

**Comments on JCPAA Inquiry into ANAO Reports 19 and 22 (2019-2020)**

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ANAO REPORTS 19 and 22 (2019-2020)**

**INTRODUCTION**

Difficulties in providing a timely and accurate status of a project's schedule, cost, capability and inherent risk(s) have persisted since the Defence Materiel Organisation was established, and have continued through every Major Projects Report and Audit since 2007-08. This most recent inquiry is still facing the inherent problems that have existed since DMO was formed and have continued under Defence's greatly expanded Acquisition and Sustainment functions. In effect, little, if anything has changed for the better over the past 13 years of ANAO audits. Furthermore, over the 48 years that have followed the reorganisation of Australia's Defence Departments, there has been a steady flow of inquiries into Defence matters that have left no sign of material improvement in the Department's performance.

The root cause behind Defence's inability to reform itself and thus improve its capability management were identified in this author's submission to the initial 2007-08 MPR Inquiry, and expanded in his Submission 1 to this inquiry, namely the decision by Defence to abandon the Services' long-established functional, operational/technical based Project and Systems Management methodologies and to adopt outsourced contracts following standard, public service commodity acquisition processes, based upon perceived 'commercial best practice'. All copied from the US's Defense Organisation of the 1980s, without thought being given to their applicability and known adverse consequences.

While JCPAA's review of ANAO's audit of MPRs 19 and 22 provided some visibility of Defence's processes, it has provided little, if any, better visibility of major project capability, schedule, cost and risk status than was provided by MPR 2007-08 some 13 years ago. However, the meeting certainly highlighted built-up frustration and disappointment, for example:

- Mr Conroy raised his *"disappointment and concern about the answers or non-answers, as the case may be, to some of the questions on notice that the Committee submitted in our previous meetings."*
- Mr Conroy, as the third meeting was drawing to an end also noted *"We've got 26 projects to get through, Mr Fraser, and I'm only five in."*
- As the hearing neared its end, Sen Patrick pointed out that *"There are \$60 billion worth of projects that we haven't covered."* (in raising a possible need for a further meeting.)

As a detailed analysis of the MPRs and JCPAA sittings would probably not result in any new perspectives, comments are attached covering specific items of interest.

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Comments on the Inquiry are covered in the following:

- A. COMMENTS, TRANSCRIPT DATED 20 MAY 2020.
  
- B. COMMENTS, TRANSCRIPT DATED 27 MAY 2020.
  
- C. COMMENTS, TRANSCRIPT DATED 03 JULY 2020.
  
- D. NOTES ON PROJECT MANAGEMENT METHODOLOGY.
  
- E. FURTHER COMMENTS.

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**A. COMMENTS, TRANSCRIPT DATED 20 MAY 2020**

This sitting was largely devoted to Project Management (PM) matters relating to capability, schedule and cost. Project Management was described by a representative of the Asia Pacific Project Management Institute (APPMI) who emphasised the need for capable and experienced project leaders, having the right people in place with PM tools appropriate to determine complexity, making the right decisions and identifying up front areas of risk to capability, schedule and cost. APPMI also noted that fundamental PM tools, which haven't changed much over the years, were available to achieve these objectives, and in turn provide the visibility and confidence sought by the Committee in terms of the status of a project's capability, schedule, cost and risk. Clearly, as such visibility has not been provided by the MPRs, Project Management methodologies have not been adopted. Defence does not follow system/project management disciplines, nor does it have experienced project leaders. Should this function have been outsourced in its contracts, this would only have result in:

- Firstly, Contractors would be placed in a direct conflict of interest in trying to balance the needs of the Customer and the business objectives of the Company.
- Secondly, Project Management is strictly a non-outsourcable function. It is a system designed to ensure that the Customer's requirements, operationally and technically, are expressed in the complete and concise terms that must be satisfied contractually. The documentation produced during Project Management activities is designed to provide the visibility of project status required by Parliament, making MPRs unnecessary, but Defence decided to adopt commercial approaches and dispense with PM. See Note 1 for some critical Project Management principles.

Much of the discussion on Project Management concentrated upon work packages, and some sub-elements of PM, but APPMI did not provide any systemic overview of the role, scope and elements of PM. The importance of appropriate skills and competencies was mentioned, but not in sufficient scope.

