MP

Hon Alexander Somlyay MP

Senator Guy Barnett

Senator Mark Bishop

Senator Annette Hurley

Senator Helen Kroger

Senator Glenn Sterle

## Committee secretariat

Secretary	Mr David Brunoro (from 3 February 2011)
	Mr Russell Chafer (until 2 February 2011)
Inquiry Secretary	Ms Stephanie Mikac



## List of abbreviations

ANAO	Australian National Audit Office
AUC	Assets Under Construction
Cwth	Commonwealth
DMO	Defence Materiel Organisation
EVMS	Earned Value Management Systems
FMR	Final Materiel Release
FOC	Final Operational Capability
GRAB	Gate Review Assurance Boards
IMR	Initial Materiel Release
IOC	Initial Operational Capability
JCPAA	Joint Committee of Public Accounts and Audit
MAA	Materiel Acquisition Agreement
MOE	Measures of Effectiveness
MPR	Major Projects Report
PDSS	Project Data Summary Sheets
Projects	Major defence capital acquisition projects
PoC	Projects of Concern
PoI	Projects of Interest
UK	United Kingdom of Great Britain





# List of recommendations

## 2 Major Projects Report Work Program

### Recommendation 1

The committee recommends that the Major Projects Report (MPR) Work Plan (which contains the MPR Guidelines) be provided to the Joint Committee of Public Accounts and Audit concurrently with the list of proposed projects for inclusion and exclusion in the following year's MPR, no later than 31 August each year.

### Recommendation 2

The committee recommends that Projects of Concern (PoC) not be specifically included in the selection criteria for projects to be reported on in the Major Projects Report (MPR), but where projects reported on in the MPR are also PoC, that they continue to be identified as such.

### Recommendation 3

The committee recommends that the exit criteria for projects reported on in the Major Projects Report be the point at which both Final Materiel Release and Final Operational Capability (as currently defined by the Defence Materiel Organisation and Department of Defence respectively) is achieved.

#### Recommendation 4

The committee recommends that in determining whether the exit criteria is appropriate for future Major Projects Reports (MPRs), that the Defence Materiel Organisation's assessment of the difference in scale, size and incidence of requirements to be completed between Final Materiel Release and Final Operational Capability be provided to the Joint Committee of Public Accounts and Audit as soon as possible to allow for the implementation of any changes to occur for the 2011-12 MPR. In conducting its analysis, the DMO should consult with the three services, the Department of Defence, the Australian National Audit Office and industry representatives.

#### Recommendation 5

The committee recommends that once projects have met the exit criteria, they be removed from the Major Projects Report (MPR) and for each project which has been removed, the lessons learned at both the project level and the whole-of-organisation level are included as a separate section in the following MPR.

### 3 Auditor-General's Review

#### Recommendation 6

The committee recommends that the Defence Materiel Organisation include in the format of a comparison table, for the listed eleven projects included in the Major Projects Report, columns appearing side by side showing base date dollars, out-turned dollars and current dollars for expenditure information.

#### Recommendation 7

The committee recommends that the Defence Materiel Organisation present the findings of its examination of the presentation of financial data on all possible methods for project expenditure information (Eg. Base date dollars, out-turned dollars and current dollars) to the Joint Committee of Public Accounts and Audit (JCPAA) as soon as it is completed and no later than 31 August 2011.

This examination should include a: (1) preferred method, and (2) comprehensive proposal for transition towards the proposed new arrangement. In addition, the proposed examination should be reviewed by the Australian National Audit Office before it is submitted to the JCPAA for consideration and recommendation prior to inclusion in the MPR.

**Recommendation 8**

The committee recommends that the way that Measures of Effectiveness data is presented in the Major Projects Report not be changed until a thorough analysis outlining the reasons for and implications of the change has been undertaken and presented to the Joint Committee of Public Accounts and Audit for consideration and endorsement.

**Recommendation 9**

The committee recommends, in line with the previous committee's recommendation, that the Defence Materiel Organisation in conjunction with the Australian National Audit Office develop a standardised graphical representation of each project's cost and schedule variance for inclusion in the Project Data Summary Sheets for the 2011-12 Major Projects Report Guidelines.



## Overview

- 1.1 The Major Projects Report (MPR) is published annually and provides a performance overview of selected major defence capital acquisition projects (projects) managed by the Defence Materiel Organisation (DMO). This information is presented in a collection of Project Data Summary Sheets (PDSS), accompanied by an overview of the performance of these projects. Once prepared, this information is then subject to formal review by the Australian National Audit Office (ANAO).
- 1.2 The DMO's collection of PDSS and associated ANAO review findings and conclusions are then combined and presented to the Parliament as a single document. On presentation to the Parliament, the MPR is automatically referred to the Joint Committee of Public Accounts and Audit (JCPAA) for possible inquiry or review.<sup>1</sup>
- 1.3 The 2009-10 MPR is the third report of its kind to be produced and contains cost, schedule and capability information for 22 active projects.<sup>2</sup> As at 30 June 2010, the projects included in the MPR represented \$40.8 Billion or just over half of DMO's approved capital investment program budget.<sup>3</sup>
- 1.4 Projects included in the 2009-10 MPR are either updated repeat projects or new projects which have not been included in previous MPRs.<sup>4</sup>

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1 Pursuant to Subsection 8(1)(c) of the *Public Accounts and Audit Committee Act 1951* (Cwlth), the Joint Committee of Public Accounts and Audit is tasked with examining all reports of the Auditor-General (including reports of the results of performance audits) that are tabled in each House of the Parliament.

2 Australian National Audit Office (ANAO), *2009-10 Major Projects Report: Defence Materiel Organisation*, Australian National Audit Office, Canberra, p. 26.

3 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 13.

4 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 382.

- 1.5 Since the previous MPR, the number of projects reported on has increased by seven to include a total of 22 projects. As jointly proposed by the DMO and the ANAO and subsequently endorsed by the committee, the total number of projects incorporated into the next MPR (2010-11) will increase to 28.<sup>5</sup> Consecutive MPRs are expected to report on a maximum of 30 projects.<sup>6</sup>

## Background

- 1.6 The process to produce a MPR was made on recommendations by the Senate Foreign Affairs, Defence and Trade References Committee<sup>7</sup> and the JCPAA.<sup>8</sup>
- 1.7 In March 2003, the Senate Foreign Affairs, Defence and Trade References Committee recommended that the progress report on projects should:
- Individually detail cost, time and technical performance data.
  - Follow the same reporting process as that ordered by the British House of Commons of the Comptroller and Auditor-General.
  - 'Include in the report, analysis of performance and emerging trends as will enable the Parliament to have high visibility of all current and pending major projects.'<sup>9</sup>
- 1.8 In May 2006, the JCPAA supported funding for the ANAO to produce an annual audit on the progress of projects<sup>10</sup> contained in the MPR.
- 1.9 Further, in its 2008 report entitled *Progress on equipment acquisition and financial reporting in Defence*, in regard to the MPR, the committee found that:

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5 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, pp 11 and 16.

6 Joint Committee of Public Accounts and Audit, August 2008, *Report 411: Progress on equipment acquisition and financial reporting in Defence*, Canberra, p. 172.

7 Senate Foreign Affairs, Defence and Trade Committee, March 2003, *Materiel Acquisition and Management in Defence*, Canberra, Parliament of Australia.

8 Joint Committee of Public Accounts and Audit, August 2008, *Report 411: Progress on equipment acquisition and financial reporting in Defence*, Canberra, p. 158.

9 Senate Foreign Affairs, Defence and Trade Committee, March 2003, *Materiel Acquisition and Management in Defence*, Canberra, Parliament of Australia, p. xv.

10 Joint Committee of Public Accounts and Audit, May 2006, *Audit Office Budget Estimates for 2006-07*, Canberra, p. 2.

- More could be done to address transparency and accountability across the Defence portfolio.
  - Procedures and processes for documenting lessons learned on all major projects should be accessible, consistent in their format, and communicated effectively.
  - Procurement-related terminology required standardisation.
  - That Projects included in the MPR [should] continue to be reported on until full operating capability is achieved.<sup>11</sup>
- 1.10 Following in November 2008 was the presentation to the Parliament of the first or pilot MPR covering the period 2007-08. The 2007-08 MPR incorporated previous committees' findings and recommendations. Since that time, two further MPRs covering the periods of 2008-09 and 2009-10 have been presented to the Parliament.

## Format of the Major Projects Report

- 1.11 The annual assessment of the MPR is modelled on the United Kingdom of Great Britain's (UK) process of annual review a selection of its major defence projects. This process has been ongoing in the UK for the past twenty years.
- 1.12 In the UK, by order of the British House of Commons, the Comptroller and Auditor-General reviews Ministry of Defence acquisition projects and then presents the findings of the review in a report to the Parliament.
- 1.13 The UK's MPR includes cost, time and performance data for 30 military equipment projects across the Ministry of Defence, for the period ending on 31 March each year. Information in the UK National Audit Office MPR is presented as a collection of project summary sheets.<sup>12</sup>
- 1.14 In its current MPR, and following previous committees' recommendations, DMO has adopted a similar format to the UK in reporting on projects.
- 1.15 Information specific to each project selected for incorporation into the MPR is reported on in individual PDSS. In addition to a collection of

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11 Joint Committee on Public Accounts and Audit, August 2008, Report 411: *Progress on equipment acquisition and financial reporting in Defence*, Canberra, pp xvii-xviii.

