

## **Part III**

### **Accountability, responsibility and collaboration**

When it comes to key decision-making, it is especially important that the right people are in the appropriate positions to make key decisions and have the responsibility, seniority and authority to do so effectively. They should also be known to have this responsibility and to be accountable for decisions and performance that come under their delegation. Because of the hierarchy and layers of groups that make decisions or provide advice leading to major commitments to a specific capability development, there should be a clear understanding of responsibility throughout the acquisition process.

In Part III of the report, the committee considers the delegation of responsibility and accountability for major defence procurement projects, the exchange of information and the transition of responsibility from one group involved in an acquisition program to another.



# Chapter 7

## Responsibility and accountability

7.1 Standards Australia noted that there should be designated individuals who fully accept accountability, are appropriately skilled and have adequate resources to check controls, monitor risks, improve controls and communicate effectively about risks and their management to external and internal stakeholders.<sup>1</sup> In support of this advice, the Rizzo Report stated that 'strong accountability is an important component of any high performing organisation, as it denotes ownership of a result or action'.<sup>2</sup> In this chapter, the committee looks at responsibility and accountability—who owns decisions and takes responsibility for performance in respect of major defence acquisitions.

### Background to accountability—committees

7.2 In 2003, Kinnaird noted that accountability for managing the process of defining and assessing capability and achieving robust outcomes was 'diffused and overlaid by a complex system of committees'.<sup>3</sup> In his view, there was scope to streamline the multiple layers of committees. He recommended a review of the committee system to ensure that committees 'fully complement and support the capability definition and assessment function'.<sup>4</sup> Furthermore, he stressed that 'management and reporting structures need to be clear, well understood, and, to the greatest extent possible, ensure that they align authority, responsibility and accountability'.<sup>5</sup>

7.3 Despite measures to reform the committee system, eight years later Dr Rufus Black reached a similar conclusion about the existence of too many committees. In December 2009, he was commissioned to conduct a review into accountability and governance in the Defence Department. Dr Black presented his final report to the Secretary and CDF in early 2011 (Black Review).<sup>6</sup> He found that Defence had a complex accountability system that had evolved over many years but had reached a point where there was 'a strong case to redesign' it. He was of the view that current arrangements were under stress, resulting in poor performance such as delivery

---

1 Standards Australia/Standards New Zealand, *Risk Management—Principles and guidelines*, AS/NZS ISO 31000:2009, paragraph A.3.2.

2 Department of Defence, *Plan to Reform Support Ship Repair and Management Practices*, July 2011, p. 9.

3 Department of Defence, *Procurement Review 2003*, pp. 10–11.

4 Department of Defence, *Procurement Review 2003*, p. 11.

5 Department of Defence, *Procurement Review 2003*, p. 48.

6 Department of Defence, *Submission 21*, p. 13.

failures for capability projects, poor or inappropriate procurement decision-making, and a lack of cost consciousness in the management of day-to-day activity. According to Dr Black, the existing accountability arrangements also 'constrain leadership capability and management capacity by reducing the ability of decision-makers to exercise strategic control over the construction and implementation of decisions'.<sup>7</sup>

7.4 Dr Black also found that the committees 'create diffused and confused accountability and their operation is often characterised by poor procedures'. He reported:

Decision-making and accountability systems need to ensure that Defence functions as a single, integrated enterprise, and that accountability systems function as a force for organisational cohesion. Defence decision-making lacks the framework of clear priorities and direction which would flow from an enterprise level corporate plan.<sup>8</sup>

7.5 In his assessment, an accountability system must among other things 'create internal and external clarity and transparency about who is responsible for making decisions'. The system must 'reach down into the organisation right to front line staff who are ultimately responsible for actual delivery'.<sup>9</sup> He noted that Defence could achieve stronger decision-making and strategic direction by redefining committee structures and processes.

7.6 It should be noted that soon after the release of Dr Black's review, the minister noted the difficulty he had in gaining information on the people responsible when 'things have gone wrong'. The minister wanted to know who had senior oversight: who had responsibility. He explained:

It's been very difficult to provide answers to those questions, largely because very many of the decisions have been made at committee level where the responsibilities to date have been diffuse and hard to identify.<sup>10</sup>

7.7 A witness familiar with major defence acquisition projects was also highly critical of the trend toward excessive bureaucracy and a committee organisation where 'accountability is too diffuse to be useful and there is too much micro-management'.<sup>11</sup> This view aligns with the committee's description of Defence's risk management practices and the many groups that contribute to identifying, assessing and mitigating risk, including those who oversee risk management activities. With so many groups

---

7 Department of Defence, *Review of the Defence Accountability Framework*, January 2011, p. 9.

8 Department of Defence, *Review of the Defence Accountability Framework*, January 2011, pp. 9–10.

9 Department of Defence, *Review of the Defence Accountability Framework*, January 2011, p. 15.

10 Minister for Defence—Press Conference—Black Review, 9 August 2011, p. 10 of 15, <http://www.minister.defence.gov.au/2011/08/09/minister-for-defence-press-conference-black-review-9-august-2011/> (accessed 24 April 2012).

11 *Confidential Submission*, p. 42.

involved in this so-called process of continuous refinement, the committee had difficulty isolating and identifying any single group responsible and accountable for mistakes or shortcomings in procurement projects. It would seem that everybody yet nobody is responsible. The committee accepts that the committee system as presently operating in the defence procurement domain blurs accountability. Moreover, it would seem that the number of committees has grown in response to identified problems on the assumption that another oversight or advisory body will fix the deficiency, when in fact it has only added another bureaucratic layer.

