

## The Kinnaird reforms

### Background

- 3.1 On 12 December 2002, Senator the Hon Robert Hill MP, the then Minister for Defence announced the appointment of a review team, chaired by Mr Malcolm Kinnaird AO, to identify and address key challenges associated with the procurement process for major acquisitions in Defence.<sup>1</sup> On 15 August 2003, the report of the Defence Procurement Review 2003 ('the Kinnaird Review') was released.
- 3.2 The report of the Kinnaird Review covered the whole of the defence capability cycle, from initial strategic assessment to retirement of capability from service. The findings and ten major recommendations of the Kinnaird Review were arranged around four themes within that cycle as follows:-
- Communicating with government: Matching capability to strategy;
  - Defining and assessing capability;
  - Managing capability; and

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<sup>1</sup> Senator the Hon Robert Hill, *Review team to assist with Defence procurements*, media release, 12 December 2002.

- Procuring and supporting Defence equipment.<sup>2</sup>

- 3.3 In September 2003, the Government announced that it broadly accepted the recommendations of the Kinnaird Review with the exception that the DMO would become a prescribed, rather than an executive, agency.<sup>3</sup>
- 3.4 In September 2005, the Joint Standing Committee on Foreign Affairs, Defence and Trade (JSCFADT) included in its *Review of the Defence Annual Report 2003-04* a progress report on the procurement reforms within Defence. On the basis of that review, the Chairman of the Defence Sub-Committee, the Hon Bruce Scott MP made the following comment in the Foreword:-
- The Committee found mixed progress on major procurement projects but overall noted significant improvement to the process by which capability requirements are identified and briefed to Government.<sup>4</sup>
- 3.5 More specifically, the JSCFADT noted that significant progress had been made by Defence in the implementation of the reforms such as the establishment of the Capability Development Group (CDG) and structural changes to the DMO, improved performance on recent projects (e.g., Airborne Early Warning and Control aircraft, Tiger helicopter<sup>5</sup>, and the Australian Light Armoured Vehicle), and the development of a more realistic relationship between the DMO and industry.<sup>6</sup>
- 3.6 However, the JSCFADT also flagged a number of on-going issues. These included the varied results of progress on major acquisition projects - particularly 'legacy'<sup>7</sup> projects, the high risk associated with demanding requirements for systems integration projects, and the potential pressures resulting from the proposed reforms on staffing within the Australian Defence Organisation.<sup>8</sup>

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2 Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, p iii-ix.

3 Department of Defence, sub 4, p 83.

4 Joint Standing Committee on Foreign Affairs, Defence and Trade, *Review of the Defence Annual Report 2003-04*.

5 See Chapter 4 for discussion on this project.

6 Joint Standing Committee on Foreign Affairs, Defence and Trade, *Review of the Defence Annual Report 2003-04*, p 13-14.

7 See Chapter 5 for discussion on terms such as 'legacy'.

8 Joint Standing Committee on Foreign Affairs, Defence and Trade, *Review of the Defence Annual Report 2003-04*, p 13-14.

3.7 Two years have elapsed since the tabling of the JSCFADT *Review of the Defence Annual Report 2003-04* and over the course of this inquiry, the Committee has heard evidence that the implementation of the Kinnaird Reforms is nearing completion. In his opening address to the Committee at the first hearing of the inquiry, Dr Gumley indicated that Defence were “80 per cent of the way through”.<sup>9</sup>

3.8 More recently, Mr David Mortimer AO, Chair of the Defence Procurement Advisory Board (the body established in response to Recommendation 5 contained in the Kinnaird Review) stated:

There are 10 major recommendations of the Kinnaird reforms. I am very confident that they have all virtually been completed.<sup>10</sup>

3.9 It should be noted that as the Committee was completing this inquiry, the Hon Greg Combet MP, the current Parliamentary Secretary for Defence Procurement, announced on 7 May 2008 that a review of Defence procurement and sustainment will be conducted by Mr David Mortimer AO. Amongst other things, the Review is to consider:

Progress in implementing the 2003 Defence Procurement Review including:

- a. the implementation status of Defence Procurement Review reforms;
- b. an assessment of Defence Procurement Review reforms;
- c. actions required to complete implementation of the Defence Procurement Review reforms.<sup>11</sup>

## **Organisational implementation of the recommendations**

3.10 The Committee considered a large body of written and oral evidence on the progress and current status of the implementation of the

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9 Dr Stephen Gumley, transcript, 11 May 2006, p 7.

10 Mr David Mortimer, transcript, 15 August 2007, p 2.

11 The Hon Greg Combet MP, *Defence Procurement and Sustainment Review*, media release, 7 May 2008.

Kinnaird Review recommendations. This evidence is presented below as per the four themes contained in the Kinnaird Review.

## Communicating with government: Matching capability to strategy

3.11 The essence of this theme in the Kinnaird Review is as follows:

Government must have information in a form that will allow it to assess the consequences of strategic decisions for defence capability.<sup>12</sup>

3.12 The first recommendation of the Kinnaird Review addresses the provision of this information:

### *Recommendation 1*

**Defence should present to government the following information in a succinct form on an annual basis:**

**an assessment of the types of contingencies Australia might face in carrying out the strategic tasks endorsed by government in Defence White Papers;**

**advice on the military force required in each contingency and the capacity of the ADF to apply this force now and in the future; and**

**advice on capability to be sustained, acquired or retired to ensure this can be achieved at acceptable cost.<sup>13</sup>**

3.13 The Defence submission to the inquiry reports progress against Kinnaird Review recommendation 1 as follows:

Defence provides this type of information to Government in many different ways as part of the information supporting the decision making process. In December 2005, the Minister for Defence released *Australia's National Security – A Defence Update 2005*. In releasing the update, the Minister noted the Government's recognition that the development of strategy is a dynamic process and that there is a need to constantly revisit strategic circumstances and adjust strategic posture.<sup>14</sup>

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12 Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, p 4.

13 Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, p iv.

14 Department of Defence, sub 4, p 86.

- 3.14 Raytheon Australia Pty Ltd's submission reaffirmed this progress, however, they also noted that the suggestion that this reporting take place on an annual basis was unlikely to have occurred:

Process now exists for strategic reviews, although judging by the number of public versions published to date these have not occurred annually...<sup>15</sup>

- 3.15 Defence provided the following update to the Committee on 4 June 2008:

Defence provides this information annually to the Government. Defence has established a planning guidance framework which is based on the last White Paper with subsequent Strategic Updates defining the types of likely contingencies and the capacity of the ADF to apply the required military force now and into the future. Subordinate planning documents translate the Government's intent into options against the types of contingencies that may require a Defence response. This process links the strategic advice provided to Government to the delivery of capability in a structured manner.

Given the release of the *Australia's National Security – Defence Update 2007* and the relative maturity of the planning framework, the Defence Procurement Advisory Board determined that the implementation of the recommendation was completed.<sup>16</sup>

- 3.16 The Committee is satisfied on the basis of this update that recommendation 1 of the Kinnaird Review has been fully implemented.

## Defining and assessing capability

- 3.17 The initial focus of the Kinnaird Review was the actual management of major capital acquisition projects, however, as the review progressed the review team became aware that many of the problems that existed (e.g., cost over-runs, schedule delays and reduced capability) arose primarily because of poor planning in the early stages of the acquisition process.<sup>17</sup>

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15 Raytheon Australia Pty Ltd, sub 5, p 4.

16 Department of Defence, sub 4.7.

17 Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, p 2.

That was probably at the heart of our recommendations – that was quite lacking in forward thinking, planning, testing. We thought that, if a third of the money that was spent fixing up problems was shifted up the front and actually got the definitions clear at the beginning – and had an unchangeable, well-tested, ‘Everybody’s happy; this is it’ – we would probably find out that the total cost of what was done was less.<sup>18</sup>

- 3.18 Problems in the early stages of capability development and acquisition had also been identified and addressed in the Senate Foreign Affairs, Defence and Trade References Committee’s inquiry into materiel acquisition and management in Defence in 2003. Indeed, a chapter of the Senate Committee’s report was devoted to capability development and acquisition. On the basis of the evidence provided to its inquiry, the Committee concluded:

One of the significant problems hindering successful project outcomes in the past has been inadequate definition of capability requirements, and poor articulation of those requirements to those responsible for acquisition.<sup>19</sup>

- 3.19 The Kinnaird Review made two recommendations in relation to defining and assessing capability:

*Recommendation 2*

**A three star officer, military or civilian, should be responsible and accountable for managing capability definition and assessment. This appointment should be on a full-time basis, with a defined tenure (minimum five years) to ensure a coherent, cohesive, holistic and disciplined approach.**

*Recommendation 3*

**Government should mandate, and enforce via revised Cabinet rules, a rigorous two-pass system for new acquisitions with government considerations dependent on comprehensive analyses of technology, cost (prime and whole-of-life) and schedule risks subjected to external verification.<sup>20</sup>**

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18 Mr Malcolm Kinnaird, transcript, 15 August 2007, p 11.

19 Senate Foreign Affairs, Defence and Trade References Committee, *Material acquisition and management in Defence* (2003), p xi.

20 Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, p v.

