

# 3

## GOVERNANCE

This chapter outlines the organisation's governance framework detailing performance on a number of aspects such as internal management and external audit and scrutiny.

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# ACCOUNTABILITY AND FINANCIAL MANAGEMENT

Prescription has clarified and strengthened the separate accountabilities of both Defence and the DMO.

Upon prescription of the DMO as an Agency on 1 July 2005, under the *Financial Management and Accountability Act 1997*, the Chief Executive Officer of the DMO (CEO DMO) became directly responsible for managing the affairs of the DMO in a way that promotes proper use of the Commonwealth resources for which the DMO is responsible.

2005–06 is the first financial year for which DMO has produced separate financial statements. The DMO's financial statements for 2005–06 are fully set out in Chapter Seven of this report. The CEO DMO and the Chief Finance Officer DMO concluded that they could attest that the overall statements were true and fairly stated.

# ORGANISATIONAL STRUCTURE AND SENIOR EXECUTIVE CHANGES

In June 2006, adjustments were made to the DMO's organisational structure. With the departure of the previous Deputy Chief Executive Officer, the Airborne Early Warning and Control Program was established as a stand-alone Program Office headed by Air Vice-Marshal Chris Deeble.

The new Deputy Chief Executive Officer, Mr Kim Gillis, continues to head up DMO's Amphibious Deployment and Sustainment Program.

Aerospace Systems Division experienced significant growth during 2005-06 due to the Government's consideration of a number of emerging aerospace major projects. In July 2006, it was separated into the Aerospace and Helicopter Systems Divisions.

We expect that New Air Combat Capability will be upgraded from Branch to Division structure after first-pass approval by the Government, which is expected in the coming months.

## SENIOR EXECUTIVE CHANGES

In May 2006, Mr Kim Gillis was appointed as the Deputy Chief Executive Officer.

Major General Tony Fraser became leader of the Helicopter Systems Division in August 2006.

Mr Kerry Clarke AO (AVM Retired) was appointed as Head Industry Division on 8 May 2006.

Air Vice-Marshal Chris Deeble was appointed as Program Manager Airborne Early Warning and Control in June 2006.

Major General Jim Molan was appointed to the position of Defence Materiel Advocate in July 2005.

# RELATIONSHIP WITH DEFENCE

The relationship with Defence is managed under a variety of directives and agreements, including:

- a directive from the Minister for Defence to the CEO DMO (refer to Figure 3.1);
- a Memorandum of Arrangements between the Secretary and the Chief of the Defence Force and the CEO DMO, which outlines the overall relationship between Defence and the DMO. It covers principles, intent, business model, and subordinate agreements;
- a military staffing policy agreed by the Services and signed by the Minister for Defence;
- Materiel Acquisition and Sustainment Agreements, outlining the prices for products to be delivered and the responsibilities and accountabilities of each party; and
- other service and Free-of-Charge Agreements, covering such things as information technology, banking, payroll, shopfront and contracting. During 2005–06, Free-of-Charge Agreements were re-named as Shared Services Agreements.



## FIGURE 3.1 MINISTERIAL DIRECTIVE TO THE CEO DMO



MINISTER FOR DEFENCE

### MINISTERIAL DIRECTIVE

To: Chief Executive Officer of the Defence Materiel Organisation

**Preamble:** In accordance with my powers under section 8 of the *Defence Act 1903*, and your roles and responsibilities under the *Financial Management and Accountability Act 1997*, I give you strategic direction, as outlined below, and purchase outputs to achieve the Government's outcome for the Defence Materiel Organisation (DMO). In doing this I acknowledge, and require you to acknowledge, the joint responsibilities of the Secretary and the Chief of the Defence Force under section 9A of the *Defence Act 1903*, and recognise the continuing roles, responsibilities and authority of the Secretary as defined by the *Public Service Act 1999*.

