

CHAPTER FOUR

GOVERNANCE AND MATERIEL REFORM

As the DMO moves towards becoming a prescribed agency, attention has been focused on developing and implementing the DMO's own governance arrangements. These arrangements have necessitated significant organisational changes, establishing high-level governance committees and ensuring that information and finance systems are aligned to meet the organisation's business needs and strategic direction.

The DMO will continue to be involved in Defence's planning and governance arrangements, notably through the Defence Committee and Defence Capability and Investment Committee.

IMPLEMENTING DMO RECOMMENDATIONS FROM THE DEFENCE PROCUREMENT REVIEW

In December 2002, the Government announced that it had commissioned a team to review and report on a range of issues associated with major Defence acquisitions. The purpose of the review was to ensure Defence continued the efficient and effective acquisition and through-life support of capabilities, so as to maintain public confidence in the procurement process.

The Review Chairman, Mr Malcolm Kinnaird, presented the report of the Defence Procurement Review in August 2003. In September 2003, the Government announced that it had broadly accepted the findings of the Review. The one exception was that the Government decided that the DMO would be established as a prescribed agency, rather than an executive agency.

The Government established an advisory board to provide advice and support to the CEO DMO and report on the implementation of recommendations to the Minister for Defence and the Minister for Finance and Administration. The advisory board, chaired by Mr David Mortimer, provides valuable advice to the CEO DMO.

The DMO has been instrumental in assisting the implementation of a number of the recommendations and is responsible for fully implementing two of the ten major recommendations:

- the establishment of the DMO as a prescribed agency under the Financial Management and Accountability Act 1997; and

- broadening the role of Materiel Governance Boards to address through-life support of ADF equipment and report regularly to the CEO DMO and the DMO senior Executive team on issues of concern.

Action is currently being taken to implement these recommendations.

The DMO and Capability Development Group are working closely and cooperatively to improve the capability development and assessment process before projects are progressed to the DMO.

GOVERNANCE ACTIVITIES

The DMO's committee structure is being brought into line with the wider Defence governance structure.

As a requirement of the *Financial Management and Accountability Act 1997*, the DMO Materiel Audit Committee has been established to provide advice and support to the CEO DMO in reference to the efficiency and effectiveness of the existing financial framework, risk management, legislative compliance, fraud control and audit activities.

The DMO Executive will take on a similar role to the Defence Committee and advise the CEO DMO on the effective operation of the DMO as an organisation.

MATERIEL REFORM

Materiel reform within the DMO has been restructured by the CEO DMO to reflect six key strategic themes:

- Professionalise our workforce.
- Reprioritise work by analysing the DMO's productivity to ensure that effort is concentrated on the high priority activities.
- Standardise corporate systems and work practices across the organisation to ensure staff work efficiently and effectively.
- Benchmark the DMO against the best Australian and international organisations of similar scale and scope.
- Improve industry relations so they are more mature, share risks and avoid duplication of costs.
- Lead reform in Defence by developing and implementing successful reform in the DMO, which may facilitate change in Defence.

Initiatives for 2005-06

Against its six key themes, the DMO has developed a number of specific initiatives for 2005. Key performance indicators are being developed to measure the performance of these initiatives. These initiatives are detailed below.

Professionalise

- Improve recruitment, development and retention of project managers within the DMO.
- Develop and implement the Project Manager's Certification framework.
- Re-balance and re-skill the workforce to ensure individuals possess the skills and experience required across all professions in the organisation.
- Implement the DMO Business Skilling Program.

Re-prioritise

- Continue implementing the recommendations of the Defence Procurement Review to ensure the DMO is better placed to deliver capability to the ADF on time, within budget and in accordance with specifications and required safety and quality standards.
- Develop and implement the DMO People Plan 2015 and the DMO Workforce Plan 2015 to better prioritise human resource activities and expenditure within the DMO today and in the future, while also remaining aligned with the Defence Workforce Plan.
- Review Senior Executive performance and commitment to the DMO change program.
- Re-prioritise all we do.

Standardise

- Use better practice to improve DMO's communications so that within the DMO there is a consistent understanding of the organisation's direction and business drivers, and externally, we ensure effective communications with the Parliament, the Minister and defence industry.
- Implement DMO-wide business planning to ensure unified Executive messages.
- Develop improved templates for strategic contracting and risk sharing.
- Reform information, finance and reporting systems and practices.

Benchmark

- Develop specific and meaningful indicators to measure the DMO's performance.
- Develop benchmarks for reviewing and monitoring industry performance, cost and profitability.
- Develop innovative and exciting strategies for attracting, recruiting and retaining high-calibre professionals.
- Establish financial management and reporting through the implementation of both Audit Remediation Actions and the Australian Equivalent to International Financial Reporting Standards.

Improve Relations with Industry

- Establish and implement the Skilling Australian defence industry program and monitor its effectiveness.
- Develop competition policy code of conduct.
- Implement and administer the Defence Small Business Access Unit, to enhance small to medium enterprise access to Defence business opportunities; and the Team Australia Marketing Tool, to promote Australian defence industry products into the global marketplace.

Lead Reform in Defence

- Finalise arrangements for establishing the DMO as a prescribed agency by 1 July 2005.
- Define and implement the process for setting achievable milestones for unapproved Defence Capability Plan projects, including implementation of a comprehensive project risk management system.
- Implement innovative remuneration packages using Australian Workplace Agreements for specific functions, as well as utilising the current and future Defence Certified Agreements.
- Work with Defence to develop an innovative and flexible Defence Employees' Certified Agreement that is consistent with the DMO's strategic direction.
- Implement agency agreements and review supporting systems and processes needed to shape the DMO into a fee-for-output organisation.