12 National Audit Office, *Ministry of Defence Major Projects Report 2010: Report by the Comptroller and Auditor-General*, 15 October 2010, London, UK, p. 4.

PDSS, the MPR contains agency specific information in the management of these projects. The second major component of the MPR report is the ANAO's assurance review report on the PDSS and overview.

- 1.16 PDSS were developed through Guidelines prepared by the DMO in conjunction with the ANAO and subsequently endorsed by the JCPAA.<sup>13</sup>
- 1.17 Specifically, in reporting on project information in PDSS, emphasis is placed on the three components of project performance:
- approved budgeted cost
  - schedule, and
  - progress towards delivery of planned capability.<sup>14</sup>

## **Auditor-General's review**

- 1.18 The Auditor-General's review of the MPR provides a more limited assurance standard to that of a regular performance audit. The aim of the Auditor-General's review of the MPR is to ascertain whether the MPR provides clear and consistent information to enhance transparency and accountability for projects.
- 1.19 The Auditor-General has made a qualified conclusion on the MPRs for the years 2007-08, 2008-09 and also in the recent 2009-10 MPR. In 2007-08 and 2008-09, the qualification was made as the DMO could not provide the appropriate base date price and expenditure information for a number of projects. The qualification in 2009-10 has again been given in regard to: expenditure in base date dollars; and contract price in base date dollars.

## **Role of the committee**

- 1.20 Through its annual MPR review, the role of the JCPAA is to assess the utility of the MPR in regard to its content, accessibility and the transparency of information it provides to the Parliament and the wider Australian community. Through this process, the accountability of the DMO in the management and reporting of projects is also scrutinised.

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13 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 26.

14 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, pp 17 and 26.

- 1.21 In addition, during the planning cycle for each MPR, the committee has a role in endorsing the MPR Work Plan. The key elements of the MPR Work Plan include: the criteria for project selection; the roles and responsibilities of DMO in the production and review of the MPR; Guidelines for producing the PDSS; format for the PDSS template; and an indicative program schedule.<sup>15</sup>
- 1.22 While information contained in the MPR allows for scrutiny of the progress of selected projects, the committee's role is to make recommendations which focus on improving the presentation and content of information contained in the MPR, not on the progress or performance of individual projects. In this way, the committee's focus is on improving the transparency of project information and the DMO's accountability in the management of these projects.

## Scope of the review

- 1.23 The findings of the previous committee's review of the 2007-08 DMO MPR are contained in Report 416. Review of the 2008-09 MPR was well progressed with a private briefing and a public hearing held on 15 March 2010 with representatives of the DMO and ANAO. However, the review was not completed prior to the proroguing of the 42<sup>nd</sup> Parliament.
- 1.24 Where relevant to issues included in the current review, this report includes discussion on a selection of the ongoing issues highlighted during the reviews of the 2007-08 and 2008-09 MPRs. This report also includes discussion on future additions for the MPR.
- 1.25 The focus of the review is to examine ways to present information in the MPR which improve the transparency and accountability of DMO's reporting on selected projects. Importantly, the review also aims to improve accessibility to information on selected projects without compromising confidentiality.

## Conduct of the review

- 1.26 The committee received four submissions to the inquiry, which are listed at Appendix A.
- 1.27 On 28 February 2011, the committee held a public hearing with representatives from the DMO and the ANAO. Witnesses who appeared
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<sup>15</sup> ANAO, *Submission 2*, p. 2.

before the committee at this hearing are listed at Appendix B. The Transcript of Evidence received at this hearing is available from the committee's website at: [www.aph.gov.au/jcpaa](http://www.aph.gov.au/jcpaa).

## Report structure

- 1.28 Chapter 2 provides an overview of the major capital acquisition projects included in the 2009-10 MPR and discusses issues in connection with the 2010-11 DMO MPR.
- 1.29 Chapter 3 provides a summary of the findings and conclusion of the ANAO's review of the 2009-10 MPR. Inclusions in the 2009-10 MPR arising from the previous committee's findings and recommendations from Report 416 are also discussed.

## Major Projects Report Work Program

### Introduction

- 2.1 The Australian National Audit Office (ANAO) commented that the 2009-10 MPR includes 'a greater level of information about each project's performance'<sup>1</sup> and progresses the data analysis undertaken on the 2008-09 Major Projects Report (MPR). In this way, the 2009-10 MPR also 'provides a basis for greater longitudinal analysis on project performance in future years.'<sup>2</sup>
- 2.2 Issues surrounding cost and scheduling of major defence capital acquisition projects (projects) is regularly reported in the public domain. In this respect, the MPR also provides a level of public visibility of the issues relevant to incorporated projects for initially approved budgets and schedules. The Defence Materiel Organisation (DMO) acknowledged that schedule delay is an area of improvement over the coming years.<sup>3</sup>
- 2.3 This chapter outlines the main elements of the MPR Work Plan and issues raised in regard to the 2009-10 MPR and lists those projects proposed for incorporation into the 2010-11 MPR. These include the criteria for selecting projects in terms of their classification, and excluding projects in the 2010-11 MPR in regard to the defined points of completion. The qualified audit opinion given by the ANAO is also discussed.

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1 Australian National Audit Office (ANAO), *2009-10 Major Projects Report: Defence Materiel Organisation*, Australian National Audit Office, Canberra, p. 11; Mr Ian McPhee, Auditor-General, ANAO, Transcript of Evidence, Canberra, 28 February 2011, p. 2.

2 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 16.

3 Dr Stephen Gumley, Chief Executive Officer, Defence Materiel Organisation (DMO), Transcript of Evidence, Canberra, 28 February 2011, p. 3.

## Major Projects Report Work Plan

2.4 The MPR Work Plan has been provided to the committee annually (shortly after the committee has held its public hearing for the review of the previous year's MPR) and forms part of the forward MPR Work Program. The committee has an active role in considering and endorsing the MPR Work Plan including the list of projects to be added to each MPR and the Guidelines for the Project Data Summary Sheets (PDSS). The MPR Work Plan for 2009-10 included:

- The criteria for the selection of major projects to be included in the MPR as well as a list of projects selected for inclusion into the MPR.
- The roles and responsibilities of the DMO in the production and review of the MPR.
- Guidelines for producing the PDSS.
- The PDSS template.
- An indicative program schedule for presentation of the MPR to the Parliament in November 2010.<sup>4</sup>

## Guidelines for the Project Data Summary Sheets

### Purpose of Guidelines

2.5 Major projects included in the MPR are reported on through individual PDSS. These PDSS are collected and collated with an overview by the DMO, together with the findings and audit opinion of the ANAO's formal review.

2.6 The DMO in consultation with the ANAO has developed a set of Guidelines to provide a framework for the production and provision of the PDSS and form a basis for review. The Guidelines also require endorsement by the Joint Committee of Public Accounts and Audit (JCPAA). A revised set of Guidelines is usually made available to the committee for its consideration prior to drafting of the upcoming MPR (in this case the 2010-11 MPR).

2.7 The PDSS contain information about each project contained in the MPR. The basis of the ANAO's review is to assess whether the information contained in the PDSS meet the requirements included in the Guidelines.

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4 DMO, *Submission 6, 2008-2009 Review*.

## Guidelines for the 2010-11 Major Projects Report

- 2.8 The DMO in conjunction with the ANAO has provided the committee with revised Guidelines for the 2010-11 MPR. The changes refine the PDSS and are designed to 'provide more concise reporting and ... improve the flow of information.'<sup>5</sup>
- 2.9 Proposed revisions to the Guidelines include:
- Project management has been moved to Section 8 (previously section 1.1) and reduced to line management within 2010-11 (e.g. no historical data).
  - Project Maturity Score and Benchmark is now Section 6.1 (previously section 1.6).
  - Materiel Capability Performance is now Section 4 (previously Section 3.5).
  - Word limits have been imposed to reduce the length of narrative.
  - Duplication of contract and other summary information has been removed.<sup>6</sup>
- 2.10 In its review of the 2007-08 MPR, the previous committee recommended that no later than 31 August each year, the JCPAA be consulted on the projects for inclusion and exclusion in the following year's MPR.<sup>7</sup>
- 2.11 The committee received the DMO's proposed list of projects and accompanying project synopsis for inclusion in the 2010-11 at the start of the 43<sup>rd</sup> Parliament. The Guidelines for the 2010-11 MPR were included in the DMO Work Plan which was forwarded to the committee in late March 2011.

## Selection and exit criteria for projects

- 2.12 The 2009-10 MPR reported on 22 projects which is an increase of seven projects from the previous MPR. The 2010-11 will include six additional projects to bring the total number of projects reported on to 28.<sup>8</sup> The MPR will eventually include summaries of a maximum of 30 projects.