7.8 After the release of the Black Review, the minister announced that the number of committees would be reduced: that committees would be advisory and there would be individual decision-makers.<sup>12</sup> In August 2011, Air Marshal Harvey told the committee that Defence was working through the implications of the Black Review and would be reviewing the committee structure.<sup>13</sup> Ms Fran Holbert, ANAO, also informed the committee that Defence was aware of the need for increased clarity about who makes decisions; and of the need to 'rein in the committee system'. In her view, it would be a matter of how that awareness translates into action.<sup>14</sup>

7.9 Even though Defence is considering, and acting on, Dr Black's findings,<sup>15</sup> the committee decided that it would go ahead and look closely at accountability in defence procurement. The committee's attention, however, is not directed at the numerous committees that feed into the process that produces a submission to government on capability development. Its focus is directly on the key agencies involved in the acquisition of major defence capital equipment.

### **Who is responsible?**

7.10 During its site visit to South Australia and Western Australia, one official from industry told the committee that his company struggles to understand who is accountable in Defence. Although the Defence Capability Development Handbook acknowledges that responsibilities for managing phases of the capability development life cycle are shared across Defence, it does specify the group responsible for particular aspects of capability development including:

- *Strategic Policy Division*—responsible and accountable for the overarching strategic guidance, including the Defence Planning Guidance (DPG).
- *Force Structure Development Directorate*—responsible for the implementation of the government directed five-yearly capability planning cycle.

---

12 Minister for Defence—Press Conference—Black Review, 9 August 2011, p. 10 of 15, <http://www.minister.defence.gov.au/2011/08/09/minister-for-defence-press-conference-black-review-9-august-2011/> (accessed 24 April 2012).

13 *Committee Hansard*, 7 October 2011, p. 55.

14 *Committee Hansard*, 11 August 2011, p. 33.

15 Department of Defence, *Submission 21*, p. 13.

- *Capability Development Group (CDG)*—responsible and accountable for the development of the DCP, drawing on the approved annual DPG, supporting concepts, experimentation and futures work: it prioritises all of Defence's major procurements in line with strategic guidance and recommends the appropriate capability to meet the government's priorities;
  - *Capability Systems Division*, within CDG—manages DCP projects and leads the development of the capability proposals and supporting documents that form the basis of the ministerial or cabinet submission
    - *Integrated Project Team*—headed by a desk officer from the Capability Systems Division—is responsible for the success of a particular project.
  - *Capability Investment and Resources Division*—responsible for ensuring that the DCP is appropriately programmed and for independently reviewing capital and operating costs for all projects going to the Defence committees. According to Defence's supplementary submission, the Division is responsible for drafting initial, first and second pass cabinet submissions. It has two branches:
    - *Investment Analysis Branch*—responsible for providing advice, independent of Capability Systems Division, on capability proposals; and
    - *Cost Analysis Branch*—provides cost analysis, again independent of Capability Systems Division, on capability proposals to support the development of ministerial or cabinet submissions.
  - *Capability and Plans Branch*—responsible for ensuring that the outputs of strategy formulation and capability planning are used consistently across CDG and for providing Group level support to Chief of CDG (CCDG) and other areas of CDG.
- *Capability Managers*—responsible for delivering the agreed capability to government, through the coordination of the Fundamental Inputs to Capability (FICs)—ultimately, the capability manager is responsible for ensuring an integrated view of the delivery of capability across the Defence and the DMO.
- *DMO*—responsible for the acquisition of the majority of capital equipment assets and the sustainment of these assets throughout their in-service life.
  - *Acquisition team* responsible for managing an acquisition.
- *DSTO*—principal source of science and technology advice to inform government on capability development decisions.<sup>16</sup>

7.11 There are numerous other bodies, such as the Defence Support Group and the Chief Information Officer Group that are responsible for providing support to a

---

16 Department of Defence, *Defence Capability Development Handbook*, Commonwealth of Australia, 2011, paragraphs 1.5.3–1.5.15 and pp. 106 and 109.

project. The committee's main concern, however, is with the principal groups—CDG, capability managers and DMO. As one witness explained:

CDG shapes the capability, DMO buys the capability and the Navy, in this case [the capability manager], uses the capability.<sup>17</sup>

7.12 The committee also considers the role and responsibilities of the DSTO.

### **Capability Development Group**

7.13 The CDG has a range of responsibilities but overall its job is to provide 'decision-quality advice' to government in delivering capability described in the DCP'. Although the CDG develops the options to be presented to government for consideration, it does not come up with ideas for new capability, rather it converts 'high-level strategic needs identified into capabilities that can be delivered by industry'.<sup>18</sup> It is responsible for ensuring that project proposals put to government have reliable capability, cost, risk and schedule estimates.<sup>19</sup> At second pass, CDG is responsible for getting the project approved. It holds the money in the unapproved project and transfers the money across to DMO at that point.<sup>20</sup>

7.14 It is important to note that while CDG has overall responsibility for the capability proposal, the relevant capability manager and enabling groups develop some documents.<sup>21</sup>

### **Capability Managers**

7.15 As the ultimate customer for the capability, capability managers have a strong vested interest in the early stages of a procurement process for major capital equipment through to taking delivery of the product and its in-service operation. Often they are the ones who advocate and put forward an initial proposal.<sup>22</sup>

7.16 Since the Kinnaird Review, Defence has given much attention to ensuring that capability managers take a more active and engaged role throughout the acquisition process. In 2003, Kinnaird argued that:

---

17 *Committee Hansard*, in camera.

18 *Committee Hansard*, 5 October 2011, p. 12. See also Department of Defence, *Defence Capability Development Handbook*, August 2011, paragraphs 1.5.5–1.5.8 and p. 106.

19 Department of Defence, *Submission 21*, p. 8.

20 *Committee Hansard*, 5 October 2011, p. 57.

21 Department of Defence, *Defence Capability Development Handbook*, August 2011, paragraph 1.4.14.

22 *Committee Hansard*, 5 October 2011, pp. 11 and 17 and 7 October 2011, pp. 15–20, 29, 30. Capability managers are on the Project Stakeholder Group, present at the Options Review Board, invited to the Gate reviews; clear all submissions that go to government in terms of the capability and co-sign the MAA.

