

Peter Goon

From: The.Firm [the.firm@internode.on.net]
Sent: Tuesday, 21 November 2006 18:25
To: 'Tony Smith, MP [Tony.Smith.MP@aph.gov.au]'
Cc: 'jcpa@aph.gov.au'; 'APA Peer Review Group'
Subject: SUBMISSION TO JSCPAA: INQUIRY INTO FINANCIAL REPORTING AND EQUIPMENT ACQUISITION IN THE DEPARTMENT OF DEFENCE AND THE DMO



To: Mr Tony Smith, MP
Chair of JSCPAA

**Submission to the Joint Standing Committee on Public Accounts and Audit:
Inquiry into financial reporting and equipment acquisition at the Department of Defence and Defence Materiel Organisation.**

Issue 1.0 Dated : 21 November 2006

Dear Mr Smith,

A review of the Defence submission to the Committee's inquiry brings into focus the very organisational disease which has led to the currently parlous state of Defence financial management and acquisition processes and the less than optimal outcomes from the various attempts to reform these. History and sound organisational management practices show that both activities will continue to consume inordinate amounts of effort and resource while achieving little until the root cause of these ailments is identified and acknowledged. As every mother knows, mistakes are how we humans learn. The culpability is not in making a mistake but, rather, in failing to learn from it. To learn from a mistake, one must first be able to identify and then acknowledge the mistake has been made, in the first place. An organisation that is unable to perform this simple but vital step will remain at a Capability Maturity Model (CMM ®¹) Level of one, becoming more moribund and dysfunctional as it tries to re-invent itself on flawed premises.

The results of this review are presented below in the form of 'plain speak' comments on the Key Judgements presented in the Preface of the Defence submission. 'Plain speak' has been used as a counterfoil to the 'defence speak' so commonly used today. The absence of precision in language is one of the failings observed in the communication style used in Defence today with its focus on form over substance in nearly all writings and statements emanating from the upper levels of the Department – this Defence submission being a contemporaneous example.

**PREFACE
Key Judgements**

“Defence has put a major effort into reforming our financial reporting and equipment procurement. We are starting to see the positive benefits of this work.”

Comment: A rigorous and objective analysis of the data would show quite a different outcome to that being claimed.

“We have 16 remediation plans in place on financial matters and these are eliminating many long-standing problems. Defence procurement reforms are improving the timeliness and cost efficiency of our acquisitions.”

Comment: Timeliness and cost efficiency are relative to the original estimates for a project which, in turn, generate the perceptions against which projects are currently judged. However, the most important aspects of

¹ Registered to Carnegie Mellon University

all projects appear to be missing from the focus of current reforms. These are capability and preparedness. These are the enduring aspects of any acquisition project and any remediation plans, whether they are for financial matters or other Defence Matters, yet these two outcomes barely rate a mention.

Why is this?

“Defence continues to maintain a very high standard of cash management practices. None of the financial or procurement issues that have required reform have had a negative impact on the operational competence of the Australian Defence Force”

Comment: Whilst ever Defence continues to fail to account for its largest and most costly expense, namely man hours, any claim of maintaining a very high standard of cash management practices is fraught with self delusion – certainly not what could be called world’s best practice. Given the lack of precision in language that is now the norm in the upper levels of Defence today, if the reference to ‘cash management practices’ simply relates to the physical handling of hard currency, then this claim would be the equivalent of ‘able to balance the petty cash float well’.

On the second point, sadly, this claim is not true. The definition of ‘competence’ is ‘the ability to perform a task’. Based on this definition, ‘issues’ in the defence acquisition process that result in delays in the delivery of capabilities (eg. SEA 1411, AIR 87, AEW&C, HUG 2.3, etc.) do have a negative impact on the operational competence of the Australian Defence Force. Similarly, ‘issues’ in the defence procurement process that lead to short falls in support materiel being available in the field, such as not having the spares to effect a maintenance activity on an aircraft, can have far reaching effects. As has been seen in the Aceh Sea King tragedy, such shortfalls can have far more dire consequences than just a negative impact on the operational competence of the Australian Defence Force.

“Defence believes it is doing everything it can to improve our management of financial and procurement issues. Notwithstanding the substantial reform agenda already well underway, we are open to proposals and suggestions for new ideas and practices which might improve our overall accounting performance.”

Comment: The latter claim is not supported by history or the experiences of those who have offered to provide Defence ‘with innovative, cost effective solutions to our Defence capability needs and the challenges in the Defence procurement processes’. Defence and, in particular, the DMO are notorious for ‘shooting the messenger’ whether they are from within their own ranks or from the supporting Defence Industry.

“Based on a comparison with counterpart Defence agencies overseas we assess that Defence's efforts to implement financial management reform and improve acquisitions are well ahead of those in countries like the US, UK, New Zealand and Canada.”

Comment: Usually, such claims would be supported by objective studies. Looking at the 15 pages in this submission dedicated to ‘financial statement issues in other defence organisations’, the claims are, at best, based on anecdotal data, with the implied intent being an attempt to encourage the reader to infer ‘we are better than they are’. Worthy of note is that this encouragement is not only directed to ‘financial management reform’ but also ‘to improve acquisitions’ while the anecdotal data presented in this submission principally relates to ‘financial statement issues in other defence organisations’. Clearly, the impressions and perceptions that the reader is being encouraged to infer from this preface are not supported by the data in the body of the submission. The selective reference to and inferred reliance upon a US Government Accountability Office (GAO) report while ignoring what this report along with other GAO Reports have to say about Australia’s largest capability acquisition project ever is, to say the least, disingenuous. (See attached extract from the referenced GAO Report).