- 3.20 It is clear from the evidence before the Committee that organisational arrangements relevant to the implementation of these recommendations have been finalised. With regard to Kinnaird's recommendation 2, the Defence submission states:

Implementation of this recommendation is complete. Lieutenant General Hurley was appointed as Chief of the new Capability Development Group in December 2003. He has a clear mandate and responsibility for managing the capability development process, including the *Defence Capability Plan*.<sup>21</sup>

- 3.21 Raytheon Australia Pty Ltd also refer to the successful implementation of this recommendation, however, in light of Lt Gen Hurley's initial appointment term of three years, they add the following:

It is too early to say whether LTGEN Hurley is fully "responsible and accountable for managing capability definition and assessment" or whether his appointment ends up being for the recommended five year minimum term to "ensure a coherent, cohesive, holistic and disciplined approach."<sup>22</sup>

- 3.22 Indeed, the Committee notes that Lt Gen Hurley's term as Chief of the Capability Development Group did not extend to five years. Lt Gen Hurley's appointment to the position of Chief of Joint Operations (CJOPS) was announced on 19 September 2007 and his subsequent promotion to Vice Chief of the Defence Force was announced on 19 March 2008.<sup>23</sup> Lt Gen Hurley was replaced by Vice Admiral Matt Tripovich as Chief Capability Development Group.<sup>24</sup>

#### Committee comment

- 3.23 While the Committee naturally endorses the idea that personnel should not be denied promotional opportunities, it strongly reiterates the importance of ensuring the position of Chief of CDG is equivalent to a three star officer and is subject to a defined tenure of at least five years where possible. The Committee presumes that the appointment

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21 Department of Defence, sub 4, pp 87.

22 Raytheon Australia Pty Ltd, sub 5, pp 4-5.

23 The Hon Joel Fitzgibbon MP, *Transcript of Defence Service Chief Appointments*, transcript of press conference, 19 March 2008.

24 The Hon Dr Brendan Nelson MP, *Defence management changes*, media release, 19 September 2007.

of a new leader to this role is likely, at least in the first instance, to lead to an increased reliance on DMO support. This increased reliance has the potential to undermine the critical separation between the work of the DMO and the CDG undermining the disciplined approach envisaged by the authors of the Defence Procurement Review.

3.24 With regard to the implementation of Kinnaird's recommendation 3, Defence outlines progress as follows:

The two-pass process has been embodied in formal Cabinet arrangements with fully investigated and well argued sets of options being presented to Government since March 2004.

In addition, a higher proportion of project funds is now being spent on early analysis to provide more robust information aimed at minimising the likelihood of projects developing problems during acquisition.

More rigorous analysis is being undertaken on capability submission costings, including the fundamental inputs to capability and through life cost aspects to prevent capability being delivered without full consideration of staff or infrastructure.

The *Defence Capability Development Manual* was published in February 2005, and revised in February 2006. The manual provides authoritative guidance for Defence staff on the development of capability proposals and the role of the Capability Managers. Capability Development Group and the DMO establish emerging project teams before 'first pass' in order to provide project management support and discipline during requirements development.

A standardised project maturity score was developed in 2004 to provide an indicator of project maturity at various points throughout the capability development process.<sup>25</sup>

3.25 At the first public hearing on 11 May 2006, Lt Gen Hurley, then Head CDG, also provided the Committee with information about his responsibilities in relation to the implementation of the Kinnaird recommendations as follows:

...a number of the major recommendations that came out of the Kinnaird review were in relation to establishing my

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25 Department of Defence, sub 4, p 89.



group, the Capability Development Group. This consolidated a number of diverse elements in the department that used to work in preparing capability proposals, business cases to go to government. We have grouped that together over the last two years, so in a sense I develop the business cases for government in a division called the Capability Systems division, which is primarily a military staffed organisation. I have an independent contestability division that looks at those arguments separately, to take a different view, to present arguments within the department to confirm the thoughts that are coming out from the Capability Systems division. I am responsible for our policies for simulation, I am responsible for our policies for test and evaluation, and I am responsible for oversight of interoperability and integration across the whole Defence Force to take a joint purview of what we are doing.

In the sense of how we move forward...we have instituted a very strong entry into the Defence Capability Plan, first pass and second pass approval process, both internally in the department, through [the Secretaries Committee on National Security] and in the [National Security Committee of Cabinet]. That is in the cabinet handbook, and we stick to that.<sup>26</sup>

- 3.26 Despite the generally positive account of the establishment of the CDG, the reforms to the two-pass process were not immune from criticism. Dr Mark Thomson, an external observer of Defence, questioned the rigour of that process:

I think one of the things that Kinnaird missed is imposing some contestability, some external scrutiny, on the decision-making processes in Defence. You can have all of the processes, all of the committees and all of the bells and whistles you want but, unless people can speak up, take a contrary view and argue the point, you will get an organisational position emerging out of the process.<sup>27</sup>

- 3.27 And, further:

Although there are quite extensive processes now detailed both for strategic guidance and for capability development in

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26 Lt Gen David Hurley, transcript, 11 May 2006, pp 18-19.

27 Dr Mark Thomson, transcript, 8 February 2007, p 4.

Defence, we still get surprised by one-off capability acquisitions like the C17 and the expansion of Army. If these things are not flowing through the central planning process, we have got to ask just how rigorous that process is.<sup>28</sup>

- 3.28 BAE Systems Australia Limited also expressed some reticence about the integrity of the acquisition process in Defence and its impact on industry:

Despite the existence of the robust and well documented processes for capability development and acquisition, several recent major equipment acquisition projects have not complied with these processes. This short-circuiting of the system leads to uncertainty and confusion and a reluctance by industry to invest in capability.<sup>29</sup>

- 3.29 BAE Systems Australia Limited also made the point that the two pass process may not necessarily be appropriate to all acquisition projects:

The two pass process is not always appropriate, particularly to C4ISREW<sup>30</sup> projects that are more amenable to incremental spiral development and continuous improvement.<sup>31</sup>

#### Committee comment

- 3.30 The Committee notes that Government retains the discretion to waive the two pass process where necessary. Lt Gen Hurley too acknowledged that the strengthened two pass approval process served as a guide rather than a mandated requirement:

The process is there to guide government. Many of my projects go through more than two passes, and some of them go through a combined first and second pass process, depending on the knowledge of the capability, whether the solution is military off-the-shelf and what the risk is that we are taking on in bringing it in.<sup>32</sup>

- 3.31 The Committee also notes and welcomes advice that the Auditor-General is currently conducting an audit (titled *Planning and Approval of Major Capital Equipment Projects*) that will provide assurance to

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28 Dr Mark Thomson, transcript, 8 February 2007, p 4.

29 BAE Systems Australia, sub 2, pp 7-8.

30 C4ISREW is Command Control Communications Computers Intelligence Surveillance Reconnaissance and Electronic Warfare.

31 BAE Systems Australia, sub 2, p 5.

32 Lt Gen David Hurley, transcript, 9 May 2007, p 15.

Parliament on the effectiveness of the strengthened two pass approval process introduced as a result of the Kinnaird Review in 2003.<sup>33</sup> The Committee will review that audit report to examine the effectiveness of the strengthened two pass process.

- 3.32 It appears that while recommendations 2 and 3 of the Kinnaird Review have largely been implemented a number of issues were raised during the inquiry relating more broadly to defining and assessing capability. These included a lack of clarity in the articulation of capability requirements, managing technical risk and the relationships that impact on this aspect of the capability cycle.

### Articulating capability requirements – resourcing the CDG

- 3.33 The Committee heard evidence that a lack of clarity in the definition and articulation of requirements led not only to scope-creep<sup>34</sup> and repeated contract revisions but also to the imposition of a high degree of additional financial risk for Government.

- 3.34 When asked to articulate the difficulties or concerns his organisation may have experienced with the DMO, Mr Harry Bradford, Chief Operating Officer from BAE Systems Australia stated the following:

If I look at it from a helicopter view, for me the biggest challenges are around clarity of requirements; understanding what it is that the government really wants and what the defence department really wants.

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...the biggest difficulties...were the migration of the requirement and the difficulty industry had in responding to a changing requirement.<sup>35</sup>

- 3.35 Citing the ALR-2002 (Radar Warning Receiver) project as an illustration of these type of difficulties, Mr Bradford further stated:

...the operational requirement as it was articulated into a functional requirement specification changed continually throughout the acquisition process, so at no point was it stable. Both for the Commonwealth and for industry that

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33 Australian National Audit Office, *Planned Audit Work Programme 2007-08*, p 48.

34 Mr Roberts, Board Director, Australian Aerospace defined scope creep in evidence to the Committee on 19 October 2006 as "...doing extra work; therefore more money.", transcript, p 26.

35 Mr Harry Bradford, transcript, 8 February 2007, p 15.

creates a great deal of difficulty because you are not quite sure what you have to build.<sup>36</sup>

- 3.36 Mr Bradford also spoke of the difficulties industry face in workforce/resource planning when the requirements of Government are unclear:

If there is a lack of clarity in industry about what the government regards as national strategic defence capabilities, then the consequences are that you do not know what to invest in. For example, if you know that there is a clear strategy to sustain the electronic warfare capability, then you would know that you had to sustain certain capabilities in industry to support that. If you do not know that, all you can do is look at the projects that are funded for allocation to industry for competition or whatever...<sup>37</sup>

- 3.37 The reasons behind the lack of clarity in assessing capability requirements appear to vary. Raytheon Australia Pty Ltd suggested that moving too quickly in the preparatory phases of acquisition is responsible for a lack of clarity in the definition of requirements:

Too often schedules are compressed and important preliminary work, such as defining requirements, is rushed and incomplete. This then flows on to the design and engineering phases, and really can be a case of more haste less speed.<sup>38</sup>

- 3.38 Moreover:

Further contributing factors to unrealistic schedules are inadequately articulated, and over-stated, requirements, and poorly understood risks associated with the technical solutions and acquisition strategies...<sup>39</sup>

- 3.39 Another consideration is that the type of project will determine the degree to which clarity in initial requirements can be achieved anyway. Developmental projects by their nature are subject to more variation than those involving off-the-shelf technology. This not only results in a higher potential for scope creep and contract variation but

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36 Mr Harry Bradford, transcript, 8 February 2007, pp 17-18.