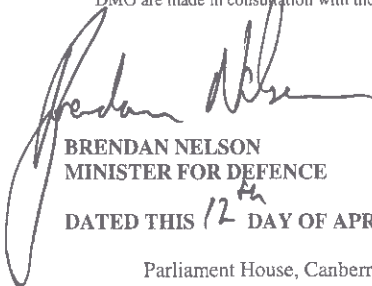
**Accountability:** You are accountable to me for DMO's performance, having regard to our statutory responsibilities. I authorise the Secretary to measure your performance, in consultation with me and others, and to provide feedback against the results I expect you to deliver.

**Results:** I expect you to deliver:

- a. efficient and effective acquisition and through-life support of materiel for Defence capabilities as agreed in the budget process;
- b. timely and responsive advice on the outputs for the DMO agreed in the budget process;
- c. proper stewardship of people and of financial and other resources, including operating within budgeted financial performance for DMO;
- d. appropriate representation of Australia internationally in the role of National Armaments Director; and
- e. appropriate planning, evaluation and reporting documents, including DMO input to the annual Defence Management and Finance Plan, the Defence Capability Plan, and Defence Annual Reports.

**Guidance:** You may pursue these results in any manner, as long as:

- a. your actions are prudent, lawful and ethical;
- b. your actions are consistent with:
  - (i) Government policy,
  - (ii) your role as principal adviser on equipment acquisition and fleet sustainment, and
  - (iii) your statutory responsibilities and authority, particularly under the *Financial Management and Accountability Act 1997*;
- c. you make decisions, and offer advice, considering:
  - (i) the impact on relationships with others, including with the Secretary of Defence, the CDF, the Service Chiefs and leadership of foreign armed forces,
  - (ii) the risk to the sustainable delivery of Defence outputs, and
  - (iii) the support you will provide to the delivery of whole-of-Defence capability; and
- d. your proposals for promotions to SES equivalent and above and the placement of senior military staff within the DMO are made in consultation with the Secretary and the Chief of the Defence Force as appropriate.



BRENDAN NELSON  
MINISTER FOR DEFENCE  
DATED THIS 12<sup>th</sup> DAY OF APRIL 2006

Parliament House, Canberra ACT 2600. Tel: (02) 6277 7800 Fax (02) 6273 4118



Dr Stephen Gumley, CEO DMO, and the Secretary of Defence, Mr Ric Smith, formalise the new relationship between Defence and the DMO on 1 July 2005, when the organisation became a prescribed agency.

## DEFENCE PROCUREMENT ADVISORY BOARD

The creation of the Defence Procurement Advisory Board arose from a recommendation of the Defence Procurement Review. The Board's role is to monitor the implementation of the recommendations of the Defence Procurement Review, and provide advice and support to the Secretary and the CEO DMO on strategic issues relating to the direction and management of the DMO. The Board is accountable to the Ministers for Defence and Finance and Administration, and reports to the Government on the implementation of all Defence Procurement Review recommendations.

The Board consists of four private sector members (one of which is the chair), the Secretaries of Defence, Finance and Treasury, and the Chief of the Defence Force. The CEO DMO attends as an ex officio member of the Board and a senior representative from the Department of the Prime Minister and Cabinet is present at all meetings.

In 2005–06, the Board held six meetings.

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### CHART 3.1 DEFENCE PROCUREMENT ADVISORY BOARD MEMBERS



# INTERNAL MANAGEMENT

## DMO EXECUTIVE

The DMO Executive is the primary advisory body to the CEO DMO. The DMO Executive provides management advice to assist him in discharging his responsibilities in relation to the achievement of the Minister's Directive.

In 2005–06, the DMO Executive met eight times and membership included the CEO DMO and all Senior Executive Service Band 2 and ADF 2-star officers within the DMO. The Commander Joint Logistics was a permanently invited member.

The DMO Division Heads met approximately 28 times during the financial year to coordinate operational matters.