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5 ANAO, *Submission 2*, p. 1.

6 ANAO, *Submission 2*, p. 1.

7 Joint Committee of Public Accounts and Audit, November 2009, *Report 416: Review of the Major Projects Report 2007-08*, Parliament of the Commonwealth of Australia, Canberra, p. 19.

8 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 11.

2.13 The DMO stated that the maximum number of projects reported on in the MPR has been determined taking into consideration the cost of reporting on selected projects and the utility of this information to the committee.

The DMO explained:

It is a question of cost versus utility. Each of these projects is very resource intensive to report in this way. There would have to be a law of diminishing returns somewhere, and how far do you take it? We have 200 projects and it would be physically impossible to do all 200, so it really does become a balance between cost and utility to the committee.<sup>9</sup>

2.14 The projects which are included in the MPR are subject to the following criteria:

- 'projects [are] only admitted one year after Year of Decision
- [projects must have] a total approved project budget greater than \$150 million
- a project should have at least three years of asset delivery remaining
- a project must have at least \$50 million or 10 per cent (whichever is greater) of their budget remaining over the next two years
- a maximum of eight new projects in any one year
- all projects for inclusion in the MPR will be proposed by the DMO in consultation with the ANAO, based on the above criteria, and provided to the JCPAA by 31 August in the year to which the MPR relates, for endorsement.'<sup>10</sup>

## Major projects included in 2009-10

2.15 Taking into consideration the project inclusion criteria, seven new projects were added to the 2009-10 MPR and joined the 15 repeat projects which appeared in the 2008-09 MPR. These projects represented approximately \$41 Billion or just over half of DMO's approved major capital investment program.<sup>11</sup> These projects and their approved budgets appear in Table 2.1.

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9 Dr Gumley, DMO, Transcript of Evidence, Canberra, 28 February 2011, p. 10.

10 ANAO, *Submission 6*, Selection of projects for the 2009-10 MPR, 2008-2009 Review, p. 3.

11 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 13.

Table 2.1 2009-10 MPR Projects and their approved Budgets at 30 June 2010

Project	DMO Abbreviation	Approved Budget \$m
<b><i>New projects included in the MPR</i></b>		
Field vehicles and trailers (LAND 121 Ph 3)	Overlander vehicles	2 879.2
Next Generation Satellite Communications System (JP 2008 Ph 4)	Next Gen Satellite	894.1
Replacement Heavyweight Torpedo (SEA 1429 Ph 2)	HW Torpedo	441.5
Follow-On Stand Off Weapon (AIR 5418 Ph 1)	Stand Off Weapon	399.6
Anzac Anti-Ship Missile Defence (SEA 1448 Ph 2A)	ANZAC ASMD 2A	377.1
Anzac Anti-Ship Missile Defence (SEA 1448 Ph 2B)	ANZAC ASMD 2B	458.5
Collins Class Submarine Reliability and Sustainability (SEA 1439 Ph 3)	Collins R&S	407.7
<b><i>Repeat projects updated since the 2008-09 MPR</i></b>		
Air Warfare Destroyer Build (SEA 4000 Ph 3)	AWD Ships	7 740.1
Airborne Early Warning and Control Aircraft (AIR 5077 Ph 3)	Wedgetail	3 883.5
Multi-Role Helicopter (AIR 9000 Phs 2/4/6)	MRH90 Helicopters	3 754.6
Bridging Air Combat Capability (AIR 5349 Ph 1)	Super Hornet	3 629.1
Amphibious Deployment and Support (JP 2048 Ph 4A/4B)	LHD Ships	3 160.8
Armed Reconnaissance Helicopter (AIR 87 Ph 2)	ARH Tiger Helicopters	2 076.3
F/A-18 Hornet Upgrade (AIR 5376 Ph 2)	Hornet Upgrade	1 946.6
Air to Air Refuelling Capability (AIR 5402)	Air to Air Refuel	1 889.4
C-17 Globemaster III Heavy Airlifter (AIR 8000 Ph 3)	C-17 Heavy Airlift	1 834.6
Guided Missile Frigate Upgrade Implementation (SEA 1390 Ph 2.1)	FFG Upgrade	1 529.6
F/A-18 Hornet Upgrade Structural Refurbishment (AIR 5376 Ph 3.2)	Hornet Refurb	943.5
Bushmaster Protected Mobility Vehicle (LAND 116 Ph 3)	Bushranger Vehicles	926.2
High Frequency Modernisation (JP 2043 Ph 3A)	HF Modernisation	662.7
Armidale Class Patrol Boat (SEA 1444 Ph 1)	Armidales	536.7
Collins Replacement Combat System (SEA 1439 Ph 4A)	Collins RCS	458.0
<b>TOTAL</b>		<b>40 829.4</b>

Source Australian National Audit Office, 2009-10 Major Projects Report, p. 14.

## Major projects to be included in 2010-11

2.16 In addition to the 22 projects included in the 2009-10 MPR as listed in Table 2.1, the DMO has proposed that the 2010-11 MPR incorporate the following six projects:

- New Air Combat Capability – AIR 6000 Ph 2
- SM-1 Missile Replacement – SEA 1390 Ph 4B
- Additional Chinook Helicopter – AIR 9000 Ph 5C

- UHF SATCOM – JP 2008 Ph 5A
- Battle Management System – LAND 75 Ph 3.4
- Artillery Replacement 155mm Howitzer – LAND 17 Ph 1A.<sup>12</sup>

## Options for 2010-11 projects' selection criteria

### Projects of concern

- 2.17 On 26 November 2010, the Minister for Defence, the Hon Stephen Smith MP and the Minister for Defence Materiel, the Hon Jason Clare MP, jointly announced an updated list of those defence capital acquisition projects which were considered to be Projects of Concern (PoC).<sup>13</sup>
- 2.18 Projects are classified as PoC when they encounter 'significant challenges with scheduling, cost, capability delivery or project management.'<sup>14</sup> Established in 2008 by the Minister for Defence, the PoC list focuses 'the attention of Defence and Industry senior management on remediating listed projects.'<sup>15</sup>
- 2.19 Five of the 12 currently listed PoC are reported on in the 2009-10 MPR.<sup>16</sup> The DMO stated that there is no direct link between the projects included in the MPR and those that are listed as PoC.<sup>17</sup> Rather, the projects included in the MPR are those that have met the requirements of the agreed criteria (as outlined in paragraph 2.15).
- 2.20 The ANAO suggested that the committee could consider adding PoC to the MPR. However, this would increase the cost of producing the MPR. In addition, the ANAO stated there are issues surrounding the length of time a PoC would be reported on in the MPR and the associated value of reporting on PoC's that are smaller projects in terms of their approved budget. The ANAO stated:

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12 DMO, *DMO 2010-11 Major Projects Report: Work Plan*, Selection of projects for the 2010-11 MPR, Appendix A, p. 3.

13 S Smith (Minister for Defence) and J Clare (Minister for Defence Materiel), *Projects of concern-Update*, media release, Parliament House, Canberra, 26 November 2010.

14 S Smith (Minister for Defence) and J Clare (Minister for Defence Materiel), *Projects of concern-Update*, media release, Parliament House, Canberra, 26 November 2010, p. 1.

15 S Smith (Minister for Defence) and J Clare (Minister for Defence Materiel), *Projects of concern-Update*, media release, Parliament House, Canberra, 26 November 2010, p. 1.

16 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 59.

17 Dr Gumley, DMO, Transcript of Evidence, Canberra, 28 February 2011, p. 8.

... we would suggest to the committee that you may consider adding additional criteria ...specifically ... including any projects of concern for the MPR. We are conscious that once they get in, there is the question of how long they stay, and if they are not big spends but they are still a worry, do we want to keep them in? It all adds to the cost of running this.<sup>18</sup>

- 2.21 The ANAO advised that the areas for consideration when assessing possible inclusion of PoC into the MPR could include:
- 'The impact on the longitudinal analysis that is currently performed by both the DMO and the ANAO;
  - Whether the project is only reported for the length of time the project remains a PoC or for the length of the project; and
  - The potential number of projects to be included in the MPR, should the PoC list exceed the 12 projects currently reported.'<sup>19</sup>
- 2.22 The DMO was concerned about adding PoC to the selection criteria for MPR projects as PoC are determined on an ad hoc basis, whereas the projects selected for inclusion into the MPR occurs at a particular point in the calendar year. Another issue relates to the length of time a project remains a PoC and if it enters the MPR based on its meeting the PoC criteria, when does it exit the MPR if it is no longer classified a PoC.<sup>20</sup>
- 2.23 The DMO added that the PoC list is 'subject to frequent reviews, adjustment and Ministerial oversight, and is quite separate in its intent to the MPR.'<sup>21</sup> Further, there could be an adverse effect in adding PoC to the MPR in terms of trend analysis and competition with reporting on other projects. The DMO explained:

To include PoC projects would have adverse impacts; in particular it has the potential to compromise overall MPR trend analysis if PoC projects are frequently moved on and off the MPR. It would also mean the removal or deferment of other current/potential MPR projects (which represent significant spend and capability) in order to not exceed the agreed cap of 30 projects.<sup>22</sup>

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18 Mr McPhee, ANAO, Transcript of Evidence, Canberra, 28 February 2011, p. 9.