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.<sup>23</sup>

7.17 This responsibility would be for 'the whole of capability from the point where government approves a particular capability option, that is at second pass approval, through to the time that the capability is retired from service'.<sup>24</sup> Capability managers should also be responsible for ensuring that the capability development process and options for government approval are in line with Service needs.<sup>25</sup> In addition, capability managers should be held accountable during the acquisition phase for the development of all Service-related inputs required for the introduction of the equipment into service. Kinnaird stated further:

It is the responsibility of capability managers to ensure government is alerted to any significant prospective change in the cost, timeliness or scope of the capability it expects. In particular, they should ensure that government is fully aware of the implications of the changes.<sup>26</sup>

7.18 The Kinnaird Review stated clearly that capability managers 'would not assume management responsibility in other functional areas in Defence or exercise control over budgets or funding in these areas'.<sup>27</sup> The Mortimer Review also considered the responsibilities of the capability manager. It recommended that they should be required to sign the capability submission acknowledging their understanding of the capability being requested and the proposed acquisition strategy.<sup>28</sup> In response to Mortimer's findings, Defence recognised that the purpose for requiring the capability manager to sign the capability submission was 'to put more discipline, rigour and an accountability framework around Defence's internal consideration of capability proposals and the entry of the project to the DCP'. Defence explained that to enhance opportunities for the capability managers and other stakeholders to be involved early in the process and to keep government better informed about key stages in capability development:

CCDG, in conjunction with CEO DMO, has developed a statement of the capability development process designed to clarify key roles.<sup>29</sup>

---

23 Department of Defence, *Procurement Review 2003*, p. vi.

24 Department of Defence, *Procurement Review 2003*, p. 24.

25 Department of Defence, *Procurement Review 2003*, p. 24.

26 Department of Defence, *Procurement Review 2003*, p. 26.

27 Department of Defence, *Procurement Review 2003*, p. vi.

28 DMO, *Going to the Next Level, the report of the Defence Procurement and Sustainment Review*, 2008, recommendation 2.6, p. 23.

29 Department of Defence, *The Response to the Report of the Defence Procurement and Sustainment Review*, The Mortimer Review, p. 23.



7.19 To make clear respective responsibilities and provide a firm baseline for the delivery of equipment, Mortimer recommended that capability managers should sign the Materiel Acquisition Agreements.<sup>30</sup> Defence concurred with the view, stating that this requirement would 'help to confirm the agreed baseline levels of capability against which the delivery of equipment would be measured'. It indicated that CCDG would coordinate this process.<sup>31</sup>

7.20 Mortimer also noted that as a fundamental principle, the relevant capability manager should exercise oversight and coordination of all elements necessary for the introduction of a capability.<sup>32</sup> In this regard, Defence agreed that capability managers should act in a stronger assurance role to ensure the appropriate oversight and coordination of all the relevant elements.<sup>33</sup>

7.21 Three years on in 2011, the Rizzo Report further underlined the need for the Chief of Navy as capability manager to exercise his authority to accept or reject new naval capability against the government approved scope through an independent, rigorous and transparent evaluation process.<sup>34</sup> Several witnesses to the inquiry similarly acknowledged that capability managers had been left on the sidelines and called on them to have greater responsibility and be accountable for relevant key aspects of procurement. They wanted to see capability managers assume a more active and stronger role throughout the acquisition process, and to be held accountable for their performance.<sup>35</sup> Dr Thomson argued that returning control to the Services in some areas 'would lead to better outcomes because it would clarify accountability and remove what is, at the end of the day, moral hazard'. He explained:

Moral hazards occur when somebody is doing something for someone else and they have different priorities and they do not bear the consequences.

---

30 Defence Materiel Organisation, *Going to the Next Level, the report of the Defence Procurement and Sustainment Review*, 2008, recommendation 3.1, p. 32.

31 Department of Defence, *The Response to the Report of the Defence Procurement and Sustainment Review*, The Mortimer Review, p. 26.

32 Defence Materiel Organisation, *Going to the Next Level, the report of the Defence Procurement and Sustainment Review*, 2008, recommendation 3.2, p 34.

33 Department of Defence, *The Response to the Report of the Defence Procurement and Sustainment Review*, The Mortimer Review, p. 26.

34 Department of Defence, *Plan to Reform Support Ship Repair and Management Practices*, July 2011, p. 15.

35 *Committee Hansard*, in camera. See also Dr Neumann, *Committee Hansard*, 13 June 2012, p. 8 and Air Commodore (retired) Bushell who argued that, 'Today, the Service Chiefs no longer manage their Services, they merely administer them to meet imperatives (priorities) dictated by Defence. They do not have command and control of their Services, are not organised to manage their Services, and do not have the resources needed to discharge their accountabilities'. *Submission 3*, p. 9.

All of these interfaces in Defence, between the support groups and the services, introduce moral hazards where people can shrug their shoulders.<sup>36</sup>

7.22 Defence responded to concerns about capability managers not being sufficiently engaged in the acquisition process by highlighting that they are now involved 'right up front'.<sup>37</sup> While such assurances are encouraging, the committee notes that capability managers have much ground to recover. They must regain authority over key areas of capability development, particularly the responsibility for determining the technical specifications they require for acceptance into service. Capability managers must also have adequate and appropriate resources, including a core of trained professional engineers, in order to carry out their responsibilities. If capability managers are to be empowered; if they are to exert greater control over the acquisition of a capability they will use, then DMO's role must change as well.

### **Defence Materiel Organisation**

7.23 The Defence Capability Development Handbook recognises DMO as a stakeholder in the capability development cycle.<sup>38</sup> Although responsible for the acquisition of the majority of capital equipment assets and the sustainment of those assets throughout their in-service life, DMO is also involved in the capability development process from an early stage. For example, it is represented on the Project Initiation Board; it works as part of the Integrated Project Team to develop the required project documentation; and prepares an acquisition strategy pre-first and again pre-second pass.<sup>39</sup>

7.24 Following second pass approval, the equipment requirement, together with the concept of operation, is passed to DMO to manage the acquisition (and subsequently in-service support and disposal phases). The head of DMO is then the single point of accountability for all aspects of the acquisition up to and including contractual acceptance, and is responsible for delivering equipment to the agreed functional specification and within the agreed budget and schedule.