## BUSINESS PLANNING AND REVIEW

The DMO Business Plan Review is a monthly presentation by the CEO DMO and the DMO Executive. During 2005–06, the Review was presented at nine sessions to over 3,500 DMO staff by the DMO Executive, in all major centres across Australia.

## PERFORMANCE MANAGEMENT AND REPORTING

Performance management in the DMO relates to both business units and individual staff members. The focus is to enhance the performance of both, by identifying clearly the

required standards and expected outcomes, improving the quality of information and reporting on which to evaluate progress and achievement.

During 2005–06, the DMO further developed its corporate business model, and performance management and reporting frameworks.

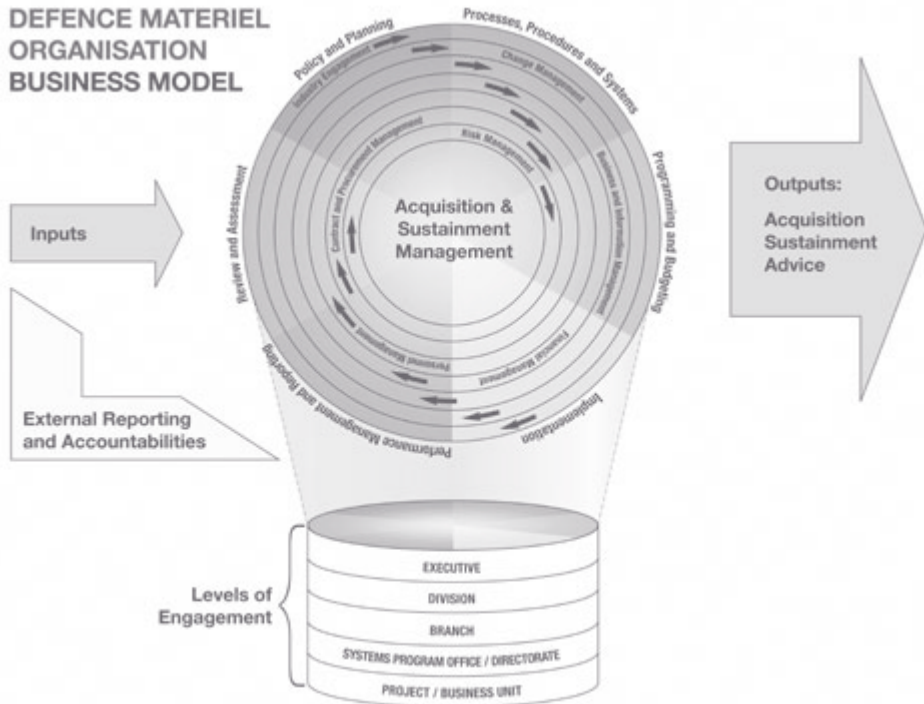
The DMO Business Model (Figure 3.2) highlights the importance of the relationship between the DMO's core and enabling functions in delivering the DMO's three outputs. The DMO's core functions are acquisition and sustainment management. Its enabling functions include the management of risk, contracting and procurement, personnel, finance, business information, change and industry engagement.

The model is a six-step business cycle. The cycle involves:

- policy and planning;
- processes, procedures and systems;
- programming and budgeting;
- implementation;
- performance management and reporting; and
- review and assessment.

The standard six-step business cycle is followed for the core functions and the enabling activities. It is also exercised at different levels within the DMO from the executive level down to the business unit level.

**FIGURE 3.2**  
**DMO BUSINESS MODEL**



## RISK MANAGEMENT

Enterprise Risk Assessment and Fraud Control provide an essential element of the DMO's governance framework. An Enterprise Risk Management Plan was completed in October 2005. Further development is under way to strengthen the risk management system at the enterprise, division and project levels, and to strengthen the risk management culture in the DMO.