19 ANAO, *Submission 2*, p. 2.

20 Mr Tony Hindmarsh, Chief Audit Executive, DMO, Transcript of Evidence, Canberra, 28 February 2011, p. 10.

21 Dr Gumley, DMO, CEO Opening Statement, *Submission 3*, p. 3.

22 Dr Gumley, DMO, CEO Opening Statement, *Submission 3*, p. 3.

- 2.24 There was also the issue of whether a project should be included in the MPR if it was classified in the pre-PoC stage of being a Project of Interest (PoI). The DMO was not in favour of including PoIs in the MPR as such projects did not yet require more management attention and could more readily be resolved. The DMO stated:

We would probably suggest that not be one of the criteria. A project of interest is a signal to Defence, to DMO and to industry that these require a lot more management attention. They have not quite met the threshold where you would declare them to be a very difficult project or a project of concern. It is like an amber light when you come to the traffic lights – you have just got to be cautious. I would prefer to keep that one as a management prerogative and we put our efforts into it in the short term to try to get it fixed.<sup>23</sup>

- 2.25 The ANAO further stated that even with the inclusion of specific PoC reporting into the MPR, the focus of the MPR is different to that of what is required to report specifically on PoC. The ANAO suggested that the committee could request a list annually of those PoC which are not included in the MPR and seek further information on these projects ‘on a shorter term basis than would be the case for MPR projects.’ The ANAO also stated that ‘under this approach, consideration would also need to be given ... to any possible commercial sensitivity attached to such reporting.’<sup>24</sup>
- 2.26 Determining exit criteria that could be used for removing projects from the MPR was also raised in relation to ascertaining when a project is completed.

### Exit criteria

- 2.27 As a number of projects will be completed in the upcoming MPRs, the issue of how long a project should continue to be reported on in the MPR and when it should be removed from the MPR was raised.
- 2.28 In accordance with the 2010-11 MPR selection of projects’ criteria, projects would be removed from the MPR once Final Materiel Release (FMR) and Final Operational Capability (FOC) have been achieved.<sup>25</sup>
- 2.29 The ANAO provided an explanation of FMR and FOC and stated:

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23 Dr Gumley, DMO, Transcript of Evidence, Canberra, 28 February 2011, p. 9.

24 ANAO, *Submission 2*, p. 3.

25 DMO, *DMO 2010-11 Major Projects Report: Work Plan*, paragraph 1.8, p. 3.

Final materiel release ... is basically when DMO consider they have completed their contract. They hand the equipment over to the Department of Defence and the Department of Defence then undertake training, testing and all the rest of the things that they need to do to put it into use. Final operational capability is that period of time when the capability manager accepts that it is ready for use.<sup>26</sup>

- 2.30 The ANAO commented that the DMO in its relationship with the Department of Defence ascertains completion of a project as the point where FMR is achieved, and that the Department of Defence uses FOC.<sup>27</sup> In addition, the ANAO stated:

By way of background, in February 2010 the Defence Committee (Departmental) agreed to the adoption of the concepts of Initial Materiel Release (IMR) and Final Materiel Release (FMR) to clearly and explicitly define the mechanisms where the materiel element of capability is formally transferred from the DMO to the Capability Manager. This change acknowledges that achievement of FOC is the responsibility of the Capability Manager (and not the DMO), and includes the addition of items such as training for pilots, and completion of aircraft hangers, which are part of the Fundamental Inputs to Capability.<sup>28</sup>

- 2.31 The DMO is currently transitioning from using Initial Operational Capability (IOC) and FOC to Initial Materiel Release (IMR) and FMR. The DMO stated that:

IMR and FMR will mark the DMO milestones for delivery and release to the Capability Managers or materiel supplies to support the Capability Manager's achievement of IOC and FOC. The IOC and FOC are Defence milestones that represent the estimated timeframe for when a capability system ... will achieve full capability. Consequently, the shift to IMR and FMR will provide greater clarity of responsibilities between the DMO and Capability Managers.<sup>29</sup>

- 2.32 The DMO acknowledged that there is a tension between initial and final materiel release and achieving full operating capability.<sup>30</sup> The DMO
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26 Mr Michael White, Executive Director, ANAO, Transcript of Evidence, Canberra, 28 February 2011, p. 3.

27 Mr White, ANAO, Transcript of Evidence, Canberra, 28 February 2011, p. 3.

28 ANAO, *Submission 2*, p. 2.

29 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 88.

30 Dr Gumley, DMO, Transcript of Evidence, Canberra, 28 February 2011, p. 4.

further stated that IMR and FMR, not FOC provide the best measures of the DMO's effectiveness as this is the point where DMO's responsibility in terms of project management ends and the project becomes the responsibility of the Capability Manager (who is attached to the Department of Defence). The DMO stated:

When the MPR was developed several years ago, Final Operating Capability was considered to be the logical end point at which projects would qualify for removal from the MPR. However, in February 2010 the Department's Defence Committee agreed to the concepts of Initial Materiel Release and Final Materiel Release to explicitly define the points at which the materiel element of capability is formally transferred from the DMO to the capability manager. This change acknowledges that achievement of Final Operational Capability is the responsibility of the Capability Manager and not the DMO. Hence, Initial Materiel Release and Final Materiel Release, - not Final Operational Capability - provide the best measurement of the effectiveness of DMO.<sup>31</sup>

- 2.33 The ANAO suggested that the exit criteria for an MPR project include both the FMR and FOC stages as the MPR is an accountability document on DMO's performance, but importantly also reports on project visibility.<sup>32</sup>
- 2.34 The ANAO also stated that the DMO is undertaking an analysis of the 'difference in scale, size and incidence of requirements to be completed between the FMR and FOC.' The Guidelines for the 2010-11 MPR include for both FMR and FOC to be reported.<sup>33</sup>
- 2.35 In addition, the DMO suggested that following their completion, projects could stay in the MPR for an additional year to report on lessons learned. The DMO stated:

.. a project should probably stay on for another year after it has finally met the criteria so that we can all do the lessons learned. It also requires some reflection to say, 'What did we get right on that project, what did we get wrong and how can we apply it to future projects.'<sup>34</sup>

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31 Dr Gumley, DMO, Opening Statement, *Submission 3*, p. 4.

32 Mr McPhee, ANAO, Transcript of Evidence, Canberra, 28 February 2011, p. 5.

33 ANAO, *Submission 2*, p. 2.

34 Dr Gumley, DMO, Transcript of Evidence, Canberra, 28 February 2011, p. 14.

## Concluding comments

### Accountability and transparency of project and project management information

- 2.36 The committee acknowledges and accepts the comments made by the Australian National Audit Office (ANAO) that the 2009-10 Major Projects Report (MPR) includes a greater level of information about each project's performance and that it provides a basis for greater longitudinal analysis on project performance in future years.
- 2.37 The committee also notes the Defence Materiel Organisation's (DMOs) comments in relation to cost 'blow-outs' and schedule delay of projects as reported in the media from time to time and believes that the DMO could do more to ensure that systems are in place to prevent schedule delays. The committee believes that, if not already occurring to a large extent, that it is inevitable that schedule delays will, in the long term lead to increased costs associated with managing and completion of projects, especially where those delays are lengthy.

### Guidelines for the project data summary sheets

- 2.38 The committee has noted the changes associated with the 2010-11 MPR Guidelines and exit criteria for projects and endorses them as the framework for the Project Data Summary Sheets (PDSS).
- 2.39 The committee received the DMO's proposed list of projects for inclusion at the commencement of the 43<sup>rd</sup> Parliament which afforded adequate time for the consideration and endorsement of the list.
- 2.40 The 2010-11 Guidelines were requested at the public hearing for the review of the 2009-10 MPR on 28 February 2011 and made available to the committee in late March 2011.
- 2.41 Given the short time frame for the production of each annual MPR (which includes the ANAO's review), the committee could undertake its role more effectively if it were provided with the Guidelines for the following year's MPR at the same time that it receives the list of possible projects for inclusion. This would provide more time for the committee's annual review of the MPR. This would also avoid possible inefficiencies for the DMO in meeting the annual MPR work schedule.

### Projects of concern

- 2.42 Projects are classified as Projects of Concern (PoC) when they encounter significant challenges with scheduling, cost, capability delivery or project

management. The list of POC was created in 2008 by the Minister for Defence and is separate to the annual MPR process of the reporting of selected major capital acquisition projects.