### ***Distinct and complementary responsibilities***

7.25 Kinnaird and Mortimer recognised that capability managers and DMO have quite separate responsibilities. For example, Kinnaird suggested that:

During the acquisition phase, the capability manager monitors the development of all capability elements, including equipment delivery by the DMO. This responsibility does not imply any authority to directly instruct

---

36 *Committee Hansard*, 12 August 2011, p. 9.

37 Air Marshal Binskin, *Committee Hansard*, 5 October 2011, p. 16.

38 Department of Defence, *Defence Capability Development Handbook*, August 2011, paragraph 3.2.1.

39 Department of Defence, *Defence Capability Development Handbook*, August 2011, paragraphs 1.5.15, 3.4.50 and 4.3.23.

---

the DMO on any aspect of its function as the manager of equipment acquisition.<sup>40</sup>

7.26 Kinnaird noted that the DMO would provide advice on acquisition, and support issues.<sup>41</sup> Thus, the head of DMO 'would report to government on detailed issues including tendering and contractual matters related to acquiring and supporting equipment'. On the other hand, capability managers would report as appropriate to the CDF, Secretary of Defence, or the minister 'any concerns regarding the inability to deliver capabilities agreed to, and funded by government'.<sup>42</sup>

7.27 The Mortimer Review recommended that DMO should be held to account for delivering equipment and services as set out in the Materiel Acquisition Agreements (MAAs).<sup>43</sup> Defence agreed to the recommendation, indicating that this requirement reflected 'a sound approach to emphasising DMO's accountability'.<sup>44</sup> It indicated that the Defence-DMO charter, the MAAs and the redeveloped and clarified capability development process would 'provide the transparency needed to ensure reinforced accountability'.<sup>45</sup>

7.28 Despite Defence's positive response to Mortimer's recommendations intended to clarify respective responsibilities and require relevant parties to sign off on agreements, ANAO, Pappas and Rizzo found a definite need for clearer more specific arrangements. For example, in its audit report on acceptance into Service of Navy Capability, the ANAO noted that at key stages of each project, all parties would benefit from a definite agreed view of the risks that must be managed in order to achieve a successful outcome.<sup>46</sup> It found:

For Defence's current organisational and management models to work more effectively to deliver the anticipated efficiencies, there is a need for clearer, more specific agreements and accountabilities between the various organisations that assist the Chief of Navy to acquit his overall responsibility for delivering the Navy capability outcomes agreed to by government.<sup>47</sup>

---

40 Department of Defence, *Procurement Review 2003*, p. 25.

41 Department of Defence, *Procurement Review 2003*, p. 24.

42 Department of Defence, *Procurement Review 2003*, p. 25.

43 Defence Materiel Organisation, *Going to the Next Level*, the report of the Defence Procurement and Sustainment Review, 2008, recommendation 3.14.

44 Department of Defence, *The Response to the Report of the Defence Procurement and Sustainment Review*, The Mortimer Review, p. 31.

45 Department of Defence, *The Response to the Report of the Defence Procurement and Sustainment Review*, The Mortimer Review, p. 31.

46 ANAO Audit Report No. 57 2010–11, *Acceptance into Service of Navy Capability*, 2011, paragraph 29.

47 ANAO Audit Report No. 57 2010–11, *Acceptance into Service of Navy Capability*, 2011, paragraph 30.

7.29 According to the ANAO, the current customer-supplier model results in the Chief of Navy 'having no direct authority over key Defence Groups (including DMO) that develop capability elements needed to achieve these outcomes'. It concluded that this situation was 'a significant issue in any matrix management model such as that employed by defence'.<sup>48</sup> The ANAO audit was certain that Navy, CDG and DMO needed to place greater emphasis on 'maintaining a shared understanding of the risks to the delivery of the Navy capability agreed to by government'.<sup>49</sup> At the end of the audit, ANAO understood that CDF and the Secretary were considering proposed changes to Defence's accountability and authority structure.<sup>50</sup>

7.30 The committee's concern is that Defence may look to promote 'shared responsibility' without considering the individual responsibilities of groups such as CDG, DMO and capability managers. It is important that their respective responsibilities align correctly with the ultimate objective of delivering a product that meets the government's strategic requirements as well as the capability manager's fit-for-service requirements. Evidence to this committee shows that the current blurred and ill-defined roles and responsibilities frustrate this objective and, by focusing on shared responsibility at the expense of individual accountability, Defence's efforts may prove futile. In the committee's view, the priority should be on giving the capability manager appropriate control over the acquisition, ensuring all the while that the responsibilities of CDG, DMO and the capability managers are complementary.

7.31 Based on its audits, ANAO informed the committee that 'the challenges of managing inherently complex projects are compounded when roles and responsibilities are not clear at all stages of the capability development cycle'.<sup>51</sup> It concluded that 'Ongoing responsibility and accountability for defining and managing scope and schedule is, without doubt, a very important issue...'<sup>52</sup>

7.32 Pappas also advocated making the responsibilities of capability managers, CDG and DMO more specific and those responsible more accountable through written agreements. He suggested:

- the CDG and capability managers jointly write the capability definition;
- the DSTO writes the section relating to technical risk; and
- the DMO writes the section relating to the acquisition strategy.<sup>53</sup>

---

48 ANAO Audit Report No. 57 2010–11, *Acceptance into Service of Navy Capability*, 2011, paragraph 30.

49 ANAO Audit Report No. 57 2010–11, *Acceptance into Service of Navy Capability*, 2011, paragraph 33.

50 ANAO Audit Report No. 57 2010–11, *Acceptance into Service of Navy Capability*, 2011, Paragraph 30.

51 *Supplementary Submission 22A*, p. 1.