## FRAUD CONTROL PLAN

On 30 October 2005, in accordance with the *Financial Management Accountability Act 1997* and Commonwealth Fraud Control Guidelines, the Chief Executive Officer authorised an updated Fraud Control Plan.

The DMO also revised its Chief Executive Instruction on Fraud Control.

Under the Shared Services Agreement framework, the Inspector-General Group investigates misconduct and fraud for the DMO. The DMO statistics for incidents and investigations are included within the *Defence Annual Report 2005–06—Volume One* (Defence).

## REMUNERATION COMMITTEE

All non-Senior Executive Service Australian Workplace Agreements are considered by the DMO Remuneration Committee that comprises the CEO DMO, Deputy Chief Executive Officer and the Chief Operating Officer.

**MATERIEL INFORMATION  
MANAGEMENT  
STAKEHOLDER GROUP**

The Materiel Information Management Stakeholder Group, originally formed in 2003, was re-constituted in 2005–06. The Group provides advice to the Chief Operating Officer on issues related to the DMO’s current information management environment, assessment or analysis of business requirements, specific priorities in the acquisition and sustainment of information management capability, governance arrangements for information management capability development, and ongoing information management capability service delivery.

During 2005–06, the Materiel Information Management Stakeholder Group met nine times.

# ASSURANCE

## MATERIEL AUDIT COMMITTEE

The DMO established an independent assurance framework to meet its obligations under the *Financial Management & Accountability Act 1997*. The framework includes the Materiel Audit Committee which was formally established on 1 July 2005 and met ten times during 2005–06. This committee is the only DMO committee that is required by law.

In its first year, the committee focused on the DMO policies, procedures and systems that underpin production of the financial statements. This enabled the committee to provide advice to the CEO DMO on the adequacy of the controls framework in preparation of the 2005–06 financial statements. The committee endorsed the DMO's internal audit strategy and plans, and continues to review external and internal audit strategies presented by the ANAO and the Inspector-General (Defence).

In 2005–06, the committee comprised three external members, including the Chairperson, one internal Defence, and one internal DMO member. The Chief Finance Officer (DMO), Chief Operating Officer and Inspector-General (Defence) attended as advisers. Representatives of the ANAO attended as observers.

The committee works in conjunction with the Defence Audit Committee, which retains oversight of matters across Defence, to oversee matters of shared importance to the DMO and Defence.

## MATERIEL ASSURANCE BOARDS

The DMO established the Project Governance Board function in November 2001. A review of the function in November 2005 resulted in a restructure to sharpen the focus on acquisition and sustainment governance. On 1 February 2006, the Governance Boards were replaced by five Materiel Assurance Boards with each aligned closely to a Domain Division. Each Board provides assurance and advice to the CEO DMO on acquisition, sustainment and management activities. There is a mix of internal and external members on the Boards. The DMO and Defence members have relevant project experience, while external members bring a broad range of experience and additional expertise. External members also provide a different perspective to issues faced by the project and sustainment areas. The Boards conducted a total of 200 major project and sustainment reviews in 2005–06.

## PROBITY ADVICE

Probity Advisors are appointed to the DMO to provide independent monitoring of DMO acquisition and contracting processes to ensure they are conducted in accordance with identified probity principles.

A probity advisor provides advice as requested to tender evaluation committees before and during the course of the process, including on specific issues that arise.

**INSPECTOR-GENERAL  
(DEFENCE)**

Internal audit services were provided to the DMO by Defence under a Shared Services Agreement. Nine Inspector-General audit reports, relating specifically to the DMO, were finalised during the year.

Further information can be found in the Appendices (Internal Audit Arrangements).

# EXTERNAL AUDIT AND SCRUTINY

## AUSTRALIAN NATIONAL AUDIT OFFICE

External audit for the DMO was undertaken by the ANAO. Seven Auditor-General performance audit reports, relating specifically to the DMO, were tabled during the year.

Further information can be found in the Appendices (External Scrutiny).