37 Mr Harry Bradford, transcript, 8 February 2007, p 22.

38 Raytheon Australia Pty Ltd, sub 5, p 6.

39 Raytheon Australia Pty Ltd, sub 5, p 7.

also in an intensification of financial risk for the Government. Mr Frank Lewincamp of Defence explains:

We cannot treat all categories of assets or specialist military equipment as one type because sometimes it is a proven, off-the-shelf type capability and the risk factors are very low. That is when you might have a fixed price contract or a pretty firm arrangement with the contractor. At the other extreme, you might be dealing with leading-edge technology, very complex systems integration or an international supplier or we might be on a production line in another country. You have enormous risk in all of that. Therefore, it is very difficult to have very precise contracting arrangements at the start. There needs to be a great deal of flexibility in the way that Defence and DMO approach these issues.<sup>40</sup>

3.40 At the hearing on 9 May 2007, Dr Gumley outlined how the potential for scope creep had been lessened as a result of the 'air gap' created between CDG and the DMO:

I think there is an important difference that the Kinnaird process has made here...If General Hurley's people want to change the scope of a project – say they are being pressured by Chief of Navy, Chief of Army or somebody – then it has to be done through a formal documented process rather than creep. Now it is a block change rather than a creeping type of thing. That discipline will put us in good stead for the future.<sup>41</sup>

3.41 However, Dr Gumley pointed out that variations in the scope of the project are unlikely to disappear entirely:

...it would be wrong to think that scope creep or scope change is entirely unavoidable. We are getting some platforms that take 10 years to build. When the mean life of computers is perhaps two years between microprocessor upgrades and so on, you can have obsolete systems by the time you finish a project if you do not have some scope upgrades as you work your way through.<sup>42</sup>

3.42 The Committee believes the importance of clearly defining and articulating requirements cannot be overstated. Yet the Committee

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40 Mr Frank Lewincamp, transcript, 29 March 2007, p 14.

41 Dr Stephen Gumley, transcript, 9 May 2007, p 13.

42 Dr Stephen Gumley, transcript, 9 May 2007, p 13.

heard evidence from a number of witnesses suggesting that the Capability Development Group faces significant strain on its resources. This aspect was drawn out not only by representatives of Defence but also industry representatives. At the hearing on 9 May 2007, Dr Gumley stated:

To go to the resourcing, I think it is fair to say that [Capability Development Executive] is doing an extraordinarily large amount of work with minimal resources. We have an obligation to government to get as many of the DCP projects through the system as we can.<sup>43</sup>

- 3.43 Raytheon Australia Pty Ltd's written submission also referred to extra demands placed on the CDG following the transition to the strengthened two-stage approval process:

...the transition has placed enormous demands upon the revamped Capability Development Group (CDG) under LTGEN Hurley and this should be recognised. Once a steady state has been reached the process should be manageable, but in the intervening period CDG staff are struggling to provide the analysis and other information the process requires. The result has been that project approvals are falling behind schedule. This is accepted, but what should then follow is an appropriate adjustment to the acquisition schedule to avoid further compression that has so often beset projects in the past.<sup>44</sup>

- 3.44 At the hearing on 28 March 2007, Mr Fisher of Raytheon Australia Pty Ltd again called for the allocation of greater resources to the CDG:

To improve the process, I really believe we should provide General Hurley's team with more resources to engage industry more so that we get it right up-front. In a two-pass process, we should go to Kinnaird for first pass and say that it is \$10 for 10 weeks. Then what I like to do is spend more time with industry and the capability people working together in partnership – and they are doing this, by the way.<sup>45</sup>

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43 Dr Stephen Gumley, transcript, 9 May 2007, p 5.

44 Raytheon Australia Pty Ltd, sub 5, p 7.

45 Mr Ronald Fisher, transcript, 28 March 2007, pp 20-21.

- 3.45 Mr Peter Nicholson of BAE Systems Australia Limited, makes a similar call:

The expertise of the staff in the capability development area is extremely high; the problem is there are not enough of them.<sup>46</sup>

It needs to be beefed up because the operational concepts are not coming out of the strategy staff in enough detail and fast enough...The Capability Development staff just needs to be beefed up.<sup>47</sup>

- 3.46 BAE Systems Australia's written submission to the inquiry also contained the following comment with regard to CDG resourcing:

The lack of human resource in CDG means, *inter alia*, that CDG must internally subcontract to DMO to perform much of the pre first pass and second pass tasks that should be carried out in CDG. This is contrary to the spirit of Kinnaird and has a serious effect on the colour of this work.<sup>48</sup>

#### Committee comment

- 3.47 It is clear from the evidence that decisions made in the early stages of the capability life cycle are critical to the long-term success of any Defence acquisition process. Ensuring that requirements are clearly articulated and communicated and that high levels of technical risk are managed effectively underpin the success of that process.

- 3.48 The Committee notes the positive comments made in submissions and by witnesses about the capacity and expertise of CDG personnel, however, the Committee also notes that an ongoing lack of resourcing to the CDG may undermine that Group's capacity to prepare business cases for project approvals. Additionally, as alluded to in the quote above (see section 3.46), the Committee notes that any increased reliance on the DMO has the potential to undermine the separation between the work of the DMO and the CDG.

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46 Mr Peter Nicholson, transcript, 8 February 2007, p 22.

47 Mr Peter Nicholson, transcript, 8 February 2007, p 28.

48 BAE Systems Australia Limited, sub 2, p 5.

## Managing technical risk

- 3.49 The Department of Defence reports that reforms that have come about as a result of the Kinnaird Review have also improved the management of technical risk:

Probably the response to the Kinnaird review of defence acquisitions was such that [issues related to decision makers having sufficient detailed consideration of highly complex risks] were identified. The two-pass system, the level of committees, the exposure of risk and the level of discussion at cabinet are all examples of where those types of things have now been addressed and why the process is far more disciplined than it has ever been in the past.<sup>49</sup>

- 3.50 Expanding on this comment, Rear Admiral Trevor Ruting, Head Maritime Systems Division, DMO on 7 December 2006 stated:

...the arrangements that are now in place take a whole range of independent advice coming up to both senior defence committees and then further up in the much more expansive cabinet submissions to go forward for project approvals now. That includes the Defence, Science and Technology Organisation providing independent advice on the technology readiness levels, the technology risk assessments and the various mitigations which are part of the main body of the cabinet submission and then are much more detailed in what is called the acquisition business case for each of the options that has been put to government. Those acquisition business cases for something like a ship acquisition or an upgrade of the size of the FFG run typically to the order of 50-plus pages and summarise a lot of this information, with major sections addressing cost, schedule, technical and performance risks in the main body so that the senior decision-making body, our national security subcommittee of cabinet, is provided with much more extensive information. Embodied in that is independent advice from the Defence Science and Technology Organisation, which subsequently gets actively involved in observing the risk management arrangements during the life of the project as well.<sup>50</sup>

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49 Mr Kim Gillis, transcript, 7 December 2006, p 25.

50 Rear Admiral Trevor Ruting, transcript, 7 December 2006, p 25.



- 3.51 Not all views on DSTO's contribution to reducing technical risk were positive. For example, in its submission to the inquiry, Raytheon Australia make the point that more could be done to improve the management of technical risk:

...Too often Defence specifies unique technical solutions to meet ADF requirements, seemingly without sufficient consideration of the impact upon the project's risk profile and the associated overall cost. This is an area where greater discipline is required.

Australia does face unique challenges in terms of space and distance, low force-space ratios, and different environmental conditions to those experienced in the northern hemisphere, where most equipment is designed and produced. These differences need to be considered when acquiring new capabilities, but changes to existing systems or platform designs should be rigorously tested, and the technical implications thoroughly understood, before they are approved.<sup>51</sup>

- 3.52 BAE Systems Australia was also relatively critical of the technical role DSTO plays in the approval process:

The allocation of a technical assessment role to DSTO has slowed the process between first and second pass, and from second pass to contract award with little demonstrable reduction in risk. It also diverts DSTO from its core capability of applied research and development.<sup>52</sup>

- 3.53 However, this position was disputed by both Dr Lough, Chief Defence Scientist and Lt Gen Hurley at the hearing on 23 May 2007 with Dr Lough stating:

I do not agree with their assessment.

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I would say it is a timesaver and will help to increase the chance of the project being delivered on time.<sup>53</sup>

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51 Raytheon Australia Pty Ltd, sub 5, p 9.

52 BAE Systems Australia Limited, sub 2, p 5.

53 Dr Roger Lough, transcript, 23 May 2007, p 13.

3.54 Lt Gen Hurley agreed:

I can say that I have not had one of my director-generals or the head of capability systems come up to me and say, 'We have to slow down the project for approval because DSTO is dragging the chain on the [technical risk assessment],' or, 'The [technical risk assessment] is taking too long...'<sup>54</sup>

**Committee comment**

3.55 The Committee believes the lack of consensus evident around the management of technical risk is worthy of further attention. This issue is of particular relevance in a context where the need for increasingly complex technology has to be balanced with Defence's obligation to ensure the Government will attain value for money with regard to its procurements.

