



11 March 2010

Ms Sharon Grierson MP
Chair
Joint Committee of Public Accounts and Audit
Parliament House
Canberra ACT 2600

Dear Ms Grierson

Outcomes of the 2008-09 Major Projects Report (MPR) and 2009-10 MPR Progress

The 2008-09 MPR was the second review of selected Defence acquisition projects and represents the ANAO's continued commitment of working with the Defence Materiel Organisation (DMO) to enhance the transparency and public accountability for major Defence acquisition projects. The DMO faces considerable challenges in its role of successfully delivering front line capability to the Australian Defence Force due to the range of risks in delivering the required capability on schedule and within budget. I am confident that the increased transparency and accountability will continue to assist the Joint Committee of Public Accounts and Audit (JCPAA), the Parliament and other key stakeholders to better gauge the progress of Defence acquisition and assist DMO in pursuing its project management improvement agenda.

The 2008-09 MPR reported on 15 projects, an increase of six projects from the 2007-08 MPR and also disclosed additional information in the Project Data Summary Sheets on project maturity scores. Building on the 2007-08 report, the ANAO was able to expand the analysis and highlight the scheduling challenges that the DMO must contend with.

The 2009-10 MPR is expected to report on the progress of 22 major DMO projects as detailed in the draft Guidelines DMO has provided for the Committee's endorsement. The draft Guidelines have been developed following extensive consultation with the ANAO and, subject to the following matter, are appropriate from our perspective. A focus of our consultation has been the presentation of financial information; in this context, DMO has provided an enhanced format for the Committee's consideration of this matter, which from our perspective is an improvement on past practice.

The ANAO will continue to assess the outcomes as DMO work through the recommendations made by the JCPAA in Report 416. At the same time the ANAO will undertake analysis of each project's performance and, over time, the emerging trends across all projects. I have attached, for the information of the Committee, a table setting out the progress being made against the five formal recommendations and the other points addressed in the body of the report.

In closing, I would like to acknowledge the support and considerable ongoing work of the DMO in the continued development of the MPR and assisting ANAO staff in their project reviews.

Yours sincerely



Ian McPhee
Auditor-General

Attachment 1:

JCPAA Recommendation	ANAO Response
Recommendation 1 - Lessons Learnt	The ANAO will review the additional cross-referencing of Section 5 of the PDSSs when provided.
Recommendation 2 – Maturity Scores	The DMO has provided an example of additional Maturity Score disclosure in a draft PDSS and the ANAO will review the explanation of how DMO determines the benchmark when provided.
Recommendation 3 – Capability Measures	The ANAO is working through the current Measures of Effectiveness (Capability Pie chart) disclosure.
Recommendation 4 – Project Selection	The ANAO has reviewed entry and exit criteria for projects as provided in the draft Guidelines.
Recommendation 5 – Consistent Presentation	The ANAO will review the draft MPRs with respect to the matters raised.

Other Points Addressed	ANAO Response
Scope Reduction and Qualification The Committee is keen to ensure that the scope of the review is not reduced in future MPRs. To that end, the Committee encourages the DMO, in collaboration with the ANAO, to develop a consistent framework for compiling a complete list of major risks and issues across projects thereby maximising the ANAO's ability to assess the information appropriately. At the Committee's request, additional information will be incorporated into 'Section 4 – Risks, Issues and Linked Projects' from the 2009-10 MPR onwards. This information will identify whether the risks and issues listed in Section 4 had been <i>anticipated</i> or whether they had <i>emerged</i> over the course of the project.	Our assessment reflected in the 2008-09 MPR was that DMO's Enterprise Risk Management Framework (ERMF) was not yet sufficiently mature to provide assurance as to the completeness and accuracy of the major risks and issues components of the PDSSs. DMO will need to develop systems and processes over the next few years to provide a more consistent approach to the risk management of major acquisition projects, before such a framework could be reviewed. The ANAO will look at DMO's identification of 'anticipated' and 'emerged' risks and issues for the projects under review.

Reporting Cost and Schedule Variance The Committee is keen that EVMS data, where available, be included in the MPR. Committee urges the DMO and the ANAO to discuss this matter further. The Committee welcomes the undertaking that the DMO will provide additional breakdown of the major project costs in Section 2 of the PDSSs. The DMO will provide cost data for the largest five contracts.	The ANAO and DMO are holding discussions on the inclusion of EVMS data in the DMO report initially, 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). The DMO has also provided an example of the disclosure of cost data for the largest five contracts in a draft PDSS, which the ANAO is currently reviewing.
Contingency Budget Funds The Committee welcomes the ANAO’s offer to discuss with the DMO, opportunities to provide high level disclosures about contingency budget funds in the MPR that will not compromise security.	The ANAO and DMO are holding discussions on the inclusion of contingency information in the DMO report initially, with a view to including such information in the PDSSs in future.
Analysis MPR to include an analysis similar to that contained in the UK NAO Ministry of Defence MPR.	The ANAO’s planning for the 2009-10 MPR has included identifying areas for further analysis, including enhancing prior year analysis encompassing cost, schedule and capability.