- 2.43 The committee notes that five of the 12 currently listed PoC are reported on in the 2009-10 MPR. All projects that are included in the MPR have met the requirements of the agreed criteria as specified in the 2009-10 MPR Guidelines.
- 2.44 The option for DMO to report to the committee specifically on PoC within the MPR was considered in regard to two main issues. These are: the possible increase in the cost of producing the MPR, and the possible increase in the length of time a project continues to be reported on in the MPR.
- 2.45 The committee believes that projects classified as PoC should not specifically be reported on simply because they are PoC projects, but rather because they meet the criteria of being major projects as included in the Guidelines for the PDSS.

#### Exit criteria

- 2.46 For the first time since review of the MPRs commenced, projects that have been completed may be exited from the MPR. In this regard, the committee was asked to consider the criteria for the exit of projects from the MPR.
- 2.47 The point at which projects are considered complete and so able to be taken out of the MPR was presented to the committee as the points at which either Final Materiel Release (FMR) or Final Operational Capability (FOC) is achieved.
- 2.48 The committee understands that FMR is when the DMO considers it has completed its contract for a particular capital acquisition project and FOC is the point at which the Department of Defence accepts that the capital or equipment is ready for use.
- 2.49 The DMO put forward the view that FMR should be the point at which a project is considered complete for the purpose of the MPR and hence should no longer be reported on in the MPR. At the point of FMR, the DMO's responsibility in relation to project management ends and the project becomes the responsibility of the Department of Defence.
- 2.50 The ANAO suggested that the exit criteria for projects from the MPR include both FMR and FOC as the MPR is an important accountability document on the DMO's performance and allows for project visibility.

- 2.51 The committee notes both the viewpoints presented by the DMO and the ANAO, and also notes that the 2010-2011 MPR Guidelines include both FMR and FOC as the point of exit for projects for the MPR.
- 2.52 The committee acknowledges that the MPR document is an accountability document and understands the difference in the role of the DMO and the Department of Defence in regard to projects included in the MPR. However, the committee also believes there is value in terms of increased transparency and improved accountability in including reporting on both FMR and FOC before projects are removed from the MPR.
- 2.53 The committee also acknowledges and supports DMO's efforts in its current analysis of the difference in scale, size and incidence of requirements to be completed between FMR and FOC. The committee awaits the DMO's report on this analysis. The committee will consider seeking further comment on this point from each of the three services, the Department of Defence, the ANAO and industry generally.
- 2.54 The DMO also suggested that completed projects remain on the MPR for an additional year so that lessons learned may be reported on in the consecutive MPR. The committee believes there is merit in reporting on lessons learned from projects and understands this is a strategic approach to planning which should already be part of the DMO's internal practice of monitoring and review of projects.
- 2.55 In the interest of visibility of projects and in the spirit of the MPR, the committee agrees that lessons learned on projects that will be retired from the MPR should be reported on in regard to whole-of-organisation best practice improvement. The committee does not see a reason for these projects to delay the listing of future possible projects. However, the listing of completed projects (for example in an appendix) would seem to be a reasonable compromise.

### **Recommendation 1**

- 2.56 **The committee recommends that the Major Projects Report (MPR) Work Plan (which contains the MPR Guidelines) be provided to the Joint Committee of Public Accounts and Audit concurrently with the list of proposed projects for inclusion and exclusion in the following year's MPR, no later than 31 August each year.**

**Recommendation 2**

- 2.57 The committee recommends that Projects of Concern (PoC) not be specifically included in the selection criteria for projects to be reported on in the Major Projects Report (MPR), but where projects reported on in the MPR are also PoC, that they continue to be identified as such.

**Recommendation 3**

- 2.58 The committee recommends that the exit criteria for projects reported on in the Major Projects Report be the point at which both Final Materiel Release and Final Operational Capability (as currently defined by the Defence Materiel Organisation and Department of Defence respectively) is achieved.

**Recommendation 4**

- 2.59 The committee recommends that in determining whether the exit criteria is appropriate for future Major Projects Reports (MPRs), that the Defence Materiel Organisation's assessment of the difference in scale, size and incidence of requirements to be completed between Final Materiel Release and Final Operational Capability be provided to the Joint Committee of Public Accounts and Audit as soon as possible to allow for the implementation of any changes to occur for the 2011-12 MPR. In conducting its analysis, the DMO should consult with the three services, the Department of Defence, the Australian National Audit Office and industry representatives.

**Recommendation 5**

- 2.60 The committee recommends that once projects have met the exit criteria, they be removed from the Major Projects Report (MPR) and for each project which has been removed, the lessons learned at both the project level and the whole-of-organisation level are included as a separate section in the following MPR.

## Auditor-General's Review

### Conduct and scope

- 3.1 The ANAO's assurance review of the 2009-10 MPR was undertaken as an audit by arrangement with the DMO pursuant to subsection 20(1)(c) of the *Auditor-General Act 1997* (Cwlth). The assurance review is additional to the ANAO's regular performance and financial audits of the Defence portfolio.
- 3.2 Under a section 20 agreement, the ANAO 'conducts an assurance review of all projects included in the MPR, in accordance with the Auditor-General's Independent Review Report's scope, criteria and methodology.' The ANAO determines its review methodology in formulating an opinion.<sup>1</sup>
- 3.3 The audit was performed in accordance with Australian Standard on Assurance Engagements 3000<sup>2</sup> and provides for a lesser level assurance than a typical performance audit on an individual defence project in regard to:
- 'the nature and scope of project issues covered, and
  - the extent to which evidence is required by the ANAO.'<sup>3</sup>

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1 Australian National Audit Office (ANAO), *2009-10 Major Projects Report: Defence Materiel Organisation*, Australian National Audit Office, Canberra, p. 382.

2 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 27.

3 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 16.

- 3.4 When assessing information contained in the PDSS, the ANAO examines the project performance taking into consideration: 'budgeted cost, schedule and progress towards delivering the planned capability.'<sup>4</sup>
- 3.5 In addition to assessing the PDSS, the ANAO's assurance review also examined the longitudinal analysis of projects over time and 'further insights by the DMO on issues highlighted during the year'.<sup>5</sup>
- 3.6 The assurance review did not include 'review of PDSS data on the achievement of future dates or events' including Measures of Effectiveness, and major risks and issues.<sup>6</sup> In regard to the exclusion of these items the ANAO stated:

By its nature, this information relates to events and depends on circumstances that have not yet occurred or may not occur, or have occurred but have not yet been identified. Accordingly, the conclusion of this review does not provide any assurance in relation to this information.<sup>7</sup>

## Formal audit opinion

### Audit qualification

- 3.7 The assurance review found (apart from the qualifications made in regard to expenditure in base date dollars and contract price in base date dollars), that the PDSS had been prepared 'in all material aspects, in accordance with' PDSS Guidelines.<sup>8</sup>
- 3.8 Specifically, qualifications were provided for the 'non inclusion of project expenditure history expressed in base date dollars for 19 major projects and the prime contract price in base date dollars for four major projects.'<sup>9</sup> Similar conditions for audit qualification were also provided for the two previous MPRs of 2007-08 and 2008-09.

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4 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 17.

5 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 15.

6 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 15.

7 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 16.

8 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 17.

9 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 17.

3.9 The 2009-10 MPR defines base date dollars as 'the amount adjusted for the impact of inflation (prices) and foreign exchange movement over the period from a specified date.'<sup>10</sup>

3.10 The 2009-10 MPR further states that recording prices in base date dollars allows for the cost of a project to be compared (in like terms) to the actual expenditure over time. In addition, the financial tables in the PDSS 'adjust for real variations to budgeted costs, which involve:

- changes in the quantities of equipment or capability;
- transfers to the Defence Support Group to fund the acquisition of facilities and transfers for other projects; and
- budgetary adjustments such as the impact of efficiency dividends.'<sup>11</sup>

3.11 In regard to expressing expenditure data in base date dollars in the PDSS the ANAO stated this method of reporting demonstrates expenditure performance against the initial approved budget at the second pass approval stage (or when the Government commits to the particular acquisitions). The ANAO explained:

The provision of information in terms of base date dollars is one way of demonstrating DMO's expenditure performance against the originally approved budget at second pass approval, which, broadly speaking is the stage when Government commits to the particular acquisitions.<sup>12</sup>

3.12 The ANAO also stated that reporting on projects' using base date dollars simplifies the assessments that can be undertaken on the information and clarifies information so that it can be readily understood by the reader. Importantly, expressing expenditure and price data in base date dollars (or also possibly using the different method of out-turned dollars) allows for comparison of the initial approvals to the final outcome in a constant manner.<sup>13</sup> The ANAO stated:

The analysis we are able to do when we have base date dollars or out-turned dollars so that we can actually compare the information from second pass approval right through to final expenditure, is something that I think is of assistance to us in our

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10 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 17.

11 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 17.

12 Mr Ian McPhee PSM, Auditor-General, Australian National Audit Office, Transcript of Evidence, Canberra, 28 February 2011, p. 2.