Worth noting in this extract from the GAO Report cited in the Defence submission is that the JSF program budget has gone from the US\$206,339.6 million reported in the extract to over US\$276,458.9 million in December 2005. This budget is likely to break through US\$300 billion by year’s end. The other more salient

points worth noting in this extract from the GAO Report are the significant risks the GAO has identified in the JSF program.

Defence's efforts (and the resources expended) to implement financial management reform and improve acquisitions may very well be 'well ahead of those in' other countries in terms of the quantum expended, but the resultant systems are not – particularly when compared with those in the USA. The post Goldwater-Nichols era sees a far greater level of transparency and fidelity in the Pentagon's reporting than ever before. Over the same period, the reporting from the Australian Department of Defence has gone the other way. Even the most cursory comparison between Defence Annual Reports of recent years with, say, that for 1999-2000 shows this to be the case. The form of the current reporting is greatly improved no doubt due to the increased use of computer based tools in its production. However, the substance, fidelity and transparency in the reporting have diminished, by some degree, over the period.

It would be naïve to claim the Australian DoD systems to be in the same league let alone superior to those in the USA. However, there is much that can be learned from overseas experiences, especially those of the Pentagon and the US Department of Defence. The skill will be in interpreting the 'Grid Iron' rules and, where appropriate and applicable, converting these to 'Aussie Rules', thus shortening the time (and costs) for advancing the lessons that are there to be learned. The Goldwater-Nichols Act and its final acceptance within the US DoD as an agent for fundamental and positive reform would be a good point from which to start such an interpretation.

The Defence submission is not dated nor bears any version control – a not uncommon feature of Defence documentation of recent times. However, the data presented, particularly those in Section 3 and the claims of 'improvements in schedule performance of the Top 20 acquisition projects' clearly do not include the slippages now being reported on such projects as the AEW&C, AIR 87, SEA 1411 and the Hornet Upgrade Phase 2.3. Inclusion of these latest data has a high probability of showing a somewhat different story.

An objective analysis of such projects as AEW&C will also show that the risks that have materialised and resulted in the schedule slippages pre-date the figuring in this submission by some degree. Even the reported attempts by a former AEW&C Project Director to maintain schedule by trading off other aspects of the project (eg. capability and preparedness) could not prevent such risks materialising. The means of treating such risks were curtailed by a former Project Director et al when the Independent Verification and Validation (IV&V) functions, including the independent governance, were summarily transferred from the contracted Industry Team to the Project Office back in 2001/02. A good plan thwarted by people who don't know what they don't know dealing with things they don't understand.

"Notwithstanding our progress, financial and acquisition reforms are some of the most complex areas of modern governance. It will take some time for Defence to work its way through all the issues, but we are committed to the task and are well on track to achieve a high quality outcome."

Comment: A more rigorous statement in relation to the features presented in the first sentence of this statement would read –

"Financial management and acquisition processes are two of the most fundamental aspects of any organisation's governance, whether modern or traditional, and need to be kept as simple as practicable."

Defence has been in a quasi constant state of reform on these two aspects since the mid 1990s. Many advances were made in these areas, particularly in acquisition reform till around 1999 when a number of occurrences injected discontinuities into the process, many the result of a lack of appropriate competencies in key positions in the organisation. Since that time, 're-inventing the wheel' has dominated the reform program as evidenced by the divergent nature of many of the processes and supporting documentation produced by the organisation over this period.

The function of governance mentioned in this statement is one of the keys to good reform. What is lacking in Defence governance today is the application of a robust feed back loop mechanism on its systems and processes, one that is integrated with such processes, their capabilities and drivers so that it is able to contribute, particularly in the areas of wisdom, experience and domain expertise. But, of equal importance, one that is independent of, from a governance perspective, so that it is able to provide the feed back necessary for those with the accountabilities to objectively assess performance and do so in a timely fashion with the project outcomes to the fore. A model and definition of such a feed back loop system for the capability life cycle management systems in Defence is attached. Such a model would be equally applicable to other systems and processes in Defence Matters such as financial management, military justice, personnel management, information technology, et al.

“Defence is keen to work with the Parliament, the ANAO and all other agencies in continuing to look for best practise methods for improving our financial management and procurement systems.”

Comment: The claim of keenness to work with the Parliament, the ANAO and all other agencies is not supported by the attitude and behaviours displayed by Defence senior leadership, either historically or recently. The very public criticisms by the Defence leadership levelled at the ANAO and their recent report on the Armed Reconnaissance Helicopter Project AIR 87 are a good example. Claims such as those of Chief of Army that ‘we all know how wrong the ANAO got that one’ bear all the hallmarks of an Emperor wearing rose coloured glasses and not much else. One only has to look at the Defence responses to the ANAO report on Test and Evaluation in Defence to see what lies at the root of these claims. This is further evidenced in Table 1.1 of the ANAO Report into the AIR87 project (a brief analysis is attached).

Realising the challenge in doing justice, in a single submission, to the important matters before your Committee’s inquiry, I and my colleagues would be prepared to give evidence before the Committee on the matters raised in this submission and answer any questions you may have.

Finally, a pdf version of this E-Letter, with personal contact details removed, is attached for the Committee’s convenience and publication on the Committee’s web site should this submission be accepted.

Yours sincerely,

21 November 2006

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Attachments:



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