52 *Supplementary Submission 22A*, p. 2.

53 Department of Defence, *2008 Audit of the Defence Budget*, 3 April 2009, p. 55.

7.33 The committee agrees with Pappas' view that the responsibilities of the CDG, DSTO, DMO and capability managers should be clearly defined and they should be held to account for the way they exercise that responsibility. The committee's concern is with the actual responsibility that they hold and whether the current management framework is the appropriate one.

7.34 Dr Black argued that the accountability system 'must support the creation of an organisational culture that systematically and rigorously looks to understand and address the root causes of underperformance as early as possible'. He also suggested that the framework needed to provide 'internal and external clarity about who is responsible for making decisions' (see also paragraph 7.5).

7.35 Consistent with this observation, the Rizzo Report recognised that Navy 'experienced a challenge in accountability similar to that felt more broadly across Defence and DMO'. Rizzo was of the view that this challenge flowed from 'a lack of clarity in objectives, overlapping and blurred responsibilities, a lack of continuity in position and inadequately developed skill sets'. He believed that his audit supported the broad thrust of Dr Black's findings and recommendations and that the prompt implementation of them would assist with the resolution of this cultural issue.<sup>54</sup> Again the committee agrees with the need to clarify and define responsibilities, but the first step must surely be to ensure that the responsibilities are the appropriate ones. The committee believes that the key issue is about the current structure and Defence's unwillingness to address difficulties in management discipline or organisational relationships.

7.36 Many witnesses also had concerns about accountability in Defence's procurement processes.<sup>55</sup> Dr Thomson observed that although Defence is full of very hard working people dedicated to delivering good outcomes to the people in the Services... 'they are hampered by a profoundly dysfunctional system that disaggregates control of resources from responsibility for delivering things.'<sup>56</sup> Dr Davies stated that 'what is really required is a reduction in the amount of diffusion of responsibility and decision making'.<sup>57</sup> Miller Costello and Co noted that poor accountability was a clear causal issue in many, if not all, areas of poor performance.<sup>58</sup>

7.37 Another witness to the inquiry suggested that Defence should implement fully the Mortimer Review recommendations about the Service Chiefs acting formally as capability manager, ensuring adequate resources and authority for the Service

---

54 *Plan to Reform Support Ship Repair and Management Practices*, July 2011, p. 67.

55 See for example, Air Commodore (retired) Bushell, *Submission 3*, p. 1 and Miller Costello and Co, *Submission 30*, p. 2.

56 *Committee Hansard*, 12 August 2011, p. 5.

57 *Committee Hansard*, 12 August 2011, p. 7.

58 Miller Costello and Co, *Submission 30*, p. 2

Chiefs.<sup>59</sup> In his view, over management (as recommended by various reviews) has resulted in boundary overlap, which has led to civilian staff number increases, exodus of senior specialists, and growth in committees.<sup>60</sup>

7.38 In line with the recommendations of people such as Kinnaird and Mortimer, a number of witnesses suggested that the way to strengthen accountability was to have clearly defined boundaries and tasks—precise (usually written) definitions of boundaries. One witness recommended having 'clearly defined, almost contractual, mutual accountability businesslike relationships between the parties that would 'properly define the responsibilities and accountabilities and expected outputs of each party and ensure projects overall are delivered properly'.<sup>61</sup> He suggested that improvement would come through 'process re-engineering': by simplifying the large process chart and locking-in the Customer-Supplier relationship with DMO. He was clear:

...on each project CDG must specify and write down exactly what the ADF wants (MAA) and government agrees. DMO must then supply strictly in accordance with that specification unless prior written agreement to vary is achieved.<sup>62</sup>

7.39 According to the witness, testimony to parliamentary committees over the last five or so years had shown that problems emerge when this Kinnaird Review recommendation/discipline is not strictly followed.<sup>63</sup> In his submission, Air Commodore (retired) Bushell argued similarly that the Defence organisation as a whole 'needs to be reviewed to ensure that roles and accountabilities are clearly identified and aligned and that the resources needed to discharge those accountabilities are also properly identified and aligned'.<sup>64</sup>

7.40 The committee notes the above observation that evidence over the years has shown that 'problems emerge when the Kinnaird Review recommendation/discipline is not strictly followed'. Thus, despite the reforms implemented since 2003, problems persist suggesting that the model may well be broken and tinkering with it is a waste of effort.

### **Measures to strengthen accountability**

7.41 In its submission, Defence advised the committee that reforms to improve project management included:

---

59 *Confidential Submission.*

60 *Confidential Submission.*

61 *Confidential Submission.*

62 *Confidential Submission.*

63 *Confidential Submission.*

64 *Submission 3, p. 1.*

- Capability Managers are now co-signatories with CDG of DMO's MAAs—reinforces their acceptance of the equipment being acquired for their use; and
- Project Charters are developed for managers of complex and demanding projects to provide individual accountability for project delivery.<sup>65</sup>

The committee considers these written agreements below but starts with the project directive.

### ***Joint project directive***

7.42 A project directive enunciates the government's intention. It is a high-level statement about who is going to do what to bring a capability to bear—CDG, DMO and the capability manager. The handbook states that prior to first pass and in consultation with the capability manager and the acquisition agency, the Secretary/CDF issue a Joint Project Directive. After first pass approval, the Secretary and CDF sign the joint directive, which assigns accountability and responsibility for the project from first to second pass approval to:

- CCDG for progressing the project from first to second pass, in accordance with what was agreed at first pass;
- the capability manager and acquisition agency for assisting to develop the capability requirements and for providing agreed resources;
- other key enablers, such as the Chief Information Officer, Deputy Secretary Defence Support and Chief Defence Scientist, for the provision of elements of FIC, and Deputy Secretary People Strategies and Policy for the management of the Department's workforce allocations via the Workforce Guidance Trails; and
- CCDG, in consultation with key stakeholders, for developing specific arrangements for change consideration (including thresholds), which are documented in the Joint Project Directive.<sup>66</sup>

7.43 Following a similar process, after second pass approval the Secretary and CDF issue a joint project directive. It assigns accountability and responsibility for the project up to the closure of the acquisition business case to:

- the capability manager for overall responsibility for the in-service realisation of the capability;
- the CEO DMO through the terms and conditions in the (post second pass) MAA; and
- other key enablers, such as the Chief Information Officer, Deputy Secretary Defence Support and Chief Defence Scientist, for the provision of elements of

---

65 Department of Defence, *Submission 21*, p. 14.

66 Department of Defence, *Defence Capability Development Handbook*, August 2011, paragraphs 3.5.1–3.5.2.

the FICs, and Deputy Secretary People Strategies and Policy for the management of the Department's workforce allocations via the Workforce Guidance Trails.