13 Mr Michael White, Executive Director, Australian National Audit Office, Transcript of Evidence, Canberra, 28 February 2011, p. 19.

analysis. It would tell us whether a project has come inside the budget and whether it would realise a surplus or whether there would be a deficit at the end of the project. I think it adds information for the reader because it comes back to the notion of whether you got ten planes for \$10 billion and it simplifies the assessments that you can do on the information. ... DMO are currently looking at the usefulness of putting out-turn dollars there and I think that both are aimed at doing the same thing, which would be allowing you to compare the initial approvals to the final outcome in a constant manner.

- 3.13 In an effort to address the issues associated with a qualified audit conclusion for the 2008-09 MPR in relation to not recording expenditure in base date dollars, the DMO proposed to use Assets Under Construction (AUC) data instead. The previous committee was aware of the DMO's proposed approach. However, the DMO was not able to implement this approach (through inclusion of AUC data) in the 2009-10 MPR.<sup>14</sup>
- 3.14 In an alternative approach to solving the issues surrounding qualification of price and expenditure data in regard to base date dollars for the 2009-10 MPR, the ANAO advised that the DMO is now examining reporting using out-turned dollars.<sup>15</sup>
- 3.15 The DMO commented that the 'out-turned dollar' reporting approach represents the future value of the amount expended on a project. The DMO is testing this approach by applying it to project approval value and determining to what extent, if any, project approval value may be exceeded. The DMO stated:

... the issue of base date dollar is still the same. Now we are really talking about it in an out-turning sense. What we mean is the future value of that dollar – which is when the project is approved by Government as second-pass. In reality, in future the project approval value – which we are trying to look at: whether we have exceeded or DMO will exceed that project approval value – will always be the same figure from today to 10 years in the future. In other words, it will be in those year dollars from when the project was approved rather than reverse back to what was done some

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14 ANAO, *2008-9 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, para. 1.46, p. 58.

15 Mr White, ANAO, Transcript of Evidence, Canberra, 28 February 2011, p. 6.

time ago. I think we are consistent in our thinking; it is just a different terminology.<sup>16</sup>

3.16 Further, the DMO stated that while the current preference is to use out-turned dollars for reporting on new projects, this has not always been the case, and those older projects reported on in the MPR need to be updated using the new method.<sup>17</sup>

3.17 The approach to report in out-turned dollars is in contrast to the approach suggested by the DMO during the previous JCPAA Inquiry into financial reporting and equipment acquisition at the Department of Defence and Defence Materiel Organisation.<sup>18</sup>

3.18 In evidence provided in 2007 to the previous JCPAA inquiry, the DMO was in favour of reporting in constant dollars whereby the effects of inflation and foreign exchange are eliminated. The DMO also noted that out-turned prices were not very useful in determining whether a project has had a real cost increase or not over time. The DMO stated:

... the best way to talk about the quality of the project is to have everything in real dollars-constant dollars. That eliminates the effects of inflation and foreign exchange, and it stops this non-farm deflator instrument being used for out-turned prices, which you need to do to get appropriations but it is a piece of mathematics that is used for appropriation purposes but is not terribly helpful when we are trying to work out whether a project has had a real cost increase or not.<sup>19</sup>

3.19 Further, in evidence to a previous JCPAA, the Chief Executive Officer of the DMO advised that there are legitimate reasons for using different pricing methods and stated:

I have attempted over the last two years to use real pricing wherever possible and that is what I have asked my people to use wherever possible. But there are other bodies with legitimate needs for different types of pricing. If you are chasing

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16 Mr Steve Wearn, Chief Finance Officer, Defence Materiel Organisation (DMO), Transcript of Evidence, Canberra, 28 February 2011, p. 6.

17 Mr Wearn, DMO, Transcript of Evidence, Canberra, 28 February 2011, p. 8.

18 Dr Stephen Gumley, Chief Executive Officer, Defence Materiel Organisation (DMO), Transcript of Evidence, Canberra, 15 August 2007, Joint Committee of Public Accounts and Audit, Inquiry into financial reporting and equipment acquisition at the Department of Defence and Defence Materiel Organisation, p. 9.

19 Dr Gumley, DMO, Transcript of Evidence, Canberra, 15 August 2007, Joint Committee of Public Accounts and Audit, Inquiry into financial reporting and equipment acquisition at the Department of Defence and Defence Materiel Organisation, p. 9.

appropriation, you have to use out-turning, so there are legitimate reasons why you have to use other ones. In all of the work I have done with media and when I do my business plan reviews, I talk to industry and so on, I try and use real prices throughout.<sup>20</sup>

- 3.20 In response to reporting on older projects in base date dollars or out-turned dollars the ANAO acknowledged that it would require additional time to investigate this approach and suggested that it could be implemented for the 2011-12 MPR.<sup>21</sup>
- 3.21 The ANAO stated that reporting using out-turned dollars for older projects such as for the Guided Missile Frigate Upgrade Implementation or FFG may not be feasible, but that it would be possible for all new projects included in the MPR.<sup>22</sup> The DMO and the ANAO advised that they would work together to provide the committee with a list of projects included in the MPR that are able to be reported on using out-turned dollars.<sup>23</sup>
- 3.22 In an effort to allow for differentiation between the two reporting approaches and clarification on the effect of the accounting standard change, the DMO stated that it would be in the public interest to report the old and the new methods in comparison tables in the MPR. The DMO stated:
- ... it would be of interest to the public also that in the year that we do make a change – which might be next year or the year after – we will compute the data by both methods, the old method and the new method, and have the tables next to each other, so that everyone always understands the effect of the accounting standard change, if you like, compared with the real thing going on in life. I think we need to measure it both ways for one year, so you can differentiate the two effects.<sup>24</sup>
- 3.23 In regard to timing of the assessment on reporting on out-turned dollars, the ANAO advised that the DMO and the ANAO would work together to provide the committee with a ‘comprehensive proposal for transition to a new arrangement and [ANAO’s] subsequent review’ by August 2011. This

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20 Dr Gumley, DMO, Transcript of Evidence, Canberra 15 August 2007, Joint Committee of Public Accounts and Audit, Inquiry into financial reporting and equipment acquisition at the Department of Defence and Defence Materiel Organisation, p. 9.

21 Mr McPhee, ANAO, Transcript of Evidence, Canberra, 28 February 2011, p. 7.

22 Mr White, ANAO, Transcript of Evidence, Canberra, 28 February 2011, p. 20.

23 Mr Tony Hindmarsh, Chief Audit Executive, DMO, Transcript of Evidence, Canberra, 28 February 2011, p. 20.

24 Dr Gumley, DMO, Transcript of Evidence, Canberra, 28 February 2011, p. 7.

would allow for alignment with the process for project selection for the 2011-12 MPR.<sup>25</sup>

3.24 The DMO and ANAO consequently provided the committee with Guidelines for the development of the PDSS for the 2010-11 MPR. This included a list of 11 projects which will be reported on in base date dollars and current dollars for expenditure, with the remaining 17 projects disclosing only current dollars expenditure.<sup>26</sup> These 11 projects are:

- Airborne Early Warning and Control Aircraft – AIR 5077 Ph 3
- Multi-Role Helicopter – AIR 9000 Ph 2, 4 & 6
- Amphibious Deployment and Sustainment – JP 2048 Ph 4A/B
- Armed Reconnaissance Helicopter – AIR 87 Ph 2
- Air to Air Refuelling Capability – AIR 5402
- C-17 Heavy Airlifter – AIR 8000 Ph 3
- Bushmaster Protected Mobility Vehicle – LAND 116 Ph 3
- Next Generation Satellite Program – JP 2008 Ph 4
- Armidale Class Patrol Boat – SEA 1444 Ph 1
- Anzac Ship Anti-Ship Missile Defence – SEA 1448 Ph 2A
- Anzac Ship Anti-Ship Missile Defence – SEA 1448 Ph 2B<sup>27</sup>

## Other findings

### Projects' capability performance

#### Measures of Effectiveness

3.25 At the project acquisition stage, the scope of a project is determined through a Materiel Acquisition Agreement (MAA) made between the Department of Defence (Capability Development Group) and the DMO.

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<sup>25</sup> ANAO, *Submission 2*, p. 3.

<sup>26</sup> ANAO, *Submission 2*, p. 1.

<sup>27</sup> DMO, *DMO 2010-11 Major Projects Report: Work Plan, Guidelines for the development of the Project Data Summary Sheets (PDSS)*, para 2.2, p. 9.