3.56 The Committee therefore welcomes the Defence Procurement and Sustainment Review's stated potential reforms including but not limited to:

Methods to improve the planning, management and oversight of development projects involving a high level of technical risk.<sup>55</sup>

3.57 Given that the management of technical risk is critical to improving Defence acquisition outcomes, the Committee will seek a briefing of the reforms proposed by the Defence Procurement and Sustainment Review around this issue.

**Relationships**

3.58 The relationship between the CDG and the DMO, and that between Defence, DMO and industry are fundamental to the success of any Defence major acquisition process. These relationships are particularly important in the capability definition and assessment phases and they were referred to a number of times during the course of the inquiry.

3.59 With regard to the relationship between the CDG and the DMO, the Committee was satisfied from the evidence that this relationship is a

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54 Lt Gen David Hurley, transcript, 23 May 2007, p 13.

55 The Hon Greg Combet MP, *Defence Procurement and Sustainment Review*, media release, 7 May 2008.

healthy one. For example, when asked to describe the relationship between the teams involved, Lt Gen Hurley stated:

When I first came into the job, in this appointment...there used to be an analogy that my organisation or its predecessor used to throw dead cats over a wall to DMO.

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DMO would have to resuscitate them to turn them into capability. My original response to that analogy was, 'Well, we have to give you live cats.' But in fact the analogy is wrong. There is no wall.<sup>56</sup>

- 3.60 The relationship between the Department of Defence (or more specifically, the DMO) and industry is also an important one. Engaging industry earlier and more frequently is commonly suggested by industry representatives as a means to strengthen this relationship. For example, Mr Peter Nicholson of BAE Systems Australia Limited made the following point about the benefits of consulting industry earlier:

Industry might have ways to do stuff that the military has never thought of, and that is sometimes the case. That is why industry has to be brought in early. For example, in information operations, the best outfits in the world right now are the banks. They do it far better than any military organisation.<sup>57</sup>

- 3.61 At the hearing on 8 February 2007, Mr Nicholson took this up further:

A further contention of Kinnaird – which we would support strongly – is that industry, which has a whole range of expertise that we have touched upon, is brought into the process much earlier than it presently is. Most often – and this is changing in some areas – industry first becomes aware of what is happening when a request for tender hits the street.<sup>58</sup>

- 3.62 The call for greater industry involvement in capability development is not a new one, as can be seen from the following quote in Raytheon Australia Pty Limited's submission to the inquiry:

Although greater and more effective industry involvement in the capability development process has been something of a

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56 Lt Gen David Hurley, transcript, 9 May 2007, p 5.

57 Mr Peter Nicholson, transcript, 8 February 2007, p 26.

58 Mr Peter Nicholson, transcript, 8 February 2007, p 23.

mantra over the last decade, and was emphasised again in the Kinnaird Review, it has proved difficult to achieve.<sup>59</sup>

3.63 Raytheon Australia goes on to explain:

The most promising mechanism, established as a result of the 1998 *Defence and Industry Strategic Policy Statement*, was the Capability Development Advisory Forum (CDAF). However, the failure of the CDAF to achieve its objective of providing industry input to the capability development process was due primarily to the failure of companies to contribute meaningful advice in the presence of their competitors. Instead the CDAF became a vehicle for industry to gain information from Defence. These failings were recognised and the CDAF was revamped in late-2005 with industry membership raised to CEO level in an attempt to meet the forum's original objectives.<sup>60</sup>

3.64 The Committee notes that on 1 March 2007, the then Minister for Defence, The Hon Dr Brendan Nelson MP, released the *Defence and Industry Policy Statement 2007*, a review of the 1998 document referred to in the above quote. Representatives of industry appear positive about this document. Commenting on its release, Mr Fisher of Raytheon Australia Pty Ltd states:

It has been well received by industry and it has been even better received by [Small and Medium Enterprises]. Major industry players make sure they look after SMEs. From our perspective, it kind of justifies why we invested in the country and why the other large multinationals invested in the country.<sup>61</sup>

3.65 More recently, the Parliamentary Secretary for Defence Procurement, the Hon Greg Combet MP, launched the key elements of Defence's Australian Industry Capability (AIC) program. These included an update to the Defence Policy Procurement Manual and an electronic version of the AIC Practitioner's Information and Tool Kit. This program is designed to ensure that Australian companies gain access to global supply chains of large prime contractors.<sup>62</sup>

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59 Raytheon Australia Pty Ltd, sub 5, p 7.

60 Raytheon Australia Pty Ltd, sub 5, p 7.

61 Mr Ronald Fisher, transcript, 28 March 2007, p 21.

62 The Hon Greg Combet, MP, *Launch of Australian Industry Capability Program*, media release, 26 February 2008.

3.66 Similarly, on 24 June 2008, the Hon Greg Combet MP further outlined a number of initiatives designed to assist Small to Medium Sized Enterprises (SMEs).<sup>63</sup>

3.67 Mr Fisher provided evidence of improvements in the relationship between Defence and industry at the hearing on 28 March 2007:

...you should have industry helping you when you are initially developing the schedule. Before you get to DCP – we used to call it the pink book once upon a time – you should get industry in there. Under General Hurley, they are now doing this. General Hurley is saying to the CEOs that these are the projects coming up in the out years and he is then inviting us to look at them and give him ideas.

They have also introduced a thing called the RPDE – rapid prototype development environment – where they are establishing quick looks. An example is a big training solution job that is coming up. They have asked industry to come in and have a quick look at the project and see if we can measure it and do it up. The comment made there was that there are still factions within the organisation that need to embrace industry. But it works two ways; industry needs to embrace DMO more to help them establish realistic schedules.<sup>64</sup>

3.68 BAE Systems was similarly positive about the introduction of the ‘quick look’ process, however, they added the following suggestion:

Our contention is that these initiatives should be part of the normal process of capability development and acquisition rather than additions to a somewhat cumbersome and rigid procedure. In particular, RPD&E is demonstrating the value of more detailed analysis of both the perceived problem and possible solutions earlier in the cycle than is common at present.<sup>65</sup>

3.69 It is clear from evidence provided by representatives from the Department of Defence and the DMO that they believe industry is already meaningfully engaged in the pre-approval capability

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63 The Hon Greg Combet, MP, *Combet outlines challenges facing Defence SMEs*, media release, 24 June 2008.

64 Mr Ronald Fisher, transcript, 28 March 2007, pp 14-15.

65 BAE Systems Australia Limited, sub 2, p 6.

planning process. In response to questioning about this 'complaint' from industry Lt Gen Hurley stated the following:

I think that is a lot of nonsense. I would put my hands up now and say that if industry is telling you that they do not engage with us before we come to capability approval – ...Frankly, I would say that that is rubbish.<sup>66</sup>

3.70 And, further:

The industry associations have helped us prepare functional performance specifications and the RFT. Dr Gumley and I are involved with the CEOs of industry in...the Capability Development Advisory Forum, where we lay out all that we are doing with the DCP and where we are going on issues. They engage with us on options, they engage with us in their marketing process and they come and talk to my people. I have industry in my organisation every day of the week.<sup>67</sup>

3.71 Dr Gumley added:

So what do their 500 football teams of marketing staff actually do then, if they are not engaging us?<sup>68</sup>

3.72 In its submission to the inquiry, Defence outlined a number of what it describes as *Industry-related Initiatives and Activities*. In addition to the RPD&E program described above, these included:

- *Skilling Australia's Defence Industry (SADI) Program* – to address the shortfall in the quantity and quality of skills available to industry;
- *Defence Small Business Access* – a first point of contact area to provide industry representatives easier access to Defence;
- *Defence and Industry Conference* – an annual conference held to discuss a range of issues affecting the relationship between Defence and industry;
- *Defence and Industry Study Course* – an annual national program for future leaders from industry, Defence, the ADF and other Commonwealth and State governments and agencies;
- *Publications for Defence Industry* – to provide industry with information so it can plan future investments;

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66 Lt Gen David Hurley, transcript, 9 May 2007, p 17.

67 Lt Gen David Hurley, transcript, 9 May 2007, p 17.

68 Dr Stephen Gumley, transcript, 9 May 2007, p 17.

- *Defence Materiel Advocate* – a dedicated military officer of star-rank to help promote Australian defence industry exports and provide a link to operational experience; and
- *Capability and Technology Demonstrator Program* – a collaborative activity between Defence and industry to deliver a demonstration of the capability potential of new technology.<sup>69</sup>

3.73 Raytheon Australia Pty Limited acknowledges the effort Defence makes to engage industry as does the Auditor-General. Respectively:

...the relationship between Defence/DMO and industry is as healthy here as anywhere in the world. By and large Defence and DMO officials are open and willing to engage with companies while maintaining strong ethical standards.<sup>70</sup>

...it is important to acknowledge the energy devoted to industry engagement by Defence in the interests of improving outcomes.<sup>71</sup>

#### Committee comment

3.74 Notwithstanding the concerns of industry representatives outlined above, the Committee is satisfied that industry is in a position where it can participate fully in the capability development process. Indeed, the Committee believes that industry actively canvasses its views and promotes its capability with Government and the Department through well-resourced and powerful industry lobby groups. The Committee therefore believes it is important for key Departmental and Ministerial staff in the Defence portfolio to regularly consider industry involvement and performance, ensuring the right balance between the interests of industry on the one hand and those of the Australian public on the other is maintained.