7.44 Air Marshal Harvey noted that the joint project directive creates certainty by specifying the role of the capability manager.<sup>67</sup>

### ***Materiel Acquisition Agreements***

7.45 MAAs form part of a framework of agreements between DMO and Defence which were introduced following the establishment of DMO as a Prescribed Agency in 2005. Described by the Secretary as 'robust and disciplined purchaser-provider arrangements', they are intended to outline the responsibilities and arrangements between the relevant agencies and provide the basis on which the DMO receives most of its budget. An MAA is supposed to state in concise terms what services and product the DMO (as supplier) will deliver to CDG and when.<sup>68</sup> A draft first to second pass MAA should be ready for signing immediately following first pass approval.<sup>69</sup> For second pass, the draft MAA details 'the scope and cost of the capability to be acquired', and commits 'the signatory agencies to completing assigned tasks and providing the necessary resources and assets to ensure effective management of the Acquisition Phase'. This draft MAA is finalised and approved after second pass.<sup>70</sup> As mentioned previously, the relevant capability manager, CDG and DMO are co-signatories to an MAA.

7.46 Air Marshal Binskin noted that when the capability manager signs off on an MAA, a clear up front understanding of what the capability manager wants or has agreed is established. The DMO deliver to that MAA.<sup>71</sup> With regard to the MAA, Mr King explained further:

It is a capability manager that is signing up to say, in effect, 'If CDG and DMO deliver me this aircraft, ship or whatever by such and such a time, with the spares, with the manuals, with whatever, the facilities, then I will bring this capability to bear and make it available to the nation by this time.'<sup>72</sup>

---

67 *Committee Hansard*, 7 October 2011, pp. 16, 55.

68 *ANAO Submission 22*, paragraph 59.

69 Department of Defence, *Defence Capability Development Handbook*, August 2011, paragraph 3.4.48. The handbook states further in the same paragraph 'The responsibility for developing the MAA lies with the CS Div Desk Officer (in conjunction with DMO Emerging Project Team if constituted) in consultation with the CM and DMO Systems Program Office (SPO)'.

70 Department of Defence, *Defence Capability Development Handbook*, August 2011, paragraph 4.3.22.

71 *Committee Hansard*, 5 October 2011, p. 41.

72 *Committee Hansard*, 7 October 2011, p. 16.



7.47 This statement seems to suggest that, having signed off on the MAA, the capability manager then steps to the sidelines to await delivery. The committee is strongly of the view that at this stage of an acquisition the capability manager should be front and centre in the process. As noted earlier, Kinnaird recommended that capability managers 'should be made responsible and accountable for monitoring and reporting to government on all aspects of approved defence capabilities'. (See also paragraph 7.16.)

7.48 Air Marshal Harvey explained the reason for CDG also signing the MAA. He noted that CDG was responsible for getting the project approved. It holds the money in the unapproved project—so at second pass approval the money is transferred across to DMO. He stated:

We basically hold the contract in terms of what was agreed by government, what was agreed on cost schedule capability and all the details that go there. Effectively, while the capability manager is the ultimate customer, we are the ones developing the contract for DMO to deliver at that stage. We are the keepers of the requirements agreed by government.<sup>73</sup>

7.49 It should be noted, however, that the ANAO has identified in past performance audits several instances where:

...projects did not have an MAA in place at the time of the Second pass approval and one instance where a project appeared on Projects of Concern list and did not have a finalised MAA.<sup>74</sup>

7.50 The ANAO suggested that the challenges associated with major equipment acquisitions increase when 'the MAA does not include sufficient clarity and detail about the project's intended cost, delivery schedule and capability definitions'.<sup>75</sup> For example, in its audit report on acceptance into Service of Navy Capability, ANAO found:

Navy as Capability Manager, and DMO as acquirer, not fully and formally setting out their respective roles and responsibilities in the form of comprehensive CDG-DMO-Navy Materiel Acquisition Agreements for all acquisition projects. This requirement was agreed to in 2009, and developing these agreements for Navy projects has been a slow process, with completion now expected by December 2011.<sup>76</sup>

7.51 In the committee's view, Defence's measures designed to define the lines of responsibilities and accountability such as the requirement for the capability manager,

---

73 *Committee Hansard*, 5 October 2011, p. 57. Air Marshal Harvey repeated this statement that the capability manager is the 'ultimate customer for the capability'—that they have 'a strong say throughout the process' in *Committee Hansard*, 7 October 2011, p. 15.

74 *Submission 22*, p. 11.

75 *Submission 22*, p. 11.

76 ANAO Audit Report No. 57 2010–11, *Acceptance into Service of Navy Capability*, 2011, paragraph 22.

CDG and DMO to co-sign an MAA, will prove ineffective. It notes ANAO's comment about the importance of MAAs being sufficiently clear and detailed about their respective roles and responsibilities. The committee also draws attention to the record of poor adherence to procedure and a lack of attentiveness to risk. There is nothing in the evidence indicating that recent initiatives such as an MAA will change such behaviour. The key issue is about changing management structure and not simply adding more to the process.