- 3.26 MAAs incorporate a number of Measures of Effectiveness (MOE). MOE 'are designed to set out the key capability performance attributes of the system to be delivered by the DMO.' Further, MOE represent the expected technical status of a project once completed and 'provide insight into a system's likely suitability for planned operational release.'<sup>28</sup>
- 3.27 In regard to specification and focus of MOE, the ANAO found that 'there is not a clear underlying consistency in the identification and articulation of MOE in the MAAs.'<sup>29</sup> The ANAO made a similar finding in regard to MOE in the 2008-09 MPR.
- 3.28 As MOE data relates to forecasting future achievements it is excluded from the scope of the ANAO's formal review. However, this data is provided by DMO to the ANAO so that the accuracy of MOE data included in the PDSS can be assessed.<sup>30</sup>
- 3.29 In line with the confidentiality requirements, associated with national security data for projects, only the status of the 'assessment of the likelihood of delivering the required MOE is contained in the 2009-10 MPR and earlier reports.' This assessment is presented through a traffic light analysis whereby:
- Green represents a high level of confidence for the delivery of a project.
  - Amber represents projects which may be under threat, but are still considered manageable.
  - Red represents projects which are unlikely to be met at this stage.<sup>31</sup>
- 3.30 The ANAO stated that the MOE provided in regard to the information contained in the 2009-10 MPR PDSS allows for broad trends to be identified and examined in regard to project delivery and capability performance. The ANAO stated:

While a multi-year comparison of capability performance needs to be treated with caution due to year-to-year changes in the bases of the data, this third MPR provides the opportunity to start to examine broad trends in the DMO's assessment of the likelihood of projects delivering the required capabilities over time. This comparison can be done through examining this year's PDSS and

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28 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 52.

29 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 52.

30 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 53.

31 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 53.

data reported by the DMO in its part of the MPRs for 2007-08 and 2008-09.<sup>32</sup>

- 3.31 Using the current MOE, the ANAO identified five projects which may be classified as under threat and one which at this stage is unlikely to be met.<sup>33</sup>
- 3.32 The DMO advised that it is unlikely that MOE will be reported on in their current form in the 2010-11 MPR.<sup>34</sup>
- 3.33 The 2010-11 MPR Guidelines provide that the previous section 3.5 Measures of Effectiveness is moved to section 4.1 and has been revised so that the:

Capability pie chart and associated narratives will provide a percentage breakdown of the FMR Milestones and Completion Criteria, as identified in the respective MAA, prior to ANAO site visit.<sup>35</sup>

## Projects' governance over acquisition processes

- 3.34 In the 2009-10 MPR, the ANAO reviewed a number of major governance aspects of projects. These were: Gate Review Assurance Boards, management of projects of concern, business systems, measures to improve clarity of financial information in the MPR, identification of projects' emergent risks, contingency budgets, the use of Earned Value Management Systems, and skills development.<sup>36</sup>
- 3.35 Discussion on the issues associated with the financial control framework for projects and the Gate Review Assurance Boards follows.

## Financial control framework for projects

- 3.36 Examination of the DMO's acquisition process provides the ANAO with an understanding of DMO's operations and design and implementation of the ANAO's test program for review. The test program includes 'the

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32 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 53.

33 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, pp 54-56.

34 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 52.

35 DMO, *DMO 2010-11 Major Projects Report: Work Plan*, Guidelines for the development of the Project Data Summary Sheets, para 4.1, p. 12.

36 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 57.

examination of the DMO's financial control framework, enterprise risk management arrangements and a formal assurance mechanism.<sup>37</sup>

3.37 With the aim of addressing the qualification provided in 2008-09 for the non disclosure of information in relation to prime contract price and expenditure in base date dollars, the ANAO reviewed the financial control framework underpinning DMO's management of its projects.<sup>38</sup>

3.38 Broadly, the ANAO found that the financial control framework differed for each of the projects examined. This was because of the 'wide range of corporate and project management systems being employed and the varying financial management policies being adopted by different project offices.' This meant that there was inconsistency of information recorded across projects and that 'efficiencies could not be gained by adopting a consistent approach to developing and subsequently reviewing each PDSS.'<sup>39</sup>

3.39 The DMO stated that there is a process of amalgamation under way where legacy projects are being standardised in terms of current management systems and that it would be another two to four years before completion of the process. The DMO stated:

DMO was an amalgamation of the acquisition commands of the three services and then an amalgamation of the sustainment commands of the three services, and then the two acquisition sustainment commands got together to make a further amalgamation. That happened in about 2000. Bashing together all the systems and making them all identical has been an enormous challenge. You have to also ask: what do you do with legacy projects? If a project was started in 1998, do you keep it on the system it started with or do you move it over to a new system? We could work a lot harder in getting standardisation across. We have a standardisation office of about 20 people whose sole job it is to try and bring all the projects into a common standard. But it is long and arduous work, and it will probably be two, three or four years before we finish it.<sup>40</sup>

3.40 The ANAO also found that for some projects there were issues of accuracy and completeness of information 'in the current DMO systems for

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37 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 22.

38 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 31.

39 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 31.

40 Dr Gumley, DMO, Transcript of Evidence, Canberra, 28 February 2011, p. 14.

reporting on project status to senior management.<sup>41</sup> The ANAO provided an explanation of this finding and stated:

...as we go through an audit or assurance process, we look at the controls and the structure around the information that we are looking at. We are talking here about information and reporting that is predominantly collected manually. Obviously, as we look at an assurance process, at times we find errors. I could be wrong, but as that information would have gone through the chain in DMO it would have probably been picked up also, but we are reflecting that, as the information is provided, there will be errors in it – and there are a string of [quality assurance] processes and those kinds of things that need to occur to weed out that kind of error that is introduced through manual processes.<sup>42</sup>

### Gate Review Assurance Boards

- 3.41 The process of using Gate Review Assurance Boards (GRAB) was examined by the ANAO as it is a key part of the governance framework of projects.
- 3.42 The GRAB process was introduced in 2008 in response to recommendations arising from the *Defence Procurement and Sustainment Review* or Mortimer Review.<sup>43</sup>
- 3.43 The GRAB consists of senior line management, other relevant DMO staff with key skills sets, and an external independent member. There is a requirement that a GRAB reviews projects at three specified points or gates at: First Pass Approval, Second Pass Approval, and contract signature. At a minimum a project must be cleared by a GRAB at these stages if it is to progress to the next stage.<sup>44</sup>
- 3.44 The GRAB cycle provides assurance to the Chief Executive Officer of the DMO 'that all the identified risks for a project (cost, schedule, technical/capability) are manageable.'<sup>45</sup>
- 3.45 The ANAO reported that in total 20 projects have been subject to a GRAB review with five of these projects included in the 2009-10 MPR. In regard to the five 2009-10 MPR projects, the ANAO found that the GRAB Review

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41 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 23.

42 Mr White, ANAO, Transcript of Evidence, Canberra, 28 February 2011, p. 15.

43 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 58.

44 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 58.

45 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 57.

outcomes were consistent with the relevant information reported in the MPR.<sup>46</sup>

- 3.46 The DMO stated that the GRAB process of review provides a check on project management processes. The DMO stated:

One of the advantages of a Gate review is that it is not always obvious to a project manager what domain they are working in. When have you changed it enough that it is an important change or when have you changed it so that you are really into the area of new design development? One of the great advantages of the experienced people on the gate review boards is to be able to highlight some of the risks that the project manager might be getting into unintentionally – it has grown from it being off-the-shelf, changes have been introduced as the project has matured and now they are starting to get into another area. As you can see from that illustration that can have some quite profound effects on schedule in particular in our case if you are not seeing the changes. So the boards are doing that and the boards are feeding back into the project managers' lessons learned – long-term lessons learned, the risks of integration, schedule risks and so on.<sup>47</sup>

- 3.47 The ANAO stated that it would continue to assess the GRAB review process for potential efficiencies and has sought information from the DMO on performance measures in relation to the delivery of projects 'within the agreed milestones.'<sup>48</sup>

### Earned Value Management Systems

- 3.48 The previous committee requested that through the 2009-10 MPR, the ANAO cover specific governance areas of projects. This included Earned Value Management Systems (EVMS) at the project level, 'the controls over the use of contingency budgets, and the management of prepayments to contractors.'<sup>49</sup>
- 3.49 The ANAO provided an explanation of EVMS as:

A method of using actual cost and schedule information to measure and report project performance, as well as forecast future

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46 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 58.

47 Mr Warren King, General Manager Programs, DMO, Transcript of Evidence, Canberra, 28 February 2011, p. 16.

48 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 58.

49 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, pp 22 and 30.

performance, and can be used to ensure that project payments do not exceed the value of work performed.<sup>50</sup>

- 3.50 In particular, the previous committee was interested in including EVMS data at the project level as a requirement in the PDSS. As a result, the ANAO reviewed the extent to which EVMS are being used in projects in the 2009-10 MPR.<sup>51</sup>
- 3.51 In its response to the previous committee, in relation to the 2007-08 MPR, the DMO stated that it was unable to provide EVMS data 'for those projects with contract arrangements that do not have Earned Value Management requirements', which includes Foreign Military Sales procurements. In addition, the DMO was concerned that providing EVMS data for selected projects only would not meet the objective behind the MPR, which is 'to have a standardised set of data across all MPR projects.'<sup>52</sup>
- 3.52 In the 2009-10 MPR, the DMO reported on the use of EVMS in regard to its projects and stated that 14 of the 22 MPR projects are currently or have previously used EVMS 'as a payment or contract management method.'<sup>53</sup>
- 3.53 The DMO also reported that while EVMS is commonly used for contracts valued at \$20 million or more, the majority of major capital acquisition projects use 'milestone payment options, as this is a more appropriate way of ensuring the delivery of goods and services as specified in the contract.'<sup>54</sup>
- 3.54 The ANAO reported that:
- Where projects' contracts and schedules had been re-base lined, EVMS was no longer linked to contractor payments, and instead those projects use a milestone-only approach (that is, all payments are made on the achievement of the agreed milestones).<sup>55</sup>

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50 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 63.