### Managing capability

3.75 The Kinnaird Review summarises the third theme, *Managing Capability*, as follows:

Defence, and ultimately government, must be confident that they receive an accurate and comprehensive report on all

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69 Department of Defence, sub 4, p 103-107.

70 Raytheon Australia Pty Ltd, sub 5, p 9.

71 Mr Ian McPhee, Opening statement tabled at the hearing on 13 June 2007, p 2.

aspects of capability development at each stage in the capability cycle.

Capability managers, the most prominent being the Service Chiefs, should be made responsible and accountable for monitoring and reporting to government on all aspects of approved defence capabilities. However, capability managers would not assume management responsibility in other functional areas in Defence or exercise control over budgets or funding in these areas.

To properly perform their role, the capability managers will require sound and reliable financial and budget systems within Defence. However, taking into account the present state of Defence's financial systems, transition to improved arrangements will take time, perhaps two to three years.<sup>72</sup>

- 3.76 The Committee heard very little specific evidence from Defence related to Kinnaird's recommendation 4 and few other submissions dealt directly with this, the sole recommendation, linked to this theme:

*Recommendation 4*

**Following second pass approval, the capability managers should have the authority and responsibility to report, and be accountable for reporting, on the development of defence capability. To undertake this role they should have access to all information necessary to enable them to fully inform government on all aspects of capability.**<sup>73</sup>

- 3.77 Defence's submission to the inquiry sets out progress against Kinnaird's recommendation 4 as follows:

Processes to implement this recommendation are in place but the outcomes are still to be fully demonstrated. Lieutenant General Hurley, acting on behalf of Capability Managers, presents monthly reports to the Defence Committee on the progress of approved acquisition projects in the capability Development Group. Similarly, Dr Gumley presents monthly reports to the Defence Committee and the Minister on

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72 Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, pp v-vi.

73 Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, p vi.



acquisition projects and sustainment activities managed by the DMO.<sup>74</sup>

- 3.78 Raytheon Australia Pty Ltd made the point that it is difficult for those outside Defence to assess the implementation of this recommendation:

It is not evident outside Defence that the Capability Managers (Service Chiefs) have been given the “authority and responsibility to report, and be accountable for reporting, on the development of defence capability”...<sup>75</sup>

- 3.79 At the hearing on 15 August 2007, Mr David Mortimer, Chair of the Defence Procurement Advisory Board, indicated that he was confident that all the recommendations of the Kinnaird Review were virtually completed, however, he also added the following comments:

If we look at the schedule of tasks that we had before us, I think there is only one minor recommendation – which is recommendation 9, the Defence financial systems – that still has some way to go. All of the others, without exception, have been completed or are signalled to have virtually been completed with some outstanding testing to be done on the effectiveness of the changes that have been introduced.<sup>76</sup>

- 3.80 The Committee notes that minor recommendation 9 refers in particular to Recommendation 4 of the Kinnaird Review.<sup>77</sup> More specifically:

[Defence] financial systems are not structured in a way that provides capability managers with a transparent view of the whole-of-life budget...<sup>78</sup>

- 3.81 The Committee is concerned by this deficiency in the implementation of the Kinnaird Review recommendations.

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74 Department of Defence, sub 4, p 93.

75 Raytheon Australia Pty Ltd, sub 5, p 5.

76 Mr David Mortimer, transcript, 15 August 2007, p 2.

77 Correspondence between the Department of Defence and the JCPAA secretariat dated 25 August 2007.

78 Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, p 27.

## Procuring and supporting Defence equipment

- 3.82 Kinnaird's recommendations 5 to 10 fall under the theme related to procuring and supporting Defence equipment. What follows is an outline of the progress made against each of these recommendations.
- 3.83 Kinnaird's recommendation 5 was prefaced in the Kinnaird Review as "Driving change from the top down"<sup>79</sup> and relates to the appointment of an advisory board as follows:

### *Recommendation 5*

**An Advisory Board should be appointed with immediate effect, to provide advice and support to the head of the DMO and report to the National Security Committee of Cabinet on the implementation of all Defence Procurement Review recommendations.**<sup>80</sup>

- 3.84 The Committee notes progress reported against this recommendation in Defence's submission to the inquiry as follows:

The Defence Procurement Advisory Board was established in March 2004 to advise and support CEO DMO in improving the DMO. The Board generally meets monthly and provides advice to CEO DMO and reports to the Ministers for Defence and Finance and Administration on the implementation of the Defence Procurement Review's recommendations. The Advisory Board is chaired by Mr David Mortimer and consists of both private and public sector members.<sup>81</sup>

- 3.85 The Committee also notes from information provided by the Defence Procurement Advisory Board secretariat that the Board's specific role is to:

- Monitor the implementation of the Defence Procurement Review (DPR) recommendations as agreed by Government and report to the Ministers for Defence and Finance and Administration on progress;
- Provide advice and support to the CEO Defence Materiel Organisation (DMO) on strategic issues related to the direction and focus, objectives, planning, management and structure of the DMO, including how best to achieve cultural change;

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79 Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, p vi.

80 Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, p vii.

81 Department of Defence, sub 4, p 94.

- The Advisory Board does not advise on day-to-day management issues or the management of individual projects.<sup>82</sup>

3.86 On 15 August 2007, representatives of the Defence Procurement Advisory Board gave evidence to the Committee. The Committee notes that the Board continues at the discretion of the Minister for Defence and the Minister for Finance and Deregulation. The Committee also notes that although the Defence Procurement Advisory Board currently remains in existence, the initial contract to pay sitting fees to individual board members expired at the end of March 2008.<sup>83</sup>

3.87 In response to questioning about the impact of not having a Board of this nature function any longer, Mr David Mortimer, the current Chair of the Board, expressed the following opinion:

There will be things that will not have been fully tested, so we will not know the effectiveness of some of the recommendations which have been implemented. It comes back to what I said earlier on about how deep down the changes are in the organisation and how effective the changes have been in getting the certainty that Senator Mark Bishop was asking about earlier on. Those sorts of things will be unmeasured.<sup>84</sup>

3.88 Mr Malcolm Kinnaird added:

To some extent, it is a constant improvement program that we have the chance to influence.<sup>85</sup>

#### Committee comment

3.89 The Committee was impressed with the role the Board plays in the oversight of the implementation of the Kinnaird Review recommendations and it would be concerned if the Board were disbanded and nothing were to take its place.

3.90 The Committee notes that the Department has expressed a commitment to assessing the effectiveness of the Kinnaird Review recommendations.<sup>86</sup> The Committee also notes that the recently-

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82 Department of Defence, correspondence with Defence Procurement Advisory Board secretariat, 17 July 2007.

83 Department of Defence, correspondence to JCPAA secretariat, 3 April 2008.

84 Mr David Mortimer, transcript, 15 August 2007, p 13.

85 Mr Malcolm Kinnaird, transcript, 15 August 2007, p 13.

86 Department of Defence, *Portfolio Budget Statements 2008-09*, p 39.

announced Defence Procurement and Sustainment Review is to consider the future of the Defence Procurement Advisory Board.<sup>87</sup>

- 3.91 The Committee believes that a body should be established to measure the ultimate effectiveness of the Kinnaird Review recommendations. That is, the impact of the reforms beyond the straightforward implementation of the recommendations as suggested by Mr David Mortimer in section 3.87 above. In particular, such measurement should reflect the degree to which the Kinnaird reforms have impacted on the culture of the DMO. For example, to what extent DMO personnel see their organisation and their individual efforts at work as outcomes-focussed.
- 3.92 The objective of Recommendation 6 of the Kinnaird Review was to transform the DMO into a more business-like organisation with a clear and separate identity from Defence:

*Recommendation 6*

**The DMO should become an executive agency.**<sup>88</sup>

- 3.93 However, the Government decided that rather than an executive agency, the DMO should become a prescribed agency.<sup>89</sup> Progress against Kinnaird's recommendation 6 is reported in the Defence submission to the inquiry as follows:

The DMO became a prescribed agency under the *Financial Management and Accountability Act 1997* on 1 July 2005. Instructions and delegations have been issued by the CEO DMO as the Chief Executive of the agency. The Secretary of Defence has provided the CEO DMO with appropriate delegations under the *Public Service Act 1999*.<sup>90</sup>

- 3.94 Defence also report the organisational priorities articulated by Dr Gumley since his appointment as CEO DMO as follows:

Since his arrival the new CEO DMO, Dr Gumley, has established a new organisational structure for the DMO and

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87 The Hon Greg Combet MP, *Defence Procurement and Sustainment Review*, media release, 7 May 2008.

88 Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, p vii.

89 "As a prescribed agency, the DMO is financially autonomous from Defence and is required to prepare separate and auditable financial statements. This was intended to improve the financial transparency and accountability of the DMO." Department of Defence, sub 4, p 83.