7.52 The committee questions why CDG retains such a strong and prominent role after second pass approval—the capability has been defined and government has approved the project deemed to be the best option to deliver that capability. Surely the capability manager must take responsibility for ensuring that the requirements agreed by government are met and that the end product will be accepted into service. There is no point acquiring an acquisition that meets the government's broad requirements but at the time of delivery is not fit for purpose.

7.53 To ensure that capability managers have the authority to exercise their responsibility, they require the authority that now resides with the CDG as departmental coordinator and centre of power. The committee recommends that the capability manager should not only have expanded responsibility but also the financial responsibility after second pass. Under the committee's preferred model, the capability manager would be the sole client with the contracted supplier, through the agency of the DMO. The DMO is a contract and project management specialist advised on technical issues by the capability manager. This model would remove the unnecessary layers of current vested interests and streamline the process through a single point of accountability.

### ***Ministerial Directive to the Defence Materiel Organisation***

7.54 One witness who gave in camera evidence to the committee noted that the key accountability document for Defence capital projects between 2005 and 2008 was the carefully negotiated and discussed Ministerial Directive to CEO DMO which existed under the three Defence Ministers of that era.<sup>77</sup>

7.55 This Ministerial Directive provided 'a mechanism to define the relationship between the minister and the CEO DMO'. It established 'the CEO DMO's direct obligations to the Minister for Defence, his overarching responsibilities and his management priorities in relation to DMO's business outcomes'. The minister directed the CEO DMO in relation to his responsibilities by virtue of the minister's executive power to administer the Defence portfolio under section 64 of the Constitution.<sup>78</sup> According to the witness:

---

77 *Confidential Submission.*

78 Department of Defence, *Defence Annual Report 2008–09*, Volume Two, Defence Materiel Organisation, p. 80.

---

Despite its name, this was a boundary defining statement set at the highest levels so it couldn't be disputed. It carved out a defined specialist role for DMO and wrote down the specific accountabilities precisely. Everyone knew their job. And they got on with it.<sup>79</sup>

7.56 DMO's submission explained that the Ministerial Directive established the accountability of the CEO DMO to the minister to achieve, inter alia:

- timely, accurate and considered advice in your role as principal adviser to me on equipment acquisition and through-life support of materiel for defence capabilities.<sup>80</sup>

7.57 The submission notes that the current Ministerial Directive was issued to the former CEO DMO on 28 July 2008 and has not been updated. DMO notes that although it still operates within the principles established by the Ministerial Directive, it may be appropriate, given recent appointments, to review the Ministerial Directive and update it as necessary.<sup>81</sup> The committee supports this proposal. The committee discusses the independence of agencies such as the DMO and their role as devil's advocate in the chapter on contestability which strengthens the committee's support for this proposal.

### ***Project charter***

7.58 As noted earlier, Dr Black suggested that the accountability system must 'reach down into the organisation right to front line staff who are ultimately responsible for actual delivery'.<sup>82</sup>

7.59 For complex and demanding projects, Mortimer recommended that the authority, responsibility and accountability of the project manager should be formally set out in a project charter. Project managers should be held to account for meeting the financial and non-financial performance targets detailed in their charter.<sup>83</sup> Defence agreed and responded to the recommendation by indicating that the CEO DMO and CCDG were 'to ensure that such a project charter system is quickly put in place and that specific approvals made by Government can be clearly traced to the charters'.<sup>84</sup> Defence's response did not mention the capability manager.

---

79 *Confidential Submission.*

80 *Submission 41*, paragraph 25.

81 *Submission 41*, paragraph 25.

82 Department of Defence, *Review of the Defence Accountability Framework*, January 2011, p. 15.

83 Defence Materiel Organisation, *Going to the Next Level, the report of the Defence Procurement and Sustainment Review*, 2008, recommendation 3.5.

84 Department of Defence, *The Response to the Report of the Defence Procurement and Sustainment Review*, The Mortimer Review, p. 28.

7.60 Consistent with this recommendation, one witness argued that accountability comes from 'clearly defined boundaries and tasks'. He suggested that specialist managers should manage their resources, and be held individually accountable for 'outcomes, with a performance management system that has rewards for good performance and meaningful and timely sanctions for under-performance'.<sup>85</sup>

7.61 Defence informed the committee that complex and demanding projects are defined as ACAT I and ACAT II projects and that project manager charters had been instituted for all such current projects.<sup>86</sup> Even so, an industry representative told the committee his company had witnessed a lack of empowerment to individual project managers and their inability to respond to rapid changes and new ideas mainly because of a large bureaucracy. In his view, these effects lead to inefficiencies, as:

...program managers are forced to deal with multiple stakeholders with different interests and requirements and the result is that temporary problems and programs can lead to risk adverse decisions rather than focusing on long-term capability and cost optimisation.<sup>87</sup>

7.62 Mr Robert Tonkin, Australian Industry and Defence Network, referred to an ineffective structure of delegated authority within DMO that fails to empower people who manage or approve projects to carry out their responsibilities. He argued that 'they do not have a sufficient level of delegated authority to get on with it':

If every decision that is made is more complex, embracing more players, then, by nature you delay the process. Efficiency...is about focusing on what is required getting clarity of what is required, making a decision and then getting on with it.<sup>88</sup>

7.63 The Australian Industry Defence Network suggested allowing jurisdiction delegation levels to flow down to 'the appropriate working level where the Manager has a good knowledge of the platform and capability technologies'.<sup>89</sup>

---

85 *Confidential Submission*.

86 Attachment A to *submission 21*. ACAT I describes projects that are major capital equipment acquisitions and are normally the ADF's most strategically significant. They are characterised by extensive project and schedule management complexity and very high levels of technical, operating, or support difficulties, and highly complex commercial arrangements. ACAT II describes projects that are major capital equipment acquisitions and are strategically significant to the ADF. They are characterised by significant project and schedule management complexity and high levels of technical, operating, or support difficulty, and complex commercial arrangements. Information taken from Department of Defence, *Defence Capability Plan*, Public version, 2012, p. 7.

