

Capability Development Reform

Audit Report No.6 2013–14

Opening Statement by Auditor-General

JCPAA Review 6 March 2014

1. Chair, members of the Committee, ANAO Report No. 6, 2013–14, *Capability Development Reform*, examines the effectiveness of Defence's implementation of reforms to capability development since the introduction of the two-pass process for government approval of capability projects and government acceptance of the reforms recommended by the Mortimer Review.
2. Defence capability development has been the subject of over a decade of reviews, with the Kinnaird and Mortimer Reviews providing the backbone. The audit assessed Defence's progress in four critical areas: the reform of capability development—organisation and process; improving advice to government when seeking approval for a project; improving accountability and advice during project implementation; and, as an essential concomitant, reporting on progress with reform.
3. The audit did not seek to reanalyse the circumstances that led to the earlier recommendations for reform accepted by government but to assess the effectiveness of Defence's implementation of the various reform proposals. At the highest levels, the outcomes sought by these reforms are that government is provided with the range and quality of information required to allow informed cost/capability trade-off decisions to be made when selecting capability development options; and that Defence is effectively positioned by this information to deliver the selected capability

for the expected cost, in accordance with the estimated schedule and to the capability standard approved by government.

4. Overall, the audit concludes that work required to progress reform of capability development has often taken longer than expected and delivered mixed results. Successive governments have invested substantial effort into the various reviews of the past decade, as has Defence in the resulting reform agenda. While there have been improvements, such as the appointment of the Chief, Capability Development Group and the introduction of Defence Science and Technology Organisation technical risk assessments, substantial work remains to be done to move many important reforms from the stage of directing that a new process be undertaken to achieving the substantive outcomes sought from the relevant reform recommendations.
5. We acknowledge that, in addition to the inherent challenge faced by Defence over the past decade to progress a significant body of reform, it has been progressing these reforms in the context of a high operational tempo, a tightening fiscal environment, and a high rate of turnover at the highest levels of decision-making. In the past 14 years, for example, before the change of government in September 2013, there had been seven Ministers for Defence and six Defence secretaries, with an average tenure of 2 years and 2.2 years respectively.
6. In the circumstances, sustained senior management attention is particularly important to maintain the direction and momentum of reform by ensuring that, through the development and implementation of effective accountability arrangements, the required priority is accorded by all levels in Defence to following

through on the effective and timely implementation of improved processes and approaches. Senior management involvement is also a necessary precondition for the development and implementation of effective approaches to improve the Capability Development Group workforce's capacity to carry out its role, including through the review of current arrangements and the consideration of possible alternative approaches to ensuring the availability of critical skills and experience.

7. It is worth noting that the performance audit considered by the JCPAA in a public hearing on 13 February, ANAO Audit Report No.25 2012-13, *Defence's Implementation of Audit Recommendations*, found certain positive elements, including Defence having a clear process for assigning responsibility, and systematic monitoring and reporting on progress by Defence internal audit. However, there is no similar centralised long-term mechanism for managing the implementation of recommendations of high-profile reviews of Defence. We would expect to see stronger governance arrangements in relation to the implementation action required for the agreed recommendations of these significant reviews.
8. Our audit of capability development reform also identified instances of Defence not reporting to government on significant difficulties affecting individual major projects until long after those difficulties have been apparent within Defence [see Table 12.1, pp. 244-5]. This is obviously an issue that requires attention by Defence management, as it relates to the quality and timeliness of advice.

9. To strengthen capability development approaches and outcomes, the ANAO considers that Defence should give priority to:

- improving the quality and timeliness of advice to government, through management reinforcement of expectations at all levels in Defence;
- embedding the reforms aimed at improving accountability for capability development outcomes, in particular relevant reforms to the Defence committee system and the other accountability reforms flowing from the Black Review;
- developing, or otherwise securing access to, the full set of skills and experience required to support the effective development of capability proposals;
- ensuring systematic approaches are in place to enable Defence to achieve cost attribution of individual capabilities, so as to provide government with a better understanding of whole-of-life cost estimates for proposals for new or upgraded capabilities, and to enable government and decision-makers to make informed cost/capability trade-offs in the context of managing budget constraints; and
- implementing robust systems to centrally monitor and report on the implementation of review recommendations/reforms, consistent with Defence's approach to the monitoring and reporting of the implementation of audit recommendations, while also recognising the long timeframes sometimes required for effective reform. The development of appropriate systems would also enhance accountability by providing a sound basis on which to report to ministers and the Parliament.

10. The ANAO made seven recommendations directed towards improving skills and experience available during capability development, improving the rigour of capability development proposals, strengthening accountability for major capability projects and centrally monitoring progress against implementation of reforms.

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