90 Department of Defence, sub 4, p 95.

filled key executive positions. He has established his key objectives for the organisation, these being:

- Professionalising staff and practices;
- Standardisation of processes and systems;
- Reprioritising DMO activities;
- Benchmarking DMO against relevant best practice elsewhere;
- Managing relationships with industry; and
- Setting the standard for change more widely in Defence.<sup>91</sup>

3.95 The Committee notes the following important comments made by the authors of the Kinnaird Review about the need for the DMO to have a distinct identity from the Department of Defence:

The transformation of the DMO into a more business-like organisation will require it to have a clear and separate identity from the Defence Department. This will bring clarity to the commercial task of delivering and maintaining defence equipment separate from broader Defence tasks.

...

It would provide the DMO with a clear separate role and identity from the department, and reinforce the need for distinct responsibilities and accountabilities...It would... provide a clear signal to staff that there will be cultural change.<sup>92</sup>

3.96 A business-like culture is naturally reflected in the behaviour of personnel. With that in mind the Committee was interested to hear that there was wide variability in the extent to which Defence personnel reflected this attribute. For example, when talking about the tender process generally, Mr Fisher of Raytheon Australia made the following point:

With regard to requests for tender documentation, it depends on the project...and the level of maturity of the person who is putting it together. Sometimes you get excellent specifications and sometimes you do not get such excellent specifications. The tender process is asking you for capability. You get a specification, and industry is sensible enough—because of dialogue we have with our customer base—to understand what the customer really wants. The specification is a

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91 Department of Defence, sub 4, p 95.

92 Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, p vii.

guideline in some cases and in other cases it is the master template.

In the tender process we have found a mixture of some good specifications that are very strong and well put together and some specifications that are at an evolutionary stage.<sup>93</sup>

3.97 Similarly, Mr Tim Banfield from the National Audit Office of the United Kingdom, in response to questioning about what he believed was 'the ideal' form of contract said:

...it is not actually the contract itself; it is the commercial acumen of the people around and the ability to design solutions that fit specific purposes. Our Ministry of Defence was very good at having people who knew exactly which clause went where and how but were not very good at understanding what was going to motivate good performance.<sup>94</sup>

3.98 This quote draws attention to the importance of not just the technical skills of personnel but to their capacity to understand the commercial environment, emphasising the importance of fostering a business-like, outcomes-focused culture at the DMO.

#### Committee comment

3.99 The Committee strongly reiterates the importance of Recommendation 6 as articulated in the Kinnaird Review<sup>95</sup> to transform the DMO into an organisation with a culture based on performance and outcomes. However, the Committee was in receipt of little evidence that speaks to the ultimate success or otherwise of the implementation of this recommendation.

3.100 The Committee notes that the recommendation for the DMO to become an executive agency was not supported by the then Government. Moreover, the justification for this decision does not appear to have been fully articulated. The Committee anticipates that the Defence Procurement and Sustainment Review which is currently underway will consider this matter further.

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93 Mr Ronald Fisher, transcript, 28 March 2007, p 20.

94 Mr Tim Banfield, transcript, 20 June 2007, p 8.

95 Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, p 33-38.

- 3.101 Recommendation 7 of the Kinnaird Review relates specifically to project management skills:

*Recommendation 7*

**Project managers should be selected on merit by the head of the DMO particularly for their project management skills. Managers could be drawn from the military, industry or the public service and they should be accountable to the head of the DMO and have minimum tenures, usually of five years. Remuneration levels should be set at the relevant level to attract and retain project management specialists.<sup>96</sup>**

- 3.102 The Department of Defence reported progress against Kinnaird's recommendation 7 as follows:

While the processes are largely in place, further work is required to ensure that all required outcomes are achieved. Project managers (both military and civilian) are selected on merit, with tenures and remuneration determined as appropriate. Under the acquisition project categorisation framework (ACAT), an interim certification system was established for project directors and managers to gain accreditation from the Australian Institute of Project Management. The interim certification system ran until December 2005 with 79 per cent of the target group taking part. The ACAT policy will be upgraded to include the requirements for ACAT I level project managers and to introduce an ACAT IV for small projects. A full certification framework is on track for introduction in December 2006.<sup>97</sup>

- 3.103 Problems with the recruitment, training and retention of skilled staff were mentioned frequently during the inquiry and evidence about the challenges in this respect as well as information about DMO's achievements in project management training at the DMO, is addressed more fully in Chapter 4.

- 3.104 Recommendation 8 of the Kinnaird Review refers specifically to the appointment of staff to the DMO:

*Recommendation 8*

**The head of the DMO should be consulted on military postings to the DMO and should have the authority to**

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<sup>96</sup> Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, p viii.

<sup>97</sup> Department of Defence, sub 4, p 97.

**accept only those ADF personnel who possess the requisite skills and experience.<sup>98</sup>**

- 3.105 In its submission, Defence reports progress against Kinnaird's recommendation 8 as follows:

Implementation of this recommendation is progressing without risk...The CEO DMO is consulted on military postings to DMO, and has the authority to accept only those personnel who possess the requisite skills and experience.<sup>99</sup>

- 3.106 Recommendation 9 of the Kinnaird Review refers to the representation of capability managers in the DMO as follows:

*Recommendation 9*

**Capability managers should have the option to locate their representatives in the DMO to monitor the acquisition and logistics management of approved capabilities.<sup>100</sup>**

- 3.107 The Defence submission reports this recommendation as complete:

Implementation of this recommendation is completed and the desired outcome has been achieved. Capability Managers were provided with this option in March 2004. They elected to pursue improvements in the current reporting process before taking up the option to provide representation. They consider that they receive sufficient information from their staff in the DMO and do not require separate representatives.<sup>101</sup>

- 3.108 The final recommendation of the Kinnaird Review, Recommendation 10, relates to project governance boards:

*Recommendation 10*

**The role of the project governance boards should be extended to include through-life-support of ADF equipment and report to the head of the DMO on potential difficulties.<sup>102</sup>**

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98 Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, p viii.

99 Department of Defence, sub 4, p 98.

100 Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, p ix.

101 Department of Defence, sub 4, p 98.

102 Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, p ix.



- 3.109 Again, Defence reports implementation of Kinnaird's recommendation 10 as complete:

Implementation of this recommendation is completed and the desired outcome has been achieved. The role of the Project Governance Boards has been extended to cover the through-life-support function and have accordingly been renamed Materiel Assurance Boards. In addition, a number of private sector members have been appointed, including members nominated from Engineers Australia and from the Law Society of NSW. The boards provide independent advice to the CEO DMO.<sup>103</sup>

## Summary of progress on implementation of recommendations

- 3.110 There is a clear consensus that a considerable amount of work has been undertaken to implement the Kinnaird Review recommendations and that they are largely complete.
- 3.111 In its submission to this inquiry Defence provided an overview of what it considers to be the key achievements arising from the implementation of the Kinnaird Review recommendations:
- release of the Defence Update 2005, which re-evaluated the strategic environment and its impact on Defence capability;
  - appointment of Lieutenant General Hurley as Chief of the new Capability Development Group in December 2003, and Dr Stephen Gumley as the CEO DMO in February 2004;
  - strengthening of the 'two pass' process and the amendment of the Cabinet Handbook in relation to Defence capability decisions;
  - Defence Committee reviewing monthly DMO progress on approved acquisition projects and sustainment activities;
  - development of a standardised project maturity score that is used to benchmark the performance of all DMO acquisition projects;
  - establishment of the Defence Procurement Advisory Board in March 2004;

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103 Department of Defence, sub 4, p 99.

- DMO becoming a prescribed agency under the *Financial Management and Accountability Act 1997* on 1 July 2005;
- development of purchaser-provider agreements between Defence and the DMO;
- selection of project managers, both military and civilian, on merit. A certification system has been established for project directors and managers to gain accreditation from the Australian Institute of Project Management;
- signing of the Military Workforce Agreements between the CEO DMO and the respective Service Chiefs;
- establishment of the Materiel Assurance Boards to provide whole-of-life assurance on acquisition projects and sustainment activities; and
- progression of Defence financial systems reform to provide a “transparent view of the whole-of-life budget”.<sup>104</sup>

3.112 The Committee notes that Dr Stephen Gumley has since been reappointed as CEO DMO and that Dr Gumley’s employment status has been moved from a fixed term to ongoing Australian Public Service (APS) employee status.<sup>105</sup>

3.113 The Committee also notes the following comments by representatives of the Defence Procurement Advisory Board - including Mr Malcolm Kinnaird - at the hearing on 15 August 2007:

In the period that we have had a role as a defence advisory board, we have been very impressed with the work that Steve Gumley and his team have conducted – the way they have approached the tasks that have been before them with a great deal of rigour. From the perspective of an advisory board that does not play any role in the management of the organisation...it would be fair to say that some significant progress has been made. We have been impressed with the calibre of the senior management team. In the defence organisation that we are exposed to we have been impressed with the recruiting process that has been pursued to strengthen that management team over the last 18 months or so.<sup>106</sup>

As a member of the committee that produced the report that was adopted by the government, I am delighted that we have

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104 Department of Defence, sub 4, p 84.

105 The Hon Joel Fitzgibbon MP, *Dr Stephen Gumley reappointed as Chief Executive Officer Defence Materiel Organisation*, media release, 2 May 2008.