87 *Committee Hansard*, in camera.

88 *Committee Hansard*, 11 August 2011, p. 6.

89 *Submission 19*, p. 5.

7.64 Some independent members of the gate reviews suggested that people need to feel empowered 'to go and do things to achieve results' but that the management layers and structures constrain them.<sup>90</sup> Mr Williams stated:

Ideally you would give them control of the budget and the flexibility to make decisions, but I think that we do have a complex process. We have committees making decisions, which then removes the responsibility and, of course, the accountability from those individuals. So I think that anything that can be done to remove some of that to make sure that we get good people but then empower them to run the project would be a benefit.<sup>91</sup>

7.65 Clearly, there are a number of aspects to improving the performance of project managers and their teams including the introduction of project charters with clearly defined boundaries and tasks. But the charters will be ineffective if project managers are not equipped with the appropriate skills and project management experience to fulfil their responsibilities or if unnecessary layers of management encumber their ability to exercise their responsibilities and authority.<sup>92</sup>

### *Lessons to be learnt and accountability*

7.66 Despite the various measures taken by Defence to clarify responsibilities and have people enter into signed agreements, it remains unclear who is held to account when 'things go wrong'. The lessons learned sections in the MPR hold a clue. They are not directed at any identifiable group, unit or section. Taking just the one example of the MRH-90 helicopter where DMO identified the following lessons learned:

- it is essential that the maturity of any offered product be clearly assessed and understood; and
- elements of a chosen OTS solution may not meet the user requirements.<sup>93</sup>

7.67 These observations are so broad and vague as to be useless. Worryingly, not only are the lessons self-evident but they also provide no indication of who should be responsible for acting on them. In the committee's view, it would be far more helpful for these lessons to be targeted. For example, the lessons should identify where the initial underestimation of technical maturity occurred and why; where the misunderstanding of user requirements originated; and where in the process those responsible for identifying these mistakes failed to do so. Otherwise the lessons are so general that no one is responsible, or held accountable, for ensuring that they are learnt—in other words they remain lessons to be learnt.

---

90 Mr Johnston, *Committee Hansard*, 13 June 2012, p. 8.

91 *Committee Hansard*, 13 June 2012, p. 9 and also p. 12.

92 Also see paragraphs 6.29–6.30 which refer to Defence's procurement as process bound and people getting 'bogged down with too much paper work'.

93 ANAO Report No. 20 2011–12, *2010–11 Major Projects Report*, p. 318. Also see paragraphs 2.44–2.45 of the committee's report.

7.68 The committee suspects that Defence cannot identify the source of the problem because of the diffusion of responsibility and the blurred lines of accountability that troubled Kinnaird, Mortimer, Pappas, Rizzo and Black and continues to be a source of concern for this committee.

7.69 In this regard, the committee in the previous chapter referred to documentation and instances where the project team, while fully focused on detail, sometimes missed the important matters. Dr Davies observed that the thoroughness of the documentation set was never a problem but then went on to say:

If we are talking about accountability and responsibility, in fact the thoroughness of the documentation set actually tends to blur all of those lines. There are so many people who have a finger in the pie of drawing up operational concepts and project definition statements; whereas, ultimately, accountability and responsibility is being able to point at something and say their job is to do X or the person responsible for Y is'.<sup>94</sup>

7.70 In this regard, Air Commodore (retired) Bushell argued that if accountability is to be demanded, it must:

- be traceable directly to the functional objectives of the organisation;
- be defined clearly, unambiguously and not diffused or duplicated;
- be realistic and achievable;
- ensure that those held accountable have the authority and resources required to discharge their accountability; and
- have a continuous performance measurement system (feed-back management loop) in place to provide timely advice of departures from organisational plans and objectives to aid those held accountable and governance oversight.<sup>95</sup>

7.71 In his view, those whose accountabilities were now being reinforced by amendments to joint project directives, MAAs, materiel sustainment agreements and project charters would still be unable to discharge their accountabilities because the five prerequisites for accountability were not in place. His fear was that Defence's 'reorganisation, sharpening of accountabilities, and the resulting load of process will achieve nothing other than to add further complexity, confusion and inefficiency to a failed organisation'.<sup>96</sup> The committee notes, however, that real authority comes through financial delegation.

7.72 Indeed, as an example of an overburdened bureaucracy, the committee cited project managers disempowered by a complex process that robs them of the ability to

---

94 *Committee Hansard*, 12 June 2012, p. 32.

95 *Supplementary Submission 3F*, p. 4.

96 *Supplementary Submission 3F*, p. 4.

---

carry out their delegated authority. Clearly, project directives, MAAs and project charters need to be part of a system that enables those directly charged with authority and tasks to exercise their responsibilities effectively. Otherwise such documents are mere window dressing. To be effective, such agreements must be consistent with a management structure in which responsibility and accountability reside in the appropriate authorities. The committee questions the current structure.

## **Conclusion**

7.73 Throughout the acquisition process, there are numerous groups involved in developing, refining and reviewing capability proposals as well as preparing specialist advice and documentation before a proposal is presented to government for approval. For many years, reviewers and analysts have been concerned about the lack of accountability for decisions and project performance and the blurring of responsibilities. All have made recommendations to rectify these failings, without much effect.

7.74 Defence has responded to their advice, by introducing a number of measures to strengthen accountability. The committee notes these initiatives but is concerned, however, that they will be merely cosmetic if attitudes or management structures do not change. It is of the view that a range of other measures need to be taken into account in order to simplify and streamline the organisation by changed roles and new accountabilities supported by real authority in one person or position—not an amorphous coordinating group such as CDG.

7.75 The committee recommends a realignment of responsibilities in a proposed new management model that is detailed in chapter 15 (recommendations 1–11 in executive summary).

7.76 In the following chapter, the committee again looks at the main groups involved in defence procurement. Its focus, however, is on how well they communicate, meld and transfer their responsibilities and overall work as an integrated enterprise.