Mr Heir, Auditor General, in discussion about formal qualifications for project managers, replied *"There are qualifications that we need for auditors as well, and they're a different form of expertise. Your question is about how we make an assessment of whether the project methodology that's being utilized by an organisation is appropriate. I think that project management methodology has been, at its base, a pretty stable framework for a long period of time. What our people do is pick up the project methodology used by an entity - in this case the Department of Defence - and audit against how they are going implementing the methodology. That's largely the skill base that we bring to it."*

That is, the ANAO MPR Audit carried out was constrained by the need to restrict the audit to the project methodology used by Defence. ANAO was thus not permitted to state whether Defence's methodology was appropriate for the task, despite this methodology being unable to meet Parliamentary needs over the past 13 years. The ANAO would thus seem to be better employed in resolving this question before undertaking further Defence MPR audits.

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**B. COMMENTS, TRANSCRIPT DATED 27 MAY 2020**

The Chair opened this sitting by seeking “*a layperson’s explanation of what is meant specifically by IMR, FMR, IOC and FOC, and clarification of a ‘project of concern’*”. Such terms have long confused those seeking project status in ‘plain talk’. Pre- ‘Defence Reform’, the Services managed their capability requirements to achieve a single date on which a new capability would be in-situ and fully supported. All of the capability stages listed above have been imported from the US where they were applicable to selected major US capability developmental projects. They need not have been requirements for the projects covered by Defence MPRs and should be used rarely and with informed care for any major Australian development capability. Questions were also raised as to how capability and schedule were measured and reported, how cost variations were identified, and how risk was managed. These same core measures of project management have been the subject of parliamentary concern since 2007-08, yet remain unanswered after 13 years.

The Chair also sought advice as to the changes that have resulted from the First Principles Review and was advised that it “*fundamentally improved Defence procurement. There were quite a significant number of changes underneath that, but it’s been a major and enduring review that’s performing well.*” When then requested to outline what changes have resulted, Defence pointed to:

“*The Capability Managers (Chiefs of Navy, Army, Air Force and Joint Command) carry responsibility end to end, from project development through to sustainment and disposal, working with CASG.*” However, their ability to discharge such responsibilities was effectively destroyed when Defence dissolved their professional Technical and Supply and other Support Branches and introduced its Commercial Support policies. The Chiefs thus carry heavy responsibilities that are now not achievable.

Defence also noted that “*The MPR has not changed significantly in the past 12 years, and could be improved by aligning it to the First Principles Review focus upon agility and efficiency.*”, and noted the introduction of the ‘Smart Buyer Process’, following Independent Assurance Reviews (not specified). However, the Committee pointed out to Defence that none of the 20 projects in the MPR had been subject to the Smart Buyer Process, and this author notes that despite Defence’s assurance that all First Principles actions would be in place within two years (ie, by 01 April 2014), the Smart Buyer Processes remains not actioned 6 years later. The ‘*agility and efficiency*’ claimed by Defence has thus yet to surface. The Committee was also advised that “*The Project Maturity Framework is not appropriately structured.*” – after 13 years!

Much discussion related to the F-35 Project, but my Submission 1 records that both the Australian and US F-35 Project Offices have failed repeatedly to acknowledge the evidence contained in damning reports raised by the F-35 Director of Operational Test and Evaluation and the Government Accountability Office. Defence advice has thus reflected an overly optimistic and very misleading capability status over many years.

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Project scope and risk matters drew many questions, with risk remaining of major concern since capability acquisition and sustainment functions and expertise were stripped from the Services and the DMO was established. However, Defence, after 13 years of reporting, assured the Committee that “*it has a project on to try and work on to resolve...It’s a well known issue.*”

Discussion around Defence Industry involvement in capability projects indicated that this ‘partnership’ with Defence has been expanded and integrated across Defence projects, changing the concept of capability in individual projects and linking capability across projects, thus introducing greater delays, complexities, costs and risk.