106 Mr David Mortimer, transcript, 15 August 2007, p 1.

been able to attract the quality of people that we have attracted to the executive. They have embraced the policies that we felt were essential to start a cultural change and they are implementing our recommendations with persistence, effectiveness and, at times, courage. It is a long task because there is a large body of people who believe that their sole responsibility is to meet process. We were much more concerned with accountability and outcomes. Much of what we recommended was done so in an effort to try to shift the organisation so that it was more outcomes focused.<sup>107</sup>

- 3.114 As an external observer of Defence, Dr Mark Thomson is similarly positive about the gains that have been made:

Broadly speaking, the Kinnaird review of Defence procurement set in place a sensible set of reforms within the organisation. They have been grabbed with some gusto, and progress is being made on a number of fronts. DMO has been set up as a prescribed agency, a two-part process has been put in place for cabinet, skilling of personnel has been pushed harder and some capability for costing of capability has occurred.<sup>108</sup>

- 3.115 Industry representatives were also generally positive about the overall impact of the Kinnaird Review recommendations on the definition and assessment phases of the capability life cycle. In its submission to the inquiry, Raytheon Australia Pty Ltd states:

The two-stage approval process has been a step forward with the Government reportedly provided with much better information as a basis for their decision-making.<sup>109</sup>

- 3.116 BAE Systems Australia agrees that progress in relation to the capability development to acquisition phase of the acquisition process has been substantial, noting the following as highlights:

- The creation of the position of Chief of Capability Development Group (CCDG) at three star rank has strengthened consideration of joint and other interoperability aspects with a 'purple' advocate and champion to balance the single Service points-of-view.
- A direct consequence of establishing CCDG has been the documentation of systematic processes and procedures for

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107 Mr Malcolm Kinnaird, transcript, 15 August 2007, p 1-2.

108 Dr Mark Thomson, transcript, 8 February 2007, p 3.

109 Raytheon Australia Pty Ltd, sub 5, p 7.

the capability development process in the Defence Capability Development Manual.

- The two pass system has introduced rigour to the process of acquiring capability and provided the opportunity for early Government scrutiny of proposals.
- The Defence Capability Development Manual and other documents provide clear guidance on the information required for the initial business case, first pass cost estimates and other important planning milestones.<sup>110</sup>

3.117 Despite these positive comments, the Committee is aware that the job of procurement reform is not yet complete. As Dr Mark Thomson reflects:

I think more needs to be done in order to get Defence procurement to where it needs to be, and there are two groups of activities that need to occur. First of all, we need more of the same. The Kinnaird reforms, by and large, pushed Defence in good directions; Defence needs to be pushed harder to continue those ongoing reforms. In particular, the approach put forward in the Kinnaird reforms concerning personnel – bringing people in from the private sector, paying people incentives and putting in place the same sorts of commercial arrangements that occur in the business world – needs to be taken further. There probably needs to be some refinement of the two-part process of project approval, and I think we are yet to fully see Defence exploit the opportunity of spending more money up front in projects to retire risk.<sup>111</sup>

3.118 Mr Peter Nicholson from BAE Systems Australia also states:

The effort has moved upstream into the capability development area with the establishment of the Chief of Capability Development, a central ‘purple’ staff, and some additional funding. But...there is a long way to go. In commercial practice, about 15 per cent of a project’s worth would generally be spent before the project starts – that is, upfront. It is nothing like that in Defence. Furthermore...the expertise is not just in the money but in the people; the right sort of people in the capability development area, and

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110 BAE Systems Australia Limited, sub 2, p 5.

111 Dr Mark Thomson, transcript, 8 February 2007, p 3.

upstream in the strategy area. That is where the process needs to be continued and the reforms pressed home.<sup>112</sup>

3.119 Similarly, Mr Bradford from BAE stated:

The Kinnaird reforms – putting effort into achieving a greater degree of clarity with requirements at an earlier stage of the acquisition process – are extremely important, and in my view there is still not enough energy applied to that activity. There is not enough funding and there are not enough resources, particularly human resources, applied to that activity.<sup>113</sup>

3.120 In addition to the work that remains outstanding in relation to the organisational implementation of the Kinnaird Review recommendations, the Committee believes there is another key aspect that requires further attention. That key aspect relates to the more complex task of measuring the *effectiveness* of the recommendations of the Kinnaird Review.

## Measurement of reform effectiveness

3.121 Mr Mortimer indicated a high degree of confidence that all the recommendations of the Kinnaird Review had been virtually completed. However, he also added the following comments:

They are not marked by our board as having been completed because we still have the task of measuring the effectiveness of some of the outcomes... That is going to take a little bit more time. In other words, the database is not large enough for us to be able to say satisfactorily that they are all green lights.<sup>114</sup>

3.122 In this quote Mr Mortimer makes an important distinction between two key outcomes associated with the implementation of the Kinnaird Review recommendations. The first outcome is the extent to which each of the ten recommendations have, in whole or in part, been implemented structurally or organisationally across Defence. The second outcome is relevant to whether the ultimate aim of the Review, as illustrated in the quote below, has been realised:

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112 Mr Peter Nicholson, transcript, 8 February 2007, p 21.

113 Mr Harry Bradford, transcript, 8 February 2006, p 15.

114 Mr David Mortimer, transcript, 15 August 2007, p 2.

Our approach has been to propose a number of complementary actions that, together, will bring about reforms that can provide the Government with greater certainty that the capability it has approved for the ADF will be delivered on time and within budget.<sup>115</sup>

- 3.123 Over the course of the inquiry, the Committee heard and received a great deal of evidence about the actual implementation of the Kinnaird recommendations (i.e., the first outcome above). With regard to the second outcome (i.e., the effectiveness of the Kinnaird recommendations), however, the evidence is more limited. This is largely because many of the current acquisition projects could not be considered 'post-Kinnaird'. In response to a question on when post-Kinnaird project performance audits will be tabled in Parliament, representatives from the ANAO explained:

It really depends on when the DMO starts implementing Kinnaird reforms to the new projects. At this moment most of the top projects are dealing with pre-Kinnaird.<sup>116</sup>

Kinnaird only came into effect in 2005-06 for projects. We have looked at a series of projects [including] the fleet oiler, which was a 2004 project. The tanks, which we will be reporting on next month are a 2004 project. They did not actually go through the full two-pass approval system. Many of the projects which were in the Defence capability plan in 2003-04 were deemed to be at first pass. When you talk about going through the full two-pass approval system they start with projects with a date of approval from 2005-06.<sup>117</sup>

- 3.124 In its submission, the ANAO makes plain its inability to assess the implementation of the Kinnaird reforms as yet:

The ANAO is not yet in a position to provide an authoritative view on the implementation of the Kinnaird reforms. However, the ANAO proposes to incorporate into the forward work programme an examination of post-Kinnaird activities in Defence and DMO in order to assess progress.<sup>118</sup>

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115 Department of Prime Minister and Cabinet (2003), *Defence Procurement Review 2003*, p 47.

116 Mr John Meert, transcript, 13 June 2007, p 5.

117 Mr Colin Cronin, transcript, 13 June 2007, p 5.

118 Australian National Audit Office, sub 3, p 11.

3.125 The Auditor-General at the hearing on 17 August 2006 further stated:

...we intend to put more focus on the projects that have come through the strengthened two-pass system going forward. But some of these projects are still in progress, so it is not as though the world has changed overnight... we want to develop our audit strategy to shift with the new world and see how effective some of these new reforms have been.<sup>119</sup>

3.126 As outlined above (see section 3.123) the ANAO has indicated to the Committee that performance audits of post-Kinnaird projects (i.e., projects with a date of approval from 2005-06) will be conducted:

Going forward, the ANAO will look more closely at the post-Kinnaird review activities in DMO. The ANAO will undertake a mix of audits, covering the detail of particular projects and systems, with emphasis on whole-of-life acquisition and support perspectives, and extending to looking across programmes for systemic improvements.<sup>120</sup>

3.127 The Committee notes, however, that despite what looks like a straightforward split between pre- and post-Kinnaird projects, there appears to be some ambiguity around this concept. This ambiguity often resulted in some frustration on behalf of Committee members. It appeared to the Committee that Defence often used the term 'pre-Kinnaird' as a 'stock standard' explanation of why things had gone wrong.<sup>121</sup>

3.128 The Committee therefore proposes that definitions of pre- and post-Kinnaird projects should be included in all documentation reporting on the progress of acquisition projects (see also discussion regarding a glossary to be contained in Major Projects Report contained in Chapter 5 below). Such an inclusion may provide additional useful context to ANAO performance audit reports as suggested by Mr David Mortimer:

...when you do a performance audit of the top 30 projects, if some of those are pre-Kinnaird then it would be helpful for the Auditor-General to draw your attention to the fact that it is pre-Kinnaird and for the Auditor-General to comment on

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119 Mr Ian McPhee, transcript, 17 August 2006, pp 12-13.

120 Australian National Audit Office, sub 3, p 4.

121 For example, see discussion, transcript, 13 June 2007, p 5.

whether those issues have been addressed or whether they are still being addressed.<sup>122</sup>

3.129 As outlined in section 3.87, a further question remains outstanding in relation to the monitoring and measurement of the Kinnaird reforms. That is, the extent to which the cultural shift that the authors of the Kinnaird Review hoped would occur as a result of the recommendations is now embedded within the organisation.

