



Australian Government
Department of Defence
Defence Materiel Organisation

Chief Audit Executive
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CAE/OUT/2010/15

Dr Kris Veenstra
Inquiry Secretary
Joint Committee of Public Accounts and Audit
Parliament House
Canberra ACT 2600

Dear Dr Veenstra

DMO RESPONSE TO QUESTIONS ON NOTICE ARISING FROM JCPAA PUBLIC HEARING ON THE DMO MAJOR PROJECTS REPORT 2008-09

Reference: Your letter dated 14 April 2010.

1. At the reference you requested responses to a list of questions that the Committee has put on notice to the DMO and ANAO arising from the public hearing held 15 March 2010 into the Major Projects Report (MPR) 2008-09. The DMO responses to these questions are provided in Enclosure 1 to this letter.
2. Thankyou for the opportunity to provide further information on the development of the MPR. The report establishes a solid baseline on which to undertake future data and trend analysis on project performance. This is particularly relevant to the revised financial performance section of the Project Data Summary Sheets (PDSSs), which provides a more logical presentation and flow of data to the reader.
3. The 2009-10 work plan is progressing well and remains on schedule. The DMO and ANAO MPR teams continue to work collaboratively to ensure the review of PDSS data is as efficient and effective as possible.
4. Please do not hesitate in contacting either myself or Mr Brett Bettiol, Manager MPR, on 02 6265 7376, if additional information or clarification is required.

Yours sincerely

Tony Hindmarsh
Chief Audit Executive
Defence Materiel Organisation

23 April 2010

Enclosures:

1. Responses to JCPAA Questions on Notice

JOINT COMMITTEE OF PUBLIC ACCOUNTS AND AUDIT

REVIEW OF THE DEFENCE MAJOR PROJECTS REPORT 2008-09

**QUESTIONS ON NOTICE ARISING OF PUBLIC HEARING HELD ON MONDAY
15 MARCH 2010**

QUESTIONS FOR THE DMO

- **With regard to project capability, it is stated in the MPR 2008-09 that “the DMO has undertaken to develop a more robust KPI to the extent that this is possible...” (page 121). Similarly, we note from your submission dated 12 March 2010 that enhanced policy documentation will be developed with CDG and Capability Managers. Can you elaborate further on this aspect indicating how much progress has been made in this regard and any challenges involved?**

As noted in our 12 March 2010 submission, the development and implementation of enhanced policy documentation surrounding Measures of Effectiveness (MOEs) will require significant stakeholder consultation and the consideration of resource impact. In addition, it is likely that the current ANAO audit regarding ‘Naval Acceptance into Service of Capital Equipment’ may also provide guidance on the subject. This audit is to be Tabled in November 2010. As such, this process is likely to take some time before improvements are reflected in the MPR. The DMO will continue to keep the Committee apprised on this development.

- **The ANAO review in the MPR (page 40, paragraph 2.22) reports that the DMO has a wide variety of corporate and project management IT applications across different project offices. Is it feasible for project offices to use standardised systems?**

The DMO does use numerous project management related systems, all of which are supported by the Defence IT Standard Operating Environment (SOE) – managed by Defence’s Chief Information Officer Group. These systems accommodate the range of project management requirements, and indeed many of these are standard systems, including; CEPLAN and ROMAN for financial management, and Open Plan Professional (OPP) for schedule management.

However, there does remain a number of systems that are not standardised (or consolidated) into a single mandated system, for example; numerous risk management systems are available. Where this is the case, DMO is continually assessing the benefit and feasibility of adopting a reduced number of systems. Nevertheless, it should be noted that a ‘one size fits all’ approach may not lend itself to the complexities of the DMO business nor accommodate for the unique requirements of various projects.

- **The Committee notes from the DMO submission dated 12 March 2010 that the DMO is able to provide a high-level analysis on use of contingency, in aggregate, for the MPR projects. Will this analysis be included in the MPR 2009-10?**

Yes. For the 2009-10 MPR, DMO will report on Contingency across the 22 projects, at an aggregate level, and provide an agency wide summary on the type of risks being addressed. DMO has also provided detail to the ANAO MPR Team on key policy aspects governing the use of Contingency within the organisation.

- **What avenues would be available for the Committee to be provided with more comprehensive information about contingency funds for individual projects if the Committee deemed such an examination was necessary?**

As part of its PDSS review package, the DMO provides the ANAO with access to Project Contingency Logs. However, this information is not disclosed in the publically available PDSS. As agreed at the 15 March 2010 JCPAA private briefing, further details could be provided at an in camera JCPAA hearing.

QUESTIONS FOR BOTH DMO AND ANAO

- **Have the DMO and the ANAO reached agreement on the DMO Work Plan for the 2009-10 MPR which is attached to the DMO's submission dated 12 March 2010?**

Yes. Development of the 'DMO 2009-10 MPR Work Plan' required close coordination between the DMO and ANAO in order to realise the final agreed work plan, which was provided in the 12 Mar 10 submission.

- **Have the DMO and the ANAO reached agreement about the inclusion of the revised Section 2 Financial Performance format as attached to DMO's submission of 12 March 2010?**

Yes. Development of the revised 'Section 2 Financial Performance' reporting format required development between the DMO and ANAO. The assistance of the ANAO in revising the manner in which DMO reports on its financial performance within the PDSS has provided a revised format that reconciles previously duplicate financial data into three tables (a reduction from seven). In addition, the format achieves a more logical presentation and flow of data to the reader.

It is recommended that, following the publication of the 2009-10 MPR, the acceptance and readability of the revised financial format should be reviewed.

- We note in the DMO's submission dated 12 March 2010 that because not all contracts invoke EVM that you are intending to 'At the Enterprise level, provide a high-level analysis on management aspects regarding the use of EVM in the MPR'. The Committee also notes that Attachment 1 of the ANAO's submission dated 11 March 2010 states that the ANAO and DMO are holding discussions 'on the inclusion of EVMS data...with a view to including it in the PDSS in future (or alternatively providing a 'new' approach which would be able to be used for all projects reported).' Can you please provide an update on those discussions?

For the 2009-10 MPR, DMO will provide an enterprise level analysis of EVM by detailing key policy aspects governing its use. At the project level, DMO can also advise the degree of difference in project adoption, use and reporting on EVM, which is contingent upon the (negotiated) contractual arrangement entered into between the project and the Prime Contractor(s) – hence the difficulty with reporting on a standard set of EVM metrics across projects.

Certainly, DMO and ANAO continue to explore avenues on how to best capture sufficient EVM data at the project level and present it in a form that can value-add to future year MPRs. In this regard, the DMO and ANAO recently attended a presentation by the DMO's EVM Lead. This presentation was held to inform an understanding of the EVM construct within DMO, and the manner in which it is negotiated and incorporated into a contract, and subsequently managed by a project.



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