



Australian Government
Department of Defence
Defence Materiel Organisation

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GMS/OUT/2012/016

Mr Rob Oakeshott
Chair
Joint Committee on Public Accounts and Audit
PO Box 6021
Parliament House
CANBERRA ACT 2600

Dear Mr Oakeshott

PROPOSAL TO ESTABLISH EXIT CRITERION FOR PROJECTS IN THE DEFENCE MATERIEL ORGANISATION (DMO) MAJOR PROJECTS REPORT (MPR)

1. This letter is provided in connection with the *'Government Response to the JCPAA Report 422: Review of the 2009-10 Defence Materiel Organisation Major Projects Report'*, of 8 November 2011, specifically Recommendations 3 and 4, which address the issue of establishing appropriate exit criteria for future Major Projects Reports (MPR).
2. Acknowledging the discussion held at the Defence Materiel Organisation (DMO) on the 19 January 2012, between your Secretariat staff and DMO executive staff, the DMO Proposal is attached for the Committee's consideration ahead of the JCPAA Public Hearing to be held on 21 March 2012.
3. The Proposal is intended to provide the Committee with additional information to the previously published Government Response to JCPAA Report 422 and outlines the DMO's recommendation regarding this matter, which is to report MPR projects to both Final Materiel Release (FMR) and Final Operational Capability (FOC), key points include:
 - DMO reports progress to FMR through full disclosure in the Project Data Summary Sheets (PDSS), and is subject to Australian National Audit Office (ANAO) assurance.
 - Defence (through the relevant Capability Manager) reports progress to FOC 'post-FMR'. The Defence reports would be an addendum in the MPR (separate to the PDSS) and would not be subject to ANAO assurance.
4. I respectfully request your consideration to the attached Proposal and look forward to discussing the detail contained therein at the 21 March 2012 Public Hearing.

Yours sincerely

Shireane McKinnie PSM
General Manager Systems

16 March 2012

Attachment:

- A. Proposal to Establish Exit Criterion for Projects in the DMO MPR.



**PROPOSAL TO ESTABLISH EXIT CRITERIA FOR PROJECTS IN THE
DEFENCE MATERIEL ORGANISATION MAJOR PROJECTS REPORT**

**Additional submission to ‘Government Response to the JCPAA Report 422:
Review of the 2009-10 Defence Materiel Organisation Major Projects Report’ of
8 November 2011, regarding Recommendations 3 and 4.**

1. This proposal seeks to provide the Joint Committee of Public Accounts and Audit (JCPAA) with the Defence Materiel Organisation’s (DMO) recommendation to establish a formal set of ‘Exit Criteria’ for the Major Projects Report (MPR) Program. This proposal is in addition to the previous 8 November 2011 ‘Government Response to the JCPAA Report 422: Review of the 2009-10 Defence Materiel Organisation Major Projects Report’, specifically to address Recommendations three and four.

2. Recommendation 3 stated:

‘That the exit criteria for projects reported on in the Major Projects Report be the point at which both Final Materiel Release and Final Operational Capability (as currently defined by the Defence Materiel Organisation and Department of Defence respectively) is achieved’.

3. Recommendation 4 stated:

‘That in determining whether the exit criteria is appropriate for future Major Projects Reports (MPRs), that the Defence Materiel Organisation’s assessment of the difference in scale, size and incidence of requirements to be completed between Final Materiel Release and Final Operational Capability be provided to the Joint Committee of Public Accounts and Audit as soon as possible to allow for the implementation of any changes to occur for the 2011-12 MPR. In conducting its analysis, the DMO should consult with the three services, the Department of Defence, the Australian National Audit Office and industry representatives’.

4. Analysis of MPR projects showed an average of about 95% of budget expended up to Final Materiel Release (FMR) and up to about 5% to achieve Final Operational Capability (FOC). The time to achieve FOC from FMR ranged from 0 to 52 months. Looking to future projects analysis of projects approved in the last 24 months shows that this trend is continuing with the DMO delivery of the ‘materiel element of capability’ representing 97% of budget on average.

5. To ensure continued transparency and assurance over those project elements that have the largest materiality while providing the committee visibility to delivery of final capability the following approach is recommended:

a. DMO reports progress to FMR through full disclosure in the Project Data Summary Sheets (PDSS). The PDSS is then assured by the Australian National Audit Office (ANAO).

i. The DMO’s delivery to FMR is the materiel element of the mature capability, which accounts for approximately 95% (range of 85% -

100%) of the Government approved funding and normally the majority of project schedule.

- b. Defence (through the relevant Capability Manager) reports progress to FOC 'post-FMR'. This report would not be subject to ANAO assurance. The Defence reports would be an addendum in the MPR, and separate to the PDSS.

6. In summary, this recommendation would achieve several improvements. A project would remain visible in the MPR until both FMR and FOC have been achieved. Projects would be removed from the PDSS after achievement of FMR but would be reported in the Addendum to the MPR until FOC is achieved. The ANAO would continue to assure DMO performance to FMR; the period in which the majority of cost and schedule risks could arise. This approach also provides additional flexibility to add new projects for assurance by the ANAO within the agreed limit of thirty projects.