3.130 This issue was raised at the hearing on 15 August 2007 by the Chair of the Defence Procurement Advisory Board as follows:

...how far we are penetrating in the organisation and what would be the best way to test it. That is one of the reasons why we are still operating as a board. One of the ways to do that may well be a survey of some kind. Another observation I have is that it is difficult for this organisation on a couple of fronts. Firstly, there is an obligation to the parliament to see that proper process is followed. You all are accountable to the public and you want, quite rightly, to hold the executive accountable to you in appropriate ways. So there is that process that is a little bit more rigorous than you would see in the private sector. Secondly, there is another issue that I notice – that is, the inability of organisations within the government sector to be as flexible with their people. I think you have got, not a resistance to change, but a certain amount of static there which you as an organisation have got to deal with. It takes a lot longer than perhaps it would in a private sector situation. So we still have to test at lower levels.<sup>123</sup>

3.131 The need for cultural change throughout Defence and the DMO was raised a number of times throughout the course of the inquiry (as indeed it had been during the Senate inquiry in 2003) and the Committee notes the importance of this aspect in relation to measuring the effectiveness of the Kinnaird Review recommendations. Cultural change is addressed further in Chapter 4.

#### Committee comment

3.132 It is the Committee's view that gaining a definitive picture of the ultimate effectiveness of the Kinnaird Review recommendations in terms of improving cost overruns, and schedule and delivery

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122 Mr David Mortimer, transcript, 15 August 2007, p 4.

123 Mr David Mortimer, transcript, 15 August 2007, pp 5-6.



slippage, is only possible through the routine performance audits conducted by the ANAO on post-Kinnaird projects. The Committee will carefully monitor this aspect in its reviews of Defence-related ANAO performance audits.

## International comparisons

- 3.133 Under the inquiry's terms of reference, submissions were invited to comment on progress in implementing the Kinnaird reforms and achievements in procurement relative to international best practice.
- 3.134 The Committee received written and oral submissions from representatives of both Defence and industry commenting on this aspect of the inquiry. Dr Gumley from the DMO sets out his views of Australia's procurement practices compared to other international organisations below:

Based on comparisons with counterpart defence agencies overseas, we assess our efforts to improve acquisitions as being ahead of those in other countries, such as the US, UK and Canada. In Australia and internationally, DMO is leading reform in project management. Our reforms are being taken up by the Australian Institute of Project Management. DMO's focus is on achieving scheduled performance; with that will come improved cost performance. When compared with other organisations carrying out similar roles, DMO is an effective project management organisation.<sup>124</sup>

We regularly benchmark ourselves against a number of countries...[O]ne of the things that work[s] for us is the government-to-government cooperation. For example, there were the C17s, which was because of excellent cooperation between the Australian government and the US government. We are cooperating closely with the French government on this, we are working with the British and we are talking to the Canadians. It is one of the areas of the whole acquisition environment that does not get a lot of attention but, in fact, it is a key driver of success; it is also a key driver of areas where we can all improve. The benchmarking is continuous. I put charts up at my business plan review each month in DMO to

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124 Dr Stephen Gumley, transcript, 11 May 2006, pp 7-8.

see how we compare against the British and the Americans. I have already given evidence in Senate estimates that we actually compare quite favourably with the other acquisition environments.<sup>125</sup>

- 3.135 At a Senate Estimates hearing on 30 May 2007, Dr Gumley also used figures on slippage to demonstrate Australia's relative position internationally as follows:

We have had slippage up around 18, 19, 20 per cent, we have had it down to 13 or 12 per cent last year, we think it is going to be about 15 per cent in the year to come. That compares roughly equally with the British and the Americans and the other major Western countries, so we are not seriously out of sync with that.<sup>126</sup>

- 3.136 At the same hearing, Air Chief Marshal Angus Houston stated:

...The way the DMO is going at the moment is world's best practice. Everybody in the world comes to have a look at the way we do acquisition and sustainment, because nobody does it better.<sup>127</sup>

- 3.137 Some industry representatives were similarly positive about Australia's relative position internationally with regard to acquisition practice. For example, based on what they say is a specific understanding of the defence market environments in United States, the United Kingdom and Canada, Raytheon Australia Pty Ltd made the following comment on Australia's position as well as suggestions for improvements:

As far as acquisition is concerned...the company believes that Australia is close to best practice in many aspects of its acquisition practices. For example, in the United States many major defence contracts are still based upon cost plus, or time and material regimes. We moved away from these forms of contracts some time ago, although as noted under the previous term of reference, we could improve the practice here by demonstrating greater awareness and understanding of the risk profiles of individual projects, or phases of

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125 Dr Stephen Gumley, transcript, 1 March 2007, p 14.

126 Dr Stephen Gumley, Senate Standing Committee on Foreign Affairs, Defence and Trade, Estimates, transcript, 30 May 2007, p 74.

127 Air Chief Marshal Angus Houston, Senate Standing Committee on Foreign Affairs, Defence and Trade, Estimates, transcript, 30 May 2007, p 51.

projects, and adjusting the contract strategy accordingly. Too many developmental projects are contracted against fixed prices, to the detriment of both the Commonwealth and companies (although having some protection against unexpected cost escalation the Commonwealth ends up paying more than might be necessary because companies have to factor the additional risk into their price).<sup>128</sup>

3.138 And, further:

By our observation Australia leads the world, at least for those countries with no clearly identifiable threat, in its planning processes for structuring the ADF. The processes behind Australia's strategic and force structure planning, developed over the last thirty years, are acknowledged world-wide for their intellectual rigour and have been adapted by a number of countries.

The [Defence Capability Plan] is another area where Australia leads the world. By laying out its medium-term capital equipment acquisition plan, together with indications of the broad cost it is willing to pay in each case, the Government provides the best planning baseline for industry anywhere in the world.<sup>129</sup>

3.139 Not all submissions commenting on Australia's relative standing internationally were positive. Mr Peter Goon highlighted the anecdotal nature of the claims made in the Defence submission:

Usually, such claims would be supported by objective studies...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'.<sup>130</sup>

3.140 A dearth of independent evidence on this aspect of the inquiry is a point not lost on the Committee. Like the evidence provided to the Committee in terms of relative international best practice in financial reform (see Chapter 2) the Committee did not receive any independent, objective evidence about international relative best practice in procurement. This does not, in and of itself, diminish the claims made in this respect, however, it does demand that caution should be applied to any interpretation of that evidence.

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128 Raytheon Australia Pty Ltd, sub 5, p 8.

129 Raytheon Australia Pty Ltd, sub 5, p 9.

130 Mr Peter Goon, sub 7, p 2.

- 3.141 On a more positive note, the Committee believes that the lack of evidence around international best practice presents an opportunity for the Department of Defence in this country to collaborate with its counterparts in other countries to develop and document best practice around the acquisition of equipment. For example, this is particularly relevant to the fact that Australia along with the UK Ministry of Defence and the Department of Defense in the United States of America are all striving to improve the methods of reporting around major capital equipment projects.

## Conclusions

- 3.142 It is clear from the evidence before the Committee that the authors of the Kinnaird Review anticipated that their recommendations would have an impact not only on the overall effectiveness of the procurement process but on the culture of the organisation as a whole.
- 3.143 The Committee is impressed with the significant amount of work that has gone into implementing the Kinnaird Review recommendations and the Committee agrees that organisationally, the implementation of recommendations is close to completion. However, the Committee is unable to express any real certainty or comfort about the impact of the Kinnaird Review recommendations until it has had an opportunity to review the performance audits of post-Kinnaird projects by the ANAO. Until that time comments on improvements in actual outcomes such as the delivery of equipment on time and within budget and accordingly, the effectiveness of the reforms, remain somewhat speculative.
- 3.144 Likewise until a clear form of measurement of the impact of the Kinnaird Review recommendations on cultural change across both Defence and more particularly, the DMO, is available, the Committee is unable to comment definitively on the effectiveness of the reforms in this respect.
- 3.145 The Committee notes from the evidence that the early phases of equipment acquisition appear to be the most problematic, in particular in relation to the articulation of requirements and the level of financial risk the Government is exposed to. The Committee notes that changes that have occurred as a direct or indirect result of the Kinnaird Review recommendations in these early stages of the

capability lifecycle have resulted in improvements. The extent to which scope creep occurs appears to have been reduced and attempts have been made to reduce the level of technical risk associated with equipment acquisition. However, resources available to the Capability Development Group continue to be a source of concern.

- 3.146 Financial risk was a topic frequently raised over the course of the inquiry and is an aspect of equipment acquisition which remains a persistent challenge. This issue is also addressed in Chapter 4 below.
- 3.147 Evidence about a commitment to increasing the strength of the two-pass process is difficult to obtain. On the one hand, significant steps appear to have been taken to ensure that processes outlined in the cabinet handbook are adhered to, and yet recent one-off acquisitions continue to raise scepticism about the rigour of that process amongst external observers.
- 3.148 The Committee notes that relationships between Defence, the DMO and industry have improved. The evidence suggests that Defence is putting significant effort into engaging industry to a greater extent than was previously the case. However, the Committee emphasises that the balance between the capacity for industry to influence Government and the ability to ensure value for money outcomes on behalf of the Australian public must be retained.
- 3.149 While comparisons internationally were problematic, the Committee is satisfied that Defence is fully cognisant of the need to benchmark its business internationally. The Committee also believes more could be done in terms of international collaboration to improve reporting on major Defence acquisitions. To that end, the Committee is pleased to note the recent two-month secondment of Mr Warren King, General Manager Programs, DMO to the office of the US Secretary of the Navy.<sup>131</sup>
- 3.150 Once again, the Committee welcomes the announcement of the Defence Procurement and Sustainment Review. The Committee is hopeful that the review will present an opportunity for further consideration of the issues which arose during this inquiry.

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131 John Kerin, *DMO expert to show US Navy the way*, Australian Financial Review, 10 July 2008, p 10.