A recent media report noted that the Defence Industry Minister was ‘*under fire after failing to begin a promised audit of Australian content in billions of dollars of Defence contracts nearly seven months after she announced it.*’ A question that begs an answer from Defence in this environment is: how the question of ownership of Intellectual Property (IT) generated with project collaborators is determined- in short: who owns the IT? Other questions include: ‘*How will Defence’s Defence Trade Controls Act 2012 function in such an environment?*’ and ‘*What happens when Partnership becomes Competition?*’

JCPAA and other Inquiries seeking ‘*plain talk*’ responses to questions of status when inquiring into project management performance may realize now that ‘Defence’ has always been only ‘*a work in progress*’, and will remain so as long as it exists in its present form. The current Defence Bureaucracy can never reach any acceptable and stable level of performance, but will simply expand and absorb ever-increasing complexities that require ever-increasing resources, while continuing to deliver projects that will too often be deficient in capability, schedule, cost and risk.

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**C. COMMENTS, TRANSCRIPT DATED 03 JULY 2020**

The Chair opened this hearing with questions relating to changes in project costs and budgets. The discussions that followed revealed developments in Defence's approach to capability projects, including:

- Defence's Integrated Investment Program,
- Defence's Industry Partnership Policies, and
- Defence's move towards greater use of more complex developmental projects to meet capability requirements, rather than 'off the shelf' purchases.

These developments appear to have decreased Defence's already limited ability to manage the major projects covered by MPRs, as their complexity and risk factors impacts become exposed.

Matters of risk were emphasised yet again, indicating a perennial problem that has remained unresolved since the formation of the DMO, and will remain unresolved until Defence adopts proper PM methodologies.

The third hearing included considerable questioning on a wide range of topics, few of which drew satisfactory responses, with a large number to be answered 'on notice', and questions on notice not raised for lack of time.

The hearing thus closed with a backlog of unanswered questions and others answered inadequately.

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**D. NOTES ON PROJECT MANAGEMENT METHODOLOGY**

1. A commonly accepted authority on Systems Engineering Management is Benjamin S. Blanchard's "System Engineering Management", 4<sup>th</sup> Edition. However, this was aimed mainly at major US defence projects, but its principles were tailored for use by project managers with fewer complex challenges. It did, however, also contain general warnings, such as:

**Evaluation:** (A warning about Pseudo – Evaluation):

Politically controlled and public relations studies are based on an objective epistemology from an elite perspective. Although both of these approaches seek to misrepresent value interpretations about some object, they go about it a bit differently. Information obtained through politically controlled studies is released or withheld to meet the special interests of the holder.

**Competition:** Co-operative competition is based upon promoting mutual survival – “everyone wins”.

**Outsourcing:** Outsourcing is subcontracting a service; the decision is often based upon a perceived economy which is often illusory as the outsourcer soon loses the skills and competencies critical to defining his needs and ensuring that these are met.

**Technical Performance Measures:** Refers to key technical goals that are to be met, goals that are vital to the required functioning of a system in its specified operational environment.

Blanchard's Technical Services principles were tailored and used by the RAAF when acquiring and supporting aircraft and other systems from many different Nations and had long gained the high respect of other air forces.

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**E. FURTHER COMMENTS**

**1. The Bigger Picture:**

While JCPAA's focus has been restricted to Major Project Reports, these only comprise a small number of major capability activities being planned and undertaken by Defence. A much more important measure, that of Defence's overall performance in meeting Australia's capability requirements, clearly cannot be obtained by reviewing MPRs alone. However, it is reasonable to assume that the methodologies being followed by Defence in managing MPR items, which hasn't changed over time, would be identical to those being used in all its capability projects, and would thus exhibit similar problems with visibility and veracity.

Not surprisingly, accurate measures of major capability projects included in Defence's \$270bn major upgrade of the Nation's military capabilities also appear to be encountering problems similar to those long detailed in MPR Reviews, a few examples being:

- The F-35 Project (see Submission 1, Annex C), which clearly has many more serious problems with capability, schedule, cost and risk, all of which have been included in reports from the US Government Accountability Office (GAO) and the Office of the Director of Operational Test and Evaluation, neither of which has been acknowledged by Defence and made known to Parliament.
- The 10 year Continuous Shipbuilding Industry plan, which has struck problems already with its Frigate capability planning – having to slow the program, at higher cost, to accommodate the Hobart Class Program – the Frigate capability seeming to be a tradable factor. This plan, with its wide range of very different capabilities, requiring an even wider range of project management skills and competencies than exist within Defence or the Services, all to produce small numbers of ships and having little chance of obtaining follow on orders in a highly competitive world. The span and depth of this plan seem to have been underestimated by Defence and so carries very high national risk.
- The similarly ambitious Defence Industry policies, involving both local and international contractors while seeking integration with US military planning, capabilities and commercial support, are well beyond Defence's competencies. The skills and competencies required for success just do not now reside in Australia – most having been destroyed during the Defence/Commercial Support Programs. The only course is for Defence to outsource contracts (but see '**Outsourcing**' at **Note 1**)