51 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 63.

52 Joint Committee of Public Accounts and Audit, November 2009, *Report 416: Review of the Major Projects Report 2007-2008*, Parliament of the Commonwealth of Australia, Canberra, pp 12-13.

53 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 127.

54 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 12.

55 ANAO, *2009-10 Major Projects Report: Defence Materiel Organisation*, ANAO, Canberra, p. 64.

## Concluding comments

### Audit qualification

- 3.55 The Auditor-General through the Australian National Audit Office (ANAO) provided a qualified audit opinion in relation to the 2007-08, 2008-09 and 2009-10 Major Projects Reports (MPRs). Similarly, all three qualified opinions were given in regard to price and expenditure information not being provided in base date dollars.
- 3.56 The committee understands that presenting price and expenditure information in base date dollars excludes the impact of inflation and foreign exchange movement on prices and presents dollars in a constant manner. The committee agrees with the ANAO that using the base date dollar approach facilitates the understanding of expenditure on projects and so provides clarity in determining whether a project has met, come under or exceeded its approved budget.
- 3.57 The Defence Materiel Organisation (DMO) has previously suggested the use of Assets Under Construction data as a reporting methodology, to address the qualification received on the 2007-08 MPR. This approach was not able to be implemented.
- 3.58 The DMO is currently exploring using out-turned dollars to address the qualification. Out-turned dollars will present expenditure on project information for the future value of the project from the year in which the project was approved.
- 3.59 The committee notes DMO's previous stance on the use of constant dollars to report on projects. This is in line with the approach of using base date dollars, but in contrast to its preferred current approach and its examination of the out-turned dollars approach to reporting expenditure on projects. The committee would like to understand the rationale for the change in preference for reporting methods for expenditure.
- 3.60 The committee acknowledges that presenting MPR project information in out-turned dollars would be possible for new projects entered into the MPR, but may present a challenge for the DMO in regard to older projects. The DMO has proposed to present in a comparison table, the expenditure on 11 projects in both out-turned dollars, base date dollars and current dollars. The committee supports this approach.
- 3.61 The committee also notes that a number of the projects included in the list of eleven are older projects such as the Airborne Early Warning and Control Aircraft, the Bushmaster Protected Mobility Vehicle and the

Armidale Patrol Boat and if they readily lend themselves to being expressed in out-turned dollars, then it should also be possible for other older projects. The committee would support this approach for all projects with the exception of the Guided Missile Frigate Upgrade Implementation which has been ongoing since 1999 and may present a significant investment in time and resources for reporting.

- 3.62 The committee's preference would be for project expenditure information to be reported on in a constant manner. This approach would allow for a constant set of expenditure information to be presented, allowing for ease of comparison between years, identification of any project concerns and overall more effective and efficient scrutiny. In turn, improvements in scrutiny would allow for increased transparency of information and greater ease of monitoring, leading to policy and practice improvements. In the longer term, the DMO's accountability in its project management would also be strengthened.

#### Measures of Effectiveness

- 3.63 Measures of Effectiveness (MOE) represent the key capability performance attributes of the system to be delivered by the DMO. MOE also represent the expected technical status of a project once completed and provide insight into a system's likely suitability for planned operational release.
- 3.64 The ANAO's review found that in regard to specification and focus of MOE, there is not a clear underlying consistency in the identification and articulation of MOE in the Materiel Acquisition Agreements, which are the scope documents for major capital acquisition projects.
- 3.65 The ANAO noted that while MOE data relates to forecasting future achievements and so is excluded from the scope of the ANAO's formal review, MOE data is made available to the ANAO so that the accuracy of MOE data that is included in the Project Data Summary Sheets (PDSS) can be assessed.
- 3.66 The DMO advised that it is unlikely that MOE data will be reported on in its current form in the 2010-11 MPR. The committee did not receive evidence about the implications of changing the form of MOE data in the 2010-11 MPR and so is uncertain about how this information will be presented.
- 3.67 The committee believes that in terms of consistency and in line with the need to be able to compare data across consecutive MPRs that the form in which MOE data is presented in the 2010-11 not be changed from how it is presented in the 2009-10 MPR without firstly undertaking a thorough

analysis of any proposed changes and with subsequent endorsement of the preferred approach by the committee.

#### Financial control framework for projects

- 3.68 The ANAO's test program for review includes the examination of the DMO's financial control framework, enterprise risk management arrangements and a formal assurance mechanism.
- 3.69 The DMO stated that it is still in the process of amalgamation in terms of the management process applied to legacy projects and that it will be another two to four years before this is completed.
- 3.70 The committee is interested in the ongoing effects of this amalgamation on how MPR projects are managed and what impact this will have for meeting project cost, schedule and capability.

#### Gate Review Assurance Boards

- 3.71 The committee supports the principle underlying the Gate Review Assurance Boards (GRAB) process which is to provide assurance to the Chief Executive Office of the DMO that all identified risks in regard to cost, schedule and capability are manageable.
- 3.72 The ANAO stated that it will continue to assess the GRAB process for potential efficiencies and has sought relevant information from the DMO to enable this to occur.
- 3.73 The committee supports the ANAO's review of the GRAB process and looks forward to receiving the results of the ANAO's analysis.

#### Earned Value Management Systems

- 3.74 Earned Value Management Systems (EVMS) data is used to monitor the cost and schedule of projects. In the interest of improving the accountability and transparency of the management of major projects, the previous committee requested that EVMS data be included in the PDSS.
- 3.75 The committee agrees with the previous committee's request that the DMO in conjunction with the ANAO develop a standardised graphical representation of each project's cost and schedule variance for inclusion in the PDSS.
- 3.76 The committee understands that it may take time to develop a standard method for graphical representation of EVMS or milestone data in the PDSS, but since it has already received the 2010-11 Guidelines, would like to see this format included in the 2011-12 MPR.

**Recommendation 6**

- 3.77 The committee recommends that the Defence Materiel Organisation include in the format of a comparison table, for the listed eleven projects included in the Major Projects Report, columns appearing side by side showing base date dollars, out-turned dollars and current dollars for expenditure information.

**Recommendation 7**

- 3.78 The committee recommends that the Defence Materiel Organisation present the findings of its examination of the presentation of financial data on all possible methods for project expenditure information (Eg. Base date dollars, out-turned dollars and current dollars) to the Joint Committee of Public Accounts and Audit (JCPAA) as soon as it is completed and no later than 31 August 2011.

This examination should include a: (1) preferred method, and (2) comprehensive proposal for transition towards the proposed new arrangement. In addition, the proposed examination should be reviewed by the Australian National Audit Office before it is submitted to the JCPAA for consideration and recommendation prior to inclusion in the MPR.

**Recommendation 8**

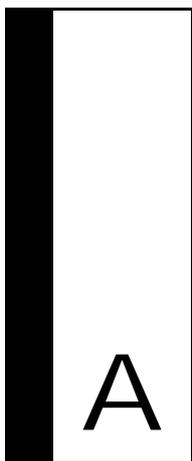
- 3.79 The committee recommends that the way that Measures of Effectiveness data is presented in the Major Projects Report not be changed until a thorough analysis outlining the reasons for and implications of the change has been undertaken and presented to the Joint Committee of Public Accounts and Audit for consideration and endorsement.

**Recommendation 9**

- 3.80 **The committee recommends, in line with the previous committee's recommendation, that the Defence Materiel Organisation in conjunction with the Australian National Audit Office develop a standardised graphical representation of each project's cost and schedule variance for inclusion in the Project Data Summary Sheets for the 2011-12 Major Projects Report Guidelines.**

**Mr Robert Oakeshott MP  
Chair**

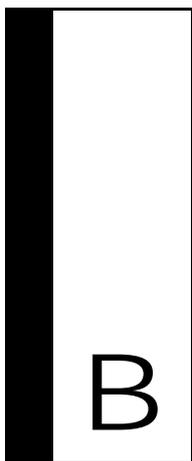
**29 April 2011**



## Appendix A – Submissions

- 1 Mr E J Bushell
- 2 Australian National Audit Office
- 3 Defence Materiel Organisation
- 3.1 Defence Materiel Organisation





## Appendix B – Witnesses

Monday, 28 February 2011 - Canberra

### **Australian National Audit Office**

Mr Ian McPhee PSM, Auditor-General  
Mr Matt Cahill, Group Executive Director  
Mr Michael White, Executive Director  
Ms Michelle Page, Senior Director

### **Defence Materiel Organisation**

Dr Stephen Gumley AO, Chief Executive Officer  
Mr Steve Wearn, Chief Finance Officer  
Mr Warren King, General Manager, Programs  
Mrs Shireane McKinnie, General Manager, Systems  
Mr Tony Hindmarsh, Chief Audit Executive