While Defence boasts its '*agility and efficiency*', there is little evidence of such competencies. Defence, now a wholly centralised bureaucracy, exhibits the characteristics of all such organisations, such as vested interest, obsessive security, ever expanding complexity, avoidance of accountability and the pursuit of growth. It is simply not designed for purpose.



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**2. A Major Contributing Risk:** (See Page 106 of Submission 1)

However, a major risk to Australia's military capabilities and national security, both existing and planned, relates to the imposition of Defence's Cultural Change Program. This may well be the final determinant of Australia's future. JCPAA should note that there is nothing to be gained by striving to achieve capability advantages if Defence and the Services are culturally detuned and made incapable of operating and supporting those capabilities in a militarily effective manner.

Recent media headlines criticising ADF culture have revealed more than a dozen cases of defence misconduct, centred upon the RAN, with the Defence Minister also warning of a report on dozens of alleged war crimes by SAS Forces in Afghanistan. Such breakdowns in discipline rarely existed before Defence's Cultural Change Program. The RAN's response to these charges has been to ask sailors to study '*Gender, Peace and Security*' at Monash University, and obtain a Graduate Certificate in Gender, Peace and Security costing \$12,100 and financed by Defence.

Defence has now advertised for a prime contractor to deliver, or manage, '*a capability partnership to deliver an innovative and modern approach of workforce recruiting to the ADF*' at a cost of '*about \$1bn over 10 years*'. From past experience, any who apply having any real operational and command competencies would be most unlikely to be selected.

Furthermore, even during the current virus panic, there have been an increasing number of very highly paid positions advertised in both Federal and State Departments for '*change culture, transformation and strategy*', including '*provide authoritative, strategic and innovative advice in relation to inclusion and intersectionality.*' Social change qualifications appear to have replaced simple '*competency in task*' as the major determinant.

A background to this subject was provided to the JCPAA in this author's '*Submission to the JCPAA into the Findings of the ANAO into the Defence Capability Development Group, Dated 6<sup>th</sup> March 2014.*', titled '*The Conflict between Military Values and Management, and Public Service Administration and Culture*'. The following is an extract from that submission which tracks the early, primary source of ADF abuses:

Period	Percentage of Abuses	Activity (Not Exhaustive)
Pre-1960s	1%	Period pre-Tange, high Service activity levels.
1960s	8%	Period pre-Tange, high Service activity levels
1970s	13%	Post-Tange from 1972, high level of Service stress due to organisation changes and financial constraints.

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1980-84	8%	Tange changes implemented.
1985-89	15%	Post Defence Discipline Act. Transfer of Service administrative functions. Loss of Service functional organisations and professional branches (Sanderson Report).
1990s	18%	Change of Service organisation from functional (Service) to Defence “Business Plan” (FEG based). Outsourcing of critical Service functions. Service downsizing. Start of purge of expertise throughout the Defence Organisation. Start of compliance and conformance policy.
2000s	25%	Purge continued to 2002. Loss of Service Support Commands. Development of Cultural Change Program.

In reviewing the growth of ADF ‘abuses’, it is important to examine the impact of the Defence Reorganisation and its attendant Commercial Support Policies, as well as Defence’s practice of employing SAS forces for protracted periods, resulting in long term stress with associated deaths and continuing adverse effects.

### **3. Defence Inquiries and Reports:**

The long series of inquiries and reports on Defence matters have highlighted several observations, including:

- Defence’s problems are mostly of its own making.
- Defence is incapable of reforming itself.

Today, we see a top heavy organisation where the needs of the Services have to compete with the vested interests of the Defence Bureaucracy, the political and budgetary ‘imperatives’ of government, and the widespread ‘*social mores*’ imposed by those having no accountability for the adverse impacts of their very expensive intrusions into military matters.

**Defence has clearly shifted its focus from:**

**Outcomes to Popular Social Engineering.**